

# 2012 AEP Mid-Year Update of Key Commitments

AEP is committed to providing a mid-cycle update on our progress toward achieving our goals. This update focuses on the key commitments that stakeholders ask about most frequently. A full update on all commitments will be part of our 2013 Corporate Accountability Report, to be published in April 2013.

All data reflected here are YTD through June 30, 2012, unless otherwise noted. This was the cutoff for reporting progress to AEP’s Risk Executive Committee and the AEP Board of Directors.

## KEY INDICATOR

Financial Performance.

Transmission growth strategy.

## BUSINESS / ECONOMIC PERFORMANCE

AEP’s financial performance can be found on our [Investor Relations](#) page.

Electric Transmission Texas was assigned \$1 billion of [CREZ](#) facilities including seven transmission lines of approximately 420 miles of double-circuit 345-kV; eight major 345-kV stations and other facilities. Construction is under way with all facilities expected in service by 2013.

Following completion of the SMARTransmission Study, Electric Transmission America (ETA) (AEP’s 50/50 joint venture with MidAmerican) has executed partnership agreements to build two new transmission lines:

*RITELine*: RITELine is a joint venture between ETA, AEP, and Exelon. The Project is a proposed transmission line connecting AEP’s 765 kV system near the border of Ohio/Indiana to ComEd’s transmission system west of Chicago. The proposed project is approximately 420 miles and will cost approximately \$1.6 billion. Regulatory filings with FERC have been completed; or continue to progress.

*Midwest Power Transmission (MPT)*: MPT is a joint venture between ETA and MidAmerican Energy Holdings Company. The Project is a proposed transmission line connecting a new substation in Henry County, IL to a new substation in Louisa County, IA. The project will then connect to a new substation in either Adair County, IA or in Black Hawk County, IA. The proposed project is anticipated to be 130 miles – 170 miles and cost between \$650 million and \$865 million.

*Prairie Wind*: [Prairie Wind Transmission](#), LLC., is a joint venture formed by Westar Energy and Electric Transmission America – a joint venture

## PROGRESS



of subsidiaries of American Electric Power and MidAmerican Energy Holdings Company – to build and own new electric transmission assets in Kansas.

Prairie Wind Transmission is constructing approximately 108 miles of extra-high-voltage 345-kV double-circuit transmission lines linking a 345-kV substation near Wichita, Kan., to a new 345-kV substation northeast of Medicine Lodge, Kan. near the Flat Ridge I Wind Farm jointly owned by Westar Energy and BP Alternative, and then south to the Kansas/Oklahoma border. The project will provide enhanced electricity transport in Kansas and support expansion of renewable electricity generation in the region.

Construction began August 1, 2012, and the project is scheduled to be in service by December 31, 2014. Prairie Wind is currently earning revenues under the FERC order.

*Pioneer:* [Pioneer Transmission](#) is a joint venture between AEP and Duke Energy. In December 2011, the Greentown to New Reynolds segment of Pioneer Transmission's project was approved as a multivalue project (MVP) by the Midwest Independent Transmission System Operator (MISO) and included in the 2011 Transmission Expansion Plan. The MVPs will collectively enhance regional reliability, improve market efficiency, enable public policy mandates and facilitate the integration of new generating resources, such as renewable energy, with the electric transmission grid.

Pioneer began engineering, permitting and siting activities on the 66-mile, 765-kV transmission line in Indiana in 2012. Greentown-New Reynolds is part of a larger, 240-mile transmission project in Indiana originally proposed in 2008 that would extend from Duke Energy's Greentown substation to AEP's Rockport substation, near Evansville, Ind. The total cost of the broader project is estimated at \$950 million.



On February 8, 2012 Pioneer filed a complaint with FERC to (1) resolve an ownership and investment dispute between Pioneer and NIPSCO, and (2) request FERC to direct MISO to permit Pioneer to become a MISO transmission owner so it can exercise the transmission rate incentives FERC granted Pioneer in 2009. On July 19, 2012 the FERC denied Pioneer's complaint against NIPSCO and dismissed Pioneer's complaint against MISO.

*PATH:* On February 28, 2011, PJM announced its decision to hold the PATH Project in abeyance and directed FirstEnergy and AEP to suspend work on the project. As a result, the PATH Companies filed to withdraw their pending applications in West Virginia, Virginia, and Maryland and the evidentiary hearings scheduled for 2011 in all three states will not be held. On August 9, 2012 PJM's Transmission Expansion Advisory Committee recommended to the PJM Board that the project be cancelled.

On August 24, 2012, the Board of PJM Interconnection, L.L.C., decided to remove the PATH Project from PJM's Regional Transmission Expansion Plan, based on the PJM staff's recommendations. The companies responsible for the development of the PATH Project

submitted an abandonment cost recovery filing on September 28, 2012 to FERC seeking to recover approximately \$121 million in abandoned plant costs. The costs will be recovered under the PATH Project formula rate on file with FERC.

Read more about AEP's [transmission strategy](#).

**KEY INDICATOR**

Compliance – zero enforcement actions from regulatory agencies.

Emissions – comply with SO<sub>2</sub> and NO<sub>x</sub> caps, per NSR consent decree.

Reduce demand by 1,000 MW by the end of 2012 through demand response and energy efficiency programs. Reduce energy consumption by 2,500,000 MWh by the end of 2012.

Reduce internal energy consumption by 15 percent by 2015 in AEP facilities (excluding power plants). Build/renovate to LEED standards where appropriate.

Diversify fuel portfolio by adding 2,000 MW of renewable energy by the end of 2011.

**ENVIRONMENTAL PERFORMANCE**

The West Virginia DEP issued an enforcement action against AEP Kentucky Coal, LLC related to the demolition of a coal conveyor. The DEP, satisfied with the corrective actions taken, reduced the fine to \$3,390, which was paid on August 2, 2012.

AEP did not exceed caps.

From January 2008 – June 2012, the AEP system achieved 2,372,000 MWh (105 percent of goal) of energy savings compared to 2012 reduction target of 2,250,000 MWh.

From January 2008 – June 2012, the AEP system achieved 811 MW (81 percent of target) of demand reduction versus a 2012 reduction target of 1,000 MW.

Through June 30, 2012, we have achieved an estimated energy reduction of 21.50% over the baseline year 2007. This compares to a 2011 year-end energy reduction total of 18.75%. In 2012, we installed additional efficient equipment, lighting and controls in our facilities. AEP currently manages five LEED certified facilities. All building mechanics across AEP will be trained this year to perform energy audits.

AEP's fuel mix (by generation nameplate capacity) is approximately 63.5 percent coal; 25.5 percent natural gas; 6 percent nuclear; 3 percent hydro, wind, solar and pumped storage and 2 percent Demand Response (DR) and Energy Efficiency (EE) as of June 2012. This was our first year incorporating DR and EE into our fuel portfolio.

Once all of the wind and solar projects that are currently under contract (1994 MW) are online by the end of 2012, their energy output is expected to meet approximately 6 percent of AEP's projected 2013 energy retail sales. Further additions of renewable resources to the portfolio will be highly dependent on cooperation with and support from our regulators.

AEP's natural gas consumption continues to increase and was approximately 66 percent YTD June 30, 2012 (117,545,299 MMBtus) as compared to the same period in 2011 (70,838,629 MMBtus). This increase continues the trend that began in 2010 when AEP's natural gas consumption increased 40 percent above the 2009 level. In 2011, natural gas consumption increased an additional 24 percent above the 2010 levels. With the exception of the newly commissioned Dresden unit that was in start-up during the first quarter 2012, average capacity factors on AEP's combined cycle units in the

**PROGRESS**



	<p>PJM region, as well as the Stall gas unit, were 80 percent or above during the first half of 2012. We expect this trend to continue for the remainder of the year based on economic natural gas prices.</p>	
<p>Reduce CO2 emissions from power plants by additional 10 percent by the end of 2020 compared with 2010 levels of approximately 134 million metric tons. This will result in total reduction of about 25 percent from 2003 levels.</p>	<p>AEP remains committed to reducing CO2 emissions by 2020. The 2012 emissions data will be reported on in 2013 as emission data is reported on annually. Emissions in 2011 (136 million metric tons) were slightly higher than 2010 emissions, but emissions are projected to drop precipitously with completion of the AEP fleet transition plan and associated retirement of coal fired generation.</p>	<p>N / A</p>
<p>Water Stewardship – identify opportunities to address water use, and conservation.</p>	<p>AEP worked with the Electric Power Research Institute (EPRI) and other partners on a water quality trading project in the Ohio River Basin. It is a market-based approach to improve water quality in the river by reducing discharges of nutrients, such as phosphorous and nitrogen, by paying farmers to install best management practices, such as fencing to keep livestock out of rivers and streams. Participation in this voluntary program is in lieu of installing costly waste water treatment equipment at various power plants and other municipal and industrial sites.</p> <p>In August 2012, representatives from Ohio, Indiana and Kentucky signed the world's largest interstate <a href="#">water quality trading plan</a>. This agreement marks the first time states have approved an interstate water quality trading program. AEP is one of the first utilities in the country to participate in this innovative program.</p>	
<p><b>KEY INDICATOR</b></p>	<p><b>SOCIAL PERFORMANCE</b></p>	<p><b>PROGRESS</b></p>
<p>Employee Safety &amp; Health – zero harm, zero fatalities. (Compensation tied to performance)</p>	<p>Through June 30, 2012, there were no employee fatalities.</p>	
<p>2012 Recordable injury rate goal: 0.97</p>	<p>Recordable injury rate – 0.76</p>	
<p>2012 Severity injury rate goal: 19.94</p>	<p>Severity injury rate – 10.29</p>	
<p>Public Safety – reduce public contacts and fatalities associated with people coming into contact with our electrical facilities. Reduce copper theft incidents.</p>	<p>Through the second quarter, there were two public fatalities (both from copper theft) and 22 electrical contact events (one from copper theft).</p> <p>Plans for a public safety education advertising program and an in-school safety program continued to be suspended due to budget reductions. However, through social media, we received a total of 362,736 views of blog posts, videos and other educational materials from Jan. 1 – June 30, 2012, which was largely focused on public safety and storm restoration.</p>	
<p>Contractor safety – zero fatalities; achieve recordable injury rate of 1.60. Contractors covered by this goal include all major O&amp;M contractors, such as construction contractors.</p>	<p>Contractor recordable injury rate through May 2012 is 1.18.</p>	

System Reliability

While reliability (SAIDI) performance year-to-date July 2012 has improved relative to the previous three-year average in AEP's East companies and PSO performance in APCO, KY and SWEPCO compares unfavorably to regional peer performance. Performance over the long term in these three companies also indicates continuing deterioration at a rate of 6 to 8 percent per year.

Failure to reverse the current unfavorable trend will likely result in declining customer satisfaction levels and increased regulatory scrutiny. It poses the risk of mandated programs, required spending levels and places a hurdle in the path of getting cost recovery from state regulators. In an effort to minimize outages and improve reliability performance, each OpCo has developed and is executing a detailed Reliability Work Plan that focuses on high-risk aspects of their specific distribution system.



Vegetation and equipment failure continue to be the primary causes of outages. More than 10 percent of APCO-WV, KY, and SWEPCO-TX customers experienced five or more sustained interruptions in the past year (excluding major storms). Vegetation programs, including regulatory recovery, have been successfully pursued and are being executed in several jurisdictions in an effort to improve outage frequency (SAIFI) and ultimately outage duration (CAIDI) as employees are responding to fewer outages over time.

SAIDI = System Average Interruption Duration Index

Corporate giving and community outreach

Through June 30, 2012, AEP, its operating units and the American Electric Power Foundation made grants totaling more than \$15.5 million to non-profit organizations across the service area and beyond to support education, basic needs, social services, the environment and the arts.

Through the Matching Gifts program, \$190,354 has been awarded to colleges and universities in the first half of 2012.

Due to budget reductions the AEP Connects "dollars for doers" volunteer grant program was eliminated. The company continues to support executives and leadership that serve on community non-profit boards and employee-led community campaigns and causes in support of non-profit organizations. AEP also continues to offer mini-grants for Make a Difference Day projects led by or involving AEP active and retired employees as coordinators or volunteers to address needs in local communities.



AEP and AEP Ohio collaborated with the IBEW Local 1466 for the 2012 United Way campaign.

AEP and IBEW Local 1466 partnered to raise a record 350,000 meals to supply food banks in Ohio through the 2012 Operation Feed campaign.

Above Target



At or Near Target



Below Target

