

AMERICAN ELECTRIC POWER CO INC

Form DEF 14A

March 15, 2017

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**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted  
by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12.

**American Electric Power Company, Inc.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

## Edgar Filing: AMERICAN ELECTRIC POWER CO INC - Form DEF 14A

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- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

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## **Notice of 2017 Annual Meeting    Proxy Statement**

**American Electric Power**

1 Riverside Plaza

Columbus, OH 43215

**Nicholas K. Akins**

Chairman of the Board and  
Chief Executive Officer

March 15, 2017

Dear Shareholders:

This year's annual meeting of shareholders will be held at the Clay Center, 1 Clay Square, Charleston, West Virginia on Tuesday, April 25, 2017, at 9:00 a.m. Eastern Time.

Your Board of Directors and I cordially invite you to attend. Registration will begin at 8:00 a.m. Only shareholders who owned shares on the record date, February 28, 2017, are entitled to vote and attend the meeting. To attend the meeting, you will need to present an admission ticket or the notice you received. If your shares are registered in your name, and you received your proxy materials by mail, your admission ticket is attached to your proxy card. A map and directions are printed on the admission ticket. If your shares are registered in your name and you received your proxy materials electronically via the Internet, you will need to print an admission ticket after you vote by clicking on the Options button. If you hold shares through an account with a bank or broker, you will need to contact them and request a legal proxy, or bring a copy of your statement to the meeting that shows that you owned the shares on the record date. Each ticket will admit a shareholder and one guest.

We are mailing to many of our shareholders a notice of Internet availability instead of a paper copy of this proxy statement and our 2016 Annual Report. The notice contains instructions on how to access those documents over the Internet. The notice also contains instructions on how shareholders can receive a paper copy of our proxy materials, including this proxy statement, our 2016 Annual Report and a form of proxy card or voting instruction card.

During the course of the meeting there will be the usual time for discussion of the items on the agenda and for questions regarding AEP's affairs. Directors and officers will be available to talk individually with shareholders before and after the meeting.

**Your vote is very important. Shareholders of record can vote in any one of the following three ways:**

**By Internet, at [www.envisionreports.com/AEP](http://www.envisionreports.com/AEP)**

**By toll-free telephone at 800-652-8683**

**By completing and mailing your proxy card if you receive paper copies of the proxy materials**

**If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the holder of record that you must follow in order for you to vote your shares.**

If you have any questions about the meeting, please contact Investor Relations, American Electric Power Company, 1 Riverside Plaza, Columbus, Ohio 43215. The telephone number is 800-237-2667.

Sincerely,

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## NOTICE OF 2017 ANNUAL MEETING

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American Electric Power Company, Inc.

1 Riverside Plaza

Columbus, Ohio 43215

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|                          |   |
|--------------------------|---|
| <b>TIME</b>              | 9:00 a.m. Eastern Time on Tuesday, April 25, 2017   |
| <b>PLACE</b>             | The Clay Center<br><br>1 Clay Square<br><br>Charleston, West Virginia   |
| <b>ITEMS OF BUSINESS</b> | <ol style="list-style-type: none"><li>(1) To elect the 12 directors named herein to hold office until the next annual meeting and until their successors are duly elected.</li><li>(2) To reapprove the material terms of the American Electric Power Senior Officer Incentive Plan.</li><li>(3) To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the year 2017.</li><li>(4) To hold an advisory vote on executive compensation.</li><li>(5) To hold an advisory vote on the frequency of holding an advisory vote on executive compensation.</li></ol>   |
| <b>RECORD DATE</b>       | Only shareholders of record at the close of business on February 28, 2017 are entitled to notice of and to vote at the meeting or any adjournment thereof.  |
| <b>ANNUAL REPORT</b>     | Appendix A to this proxy statement has AEP's audited financial statements, management's discussion and analysis of results of operations and financial condition and the report of the independent registered public accounting firm.   |
| <b>PROXY VOTING</b>      | <p>It is important that your shares be represented and voted at the meeting. Please vote in one of these ways:</p> <ol style="list-style-type: none"><li>(1) <b>MARK, SIGN, DATE AND PROMPTLY RETURN</b> your proxy card if you receive paper copies of the proxy materials.</li><li>(2) <b>CALL TOLL-FREE</b> by telephone at 800-652-8683.</li><li>(3) <b>VISIT THE WEB SITE</b> shown on the notice of Internet availability of proxy materials to vote via the Internet.</li></ol> <p>If your shares are held in the name of a bank, broker or other holder of record, please follow the instructions from the holder of record in order to vote your shares.</p> |

Any proxy may be revoked at any time before your shares are voted at the meeting.

March 15, 2017

David M. Feinberg



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## **Proxy Statement**

March 15, 2017

## **Proxy and Voting Information**

A notice of Internet availability of proxy materials or paper copy of this proxy statement, our 2016 Annual report and a form of proxy or voting instruction card is first being mailed or made available to shareholders on or about March 15, 2017, in connection with the solicitation of proxies by the Board of Directors of American Electric Power Company, Inc., 1 Riverside Plaza, Columbus, Ohio 43215, for the annual meeting of shareholders to be held on April 25, 2017 in Charleston, West Virginia.

We use the terms AEP, the Company, we, our and us in this proxy statement to refer to American Electric Power Company, Inc. and, where applicable, its subsidiaries. All references to years, unless otherwise noted, refer to our fiscal year, which ends on December 31.

**Who Can Vote.** Only the holders of shares of AEP common stock at the close of business on the record date, February 28, 2017, are entitled to vote at the meeting. Each such holder has one vote for each share held on all matters to come before the meeting. On that date, there were 491,712,071 shares of AEP common stock, \$6.50 par value, outstanding.

**How You Can Vote.** Shareholders of record can give proxies by (i) mailing their signed proxy cards; (ii) calling a toll-free telephone number; or (iii) using the Internet. The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions and to confirm that shareholders' instructions have been properly recorded. Instructions for shareholders of record who wish to use the telephone or Internet voting procedures are set forth on the proxy card or the website shown on the notice of Internet availability of proxy materials.

If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the holder of record that you must follow in order for you to vote your shares.

When proxies are signed and returned, the shares represented thereby will be voted by the persons named on the proxy card or by their substitutes in accordance with shareholders' directions. If a proxy card is signed and returned without choices marked, it will be voted for the nominees for directors listed on the card and as recommended by the Board of Directors with respect to other matters. The proxies of shareholders who are participants in the Dividend Reinvestment and Stock Purchase Plan include both the shares registered in their names and the whole shares held in their plan accounts on February 28, 2017.

**Revocation of Proxies.** A shareholder giving a proxy may revoke it at any time before it is voted at the meeting by voting again after the date of the proxy being revoked or by attending the meeting and voting in person.



**How Votes are Counted.** The presence of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting, present in person or represented by proxy, is necessary to constitute a quorum. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Under current New York Stock Exchange (NYSE) rules, the proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm is considered a discretionary item. This means that brokerage firms may vote in their discretion on this

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matter on behalf of their clients who have not furnished voting instructions. The proposals to elect directors, the proposal to reapprove the material terms of the American Electric Power System Senior Officer Incentive Plan, the advisory vote on executive compensation and the advisory vote on frequency of holding an advisory vote on executive compensation are non-discretionary matters. That means that brokerage firms may not use their discretion to vote on such matters without express voting instructions from their clients.

The Company has implemented a majority voting standard for the election of directors in uncontested elections of directors. The election of directors at the Annual Meeting is an uncontested election, so for a nominee to be elected to the Board, the number of votes cast for the nominee's election must exceed the number of votes cast against his or her election. Abstentions and broker non-votes will not be considered votes cast for or against a nominee and will therefore have no effect on the outcome. If a nominee does not receive a greater number of votes for his or her election than against such election, he or she will be required to tender his or her resignation for the Board's consideration of whether to accept such resignation in accordance with our Bylaws. No shareholder has the right to cumulate his or her voting power in the election of directors at the Annual Meeting.

The following table summarizes the Board's voting recommendations for each proposal, the vote required for each proposal to pass, and the effect of abstentions and uninstructed shares on each proposal.

| Item  | Board Recommendation | Voting Standard                           | Abstentions | Broker Non-Votes                         |
|---|----------------------|---|-------------|--|
| <b>Item 1</b> Election of Directors   | FOR                  | Majority of votes cast for each Director* | No effect   | No effect                                |
| <b>Item 2</b> Reapproval of the material terms of the Senior Officer Incentive Plan   | FOR                  | Majority of votes cast at the meeting*    | No effect   | No effect                                |
| <b>Item 3</b> Ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for 2017** | FOR                  | Majority of votes cast at the meeting*    | No effect   | Discretionary voting by broker permitted |
| <b>Item 4</b> Advisory vote to approve executive compensation (Say on Pay)**  | FOR                  | Majority of votes cast at the meeting*    | No effect   | No effect                                |
| <b>Item 5</b> Advisory vote on the frequency of holding an advisory vote on executive compensation**  | FOR<br>1 Year        | Plurality of votes cast at the meeting*** | No effect   | No effect                                |

\* This means that the votes cast for the proposal must exceed the votes cast against the proposal in order for the proposal to pass.

\*\* As advisory votes, the proposals to ratify the appointment of Pricewaterhouse Coopers LLP as the independent registered public accounting firm for 2017, to approve executive compensation and to determine the frequency of holding a vote to approve executive compensation are not binding upon the Company. However, the Audit Committee and the Human Resources Committee value the opinions expressed by shareholders and will consider the outcome of these votes when making future decisions.

\*\*\* This means that the option that received the most votes will pass.

**Your Vote is Confidential.** It is AEP's policy that shareholders be provided privacy in voting. All proxies, voting instructions and ballots, which identify shareholders, are held on a confidential basis, except as may be necessary to meet any applicable legal requirements. We direct proxies to an independent third-party tabulator who receives, inspects, and tabulates them. Voted proxies and ballots are not seen by nor reported to AEP except (i) in aggregate number or to determine if (rather than how) a shareholder has voted, (ii) in cases where shareholders write comments on their proxy cards or (iii) in a contested proxy solicitation.

**Multiple Copies of Annual Report, Proxy Statement or Notice of Internet Availability of Proxy Materials to Shareholders.** Securities and Exchange Commission (SEC) rules provide that



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more than one annual report, proxy statement or notice of Internet availability of proxy materials need not be sent to the same address. This practice is commonly called "householding" and is intended to eliminate duplicate mailings of shareholder documents. Mailing of your annual report, proxy statement or notice of Internet availability of proxy materials is being househanded indefinitely unless you instruct us otherwise. We will deliver promptly upon written or oral request a separate copy of the annual report, proxy statement or notice of Internet availability of proxy materials to a shareholder at a shared address. To receive a separate copy of the annual report, proxy statement or notice of Internet availability of proxy materials, write to AEP, attention: Investor Relations, at 1 Riverside Plaza, Columbus, OH 43215 or call 1-800-237-2667. If more than one annual report, proxy statement or notice of Internet availability of proxy materials is being sent to your address, at your request, mailing of the duplicate copy can be discontinued by contacting our transfer agent, Computershare Trust Company, N.A. (Computershare), at 800-328-6955 or writing to them at P.O. Box 43078, Providence, RI 02940-3078. If you wish to resume receiving separate annual reports, proxy statements or notice of Internet availability of proxy materials at the same address in the future, you may call Computershare at 800-328-6955 or write to them at P.O. Box 43078, Providence, RI 02940-3078. The change will be effective 30 days after receipt.

**Additional Information.** Our website address is [www.aep.com](http://www.aep.com). We make available free of charge on the Investor Relations section of our website ([www.aep.com/investors](http://www.aep.com/investors)) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act). We also make available through our website other reports filed with or furnished to the SEC under the Exchange Act, including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act. You may request any of these materials and information in print, free of charge, by contacting Investor Relations at: AEP, attention: Investor Relations, 1 Riverside Plaza, Columbus, OH 43215. We do not intend for information contained on our website to be part of this proxy statement. In addition, this proxy statement and the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 are available at [www.edocumentview.com/aep](http://www.edocumentview.com/aep).

## **Item 1. Election of Directors**

Twelve directors are to be elected to hold office until the next annual meeting and until their successors have been elected. AEP's Bylaws provide that the number of directors of AEP shall be such number, not less than 9 nor more than 17, as shall be determined from time to time by resolution of the Board.

The 12 nominees named on pages 4 to 7 were nominated by the Board on the recommendation of the Corporate Governance Committee of the Board, following an individual evaluation of each incumbent nominee's qualifications and 2016 performance. The proxies named on the proxy card or their substitutes will vote for the Board's nominees, unless instructed otherwise. All of the Board's nominees were elected by the shareholders at the 2016 annual meeting. We do not expect any of the nominees will be unable to stand for election or be unable to serve if elected. If a vacancy in the slate of nominees occurs before the meeting, the proxies may be voted for another person nominated by the Board or the number of directors may be reduced accordingly.

**The Board of Directors unanimously recommends a vote FOR each of the director nominees below.**

**Biographical Information.** The following brief biographies of the nominees include their principal occupations, ages on the date of this proxy statement, accounts of their business experience and names of certain companies of which they are directors. Data with respect to the number of shares of AEP's common stock and stock-based units beneficially owned by each of them appears on page 71.

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**Nominees For Director**

**Nicholas K. Akins**

Dublin, Ohio

Age 56

Director since 2011

Elected chief executive officer of AEP in November 2011; elected chairman of the board in January 2014 and chairman and chief executive officer of all of its major subsidiaries in November 2011. President of AEP from January 2011 to October 2011 and executive vice president of AEP from 2006 to 2011. A director of Fifth Third Bancorp.

Mr. Akins' qualifications to serve on the Board include his extensive senior executive experience in the utility industry and his deep knowledge of the Company as our chief executive officer.

**David J. Anderson**

Greenwich, Connecticut

Age 67

Director since 2011

Executive vice president and chief financial officer of Alexion Pharmaceuticals, a leading biotechnology company offering therapies for rare and devastating diseases since December 2016. Previously, chief financial officer from 2003 until his retirement in 2014 of Honeywell International, a diversified technology and manufacturing company. A director of Cardinal Health, Inc. and BE Aerospace Inc. Mr. Anderson was formerly a director of Fifth Street Asset Management, Inc. (2014-2015).

Mr. Anderson's qualifications to serve on the Board include his corporate finance expertise as the chief financial officer of a Fortune 100 company and his experience as a public company director.

**J. Barnie Beasley, Jr.**

Sylvania, Georgia

Age 65

Director since 2014

Mr. Beasley served as an independent nuclear safety and operations expert to the board of directors of the Tennessee Valley Authority, a large electric utility in the southeastern United States, from 2011 to 2014. Retired chairman, president and chief executive officer of Southern Nuclear Operating Company, the nuclear operating company subsidiary of an electric utility (2005-2008). Mr. Beasley was formerly a director of EnergySolutions, Inc. (2008-2013), and he has served as an advisor to that company since 2014.

Mr. Beasley's qualifications to serve on the Board include his nuclear expertise as the chief executive officer of the nuclear operating company subsidiary of Southern Company and his experience in the utility industry and as a public company director.

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**Nominees For Director continued**

**Ralph D. Crosby, Jr.**

McLean, Virginia

Age 69

Director since 2006

**Linda A. Goodspeed**

Marco Island, Florida

Age 55

Director since 2005

**Thomas E. Hoaglin**

Columbus, Ohio

Age 67

Director since 2008

**Sandra Beach Lin**

Flower Mound, Texas

Age 59

Retired chairman of EADS North America, Inc., an aerospace company (2002-2011). Retired chief executive officer of EADS North America, Inc. (2002-2009). A director of Serco Group PLC and Airbus Group, SE. Mr. Crosby was formerly a director of Ducommun Incorporated (2000-2013).

Mr. Crosby's qualifications to serve on the Board include his extensive senior executive experience in the aerospace industry and his experience as a public company director.

Managing partner of Wealthstrategies Financial Advisors, LLC since 2008. Retired senior vice president and chief information officer of The ServiceMaster Company, a residential and commercial service company (2011-2013). From 2008 to 2011, vice president of information systems of Nissan North America, Inc., an automobile manufacturer. A director of Columbus McKinnon Corp, AutoZone, Inc., and Global Power Equipment Group.

Ms. Goodspeed's qualifications to serve on the Board include her information technology expertise as the chief information officer of a service company and her experience as a public company director.

Retired chairman and chief executive officer of Huntington Bancshares Incorporated, a bank holding company (2001-2009). Member, Nominating and Corporate Governance Committee Chair Advisory Council of the National Association of Corporate Directors. A director of The Gorman-Rupp Company.

Mr. Hoaglin's qualifications to serve on the Board include his extensive senior executive experience in the banking industry and his experience as a public company director.

Retired chief executive officer of Calisolar, Inc., a solar silicon company (2010-2011). Executive vice president, then corporate executive vice president of Celanese Corporation, a global hybrid chemical company (2007-2010). Previous senior operating roles at Avery Dennison, Alcoa and Honeywell. Member, Nominating and Corporate Governance Committee Chair Advisory Council of the National Association of Corporate Directors. A director of WESCO International and PolyOne Corporation.

Director since 2012

Ms. Lin's qualifications to serve on the Board include her extensive senior executive experience managing global businesses in multiple industries and her experience as a public company director.

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**Nominees For Director continued**

**Richard C. Notebaert**

Retired chief executive officer of Qwest Communications International Inc., a telecommunications systems company (2002-2007). A director of Aon Corporation. Mr. Notebaert was formerly a director of Cardinal Health, Inc. (1999-2015).

Chicago, Illinois

Age 69

Mr. Notebaert's qualifications to serve on the Board include his extensive senior executive experience in the regulated telecommunications industry and his experience as a public company director.

Director since 2011

**Lionel L. Nowell III**

Retired senior vice president and treasurer of PepsiCo, Inc., a food and beverage company (2001-2009). A director of Reynolds American Inc. and Bank of America Corporation. Mr. Nowell was formerly a director of Darden Restaurants Inc. (2014-2016).

Marco Island, Florida

Age 62

Mr. Nowell's qualifications to serve on the Board include his capital markets, accounting, financial reporting, and risk management skills. Additionally, Mr. Nowell's qualifications are further enhanced by his experiences as a senior executive at a Fortune 100 company, and his experience as a public company director.

Director since 2004

**Stephen S. Rasmussen**

Chief executive officer of Nationwide Mutual Insurance Company (Nationwide) since 2009. President and chief operating officer of Nationwide (2003-2009).

Columbus, Ohio

Age 64

Mr. Rasmussen's qualifications to serve on the Board include his extensive senior executive experience in the regulated insurance industry.

Director since 2012

**Oliver G. Richard, III**

Owner and president of Empire of the Seed LLC, a private consulting firm in the energy and management industries, as well as the private investments industry since 2005. Mr. Richard served as chairman, president and chief executive officer of Columbia Energy Group (Columbia Energy) from April 1995 until Columbia Energy was acquired by NiSource Inc. in November 2000. Mr. Richard served as a commissioner of the Federal Energy Regulatory Commission from 1982 to 1985. A director of Buckeye Partners, L.P. and Cheniere Energy Partners, GP, LLC.

Lake Charles, Louisiana

Age 64



Director since 2013

Mr. Richard's qualifications to serve on the Board include his extensive knowledge of the utility industry as a former commissioner of the Federal Energy Regulatory Commission, his senior executive experience at a utility company and his experience as a public company director.

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### **Nominees For Director continued**

#### **Sara Martinez Tucker**

Dallas, Texas

Age 61

Director since 2009

Former Chief Executive Officer of the National Math and Science Initiative from February 2013 to March 2015. From 2009 to February 2013, independent consultant. Former Under Secretary of Education in the U.S. Department of Education (2006-2008). Chief executive officer and president of the Hispanic Scholarship Fund from 1997 to 2006. Retired executive of AT&T. A director of Xerox Corporation and Sprint Corporation.

Ms. Tucker's qualifications to serve on the Board include her experience in governmental affairs as the Under Secretary of Education, her experience in human resources and customer service operations in the regulated telecommunications industry and her experience as a public company director.

### **AEP's Board of Directors and Committees**

Under New York law, AEP is managed under the direction of the Board of Directors. The Board establishes broad corporate policies and authorizes various types of transactions, but it is not involved in day-to-day operational details. During 2016, the Board held six regular meetings and two telephonic meetings. AEP encourages but does not require members of the Board to attend the annual shareholders' meeting. Last year, all directors attended the annual meeting, except Ms. Goodspeed, who had a conflict with another board meeting.

Two members of our Corporate Governance Committee, Ms. Lin and Mr. Hoaglin, are members of The National Association of Corporate Directors (NACD) Nominating and Governance Chair Advisory Council, a group that seeks to identify ways that board nominating and governance committees can help build investor confidence in publicly traded companies. Ms. Lin and Mr. Hoaglin are also NACD Board Leadership Fellows.

**Board Meetings and Committees.** The Board expects that its members will rigorously prepare for, attend and participate in all Board and applicable committee meetings. Directors are also expected to become familiar with AEP's management team and operations as a basis for discharging their oversight responsibilities.

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The Board has seven standing committees. The table below shows the number of meetings conducted in 2016 by each committee and the directors who currently serve on these committees. Each director attended 83 percent or more of the meetings of the Board and Board committees on which he or she served during 2016, and the average director attendance in 2016 was 96 percent.

| DIRECTOR      | BOARD COMMITTEES |            |           |           |           |           |           |
|---------------|------------------|------------|-----------|-----------|-----------|-----------|-----------|
|               | Directors        |            |           |           |           |           |           |
|               | and              |            |           |           |           |           |           |
|               | Corporate        |            |           | Human     |           | Nuclear   |           |
|               | Audit            | Governance | Policy    | Executive | Finance   | Resources | Oversight |
| Mr. Akins     |                  |            | X         | X (Chair) |           |           |           |
| Mr. Anderson  | X                |            | X         |           | X (Chair) |           |           |
| Mr. Beasley   | X                |            | X         |           |           |           | X         |
| Mr. Crosby    |                  |            | X         | X         |           | X (Chair) | X         |
| Ms. Goodspeed | X                |            | X         |           |           |           | X         |
| Mr. Hoaglin   |                  | X (Chair)  | X         | X         |           | X         |           |
| Ms. Lin       | X                | X          | X (Chair) |           |           |           |           |
| Mr. Notebaert |                  | X          | X         |           | X         | X         |           |
| Mr. Nowell    | X (Chair)        | X          | X         | X         | X         |           |           |
| Mr. Rasmussen |                  | X          | X         |           | X         | X         |           |
| Mr. Richard   |                  |            | X         |           |           | X         | X (Chair) |
| Ms. Tucker    | X                | X          | X         |           |           |           |           |
| 2016 Meetings | 8                | 5          | 3         | 0         | 5         | 8         | 5         |

The functions of the committees are described below.

The *Committee on Directors and Corporate Governance* has the responsibilities set forth in its charter, including:

1. Recommending the size of the Board within the limits imposed by the Bylaws.
2. Recommending selection criteria for nominees for election or appointment to the Board.
3. Conducting independent searches for qualified nominees and screening the qualifications of candidates recommended by others.
4. Recommending to the Board nominees for appointment to fill vacancies on the Board as they occur and the slate of nominees for election at the annual meeting.
5. Reviewing and making recommendations to the Board with respect to compensation of directors and corporate governance.
6. Recommending members to serve on committees and chairs of the committees of the Board.

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7. Reviewing the independence and possible conflicts of interest of directors and executive officers.
8. Overseeing the AEP Corporate Compliance Program.
9. Overseeing the annual evaluation of the Board of Directors.
10. Overseeing the annual evaluation of individual directors.
11. Monitoring the implementation of AEP's Related Person Transaction Approval Policy.
12. Overseeing AEP's Corporate Accountability Report, including the material concerning political contributions.

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13. Overseeing elements of the Company's risks that are within the scope of the committee's responsibility as assigned to it by the Board of Directors.

A copy of the charter can be found on our website at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance). Consistent with the rules of the NYSE and our Director Independence Standards, all members of the Committee on Directors and Corporate Governance are independent.

The **Human Resources Committee** (the HR Committee) annually reviews and approves AEP's executive compensation in the context of the performance of management and the Company. None of the members of the HR Committee is or has been an officer or employee of the Company or any of its subsidiaries. In addition, each of the current members of the HR Committee has been determined to be independent by the Board in accordance with NYSE rules and our Director Independence Standards. In addition, each member is a non-employee director as defined in SEC Rule 16b-3 under the Exchange Act and is an outside director as defined in Section 162(m) of the Internal Revenue Code.

The HR Committee also reviews the Compensation, Discussion and Analysis section of this proxy statement, and recommends that it be included in the Company's Annual Report on Form 10-K.

The HR Committee has the responsibilities set forth in its charter, a copy of which can be found on our website at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance).

For a more complete description of the HR Committee's responsibilities, see the Human Resources Committee Report on page 45.

The **Audit Committee** is responsible for, among other things, the appointment of the independent registered public accounting firm (independent auditor) for the Company; reviewing with the independent auditor the plan and scope of the audit and approving audit fees; monitoring the adequacy of financial reporting and internal control over financial reporting and meeting periodically with the internal auditor and the independent auditor. A more detailed discussion of the purposes, duties and responsibilities of the Audit Committee is found in the Audit Committee charter, a copy of which can be found on our website at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance). Consistent with the rules of the NYSE and our Director Independence Standards, all members of the Audit Committee are independent. Each Audit Committee member has sufficient knowledge in financial and auditing matters to serve on the Audit Committee. In addition, the Board has determined that all members of the Audit Committee, Messrs. Anderson, Beasley and Nowell and Ms. Goodspeed, Ms. Lin and Ms. Tucker, are audit committee financial experts as defined by SEC rules.

The **Finance Committee** monitors and reports to the Board with respect to the capital requirements and financing plans and programs of AEP and its subsidiaries, including reviewing and making recommendations concerning their short and long-term financing plans and programs. The Finance Committee also provides recommendations to the Board on dividend policy, including the declaration and payment of dividends. The Finance Committee also reviews and approves the treasury policies of the Company.

The **Nuclear Oversight Committee** is responsible for overseeing and reporting to the Board with respect to the management and operation of AEP's nuclear generation.

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The ***Policy Committee*** is responsible for examining AEP's policies on major public issues affecting the AEP System, including environmental, technology, fuel supply, industry change and other matters.

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The *Executive Committee* is empowered to exercise all the authority of the Board, subject to certain limitations prescribed in the Bylaws, during the intervals between meetings of the Board.

### **The Board's role in AEP's risk oversight process**

The Board has the overall responsibility for overseeing the Company's management of risks. Management is responsible for identifying and managing the Company's risks. The Board reviews the Company's processes for identifying and managing risks and communicating with the Board about those risks to help ensure that the processes are effective.

Like other companies, we have very diverse risks. These include financial and accounting risks, capital deployment risks, operational risks, cyber security risks, compensation risks, liquidity risks, litigation risks, strategic risks, regulatory risks, reputation risks, natural-disaster risks and technology risks. Some critical risks having enterprise-wide significance, such as corporate strategy and capital budget, require the full Board's active oversight, but our Board committees also play a key role because they can devote more time to reviewing specific risks. Other committees oversee both specific and broad types of risks. Some of the committees have oversight responsibility for specific risks that are inherent in carrying out their responsibilities set forth in their charters.

The Board is responsible for ensuring that these types of risks are properly delegated to the appropriate committee, and that the risk oversight activities are properly coordinated and communicated among the Board and the various committees that oversee the risks. Our Chief Risk Officer attends Audit Committee meetings and reviews and discusses Company risks. Management has prepared and categorized a list of the Company's major types of risks. The Audit Committee reviewed that list and proposed an assignment of risks either to the full Board or to specific committees. The Board reviewed the recommendations and adopted the proposed allocation of responsibilities.

The Audit Committee is responsible for overseeing financial reporting risks, and oversees the Company's maintenance of financial and disclosure controls and procedures and specifically reviews our litigation and regulatory risks as part of their review of the Company's disclosures. The Audit Committee also discusses AEP's policies for risk assessment and risk management. Our Chief Financial Officer, Chief Risk Officer, Chief Accounting Officer and General Counsel attend the Audit Committee meetings.

Our Finance Committee broadly oversees our financial risks, which include energy trading risks, liquidity risks and interest rate risks. The Finance Committee reviews and approves the Company's risk policies relating to our power marketing and hedging activities and also oversees the performance of the assets in our pension plans. Our Chief Financial Officer and General Counsel attend the Finance Committee meetings.

Our HR Committee reviews the Company's incentive compensation practices to ensure they do not encourage excessive risk-taking and are consistent with the Company's risk tolerance. The HR Committee also oversees our succession planning and executive leadership development. Our Chief Administrative Officer attends the HR Committee meetings.

The Corporate Governance Committee focuses on corporate governance risks and oversees the Company's Corporate Compliance Program, which includes the Company's whistleblower program. Our General Counsel attends the meetings of the Corporate Governance Committee.

Our Nuclear Oversight Committee focuses on the specific risks of operating a nuclear plant.



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### **Compensation Risk**

The Company has designed its executive compensation process, with oversight from the HR Committee, to identify and manage risks and to ensure that its executive compensation programs do not encourage excessive risk taking. The Company's incentive compensation has the following characteristics:

Incentive award opportunities for employees as a group are capped at 200 percent of target, while awards for individual employees are capped at 250 percent of their target. Capping the potential payout limits the extent that employees could potentially profit by taking on excessive risk;

The large majority of incentive compensation is provided to executive officers as long-term stock-based incentive compensation to ensure that short-term performance is not encouraged or rewarded at the expense of long-term performance. This is important primarily because of the large amount of long-term capital investments required in our business;

Annual incentive compensation funding for nearly all employees, including all executive officers, is based substantially on AEP's operating earnings per share, which helps ensure that incentive awards are commensurate with the Company's earnings;

Performance metrics for annual incentive compensation include safety measures which helps ensure that no employees are encouraged to achieve earnings objectives at the expense of workplace safety;

Performance metrics for long-term incentive compensation are cumulative operating earnings per share and total shareholder return relative to the S&P 500 Electric Utilities Industry Index or a utility peer group. These are both robust measures of shareholder value that reduce the risk that employees might be encouraged to pursue other objectives that increase risk or reduce financial performance;

Incentive compensation performance scores are subject to an internal audit. Incentive award payouts to senior AEP management are subject to review and approval of the HR Committee, or, in the case of the CEO, the independent members of the Board. The Board and the HR Committee have the discretionary authority to reduce or eliminate any incentive payouts;

Annual and long-term incentive payments and deferrals are subject to the Company's recoupment of incentive compensation policy (clawback policy) as described in the Compensation Discussion and Analysis section on page 41;

In 2016, AEP granted 75 percent of its long-term incentive awards in the form of performance units with a three-year performance and vesting period, and granted the remaining 25 percent of its long-term incentive awards in the form of restricted stock units that vest over a forty month period. These long-term incentive awards align the interests of employees with the long-term interests of shareholders and serve as a retention tool; and

AEP maintains stock ownership requirements for 51 officers (as of January 1, 2017) as described in Compensation Discussion and Analysis on page 40.

As specified in its charter, the HR Committee (with the assistance of its independent compensation consultant and Company management) reviewed the Company's compensation policies and practices for all employees, including executive officers. As a result of this review and the processes described above, the HR Committee concluded that the Company's compensation programs appropriately balance risks and rewards in a way that does not encourage excessive or imprudent risk taking or create risks that are reasonably likely to have a material adverse effect on the Company.



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### **Corporate Governance**

AEP maintains a corporate governance page on its website that includes key information about corporate governance initiatives, including AEP's Principles of Corporate Governance, AEP's Principles of Business Conduct, Code of Business Conduct and Ethics for Members of the Board of Directors, Director Independence Standards, and charters for the Audit Committee, the Corporate Governance Committee and the HR Committee. The corporate governance page can be found at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance). Printed copies of all of these materials also are available without charge upon written request to Investor Relations at: AEP, attention: Investor Relations, 1 Riverside Plaza, Columbus, Ohio 43215.

AEP's policies and practices reflect corporate governance initiatives that are designed to comply with SEC rules, the listing requirements of the NYSE and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

The Board of Directors has adopted corporate governance principles;

All members but the CEO are independent under the NYSE rules and our Director Independence Standards;

All members of the Audit Committee, HR Committee and the Corporate Governance Committee are independent under applicable rules;

The independent members of the Board meet regularly without the presence of management;

AEP has a code of business conduct that applies to its principal executive officer, principal financial officer and principal accounting officer and will promptly disclose waivers of the code for these officers;

AEP has a Code of Business Conduct and Ethics for Members of the Board of Directors;

The charters of the Board committees clearly establish their respective roles and responsibilities; and

The Board, the Corporate Governance Committee, the Audit Committee and the HR Committee conduct annual self-assessments. The Corporate Governance Committee also oversees the annual evaluation of the individual directors.

### **Director Qualifications**

The Company's Principles of Corporate Governance (Principles) are available on our website at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance). With respect to director qualifications and attributes, the Principles provide that, in nominating a slate of Directors, it is the Board's objective, with the assistance of the Committee on Directors and Corporate Governance (the Corporate Governance Committee), to select individuals with skills and experience to effectively oversee management's operation of the Company's business.

In addition, the Principles provide that directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the shareholders, and that directors must also have an inquisitive and objective perspective, practical wisdom and mature judgment.

These requirements are expanded in the Criteria for Evaluating Directors (Criteria), which was initially adopted by the Corporate Governance Committee in 2005 and has been subsequently reviewed and refined several times. The Criteria are available on the Company's website at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance).

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As indicated in the Principles and the Criteria, directors should have personal attributes such as high integrity, intelligence, wisdom and judgment. In addition, they should have skills and experience that mesh effectively with the skills and experience of other Board members, so that the talents of all members blend together to be as effective as possible in overseeing a large energy business.

## **Board Diversity**

Our Criteria for Evaluating Directors also includes the Company's statement regarding how the Board considers diversity in identifying nominees for our Board. The Criteria provide:

Two central objectives in selecting board members and continued board service are that the skills, experiences and perspectives of the Board as a whole should be broad and diverse, and that the talents of all members of the Board should blend together to be as effective as possible. Diversity in gender, race, age, tenure of board service, geography and background of directors, consistent with the Board's requirements for knowledge and experience, are desirable in the mix of the Board.

Our Corporate Governance Committee considers these criteria each year as it determines the slate of director nominees to recommend to the Board for election at our annual meeting. It also considers these criteria each time a new director is recommended for election or appointment to the Board. The Board believes that its implementation of this policy is effective in considering the diversity of the members of the Board.

Understanding the importance of Board composition and refreshment for effective oversight, the Corporate Governance Committee strives to maintain an appropriate balance of tenure, diversity, skills and experience on the Board. Below are highlights of the composition of our Director nominees:

## **Annual Board, Committee and Individual Director Evaluations**

Each year, an independent third party, experienced in corporate governance matters, interviews each Director to obtain his or her assessment of the effectiveness of the Board and committees, including identifying any opportunities the Board can focus on to enhance its effectiveness. In addition, the third party seeks input as to the performance of each individual Director. The third party organizes the Director feedback and reviews it with the Chair of the Corporate Governance Committee. The Corporate Governance Committee Chair holds private conversations with each Director to provide performance feedback. The Corporate Governance Committee Chair also reviews with the Committee and the full Board the assessment of the Board's performance and leads a discussion to determine which areas the Board would like to focus on during the coming year to enhance its effectiveness. Finally, the Corporate Governance Committee Chair engages the Board in a mid-year discussion to gauge the Board's satisfaction with the progress made in addressing any focus areas that were identified by the Board in its annual evaluation.

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### **Selection of Director Candidates**

The Corporate Governance Committee is responsible for recruiting new directors and identifies, evaluates and recommends director candidates to the Board. The committee regularly assesses the appropriate size and composition of the Board, the needs of the Board and the respective committees of the Board and the qualifications of candidates in light of these needs. Candidates may come to the attention of the committee through shareholders, management, current members of the Board or search firms. Shareholders who wish to recommend director candidates to the Corporate Governance Committee may do so by following the procedures described in Shareholder Proposals and Nominations on page 72.

In recruiting and selecting Board candidates, the Corporate Governance Committee considers, on an ongoing basis, the background, experience and skills of the incumbent Directors (a Skills Matrix ) that are important to the Company's current and future needs, including, among others, experience and skills in the following areas:

### **Director Skills Criteria:**

Senior executive leadership and business strategy  
Regulated industry experience  
Industrial operations experience  
Finance and accounting  
Safety and talent

Risk management  
Government, legal and environmental affairs  
Customer experience and marketing  
Cybersecurity and physical security  
Innovation and technology

The committee also considers a wide range of additional factors, including each candidate's projected retirement date to assist in Board succession planning; other positions the candidate holds, including other boards of directors on which he or she serves; and the independence of each candidate. Typically, the committee identifies candidates through the use of an outside search firm. The committee provides the outside search firm the characteristics, skills and experiences that may complement those of the existing members. The outside search firm then provides recommendations for candidates with such attributes and skills. The committee meets in executive session to discuss potential candidates and determines which candidates to interview.

The committee believes it is important to have a mix of experienced directors with a deep understanding of the Company and others who bring a fresh perspective. In this regard, the committee has recruited six new directors to the Board over the last six years (50 percent of the current Board) through the rigorous process described above. In our view, the best method to ensure healthy board evolution is through thoughtful consideration of the nomination of directors prior to each election or appointment based on a variety of factors, including director performance, skills and expertise, the Company's needs and board diversity.

### **Director Independence**

In accordance with the NYSE standards, a majority of the members of the Board of Directors must qualify as independent directors. Under the NYSE standards, no member of the Board is independent unless the Board affirmatively determines that such member does not have a direct or indirect material relationship with the Company. The Board has adopted categorical standards to assist it in making this determination of director independence (Director Independence Standards). These standards can be found on our web site at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance).

Each year, our directors complete a questionnaire that elicits information to assist the Corporate Governance Committee in assessing whether the director meets the NYSE's independence

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standards and the Company's Director Independence Standards. Each director lists all the companies and charitable organizations that he or she, or an immediate family member, has a relationship with as a partner, trustee, director or officer, and indicates whether that entity made or received payments from AEP. The Company reviews its financial records to determine the amounts paid to or received from those entities. A list of the entities and the amounts AEP paid to or received from those entities is provided to the Corporate Governance Committee. Utilizing this information, the Corporate Governance Committee evaluates, with regard to each director, whether the director has any material relationship with AEP or any of its subsidiaries and also confirms that none of these relationships is advisory in nature. The Corporate Governance Committee determines whether the amount of any payments between those entities and AEP could interfere with a director's ability to exercise independent judgment. The Corporate Governance Committee also reviews any other relevant facts and circumstances regarding the nature of these relationships, to determine whether other factors, regardless of the categorical standards the Board has adopted or under the NYSE's independence standards, might impede a director's independence.

We are an energy company that provides electric service in eleven different states. Any organization that does business in our service territory is served by one of our subsidiaries. Many of our directors live in our service territory or are executives, directors or trustees of organizations that do business in our service area. Most of those organizations purchase electric service from us. However, these organizations purchase electric service from us at tariff rates or at rates obtained through a competitive bid process. Therefore, the Corporate Governance Committee determined that none of those relationships impedes a director's independence.

We make numerous charitable contributions to nonprofit and community organizations and universities in the states where we do business. Again, because many of our directors live in our service territory and are highly accomplished individuals in their communities, our directors are frequently affiliated with many of the same educational institutions, museums, charities and other community organizations. The Corporate Governance Committee reviews charitable contributions made by AEP to organizations with which our directors or their immediate family members are affiliated. The Corporate Governance Committee also reviewed contributions made from The American Electric Power Foundation, which was created to support and play an active, positive role in the communities in which we operate by contributing funds to organizations in those communities. The Corporate Governance Committee determined that the Company's contributions were not materially influenced by the director's relationship with the organization, and therefore none of these relationships conflicts with the interests of the Company or would impair the director's independence or judgment.

The Board's independence determinations specifically included reviewing the following transactions with Mr. Rasmussen, who is an executive officer of Nationwide Insurance. Nationwide purchases electricity from our subsidiaries (substantially less than one percent of either company's gross revenues). In addition, the Company paid an insignificant amount to Nationwide for standard insurance premiums, rent for office space and interest payments on ordinary course debt issued by the Company and its subsidiaries, which was sold through underwriters or brokers (which totaled substantially less than one percent of either company's gross revenues). The transactions between Nationwide and the Company were in the ordinary course and entered into on an arm's length basis, and payments were for services that were transactional in nature and did not involve any consulting or advisory work. Therefore, the Board determined that these transactions did not impair the independence of Mr. Rasmussen.

As a result of this review, the Board has determined that, other than Mr. Akins, each of the directors and director nominees standing for election, including Messrs. Anderson, Beasley, Crosby, Hoaglin, Notebaert, Nowell, Rasmussen and Richard and Ms. Goodspeed, Ms. Lin and Ms. Tucker, has no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) and is independent under the NYSE rules and the Company's Director Independence Standards.



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### **Shareholder Nominees for Directors**

The Corporate Governance Committee will consider shareholder recommendations of candidates to be nominated as directors of the Company. All such recommendations must be in writing and submitted in accordance with the procedures described under Shareholder Proposals and Nominations on page 72 and must include information required in AEP's Policy on Consideration of Candidates for Director Recommended by Shareholders. A copy of this policy is on our website at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance). Shareholders' nominees who comply with these procedures will receive the same consideration that all other nominees receive.

### **Board Leadership**

We believe the Company and its shareholders are best served by a Board that has the flexibility to establish a leadership structure that fits the needs of the Company at a particular point in time. Under the Company's Principles of Corporate Governance, the Board has the authority to combine or separate the positions of Chairman and CEO, as well as to determine whether, if the positions are separated, the Chairman should be an employee, non-employee or an independent director.

The Board believes that the functioning of the Board is currently best served by maintaining a structure of having one individual serve as both Chairman and CEO. The Board believes that having a single person acting in those capacities promotes unified leadership and direction for both the Board and management and also provides a single, clear focus to execute the Company's strategy especially during this time of significant change in the utility business. However, in certain circumstances, such as the transition from one chief executive officer to another, the Board believes it may be appropriate for the role of Chairman and CEO to be split.

Under the Company's Principles of Corporate Governance, in circumstances where the Chairman of the Board is not independent or where the positions of Chairman and Chief Executive Officer are filled by the same person, the Board considers it useful and appropriate to designate a Lead Director. The Company already has policies and practices in place to provide independent oversight of management and the Company's strategy. The Board currently includes 11 independent directors among its 12 members. The Board routinely holds executive sessions at which only independent directors are present, and, each year, the independent directors select a Lead Director responsible for facilitating and chairing the independent directors sessions.

Mr. Hoaglin has been the Lead Director of the Board since April 2012. The purpose of the Lead Director is to promote the independence of the Board in order to represent the interests of the shareholders. The Lead Director is selected by the independent directors.

The Lead Director is responsible for working closely with the CEO to finalize information flow to the Board, set meeting agendas and arrange meeting schedules. He also chairs meetings of the independent directors and serves as principal liaison between the independent directors and management. In addition, Mr. Hoaglin has the ability to call special meetings of the Board, as needed, and also has the authority to retain outside legal counsel or other advisors as needed by the Board. He provides a channel of communication between the directors and management, assures that directors receive timely and necessary information in advance of meetings and receives communications from shareholders on behalf of non-employee directors. He also participates in the Company's annual shareholder outreach program. He leads the annual performance evaluation of the Board, and he and the Chairman of the HR Committee lead the annual performance evaluation of the CEO.

## **CEO and Senior Management Succession Planning**

Management succession planning and talent development are overseen by our Board. The HR Committee regularly reviews and discusses with management the CEO succession plan and the

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succession plans for key positions at the senior officer level across the Company. The HR Committee reviews potential internal senior management candidates with our CEO, including the qualifications, experience, and development priorities for these individuals. The succession plans are reviewed with the full Board at least annually. The Board also evaluates succession plans in the context of our overall business strategy. Potential leaders are visible to Board members through formal presentations and informal events to allow directors to personally assess candidates. In 2016, we followed this process when implementing succession plans for recent executive officer changes.

Our Board also establishes steps to address emergency CEO succession planning in extraordinary circumstances. Our emergency CEO succession planning is intended to enable our Company to respond to unexpected emergencies and minimize potential disruption or loss of continuity to our Company's business and operations.

## **Communicating with the Board**

Anyone who would like to communicate directly with our Board, our independent directors as a group or our Lead Director, may submit a written communication to American Electric Power Company, Inc., P.O. Box 163609, Attention: AEP Independent Directors, Columbus, Ohio 43216. The Company's Corporate Secretary reviews such inquiries or communications, and communications other than advertising or promotions of a product or service are forwarded to our Board, our independent directors as a group or our Lead Director, as appropriate.

## **Annual Shareholder Outreach**

Our Board and management are committed to engaging with our shareholders and soliciting their views and input on important governance, environmental, social, executive compensation and other matters. Our Corporate Governance Committee is responsible for overseeing the shareholder engagement process and the periodic review and assessment of shareholder input. Our Lead Director plays a central role in our Board's shareholder engagement efforts. Our management team contacted institutions holding approximately 34% of our Common Stock, and offered to engage with these investors. During 2016, our Lead Director and members of management had discussions with a diverse mix of our shareholders on a variety of corporate governance issues, including Board refreshment, the Board's involvement in Company strategy and the Board's annual evaluation process. Views of these shareholders were shared with our Corporate Governance Committee.

## **Transactions with Related Persons**

The American Electric Power Company, Inc. Related Person Transaction Approval Policy (Policy) was adopted by the Board in December 2006. The written Policy is administered by the Corporate Governance Committee. A copy of the Policy is available on our website at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance).

The Policy defines a Transaction with a Related Person as any transaction or series of transactions in which (i) the Company or a subsidiary is a participant, (ii) the aggregate amount involved exceeds \$120,000 and (iii) any Related Person has a direct or indirect material interest. A Related Person is any director or executive officer of the Company, any nominee for director, any shareholder owning in excess of five percent of the total equity of the Company and any immediate family member of any such person.

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The Corporate Governance Committee considers all of the relevant facts and circumstances in determining whether or not to approve a Transaction with a Related Person and approves only those transactions that it believes are in the best interests of the Company and its shareholders.

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The Corporate Governance Committee considers various factors, including, among other things: the nature of the Related Person's interest in the transaction; whether the transaction involves arm's-length bids or market prices and terms; the materiality of the transaction to each party; the availability of the product or services through other sources; whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the Company; the acceptability of the transaction to the Company's regulators; and in the case of a non-employee director, whether the transaction would impair his or her independence or status as an outside or non-employee director.

If Company management determines it is impractical or undesirable to wait until a meeting of the Corporate Governance Committee to consummate a Transaction with a Related Person, the Chair of the Corporate Governance Committee may review and approve the Transaction with a Related Person. Any such approval is reported to the Corporate Governance Committee at or before its next regularly scheduled meeting.

No approval or ratification of a Transaction with a Related Person supersedes the requirements of the Company's Code of Business Conduct and Ethics for Members of the Board of Directors or AEP's Principles of Business Conduct applicable to any executive officer. To the extent applicable, any Transaction with a Related Person is also considered in light of the requirements set forth in those documents.

Since January 1, 2016, there have been no transactions, and there are no currently proposed transactions, involving an amount exceeding \$120,000 in which AEP was or is expected to be a participant and in which any Related Person had a direct or indirect material interest.

## **Director Compensation**

Directors who are employees of the Company receive no additional compensation for service as a director other than accidental insurance coverage. The table below shows the elements and the annual compensation that we paid to our non-employee directors for 2016.

### **Compensation Element**

|   |            |
|---|------------|
| Annual Retainer (1)                         | \$ 105,500 |
| Annual Stock Unit Awards (2)                | \$ 157,500 |
| Committee Chair Annual Retainers (1):       |            |
| Audit Committee                             | \$ 25,000  |
| HR Committee                                | \$ 20,000  |
| Audit Committee Member Annual Retainers (1) | \$ 15,000  |
| HR Committee Member Annual Retainers (1)    | \$ 10,000  |
| Lead Director Annual Retainer (1)           | \$ 30,000  |

- (1) Retainer amounts are paid in cash in quarterly installments.
- (2) In 2016, pursuant to the Stock Unit Accumulation Plan for Non-Employee Directors, each non-employee director was awarded \$157,500 in AEP stock units. These AEP stock units are credited to directors quarterly, in an amount calculated by dividing the dollar value of the award amount by the closing price of AEP common stock on the grant date. Amounts equivalent to cash dividends on the AEP stock units accrue as additional AEP stock units.

The Board has determined that Board compensation should consist of a mix of cash and AEP stock units. In September 2016, upon the recommendation of the Corporate Governance Committee and taking into account comparative data from Meridian Compensation Partners, LLC, an outside



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independent consultant ( Meridian ), the Board made the determination to maintain director compensation at the current amount.

The Board believes that the director compensation set forth above compensates directors appropriately for all general services that are rendered as a director, committee member, committee chair or as Lead Director. The Company believes, however, that special compensation can be appropriate when individual directors are asked to undertake special assignments requiring a significant amount of additional time, effort and responsibility. The Board's Special Compensation Policy provides for directors to be compensated at a daily rate when called upon to undertake special additional services beyond those contemplated by the Annual Retainer. Under the Special Compensation Policy, the Corporate Governance Committee determines (a) the amount of any special compensation in light of the actual or anticipated time, effort and responsibility required of the director and (b) the form of special compensation, which may include a per diem fee, an hourly fee, a flat fee or any other reasonable payment or payments. No special compensation was paid for services provided in 2016.

**Expenses.** Directors are reimbursed for expenses incurred in attending Board, committee and shareholder meetings. Directors are also reimbursed for reasonable expenses associated with other business activities that benefit the Company, including participation in director education programs.

Spouses may occasionally join directors on Company aircraft when a director is traveling to or from Board meetings or other business activities. The Company generally provides for, or reimburses the expenses of, the directors and their spouses for attendance at such meetings. The Directors do not receive any tax gross-ups.

**Retainer Deferral Plan.** The Retainer Deferral Plan for Non-Employee Directors is a non-qualified deferred compensation plan that permits non-employee directors to choose to defer up to 100 percent of their annual cash payments into a variety of investment fund options, all with market-based returns, including an AEP stock fund. The Plan permits the non-employee directors to defer receipt until termination of service or for a period that results in payment commencing not later than five years after termination of service.

**Insurance.** AEP maintains a group 24-hour accident insurance policy to provide a \$1,000,000 accidental death benefit for each director, \$100,000 for each spouse of a director and \$50,000 for all dependent children. The current policy, effective September 1, 2015 to September 1, 2018, has a premium of \$28,905.

**Stock Ownership.** Non-employee directors are required by our Corporate Governance Principles to own AEP common stock or AEP stock units worth five times their annual equity award. This is met within the first five years of a non-employee director's term by requiring the director to hold the AEP stock units awarded under the Stock Unit Accumulation Plan until termination of service.

After five years of service on the Board, non-employee directors receive contributions to an AEP stock fund under the Stock Unit Accumulation Plan. During open trading windows they may subsequently transfer those amounts into other investment fund options, similar to those in the Retainer Deferral Plan.

**Matching Gifts Program.** Directors may participate in our Matching Gifts Program on the same terms as AEP employees. Under the program, AEP will match between \$250 and \$1,000 per higher education institution each year in charitable contributions from a director.





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The following table presents the compensation provided by the Company in 2016 to our non-employee directors.

| Name                   | Fees<br>Earned<br>Or<br>Paid in<br>Cash (\$) | Stock<br>Awards<br>(\$)<br>(1)(2) | All Other<br>Compensation<br>(\$)<br>(3) | Total<br>(\$) |
|------------------------|--|-----------------------------------|--|---------------|
| David. J. Anderson     | 120,500                                      | 157,500                           | 803                                      | 278,803       |
| J. Bernie Beasley, Jr. | 120,500                                      | 157,500                           | 1,803                                    | 279,803       |
| Ralph D. Crosby, Jr.   | 135,500                                      | 157,500                           | 803                                      | 293,803       |
| Linda A. Goodspeed     | 120,500                                      | 157,500                           | 803                                      | 278,803       |
| Thomas E. Hoaglin      | 145,500                                      | 157,500                           | 803                                      | 303,803       |
| Sandra Beach Lin       | 120,500                                      | 157,500                           | 803                                      | 278,803       |
| Richard C. Notebaert   | 115,500                                      | 157,500                           | 803                                      | 273,803       |
| Lionel L. Nowell III   | 145,500                                      | 157,500                           | 803                                      | 303,803       |
| Stephen S. Rasmussen   | 115,500                                      | 157,500                           | 803                                      | 273,803       |
| Oliver G. Richard III  | 115,500                                      | 157,500                           | 803                                      | 273,803       |
| Sara M. Tucker         | 120,500                                      | 157,500                           | 5,803                                    | 283,803       |

- (1) The dollar amounts reported represent the grant date fair value calculated in accordance with FASB ASC Topic 718 of AEP stock units granted under the Stock Unit Accumulation Plan for Non-Employee Directors, without taking into account estimated forfeitures. AEP stock units are credited to directors quarterly.
- (2) Each non-employee director received 2,393 AEP stock units in 2016. Directors had the following aggregate number of AEP stock units, including dividend equivalents, at 2016 year-end: Mr. Anderson (18,671), Mr. Beasley, (7,939) Mr. Crosby (41,094), Ms. Goodspeed (41,960), Mr. Hoaglin (34,649), Ms. Lin (13,504), Mr. Notebaert (18,671), Mr. Nowell (37,667), Mr. Rasmussen (12,913), Mr. Richard (11,673) and Ms. Tucker (30,069).
- (3) The amounts reported in All Other Compensation consists of the (a) Company-paid premium of \$803 for accidental death insurance policy, and (b) matching gift contributions of \$1,000 for Mr. Beasley and \$5,000 for Ms. Tucker.

**Insurance**

**Insurance.** AEP and the AEP System Companies and their directors and officers are insured, subject to certain exclusions and deductibles, against losses resulting from any claim or claims made against them while acting in their capacities as directors and officers. Such insurance, effective May 1, 2016 to May 1, 2017, is provided by: Associated Electric & Gas Insurance Services Ltd.(AEGIS), Energy Insurance Mutual, Ltd.(EIM), Zurich American Insurance Company, U.S. Specialty Insurance Company (HCC), XL Specialty Insurance Company, Arch Insurance Company, Travelers Casualty and Surety Company of America, Westchester Fire Insurance Company (ACE), Berkley Insurance Company, RSUI Indemnity Company, Alterra America Insurance Company, (Markel) Freedom Specialty Insurance Company (Nationwide), Arch Reinsurance Ltd. (Bermuda), Illinois National Fire Insurance Company (AIG), Allianz Global Risks US Insurance Company, Liberty Insurance Underwriters, Inc., Endurance American Insurance Company, XL Specialty Insurance Company (XL Catlin) ACE Bermuda Insurance Ltd. The total cost of this insurance is \$3,381,457.

Fiduciary liability insurance provides coverage for AEP System companies and their affiliated trusts, their directors and officers, and any employee deemed to be a fiduciary or trustee, for breach of fiduciary responsibility, obligation, or duties as imposed under the Employee Retirement Income Security Act of 1974. Such insurance, effective May 1, 2016 to May 1, 2017, is provided by U.S. Specialty Insurance

Company (Tokio Marine HCC), XL Specialty Insurance Company, Energy

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Insurance Mutual, Ltd.(EIM), and Freedom Specialty Insurance Company (Nationwide). The total cost of this insurance is \$558,520.

## **Item 2. Proposal to Reapprove the Material Terms of the American Electric Power System Senior Officer Incentive Plan.**

Shareholders are being asked to reapprove the material terms of the American Electric Power System Senior Officer Incentive Plan (the "Plan") to permit the tax deductibility of certain awards under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Section 162(m) allows us to deduct certain compensation if shareholders have approved the material terms of the Plan no less frequently than every five years. Shareholders last approved the material terms of the Plan in 2012. This reapproval is intended to preserve the Company's ability to potentially design certain types of awards under the Plan so that they may be able to satisfy the requirements for "qualified performance-based compensation" and may permit the Company to benefit from certain tax deductions, under Section 162(m).

Section 162(m) of the Code disallows a deduction for certain compensation paid to our Chief Executive Officer and to each of our other three most highly compensated executive officers, other than our Chief Financial Officer, in a taxable year to the extent that compensation to such covered employee exceeds \$1 million for such year. However, some types of compensation, including "qualified performance-based compensation" under Section 162(m) of the Code, are not subject to the deduction limit if the compensation satisfies the requirements of Section 162(m) of the Code. The deduction limit does not apply to compensation paid under a shareholder-approved plan that meets certain requirements for "qualified performance-based compensation" under Section 162(m) of the Code. While we believe it is in the best interests of the Company and its shareholders to have the ability to potentially grant "qualified performance-based compensation" under the Plan, we may decide to grant compensation to covered employees that will not qualify as "qualified performance-based compensation" for purposes of Section 162(m) of the Code. Moreover, even if we intend to grant compensation that qualifies as "qualified performance-based compensation" for purposes of Section 162(m) of the Code under the Plan, we cannot guarantee that such compensation will so qualify or will ultimately be deductible by us.

Generally, compensation attributable to performance-based awards may be deemed to qualify as "qualified performance-based compensation" under Section 162(m) of the Code if: (1) the grant is made by a committee of outside directors for purposes of Section 162(m) of the Code; (2) the plan under which the award is granted states the maximum number of shares with respect to which share-based awards and the maximum amount of cash awards that may be granted to any individual during a specified period of time; and (3) the amount of compensation an individual may receive under the award is based solely on the achievement of one or more pre-established performance goals which incorporate business criteria approved by shareholders. Shareholder approval of this proposal is intended to satisfy the shareholder approval requirements of Section 162(m) of the Code.

The Company is seeking shareholder approval of the material terms for "qualified performance-based compensation" under the Plan, including the performance measures and grant limits under the Plan, as well as the individuals eligible to receive awards under the Plan, to have the flexibility to potentially grant awards under the Plan that may be fully deductible for federal income tax purposes. If the Company's shareholders approve the material terms for "qualified performance-based compensation" under the Plan, assuming that all other requirements under Section 162(m) of the Code are met, we may be able to obtain tax deductions with respect to awards issued under the Plan to our covered employees without regard to the limitations of Section 162(m) of the Code. If the Company's shareholders do not approve this proposal, the Company will generally be limited in its ability to make certain performance-based awards.

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No amounts were paid under the Plan for 2016. The amounts that may be paid under the Plan in the future are not determinable since they are dependent on the achievement of certain performance objectives.

The more significant features of the Plan are described below. This summary is subject, in all respects, to the terms of the Plan, which is attached to this Proxy Statement as Exhibit B.

**Administration.** The HR Committee, all of whose members are outside directors, will administer the Plan. The HR Committee will have the authority to grant awards upon such terms (not inconsistent with the terms of the Plan) as it considers appropriate. In addition, the HR Committee will have complete authority to interpret all provisions of the Plan, to adopt, amend and rescind rules and regulations pertaining to the administration of the Plan and to make all other determinations necessary or advisable for the administration of the Plan.

**Eligibility.** Any person who, during the term of the Plan, is a corporate officer of the Company or any subsidiary of the Company is eligible to participate under the Plan. The HR Committee determines which corporate officers will be participants under the Plan. The Company anticipates that approximately 10 employees will be eligible to receive awards under the Plan.

**Performance Objectives.** The Plan participants will receive awards under the Plan after the end of a fiscal year if certain specified performance objectives are met during such fiscal year. The performance objectives are set by the HR Committee at the start of each fiscal year and are based on one or more of the following performance criteria: (i) earnings measures: primary earnings per share; fully diluted earnings per share; net income; pre-tax income; operating income; earnings before interest, taxes, depreciation and amortization; net operating profits after taxes; income before income taxes, minority interest and equity earnings; income before discontinued operations, extraordinary items and cumulative effect of accounting changes, or any combination thereof; (ii) expense control: operations & maintenance expense; total expenditures; expense ratios; and expense reduction; (iii) customer measures: customer satisfaction; service cost; service levels; responsiveness; bad debt collections or losses; and reliability such as outage frequency, outage duration, and frequency of momentary outages; (iv) safety measures: recordable case rate; severity rate; and vehicle accident rate; (v) diversity measures: minority placement rate and utilization; (vi) environmental measures: emissions; project completion milestones; regulatory/legislative/cost recovery goals; and notices of violation; (vii) revenue measures: revenue and margin; (viii) shareholder return measures: total shareholder return; economic value added; cumulative shareholder value added; return on equity; return on capital; return on assets; dividend payout ratio and cash flow(s) such as operating cash flows, free cash flow, discounted cash flow return on investment and cash flow in excess of cost of capital or any combination thereof; (ix) valuation measures: stock price increase; price to book value ratio; and price to earnings ratio; (x) capital and risk measures: debt to equity ratio and dividend payout as percentage of net income; (xi) employee satisfaction; (xii) project measures: completion of key milestones; (xiii) production measures: generating capacity factor; performance against the Institute of Nuclear Power Operation index; generating equivalent availability; heat rates and production cost. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the HR Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods (e.g., earnings growth), or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies.

**Payment of Awards.** All awards under the Plan for a fiscal year will be paid in cash following the end of such fiscal year, unless a portion of the award is required to be deferred under the terms of the AEP Stock Ownership Requirement Plan. The maximum individual award that can be made under the Plan for a fiscal year is the lesser of:

- (i) \$6,000,000 or
- (ii) 400 percent of the corporate officer's base salary (prior to any deferral elections) as of the date of grant of the award.



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The HR Committee does not currently intend to grant individual awards that approach the maximum allowable amount, but is asking shareholders to approve the maximum amount to preserve flexibility over the next five years.

**Amendment and Termination.** The Company has the right, at any time and from time to time, to amend in whole or in part any of the terms and provisions of the Plan to the extent permitted by law for whatever reason the Company may deem appropriate; provided, however, that any such amendment which requires approval of the Company's shareholders in order to maintain the qualification of awards as performance-based compensation pursuant to Code Section 162(m)(4)(C) shall not be made without such approval.

**Federal Income Tax Consequences.** All cash awards under the Plan are taxable to the participant when paid. The Plan has been designed to comply with Code Section 162(m) such that awards under the Plan could qualify as performance-based compensation and, therefore, the Company could be entitled to claim a federal income tax deduction for the full amount of any cash award paid under the Plan.

## **Vote Required.**

Approval of this proposal requires the affirmative vote of holders of a majority of the votes cast at the meeting.

Your Board of Directors recommends a vote **FOR** this Item 2.

## **Item 3. Proposal to Ratify Appointment of Independent Registered Public Accounting Firm**

The Audit Committee is responsible for the appointment, fees and oversight of the Company's independent registered public accounting firm. As part of its governance oversight, the Audit Committee conducted a competitive selection process during 2016 to determine the company's independent registered public accounting firm for the audits of the consolidated financial statements as of and for the fiscal year ending December 31, 2017 of AEP and its subsidiary registrants. The Audit Committee invited several international public accounting firms to participate in this process, including Deloitte & Touche LLP, or Deloitte. As a result of this process, on July 26, 2016, the Audit Committee approved the appointment of Pricewaterhouse Coopers LLP, or PWC, as the company's independent registered public accounting firm for the fiscal year ending December 31, 2017. This action effectively dismissed Deloitte as the Company's independent registered public accounting firm and became effective upon Deloitte's completion of its procedures on the financial statements of AEP and its subsidiaries as of and for the fiscal year ended December 31, 2016 and the filing of the related Annual Report on Form 10-K, except with respect to audit and audit-related services pertaining to the fiscal year ended December 31, 2016, as required by AEP.

The audit reports of Deloitte on the consolidated financial statements of AEP and its subsidiaries as of and for the fiscal years ended December 31, 2015 and 2016 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During AEP's two most recent fiscal years ended December 31, 2015 and the subsequent interim period through July 26, 2016, there were no disagreements between AEP or its subsidiary registrants and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure (within the meaning of Item 304(a)(1)(iv) of Regulation S-K) and there were no reportable events (as defined by Item 304(a)(1)(v) of Regulation S-K). AEP and its subsidiary registrants requested that

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Deloitte furnish them with a letter addressed to the SEC stating whether or not Deloitte agreed with the above statements. A copy of such letter, dated July 29, 2016, was filed as Exhibit 16.1 to AEP's Current Report on Form 8-K filed on July 29, 2016.

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During AEP's two most recent fiscal years ended December 31, 2015 and the subsequent interim periods through July 26, 2016, the date of the appointment of PWC, neither AEP nor anyone on its behalf consulted with PWC regarding (i) either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the consolidated financial statements of AEP or any of its subsidiary registrants, and no written report or oral advice was provided by PWC to AEP and its subsidiary registrants that PWC concluded was an important factor considered by AEP and its subsidiary registrants in reaching a decision as to the accounting, auditing, or financial reporting issue; or (ii) any matter that was the subject of either a disagreement as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions or a reportable event as described in Item 304(a)(1)(v) of Regulation S-K.

Representatives of each of Deloitte and PWC are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Although action by the shareholders in this matter is not required, the Audit Committee believes that it is appropriate to seek shareholder ratification of this appointment in light of the critical role played by the independent registered public accounting firm in maintaining the integrity of the Company's financial controls and reporting, and will seriously consider shareholder input on this issue. Whether or not the appointment of PWC is ratified by the shareholders, the Audit Committee may, in its discretion, change the appointment at any time during the year if it determines that such change would be in the best interest of the Company and its shareholders.

**Vote Required.**

Approval of this proposal requires the affirmative vote of holders of a majority of the votes cast at the meeting.

Your Board of Directors recommends a vote **FOR** this Item 3.

**Audit and Non-Audit Fees**

The following table presents fees for professional audit services rendered by Deloitte & Touche LLP for the audit of the Company's annual financial statements for the years ended December 31, 2016 and December 31, 2015, and fees billed for other services rendered by Deloitte & Touche LLP during those periods.

|                       | 2016                 | 2015                 |
|-----------------------|----------------------|----------------------|
| Audit Fees(1)         | \$ 12,777,000        | \$ 10,934,000        |
| Audit-Related Fees(2) | \$ 825,000           | \$ 1,456,000         |
| Tax Fees(3)           | \$ 227,000           | \$ 262,000           |
| All Other Fees(4)     | \$ 275,000           | \$ 0                 |
| <b>TOTAL</b>          | <b>\$ 14,104,000</b> | <b>\$ 12,652,000</b> |



- 
- (1) Audit fees in 2015 and 2016 consisted primarily of fees related to the audit of the Company's annual consolidated financial statements, including each registrant subsidiary. Audit fees also included auditing procedures performed in accordance with Sarbanes-Oxley Act Section 404 and the related Public Company Accounting Oversight Board Auditing Standard Number 5 regarding the Company's internal control over financial reporting. This category also includes work generally only the independent registered public accounting firm can reasonably be expected to provide.
  - (2) Audit-related fees consisted principally of regulatory, statutory and employee benefit plan audits.

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- (3) Tax fees consisted principally of advisory services. Tax services are rendered based upon facts already in existence, transactions that have already occurred, as well as tax consequences of proposed transactions.
- (4) These are fees for permissible work performed by Deloitte & Touche LLP that does not meet the above categories.

The Audit Committee has considered whether the provision of services other than audit services by Deloitte & Touche LLP and its domestic and global affiliates is compatible with maintaining independence, and the Audit Committee believes that this provision of services is compatible with maintaining Deloitte & Touche LLP's independence.

## **Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm**

The Audit Committee's policy is to pre-approve all services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a specific limitation. The independent registered public accounting firm and management are required to report to the Audit Committee at each regular meeting regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval policy, and the fees for the services performed to date. The Audit Committee Chairman may also pre-approve particular services on a case-by-case basis. In 2016, all Deloitte & Touche LLP services were pre-approved by the Audit Committee in accordance with this policy.

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**Audit Committee Report**

The Audit Committee reviews AEP's financial reporting process as well as the internal control over financial reporting on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control over financial reporting.

The Audit Committee met eight times during the year and held discussions, some of which were in private, with management, the internal auditor, and the independent registered public accounting firm. Management represented to the Audit Committee that AEP's consolidated financial statements were prepared in accordance with generally accepted accounting principles. Management has also concluded that the Company's internal control over financial reporting was effective as of December 31, 2016. The Audit Committee has reviewed and discussed the audited consolidated financial statements and internal control over financial reporting with management, the internal auditor and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm the matters required to be discussed by the Public Company Accounting Oversight Board (PCAOB).

In addition, the Audit Committee had discussions with and received written communications from the independent registered public accounting firm regarding its independence as required by the PCAOB. The Audit Committee has also received written communication regarding the results of the independent registered public accounting firm's internal quality control reviews and procedures and other matters, as required by the New York Stock Exchange listing standards.

In reliance on the reviews, communications and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in AEP's Annual Report on Form 10-K for the year ended December 31, 2016, for filing with the SEC.

*Audit Committee Members*

Lionel L. Nowell, III, Chair

David J. Anderson

J. Barnie Beasley, Jr.

Linda A. Goodspeed

Sandra Beach Lin

Sara Martinez Tucker

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## **Item 4. Advisory Vote on Executive Compensation**

We are including in these proxy materials a separate resolution for shareholders to vote upon, on an advisory (non-binding) basis, the compensation paid to our named executive officers as disclosed in this proxy statement in accordance with the SEC's rules.

As described in detail under the heading "Compensation Discussion and Analysis," our executive compensation programs are designed to attract, motivate, and retain our named executive officers who are critical to our success. Under these programs, our named executive officers are rewarded for the achievement of annual and long-term goals. Please read the "Compensation Discussion and Analysis" beginning on page 29 for additional details about the 2016 compensation of our named executive officers.

The HR Committee continually reviews the compensation programs for our named executive officers to ensure they achieve the desired goals of aligning our executive compensation structure with our shareholders' interests and current market practices. As a result of its review process, the HR Committee maintains the following executive compensation practices:

Emphasizing long-term incentive compensation to promote the longer-term interests of the Company and encourage management to make decisions that are aligned with shareholders' interests;

Tying the value of a substantial portion (75 percent) of this long-term compensation to two robust measures of shareholder value:

Three-year total shareholder return compared to a utility peer group, and

Three year cumulative operating earnings per share compared to a Board-approved target;

Maintaining a "no fault" clawback policy that allows the Board to recoup any excess incentive compensation paid to our named executive officers if the financial results on which the awards were based are materially restated.

We are asking our shareholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our shareholders the opportunity to express their views on our named executive officers' compensation. This advisory vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we ask our shareholders to vote **FOR** the following resolution at the Annual Meeting:

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed in the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders pursuant to rules of the SEC, including the Compensation Discussion and Analysis, compensation tables and related narrative disclosure is hereby APPROVED.

While the Board will carefully consider the results of this vote, the say-on-pay vote is advisory only, and therefore will not be binding on the Company or our Board of Directors.

**Vote Required.**

Approval of this proposal requires the affirmative vote of holders of a majority of the votes cast at the meeting.

Your Board of Directors recommends a vote **FOR** this Item 4.

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## **Item 5. Advisory Vote on the Frequency of Holding an Advisory Vote on Executive Compensation**

In addition to the advisory approval of the compensation of our named officers described in Item 4 above, we are also seeking a non-binding determination from our shareholders as to the frequency with which shareholders would have an opportunity to provide an advisory approval of the compensation of our named executive officers, which is commonly known as a "say-on-when" vote. We are providing shareholders the option of selecting a frequency of one, two or three years, or abstaining. For the reasons described below, we recommend that our shareholders select a frequency of one year, or an annual vote. Our shareholders voted on a similar proposal in 2011 with the majority voting to hold the say-on-pay vote every year, which we have done each year since that approval.

An annual vote on executive compensation will allow our shareholders to provide input as the HR Committee reviews our compensation philosophy, policies and practices. An annual shareholder vote allows our shareholders to provide us with timely feedback regarding the compensation program, and enables the HR Committee to evaluate any changes in shareholder sentiment as it conducts its regular compensation review.

Engagement with our shareholders is a key component of our corporate governance. We seek and are open to input from our shareholders regarding board and governance matters, as well as our executive compensation program, and believe we have been appropriately responsive to our shareholders.

While the Board will carefully consider the results of this vote, the say-on-when vote is advisory only, and therefore will not be binding on the Company or our Board of Directors.

It is expected that the next vote on a say-on-pay frequency proposal will occur at the 2023 annual meeting of shareholders.

### **Vote Required.**

The advisory vote regarding the frequency of the shareholder vote shall be determined by a plurality of the votes cast.

Your Board of Directors recommends a vote **FOR ONE YEAR** on this item.

### **Other Business**

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The Board of Directors does not intend to present to the meeting any business other than the election of directors, the re-approval of the material terms of the AEP Senior Officer Incentive Plan, the ratification of the appointment of the independent registered public accounting firm, the advisory vote on the compensation of the named executive officers, and the advisory vote on the frequency of holding an advisory vote on executive compensation as disclosed in this proxy statement.

If any other business not described herein should properly come before the meeting for action by the shareholders, the persons named as proxies on the proxy card or their substitutes will vote the shares represented by them in accordance with their best judgment. At the time this proxy statement was printed, the Board of Directors was not aware of any other matters that might be presented.

**Table of Contents****Compensation Discussion and Analysis**

This section explains AEP's compensation philosophy, summarizes its compensation programs and reviews compensation decisions for the following named executive officers:

| <b>Name</b>         | <b>Title</b>   |
|---------------------|--|
| <b>Mr. Akins</b>    | Chairman, Chief Executive Officer and President      |
| <b>Mr. Tierney</b>  | Executive Vice President and Chief Financial Officer |
| <b>Mr. Powers</b>   | Vice Chairman  |
| <b>Mr. Feinberg</b> | Executive Vice President and General Counsel         |
| <b>Ms. Barton</b>   | Executive Vice President Transmission                |

**Executive Summary**

**2016 Business Performance Highlights.** The Company's 2016 non-GAAP operating earnings were \$3.94 per share, which exceeded the upper end of our original non-GAAP operating earnings guidance for the year of \$3.60-\$3.80 per share. Throughout this CD&A, we refer to operating earnings, which is a non-GAAP financial measure. For 2016, GAAP earnings per share reported in AEP's financial statements were \$1.24. This is \$2.70 per share lower than operating earnings, primarily due to the impairment of certain unregulated merchant generation assets. Exhibit A to this proxy statement contains a reconciliation of GAAP earnings per share to non-GAAP operating earnings per share for 2016.

During 2016, the Company continued its focus on becoming the next premier regulated energy company. We executed on our strategy of investing in our core regulated businesses to improve service to customers, while demonstrating continuous improvement in our operations. Our Transmission Holding Company business thrived and contributed 54 cents per share to 2016 operating earnings, an increase of 38 percent over 2015. In 2016 we also took steps to significantly reduce earnings volatility by reducing exposure to non-regulated businesses. We announced the sale of four of our competitive power plants, which was completed in January 2017. This should help us produce more consistent earnings by removing the volatility associated with those competitive generation plants and their exposure to the capacity and energy markets. In October 2016 the Company increased its quarterly dividend by 5.4 percent, the seventh consecutive yearly increase.

**2016 Incentive Compensation Highlights.** With respect to 2016 annual incentive compensation, the HR Committee:

Increased the target performance goal for annual incentive compensation by \$0.25 per share, a 7.1 percent increase over AEP's 2015 target and \$0.05 above the mid-point of our public operating earnings guidance at the time the HR Committee set the goal.

Increased the performance needed for a maximum payout from \$0.15 to \$0.20 per share above the target level, which increased the maximum payout performance level 8.2 percent over the comparable 2015 level.

Established threshold (33.3 percent of target payout), target and maximum (200 percent of target payout) operating earnings per share performance levels for 2016 annual incentive compensation at \$3.65, \$3.75 and \$3.95 per share, respectively.



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The Company's 2016 operating earnings per share, together with the Company's performance on strategic measures and safety, produced a score of 170.5 percent of target.

With respect to the 2014-2016 performance unit grant, the HR Committee certified the following results and pay outcomes:

Cumulative operating earnings per share score was 200 percent of target.

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Relative total shareholder return (TSR) placed the Company at the 58th percentile of the S&P 500 Electric Utilities Industry Index, which resulted in a 127.7 percent of a target score.

These combined equally weighted scores resulted in a payout of 163.9 percent of target for this performance period.

***2016 Executive Compensation Changes.*** In 2016, the HR Committee made the following key changes in our executive compensation program:

Increased the CEO's stock ownership target from five times to six times his base salary.

Increased the minimum vesting for stock options and stock appreciation rights (SARs) to pro-rata vesting over a period of at least three years, with a carve-out for up to five percent of the shares available under the Company's Long-term incentive Plan (LTIP).

Added a "Hold Until Met" requirement for stock options and SARs, which requires Company executives to hold the net shares they realize through stock option and SAR exercises until such time as they have met their stock ownership requirement.

Amended the Company's Recoupment Policy to expand the policy to apply to restatements or corrections in situations where the covered employee is not culpable, and changed the covered employee group to generally include officers who are Senior Vice Presidents and higher.

***Other Executive Compensation Changes.*** In February 2017, the HR Committee approved another change to LTIP awards to executive officers. Starting with the LTIP grants in 2017, the performance units and the RSUs will both settle in AEP shares, rather than cash.

***Compensation Governance Best Practices.*** Below is a summary of our executive compensation practices, which we believe align with best practices:

Significant stock ownership requirements for executive officers, which included a recently increased stock ownership requirement for the CEO of six times base salary;

A substantial portion of the compensation for executives officers is tied to annual and long-term performance;

A recoupment policy that allows the Company to claw back incentive compensation;

An insider trading policy that prohibits our executives and directors from hedging their AEP stock holdings and from pledging Company stock;

Long-term incentive awards with double trigger vesting that results in accelerated vesting of these awards only if there is a change in control followed by an involuntary or constructive separation from service;

No reimbursement or tax gross-up for excise taxes triggered under change in control agreements;

No company paid country club memberships for executive officers;

Generally prohibit personal use of Company provided aircraft, to the extent that such use has an incremental cost to the Company; and

No tax gross-ups, other than for relocations.

### **Results of 2016 Advisory Vote to Approve Executive Compensation**

At the Company's annual meeting of shareholders held in April 2016, approximately 94 percent of the votes cast on the Company's say-on-pay proposal voted in favor of the proposal. After consideration of this vote, the HR Committee continued to apply the same principles and

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philosophy it has used in previous years in determining executive compensation. The HR Committee will continue to consider the outcome of the Company's say-on-pay vote and other sources of stakeholder feedback when establishing compensation programs and making compensation decisions for the named executive officers.

## **Overview**

The HR Committee oversees and determines AEP's executive compensation (other than that of the CEO). The HR Committee makes recommendations to the independent members of the board of directors about the compensation of the CEO, and the independent board members determine the CEO's compensation.

AEP's executive compensation program is designed to:

Attract, retain, motivate and reward an outstanding leadership team with market competitive compensation and benefits to achieve both excellent team and individual performance;

Reflect AEP's financial and operational size and the complexity of its multi-state operations;

Provide a substantial portion of executive officers' total compensation opportunity in the form of performance based incentive compensation;

Align the interests of the Company's named executive officers with those of AEP's shareholders by providing a majority of the total compensation opportunity for executive officers in the form of stock-based compensation with a value that is linked to the total return on AEP's common stock and by maintaining significant stock ownership requirements for executives;

Support the implementation of the Company's business strategy by tying annual incentive awards to operating earnings per share and the achievement of specific strategic and safety objectives; and

Promote the stability of the management team by creating strong retention incentives with multi-year vesting schedules for long-term incentive compensation.

Overall, AEP's executive compensation program generally targets each named executive officer's total direct compensation opportunity (base salary, annual incentive opportunity and long-term incentive opportunity) at the median of AEP's Compensation Peer Group, as described under Compensation Peer Group on page 33. The HR Committee's independent compensation consultant, Meridian Compensation Partners, LLC (Meridian), participates in HR Committee meetings, assists the HR Committee in developing the compensation program and regularly meets with the HR Committee in executive session without management present. See the Human Resources Committee Report on page 45 for additional information about Meridian's independence.

## **Program Design**

The program for executive officers includes base salary, annual incentive compensation, long-term incentive compensation and a comprehensive benefits program. The Company provides a balance of annual and long-term incentive compensation that is consistent with the compensation mix provided by AEP's Compensation Peer Group. For AEP's annual incentive compensation, the HR Committee balances meeting AEP's operating earnings per share target with strategic and safety objectives. For 2016, operating earnings per share had a 75 percent weight for annual incentive compensation and the remaining 25 percent weight was tied to strategic and safety goals.

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For 2016, 75 percent of AEP's long-term incentive compensation was awarded in the form of performance units with three-year performance measures tied to (1) AEP's total shareholder return as a percentile of the companies in the S&P 500 Electric Utilities Industry Index and (2) AEP's three-year cumulative operating earnings per share relative to a Board-approved target. The performance units are subject to a three-year vesting period. The remaining 25 percent of AEP's long-term incentive compensation was awarded as restricted stock units (RSUs) that vest over 40 months in three approximately equal installments on the May 1st following the first, second and third anniversaries of the grant date.

The HR Committee annually reviews the mix of the three elements of total direct compensation: base salary, annual incentive compensation and long-term incentive compensation. As illustrated in the charts below, in 2016, 69 percent of the target total direct compensation for the CEO and 61 percent on average for the other named executive officers was performance-based (target annual incentive compensation and grant date value of performance units). An additional 17 percent of the CEO's target total direct compensation and an additional 14 percent on average for the other named executive officers was provided in the form of time-vesting RSUs (grant date value) which are tied to AEP's stock price.

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### **Compensation Peer Group**

The HR Committee, supported by its independent compensation consultant, Meridian Compensation Partners, LLC ( Meridian ), annually reviews AEP's executive compensation relative to a peer group of companies that represent the talent markets with which AEP must compete to attract and retain executives. The companies included in the Compensation Peer Group were chosen from electric utility companies that were comparable in size to AEP in terms of revenues and market capitalization. AEP's Compensation Peer Group for 2016, which was unchanged from 2015, consisted of the 17 utility companies shown below.

AES Corporation

Consolidated Edison Inc.

DTE Energy Company

Edison International

Exelon Corporation

NextEra Energy, Inc.

PPL Corporation

Sempra Energy

Centerpoint Energy, Inc.

Dominion Resources, Inc.

Duke Energy Corporation

Entergy Corporation

FirstEnergy Corp.

PG&E Corporation

Public Service Enterprise Group Inc.

Southern Company

Xcel Energy Inc.

The table below shows that, at the time the Compensation Peer Group data was collected in July 2015, AEP's revenue and market capitalization were above the 50<sup>th</sup> percentile, and closer to the 75<sup>th</sup> percentile, of the Compensation Peer Group.

**2016 Compensation Peer Group**

|                         | <b>Revenue(1)</b><br><b>(\$ million)</b> | <b>Market</b><br><b>Cap(1)</b><br><b>(\$ million)</b> |
|-------------------------|--|---|
| Compensation Peer Group |  |   |
| 25th Percentile         | \$ 11,686                                | \$ 14,441   |
| 50th Percentile         | \$ 12,919                                | \$ 21,079   |
| 75th Percentile         | \$ 17,090                                | \$ 27,649   |
| <b>AEP</b>              | <b>\$ 17,020</b>                         | <b>\$ 27,751</b>                                      |

- (1) The HR Committee selected the 2016 Compensation Peer Group in September 2015 based on Fiscal Year-End 2014 revenue, and market capitalization as of July 31, 2015.

Meridian annually provides the HR Committee with an executive compensation study covering each named executive officer position and other executive positions based on survey information derived from the Compensation Peer Group. The Meridian study benchmarked each of our named executive officer's total direct compensation (and each component of compensation) against the median market value of total direct compensation paid by the Compensation Peer Group to officers serving in similar capacities. The market values were adjusted for AEP's relative size based on AEP's revenue or the executive's revenue responsibility using regression analysis for all positions for which data was available. The HR Committee considers percentiles other than the median and may select any percentile as a benchmark if, in its judgment, such other benchmarks provide a better comparison based on the specific scope of the job being matched or other criteria.

If a named executive officer's total direct compensation opportunity is above or below a +/- 15 percent range around the market median, the HR Committee may adjust elements of the named executive officer's compensation over time to bring the executive's total compensation opportunity into the target range.



**Table of Contents****Executive Compensation Program Detail**

**Summary of Executive Compensation Components.** The following table summarizes the major components of the Company's executive compensation program.

| <b>Component</b>                     | <b>Purpose</b>   | <b>Key Attributes</b>  |
|--------------------------------------|--|--|
| <b>Base Salary</b>                   | To provide a market-competitive and consistent minimum level of compensation that is paid throughout the year.   | <p>A 3 percent executive merit budget and an additional 0.5% for other types of salary adjustments was approved by the HR Committee for 2016.</p> <p>Merit and other salary increases for executives are awarded by the HR Committee based on a variety of factors, which are described under Base Salary on page 35.</p>  |
| <b>Annual Incentive Compensation</b> | To focus executive officers on achieving annual earnings and other performance objectives that are critical to AEP's success, which for 2016 included: | <p>Annual incentive targets are established by the HR Committee based on compensation and performance information provided by the HR Committee's independent compensation consultant as well as objectives put forth by AEP management and endorsed by the HR Committee.</p> <p>Operating Earnings (75 percent weight)</p> <p>Safety (10 percent weight), and</p> <p>Strategic Initiatives (15 percent weight).</p> <p>Actual awards for employees as a group are capped at 200 percent of target, while awards for individual employees are capped at 250 percent of their target.</p> <p>Operating earnings per share was chosen as the primary performance measure for 2016.</p> <p>To communicate and align executives' and employees' efforts with the Company's performance objectives.</p> <p>The CEO's award is determined by the independent members of the Board of Directors, and the other named executive officer awards are determined and approved by the HR Committee and based on:</p> <p>Achievement against performance objectives, and</p> <p>A subjective evaluation of each named executive officer's individual performance for the year.</p> |



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| <u>Component</u>                        | <u>Purpose</u>  | <u>Key Attributes</u>  |
|---|---|--|
| <b>Long-Term Incentive Compensation</b> | To motivate AEP management to maximize shareholder value by linking a substantial portion of their potential compensation directly to longer-term shareholder returns.  | For 2016, the HR Committee provided long-term incentive awards in the form of three-year performance units for 75 percent of the grant value and restricted stock units (RSUs) for 25 percent of the grant value.  |
|   | To help ensure that Company management remains focused on longer-term results, which the HR Committee considers essential given the large amount of long-term investment in physical assets required in our business. | Long-term incentive award opportunities for named executive officers are based on market data, as reflected in either position based or salary grade-based award guidelines, and subjective consideration of each named executive officer's potential contribution to shareholder value during the performance period. |
|   | To reduce executive turnover and maintain management consistency.   | For the 2016-2018 performance unit awards, the HR Committee established the following equally weighted performance measures:   |
|   |   | Three-year cumulative operating earnings per share relative to a target approved by the HR Committee, and  |
|   |   | Three-year total shareholder return relative to the S&P 500 Electric Utilities Industry Index.   |
| <b>Base Salary.</b>                     | The HR Committee determines merit and other salary increases for our named executive officers based on the following factors:   |  |
|   | The current scope and responsibilities of the position;   |  |
|   | The Company's merit and other increase budgets;   |  |
|   | Sustained individual performance as assessed by each executive's direct manager;  |  |
|   | The market competitiveness of the executive's salary, total cash compensation and total compensation;   |  |
|   | Internal comparisons;   |  |
|   | The experience and future potential of each executive; and  |  |

Reporting relationships.

The HR Committee approved merit increases for 2016 base salaries in the 2-4 percent range for our named executive officers.

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### **Annual Incentive Compensation.**

**Annual Incentive Target Opportunity.** Annual incentive compensation focuses executive officers on achieving annual earnings objectives and other performance objectives that are critical to AEP's success. The HR Committee, in consultation with Meridian and Company management, establishes the annual incentive target opportunities for each executive officer position primarily based on market competitive compensation for the executive's position as shown in Meridian's annual executive compensation study. For 2016, the HR Committee established the following annual incentive target opportunities for the named executive officers:

125 percent of base earnings for the CEO (Mr. Akins);

80 percent of base earnings for the CFO (Mr. Tierney);

80 percent of base earnings for the Vice Chairman (Mr. Powers);

70 percent of base earnings for the EVP and General Counsel (Mr. Feinberg); and

70 percent of base earnings for the EVP-Transmission (Ms. Barton).

**Annual Performance Objectives.** For 2016, the HR Committee approved the following performance measures for the reasons indicated.

**Operating Earnings per Share.** The HR Committee chose operating earnings per share because it largely reflects management's performance in operating the Company. It is also strongly correlated with shareholder returns and is the primary measure by which the Company communicates its actual and expected future financial performance to the investment community and employees. The operating earnings per share measure is also well understood by both our shareholders and employees. Management and the HR Committee believe that operating earnings per share growth is the primary means for the Company to create long-term shareholder value.

**Safety.** With safety as an AEP core value, maintaining the safety of AEP employees and the general public is always a primary consideration. Accordingly, safety measures comprised 10 percent of the 2016 scorecard. 7.5 percent was based on the improvement in the Company's DART Rate compared to its three-year average DART rate. DART is an acronym for Days Away, Restricted or Job Transfer and is an industry accepted measure that focuses on more serious injuries. The remaining 2.5 percent was a fatality measure. The fatality measure would pay out at target if there was not a fatal work-related employee incident during the year.

**Strategic Initiatives.** Fifteen percent of the scorecard was tied to strategic initiatives, including six percent for Business Transformation initiatives, five percent for Customer Experience initiatives and four percent for Culture and Employee Engagement initiatives.

The six percent for Business Transformation initiatives consisted of three measures. The first related to the completion of a strategic business assessment of certain competitive generation units. The second was based on the volume of start-up projects captured by AEP OnSite Partners and AEP Renewables, which are the Company's competitive subsidiaries focused on building renewable power projects. The last measure was

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based on expanding the Company's transmission business.

The five percent for Customer Experience included three measures. The first category measures the reliability of our wires assets: SAIDI (System Average Incident Duration Index), which is a standard measure in our industry. The second category measured improvement in the Company's rankings in the J.D. Power and Associates Customer Satisfaction Survey. The last measure was for distribution network remediation, and was based on the number of circuit feet replaced.

The four percent for Culture & Employee Engagement consisted of four measures. The Power Up & Lead category measured the number of employees that participated in a cultural education

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program during the year. The Gallup Survey measured improvements in the overall average score over the Company's prior year survey. The Diversity category measured improvement in the Company's female and minority representation rates for each EEO group. The last measure was based on the number of Lean Management System deployments completed and initiated during the year, as well as the number of Introduction to Lean Management Systems events completed during the year.

**Performance Score for Annual Incentive Plan.** In 2016, AEP had operating earnings per share of \$3.94, which exceeded the upper end of our original operating earnings guidance for the year of \$3.60-\$3.80 per share. This earnings result, together with the Company's performance on the measures discussed above (safety and strategic initiatives), produced a result of 170.5 percent of the target award opportunity for executive officers.

For 2016, GAAP earnings per share reported in AEP's financial statements were \$1.24. This is \$2.70 per share lower than operating earnings, primarily due to the impairment of certain unregulated merchant generation assets. Exhibit A to this proxy statement contains a reconciliation of GAAP earnings per share to operating earnings per share.

**Balanced Scorecard.** For 2016, the HR Committee approved a balanced scorecard which tied annual incentive awards to the Company's operating earnings, safety and strategic objectives for the year. The HR Committee used this balanced scorecard because it mitigates the risk that executives will focus on one or a few objectives, such as short-term financial performance, to the detriment of other objectives. The chart below shows the weightings for each performance measure, the threshold, target and maximum performance goals, 2016 actual results and related weighted scores.

|   | Weight | Threshold                       | Target  | Maximum   | Actual Performance Result   | Actual Award Score (as a percent of target opportunity) | Weighted Score |
|---|--------|---------------------------------|---|---|---|---|----------------|
| <b>Operating Earnings Per Share (75%)</b>   | 75%    | \$3.65                          | \$3.75  | \$3.95  | \$3.941   | 195.5%  | 1.466          |
| <b>Safety (10%)</b>   |        |                                 |   |   |   |   |                |
| DART (Days Away, Restricted or Job Transfer) Rate, an industry measure focused on serious injuries  | 7.5%   | 0 percent Improvement           | 10 percent Improvement  | 20 percent Improvement                                    | 0 percent   | 0.0%  | 0.000          |
| Fatality Measure (the number of fatal work related employee incidents)  | 2.5%   | One or more                     | None  | None for more than one year                               | Two employee fatalities   | 0.0%  | 0.000          |
| <b>Strategic Initiatives (15%)</b>  |        |                                 |   |   |   |   |                |
| <b>Business Transformation Measures (6%)</b>  |        |                                 |   |   |   |   |                |
| Strategic Business Assessment of Certain Competitive Generation Plants  | 2%     | Incomplete                      | Board approves a sale contract or recommendation to retain these plants | Sale contract and Board approves plan for use of proceeds | A sale contract was executed, and the Board approved the plan for use of proceeds | 200.0%  | 0.040          |
| Volume of AEP OnSite Partners and AEP Renewables Start-up Projects  | 2%     | \$0 million                     | \$20 million  | \$50 million  | \$299 million   | 200.0%  | 0.040          |
| Volume of Transmission Investment Opportunities   | 2%     | \$100 million                   | \$200 million   | \$300 million   | \$485 million   | 200.0%  | 0.040          |
| <b>Customer Experience Measures (5%)</b>  |        |                                 |   |   |   |   |                |
| Wires Reliability- measure based on a customer weighted average of SAIDI (System Average Incident Duration Index) Performance Scores of AEP operating companies | 2%     | Generally 80% percent of target | Regulatory targets or a glide path to the regional peer group average   | 120 percent of target                                     | 114.0% Average Operating Company Score  | 114.0%  | 0.023          |
| Customer Satisfaction - measure based on a weighted average of J.D. Power Residential Customer Satisfaction Index scores for AEP operating                      | 2%     | No improvement                  | Peer Group improvement rate   | Glide path improvement to the Regional                    | 200.0% Average Operating Company Score  | 200.0%  | 0.040          |

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companies

Peer Group  
Average

|                     |                 |               |                 |                 |                  |        |       |
|---------------------|-----------------|---------------|-----------------|-----------------|------------------|--------|-------|
| Network remediation | 286,931 circuit |               | 382,575 circuit | 478,218 circuit | >527,000 circuit |        |       |
|                     | 1%              | feet replaced | feet replaced   | feet replaced   | feet replaced    | 200.0% | 0.020 |



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|   | Weight | Threshold  | Target  | Maximum   | Actual Performance Result  | Actual Award Score (as a percent of target opportunity) | Weighted Score |
|---|--------|--|---|---|--|---|----------------|
| <b>Culture and Employee Engagement Measures (4%)</b>  |        |  |   |   |  |   |                |
| Employee Engagement based on improvement in average overall score of a survey of AEP employees                        | 1%     | 0.07 improvement                                     | 0.10 improvement                                      | 0.20 improvement  | 0.08 Improvement   | 33.3%   | 0.003          |
| Employee Diversity measure based on increased representation of women and minorities in all EEO categories            |        |  |   |   | Female Representation Score: 65.6%                                     |   |                |
|   | 1%     | Higher of 80 percent target or 0 percent improvement | Higher of 100 percent target or 0 percent improvement | Higher of 120 percent of target or 0 percent improvement    | Minority Representation Score: 82.3%                                   | 74.0%   | 0.007          |
| AEP Culture Development measure based on the number of employees that participated in an employee development program | 1%     | 3,900 participants                                   | 5,200 participants                                    | 6,500 participants  | 5,240 participants   | 103.1%  | 0.010          |
| Lean Management Sustainability (number of pilot areas and non-pilot areas completed)                                  |        |  |   |   | 3 pilots and 48 non-pilots completed plus 1 additional pilot initiated |   |                |
|   | 1%     | 1 pilot & 30 non-pilots                              | 3 pilots & 40 non-pilots                              | 3 pilots & 50 non-pilots plus 3 additional pilots initiated |  | 156.7%  | 0.016          |
| <b>Total Score</b>  |        |  |   |   |  |   | <b>1.705</b>   |

**2016 Individual Award Calculations.** Based on the results under the Balanced Scorecard, the HR Committee approved a weighted score of 170.5 percent. The HR Committee then subjectively evaluated the individual performance of each named executive officer to determine the actual award payouts. The HR Committee considered the progress made during 2016 focusing the Company on its core regulated businesses for Mr. Akins and the successful performance of the transmission business in 2016 for Ms. Barton.

| Name         | 2016 Base Earnings* |   | Annual Incentive Target % |   | Weighted Score Under Performance Score Card |   | Calculated Annual Incentive Opportunity | 2016 Actual Payouts |
|--------------|---------------------|---|---------------------------|---|---|---|---|---------------------|
| Mr. Akins    | \$ 1,318,442        | x | 125%                      | x | 170.5%                                      | = | \$ 2,809,930                            | \$ 3,000,000        |
| Mr. Tierney  | \$ 727,257          | x | 80%                       | x | 170.5%                                      | = | \$ 991,979                              | \$ 990,000          |
| Mr. Powers   | \$ 720,499          | x | 80%                       | x | 170.5%                                      | = | \$ 982,761                              | \$ 980,000          |
| Mr. Feinberg | \$ 612,175          | x | 70%                       | x | 170.5%                                      | = | \$ 730,631                              | \$ 730,000          |
| Ms. Barton   | \$ 529,473          | x | 70%                       | x | 170.5%                                      | = | \$ 631,926                              | \$ 650,000          |

\* Based on salary paid in 2016, which is slightly different than the salary earned for 2016 shown in the Summary Compensation Table.

The independent members of the Board approved the 2016 annual incentive award for the CEO. The HR Committee approved the 2016 annual incentive awards for the other named executive officers.

**Long-Term Incentive Compensation.** The HR Committee grants long-term incentive compensation to executive officers on an annual award cycle. AEP annually reviews the mix of long-term incentive compensation provided to its executives. For the 2016 award cycle, 75 percent of

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the grant date value of long-term incentives was awarded as three-year performance units and 25 percent of the grant date value was awarded as time-vesting restricted stock units (RSUs). The HR Committee increased the blend of performance units to RSUs in the long-term incentive mix from 70/30 to 75/25 for 2016 to increase the portion of the long-term incentive award that is performance-based.

The HR Committee establishes target long-term incentive award opportunities for each named executive officer based primarily on a market competitive long-term and total compensation analysis provided by Meridian for executives serving in similar positions in AEP's Compensation Peer Group.

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The independent members of the Board approved the 2016 long-term incentive award for the CEO. The HR Committee approved the 2016 long-term incentive awards for the other named executive officers.

**2016 Long-Term Incentive Awards**

| <u>Name</u>  | <u>Number of<br/>Performance<br/>Units Granted<br/>(at Target)</u> | <u>Number of<br/>RSUs Granted</u> | <u>Total<br/>Units Granted</u> | <u>Total<br/>Grant Date<br/>Fair Value</u> |
|--------------|--|-----------------------------------|--------------------------------|--|
| Mr. Akins    | 80,306   | 26,769                            | 107,075                        | \$ 6,720,027                               |
| Mr. Tierney  | 22,646   | 7,549                             | 30,195                         | \$ 1,895,038                               |
| Mr. Powers   | 22,646   | 7,549                             | 30,195                         | \$ 1,895,038                               |
| Mr. Feinberg | 13,467   | 4,489                             | 17,956                         | \$ 1,126,919                               |
| Ms. Barton   | 11,987   | 3,995                             | 15,982                         | \$ 1,003,030                               |

Differences in grant date fair value between the awards for individual named executive officers primarily reflect differences in market median compensation for the executives shown in the annual executive compensation study conducted by Meridian.

In February 2017, Mr. Powers announced his retirement from the Company in August 2017. Mr. Powers will remain Vice Chairman of the Company until his retirement. Mr. Powers did not receive a 2017 long-term incentive (LTIP) award because of his announced retirement, but the Company intends to provide a cash payment to Mr. Powers instead. In connection with Mr. Powers' retirement, the Company and Mr. Powers anticipate entering into a separation and release of all claims agreement, containing among other things, certain non-solicitation, confidentiality and cooperation agreements. It is anticipated that this agreement will provide a cash payment that would provide him (i) an amount to make up for his not receiving a 2017 LTIP award (if it had been granted, a portion of his 2017–2019 performance units would have remained outstanding upon his August 2017 retirement), and (ii) a portion of the compensation Mr. Powers would have received if he had remained with the Company through a later retirement date.

**Performance Units.** The HR Committee granted 75 percent of the aggregate grant date value of the Company's 2016 long-term incentive awards as performance unit awards for the 2016–2018 performance period. Each performance unit has an economic value equivalent to a share of AEP common stock. AEP grants performance units at the beginning of each year with a three-year performance and vesting period. Vested performance units are paid in cash except to the extent they are voluntarily deferred or are needed to meet an executive's stock ownership requirement, in which case the vested performance units are mandatorily deferred into AEP Career Shares. AEP Career Shares are not paid to participants until after their employment with AEP ends.

Dividends are reinvested in additional performance units that are subject to the same performance measures and vesting requirements as the underlying performance units on which they were granted. The total number of performance units held at the end of the performance period is multiplied by the equally weighted score for the two performance measures shown below to determine the number of performance units earned. Each unit is then paid out at the average closing price of AEP common stock for the last 20 trading days of the performance period or mandatorily deferred as Career Shares if needed to satisfy an executive officer's stock ownership requirement. The maximum score for each performance measure is 200 percent. For further information on these awards, see the description under 2016 Stock Award Grants beginning on page 51. For the 2016-2018 performance units, the cumulative operating earnings per share target is \$11.42.



**Table of Contents****Performance Measures for 2016 2018 Performance Units**

| <b>Performance Measure</b>                           | <b>Weight</b> | <b>Threshold Performance</b> | <b>Target Performance</b>   | <b>Maximum Payout Performance</b> |
|--|---------------|------------------------------|-----------------------------|-----------------------------------|
| 3-Year Cumulative Operating Earnings Per Share       |               | \$10.621                     | \$11.42                     | \$12.219                          |
|  | 50%           | (30% payout)                 | (100% payout)               | (200% payout)                     |
| 3-Year Total Shareholder                             |               | 20 <sup>th</sup> Percentile  | 50 <sup>th</sup> Percentile | 80 <sup>th</sup> Percentile       |
| Return vs. S&P 500 Electric Utilities Industry Index | 50%           | (0% payout)                  | (100% payout)               | (200% payout)                     |

The HR Committee selected a cumulative measure of operating earnings to ensure that earnings for all three years contribute equally to the award calculation. The HR Committee also selected a total shareholder return measure for these awards to provide an external performance comparison that reflects the effectiveness of management's strategic decisions and actions over the three-year performance period relative to other large electric utilities.

**Restricted Stock Units.** Each RSU has an economic value equivalent to one share of AEP common stock. The HR Committee granted 25 percent of the aggregate grant date value of the Company's 2016 long-term incentive awards as RSUs. These RSUs vest over a forty month period, subject to the executive's continued employment, in three approximately equal installments on May 1, 2017, May 1, 2018 and May 1, 2019. Dividends are reinvested in additional RSUs that are subject to the same vesting requirements applicable to the underlying RSUs on which they were granted. Upon vesting, these RSUs pay out in cash to executive officers at the average closing price of AEP common stock for the last 20 trading days of the vesting period.

**Stock Ownership Requirements.** The HR Committee believes that linking a significant portion of executives' financial rewards to the Company's success, as reflected by the value of AEP stock, gives executives a stake similar to that of the Company's shareholders and encourages long-term management strategies that benefit shareholders. Therefore, the HR Committee requires certain officers (51 individuals as of January 1, 2017), including the named executive officers, to accumulate and hold a specific amount of AEP common stock or stock equivalents. The HR Committee annually reviews the stock ownership level for each executive officer and periodically adjusts these levels. Each named executive officer met his or her stock ownership requirement as of March 1, 2017.

During 2016, the HR Committee increased the CEO's stock ownership requirement from five times to six times his base salary. The other named executive officers' targets are three times their respective base salaries.

**Equity Retention (Holding Period).** Until an executive officer meets his or her stock ownership requirement, performance units awarded under the Long-term Incentive Plan (LTIP) are mandatorily deferred into AEP Career Shares to the extent necessary to meet their stock ownership requirement. If an executive has not met his or her stock ownership requirement within five years of the date it became effective or subsequently falls below it, the HR Committee may require the executive to defer a portion of his or her annual incentive compensation award into AEP Career Shares.

In 2016, the LTIP was amended to add a "Hold Until Met" requirement for stock options and SARs, which requires Company executives to hold the net shares they realize through stock option and SAR exercises until such time as they have met their stock ownership requirement.

However, no stock options or SARs were granted or outstanding during 2016.

**Benefits.** AEP generally provides the same health and welfare benefits to named executive officers as it provides to other employees. AEP also provides the named executive officers with either four or five weeks of paid vacation, depending on their length of service and position.

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AEP's named executive officers participate in the same tax-qualified defined benefit pension plan and defined contribution savings plan as other eligible employees. AEP's named executive officers also participate in the Company's non-qualified retirement benefit plans, which largely provide supplemental benefits that would otherwise be offered through the tax-qualified plans except for the limits imposed by the Internal Revenue Code on those tax-qualified plans. This allows eligible employees to accumulate replacement income for their retirement based on the same benefit formulas as the tax-qualified plans but without the limitations that are imposed by the Internal Revenue Code on the tax-qualified plans.

The HR Committee recognizes that the non-qualified plans result in the deferral of the Company's income tax deduction related to these benefits until such benefits are paid, but the HR Committee believes that executives generally should be entitled to the same retirement benefits, as a percentage of their eligible pay, as the Company's other employees and that these benefits are prevalent among similar companies. The HR Committee also provides these benefits as part of a market competitive total rewards package.

The Company limits both the amount and types of compensation that are included in the qualified and non-qualified retirement plans because the HR Committee and AEP management believe that compensation over certain limits and certain types of compensation should not be further enhanced by including it in retirement benefit calculations. Therefore:

Long-term incentive compensation is not included in the calculations that determine retirement and other benefits under AEP's benefit plans,

The cash balance formula of the Company's non-qualified pension plan (the AEP Supplemental Benefit Plan) limits eligible compensation to the greater of \$1 million or twice the participant's base salary, and

Eligible compensation is also limited to \$2 million under the non-qualified Supplemental Retirement Savings Plan.

AEP provides group term life insurance benefits to all employees, including the named executive officers, in the amount of two times their base salary.

For executives whom the Company asks to relocate, it is AEP's practice to offer relocation assistance to offset their moving expenses. This policy better enables AEP to obtain high quality new hires and to relocate internal job candidates.

**Perquisites.** The HR Committee annually reviews the perquisites provided by the Company. In 2016, AEP provided independent financial counseling and tax preparation services to assist executives with financial planning and tax filings. Income is imputed to executives and taxes are withheld for these services.

The HR Committee is sensitive to concerns regarding the expense of corporate aircraft and the public perception regarding personal use of such aircraft. Accordingly, the HR Committee generally prohibits personal use of corporate aircraft that has an incremental cost to the Company. The Company allows personal travel on business trips using the corporate aircraft if there is no incremental cost to the Company. Income is imputed and taxes are withheld on the value of personal travel on corporate aircraft in accordance with IRS guidelines.

## **Other Compensation Information**

### **Recoupment of Incentive Compensation.**

In 2016, the Board amended the Company's Policy on Recouping Incentive Compensation, commonly referred to as a "clawback" policy. The policy was amended to provide that our executive officers and certain other senior executives would be subject to a "no fault" clawback. The



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Board may recover incentive compensation whether or not the executive's actions involve misconduct. The Board believes, subject to the exercise of its discretion based on the facts and circumstances of a particular case, that incentive compensation should be reimbursed to the Company if, in the Board's determination:

Such incentive compensation was received by an executive where the payment or the award was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected, and

Such incentive compensation would have been materially lower had the achievement been calculated on such restated or corrected financial or other results.

The Board adopted the initial clawback policy in February 2007, and the HR Committee has directed the Company to design and administer all of its incentive compensation programs in a manner that provides for the Company's ability to obtain such reimbursement. The Company will seek reimbursement, if and to the extent that, in the Board's view, such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on AEP to obtain reimbursement of such compensation. AEP may also retain any deferred compensation previously credited to an executive if, when, and to the extent that it otherwise would become payable. This right to reimbursement is in addition to, and not in substitution for, any and all other rights AEP might have to pursue reimbursement or such other remedies against an executive for misconduct in the course of employment by AEP or otherwise based on applicable legal considerations.

**Role of the CEO and Compensation Consultant in Determining Executive Compensation.** The HR Committee invites the CEO and all directors to attend HR Committee meetings. The HR Committee regularly holds executive sessions without management present. The Chairman of the Board and the Chair of the HR Committee have the authority to call meetings of the HR Committee.

The CEO has assigned AEP's Executive Vice President & Chief Administrative Officer and AEP's Director Compensation and Executive Benefits to support the HR Committee. These individuals work closely with the HR Committee Chairman, the CEO and Meridian to research and develop requested information, prepare meeting materials, implement the HR Committee's actions and administer the Company's executive compensation and benefit programs consistent with the objectives established by the HR Committee. Meetings are held with the CEO, the HR Committee Chairman and Meridian prior to HR Committee meetings to review and finalize the agenda and meeting materials.

The CEO regularly discusses his strategic vision and direction for the Company during HR Committee meetings with Meridian in attendance. Likewise, Meridian regularly discusses compensation strategy alternatives, in light of the CEO's strategic vision and direction, during HR Committee meetings with the CEO in attendance. The HR Committee believes that this open dialogue and exchange of ideas is important to the development and implementation of a successful executive compensation strategy.

The CEO discusses the individual performance of the named executive officers with the HR Committee and recommends their compensation to the HR Committee. The CEO also has substantial input into salary budgets and changes to incentive targets. The CEO also has substantial input into the development of employment offers for outside candidates for executive positions, although the HR Committee must approve all employment offers for executive officers.

**Change In Control Agreements.** The HR Committee provides Change In Control agreements to specified executives, including all the named executive officers, to help align the interests of these executives with those of AEP's shareholders by mitigating the financial impact that would occur to them if their employment was terminated as a result of a change in control. The HR



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Committee also considers change in control agreements as an important tool for attracting and retaining executives for some positions. The HR Committee limits participation to those executives whose full support and sustained contributions would be needed during a lengthy and complex corporate transaction.

While the HR Committee believes these agreements are consistent with the practices of its peer companies, the most important reason for these agreements is to protect the Company and the interests of shareholders in the event of an anticipated or actual change in control. During such transitions, retaining and continuing to motivate the Company's key executives would be critical to protecting shareholder value. In a change of control situation, outside competitors are more likely to try to recruit top performers away from the Company, and our executive officers may consider other opportunities when faced with uncertainty about retaining their positions. Therefore, the HR Committee uses these agreements to provide security and protection to our officers in such circumstances for the long-term benefit of the Company and its shareholders.

The Board has adopted a policy that requires shareholder approval of future executive severance agreements that provide benefits generally exceeding 2.99 times the sum of the named executive officer's salary plus annual incentive compensation. In consultation with Meridian, the HR Committee periodically reviews change in control agreement practices of companies in our Compensation Peer Group. The HR Committee has found that change in control agreements are common among these companies, and that 2.99 or 3 multiples are the most common for named executive officers. Therefore, the HR Committee approved change in control multiples of 2.99 times base salary and annual incentive compensation for each of the named executive officers. Most of the other executives covered by change in control agreements have a lesser multiple of 2.0 times base salary and annual incentive compensation. All of the agreements have a double trigger, which means the severance payments and benefits would be provided only upon a change in control accompanied by an involuntary termination or constructive termination within two years after the change in control.

None of the Company's Change In Control agreements provide a tax gross-up for excise taxes.

Long-term incentive compensation may also vest in the event of a change in control. In the event an executive's employment is terminated within one year after a change in control under qualifying conditions, such as by the Company without cause or by the executive for good reason, then all of the executive's outstanding performance units will vest and be paid at the target performance score. All outstanding RSU awards have a double trigger change in control provision.

Other compensation and benefits provided to executive officers in the event their employment is terminated as a result of a change in control are consistent with that provided in the event an executive's employment is terminated due to a consolidation, restructuring or downsizing as described below.

### **Other Employment Separations.**

The Company has an Executive Severance Plan that provides severance benefits to selected officers of the Company, including the named executive officers, who agree to its terms, including confidentiality, non-solicitation and non-disparagement obligations. Executives remain eligible for benefits under the general severance plan described below; however, any benefits provided under the Executive Severance Plan will be reduced by any amounts provided under the general severance plan. Benefits for our named executive officers under the Executive Severance Plan (which would be triggered by a good reason resignation or an involuntary termination) include pay continuation of two times their base salary and target annual incentive award payable over two years, and are conditioned on the executive officer's release of claims against the Company and agreement not to compete with the Company for two years. For further information on the Executive



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Severance Plan, see the description under Potential Payments Upon Termination of Employment or Change in Control beginning on page 60.

AEP also maintains a broad-based severance plan that provides two weeks of base pay per year of service to all employees, including named executive officers, if their employment is terminated due to a consolidation, restructuring or downsizing, subject to the employee's agreement to waive claims against AEP. In addition, our severance benefits for all employees include outplacement services and access to health benefits at active employee rates for up to 18 months (and at Company-subsidized retiree rates thereafter until age 65 for employees who are at least age 50 with 10 years of service at the time of their employment termination).

Named executive officers and other employees remain eligible for an annual incentive award based on their eligible pay for the year reflecting the portion of the year worked, if they separate from service prior to year-end due to their retirement (on or after age 55 with at least five years of service, except employees who retire as part of a voluntary or involuntary severance program). In the event of a participant's death, this amount is paid to their estate.

A prorated portion of outstanding performance units vest if a participant retires, which is defined as a termination, other than for cause, after the executive reaches age 55 with five years of service or if a participant is severed. A prorated portion of outstanding performance units would also vest to a participant's heirs in the event of the participant's death. The pro-rated performance units are not payable until the end of the performance period and remain subject to all the performance objectives.

In 2016, executive officers were also entitled to 12 months of continued financial counseling service in the event they are severed from service as the result of a restructuring, consolidation or downsizing or they retire (after age 55 and 5 years of AEP service). In the event of their death, their spouse or the executor of their estate would be eligible for this benefit.

**Insider Trading, Hedging and Pledging.** The Company's insider trading policy prohibits directors and executive officers from hedging their AEP stock holdings through short sales and the use of options, warrants, puts and calls or similar instruments. The policy also prohibits directors and executive officers from pledging AEP stock as collateral for any loan.

**Tax Considerations.** Section 162(m) of the Internal Revenue Code (Section 162 (m)) limits the Company's ability to deduct compensation in excess of \$1,000,000 paid in any year to the Company's CEO or any of the next three highest compensated named executive officers other than the CFO (the "162m Officers"). The HR Committee considers the limits imposed by Section 162(m) when designing compensation and benefit programs. At this annual meeting, we are asking shareholders to approve the material terms for qualified performance-based compensation under the Senior Officer Incentive Plan (the SOIP) to ensure continued availability of the performance-based compensation tax deduction in accordance with Section 162(m).

Performance units, which were granted under the shareholder approved Long-Term Incentive Plan, are consistent with the Section 162(m) requirements for tax deductibility by the Company as performance-based compensation. Shareholders approved the Long-Term Incentive Plan in 2015; therefore, payments for performance units are potentially tax deductible for the Company.

AEP's RSUs are not considered to be performance-based under Section 162(m). Therefore, any amounts attributable to those RSUs are not tax deductible if and to the extent that such units cause the compensation of the covered named executive officer to exceed \$1,000,000 for the year.

No assurance can be given that awards intended by the HR Committee to satisfy the requirements for qualified performance-based compensation under Section 162(m) will in fact do so. The

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HR Committee has and may continue to grant awards that may not constitute qualified performance-based compensation under Section 162(m) if the HR Committee determines that granting such awards is in the best interests of the Company.

## **Human Resources Committee Report**

**Membership and Independence.** The Board has determined that each member of the HR Committee is an independent director, as defined by the NYSE listing standards. Each member of the HR Committee is also a non-employee director for purposes of SEC Rule 16b-3 and an outside director for purposes of Section 162(m). Members of the HR Committee attend professional development training that addresses topics of specific relevance to public company compensation committees.

**Purpose.** The primary purpose of the HR Committee is to provide independent oversight of the compensation and human resources policies and practices of the Company. The primary objective of the HR Committee with respect to executive compensation is to ensure that executive officers are compensated in a manner that is consistent with the Company's business strategy, risk tolerance, competitive practices, internal equity considerations, and both Company and Board policies.

**Functions and Process.** The HR Committee operates under a written charter reviewed annually by the Board. This charter is available on AEP's website at [www.aep.com/investors/corporateleadersandgovernance](http://www.aep.com/investors/corporateleadersandgovernance).

The HR Committee annually reviews AEP's executive compensation in the context of the performance of management and the Company. The HR Committee reviews and approves the compensation for all executive officers, other than the CEO, and other senior officers. With respect to the compensation of the CEO, the HR Committee is responsible for making compensation recommendations to the independent members of the Board, who review and approve the CEO's compensation.

In carrying out its responsibilities, the HR Committee addressed many aspects of AEP's human resource and executive compensation programs and practices in 2016, including:

Establishing annual and long-term performance objectives for executive officers;

Assessing the performance of the CEO, other executive officers and the Company relative to those established performance objectives;

Conducting an evaluation of the CEO based on written comments from board members, senior AEP management, and the audit firm partner overseeing AEP's external audit;

Determining the mix of base salary, annual incentive compensation and long-term equity based compensation for executive officers;

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Assessing the competitiveness of 2016 and proposed 2017 target compensation for all executive officers relative to AEP's Compensation Peer Group;

Determining the mix of performance units and RSUs issued as long-term incentive awards;

Reviewing and approving the base salaries, annual incentive awards and long-term incentive award opportunities for 27 officers;

Assessing compensation risk;

Reviewing and approving change in control agreements;

Reviewing the Company's workforce safety efforts and results;



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Reviewing the senior management succession and development plans; and

Reviewing and approving reports to shareholders regarding executive compensation.

In establishing performance objectives, the HR Committee considers the interests of other major AEP stakeholders, such as AEP's customers, employees, and the communities in which AEP operates, in addition to those of AEP's shareholders. For example, the HR Committee tied 2016 annual incentive compensation for all executive officers to measures that included employee safety, customer service and AEP's operating earnings per share.

In determining executive compensation, the HR Committee considers all relevant factors, including:

Company performance;

The CEO's individual performance, based, in part, on a leadership assessment that specifically covers integrity and ethics, communication, willingness to confront tough issues, business acumen, strategic planning, teamwork, and fostering a high performance culture;

Individual performance and compensation recommendations for the other named executive officers as assessed by their direct manager;

Market competitive compensation survey information from the executive compensation study conducted by the HR Committee's independent compensation consultant;

Succession planning;

Executive retention;

The responsibilities and experience of each executive officer;

Compensation history;

The impact salary changes may have on other elements of total rewards;

The impact of compensation on risk taking; and

The expense implications of compensation changes.

**The HR Committee's Independent Compensation Consultant.** The HR Committee engaged Meridian to provide recommendations to the HR Committee regarding AEP's executive compensation and benefit programs and practices. The HR Committee is authorized to retain and terminate consultants and advisors without management approval and has the sole authority to approve their fees. Among other assignments, the HR Committee's independent compensation consultant provides an annual executive compensation study and reports on current executive compensation and benefits trends within the electric utility industry.

The HR Committee annually assesses and discusses the independence of its executive compensation consultant. Meridian did not provide any services to AEP other than the work it performed for the HR Committee and the work it performed for the Corporate Governance Committee on director compensation. The HR Committee concluded that Meridian was independent and the work provided by Meridian did not raise any conflict of interest.

The HR Committee also annually assesses the performance and objectivity of its executive compensation consultant and has found that the advice provided by Meridian was of a high quality, objective and appropriate for the Company. The HR Committee regularly holds executive sessions with Meridian to help ensure that they receive full and independent advice.

In fulfilling its oversight responsibilities, the HR Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this proxy statement. Based

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on its review and these discussions, the HR Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

*Human Resources Committee Members*

Ralph D. Crosby, Jr., Chair

Thomas E. Hoaglin

Richard C. Notebaert

Stephen S. Rasmussen

Oliver G. Richard, III

Table of Contents**Executive Compensation****Summary Compensation Table**

The following table provides summary information concerning compensation earned by our Chief Executive Officer, our Chief Financial Officer and the three other most highly compensated executive officers, to whom we refer collectively as the named executive officers.

| Name and Principal Position  |  | Year | Salary<br>(\$)(1) | Bonus<br>(\$) | Stock<br>Awards<br>(\$)(2) | Non-<br>Equity<br>Incentive<br>Plan<br>Compensation<br>(\$)(3) | Change in<br>Pension<br>Value<br>and Non-<br>qualified<br>Deferred<br>Compensation<br>Earnings<br>(\$)(4) | All<br>Other<br>Compensation<br>(\$)(5) | Total<br>(\$) |
|--|--|------|-------------------|---------------|----------------------------|--|---|---|---------------|
| <b>Nicholas K. Akins</b><br>Chairman of the Board and<br>Chief Executive Officer   |  | 2016 | 1,325,077         |               | 6,720,027                  | 3,000,000  | 323,949   | 103,687                                 | 11,472,740    |
|  |  | 2015 | 1,279,900         |               | 6,719,981                  | 3,150,000  | 199,027   | 103,658                                 | 11,452,566    |
|  |  | 2014 | 1,240,754         |               | 6,720,019                  | 2,950,000  | 359,787   | 102,960                                 | 11,373,520    |
| <b>Brian X. Tierney</b><br>Executive Vice President and<br>Chief Financial Officer |  | 2016 | 730,800           |               | 1,895,038                  | 990,000  | 131,575   | 95,026                                  | 3,842,439     |
|  |  | 2015 | 709,246           |               | 1,907,216                  | 1,100,000  | 0   | 84,125                                  | 3,800,587     |
|  |  | 2014 | 695,339           |               | 1,881,251                  | 1,050,000  | 269,994   | 82,448                                  | 3,979,032     |
| <b>Robert P. Powers</b><br>Vice Chairman   |  | 2016 | 723,773           |               | 1,895,038                  | 980,000  | 335,960   | 93,931                                  | 4,028,702     |
|  |  | 2015 | 709,246           |               | 1,888,008                  | 1,075,000  | 0   | 90,234                                  | 3,762,488     |
|  |  | 2014 | 695,339           |               | 1,881,251                  | 1,012,000  | 746,589   | 82,706                                  | 4,417,885     |
| <b>David M. Feinberg</b><br>Executive Vice President and General Counsel           |  | 2016 | 615,358           |               | 1,126,919                  | 730,000  | 85,179  | 75,435                                  | 2,632,891     |
|  |  | 2015 | 591,426           |               | 998,394                    | 800,000  | 59,069  | 68,163                                  | 2,517,052     |
|  |  | 2014 | 568,679           |               | 962,482                    | 675,000  | 69,384  | 63,293                                  | 2,338,838     |
| <b>Lisa M. Barton</b><br>Executive Vice President- Transmission                    |  | 2016 | 532,039           |               | 1,003,030                  | 650,000  | 95,020  | 68,007                                  | 2,348,096     |
|  |  | 2015 | 516,750           |               | 998,394                    | 686,000  | 49,931  | 59,042                                  | 2,310,117     |
|  |  | 2014 | 452,735           |               | 804,984                    | 540,000  | 71,814  | 47,919                                  | 1,917,452     |

- (1) Amounts in the salary column are composed of executive salaries earned for the year shown, which include 261 days of pay for 2016. This is one day more than the standard 260 calendar work days and holidays in a year.
- (2) The amounts reported in this column reflect the aggregate grant date fair value, calculated in accordance with FASB ASC Topic 718, of performance units and RSUs granted under our Long-Term Incentive Plan. See Note 15 to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2016 for a discussion of the relevant assumptions used in calculating these amounts. With respect to the performance units, the estimates of the grant date fair values determined in accordance with FASB ASC Topic 718 assumes the vesting of 100% of the performance units awarded. The value realized for the performance units, if any, will depend on the Company's performance during a three-year performance and vesting period. The potential payout can range from 0 percent to 200 percent of the target number of performance units, plus any dividend equivalents. Therefore, the maximum amount payable for the 2016 performance units is equal to \$10,080,010 for Mr. Akins; \$2,842,526 for each of Messrs. Tierney and Powers; \$1,690,378 for Mr. Feinberg and \$1,504,608 for Ms. Barton; and the maximum amount payable for the 2015 performance units is equal to \$9,407,974 for Mr. Akins, \$2,670,090 for Mr. Tierney, \$2,643,716 for Mr. Powers, \$1,397,704 for Mr. Feinberg and \$1,397,704 for Ms. Barton. The RSUs vest over a forty month period. For further information on these awards, see the Grants of Plan-Based Awards for 2016 table on page 50 and the Outstanding Equity Awards at Fiscal Year-End for 2016 table on page 52.
- (3) The amounts shown in this column are annual incentive compensation paid under the Annual Incentive Compensation Plan for 2016 and the Senior Officer Incentive Plan for 2015 and 2014. At the outset of each year, the HR Committee sets annual incentive targets and performance criteria that are used after year-end to determine if and the extent to which executive officers may receive annual incentive award payments under this plan.

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- (4) The amounts shown in this column are attributable to the increase in the actuarial values of each of the named executive officer's combined benefits under AEP's qualified and non-qualified defined benefit plans determined using interest rate and mortality assumptions consistent with those used in the Company's financial statements. See the Pension Benefits for 2016 table on page 55, and related footnotes for additional information. See Note 8 to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2016 for a discussion of the relevant assumptions. None of the named executive officer received preferential or above-market earnings on deferred compensation.

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- (5) Amounts shown in the All Other Compensation column for 2016 include: (a) Company contributions to the Company's Retirement Savings Plan, (b) Company contributions to the Company's Supplemental Retirement Savings Plan and (c) perquisites. The amounts are listed in the following table:

| <u>Type</u>                                | <u>Nicholas K.<br/>Akins</u> | <u>Brian X.<br/>Tierney</u> | <u>Robert P.<br/>Powers</u> | <u>David M.<br/>Feinberg</u> | <u>Lisa M.<br/>Barton</u> |
|--|------------------------------|-----------------------------|-----------------------------|------------------------------|---------------------------|
| Retirement Savings Plan Match              | \$ 11,629                    | \$ 11,925                   | \$ 11,925                   | \$ 11,925                    | \$ 11,925                 |
| Supplemental Retirement Savings Plan Match | \$ 78,075                    | \$ 70,302                   | \$ 68,873                   | \$ 51,623                    | \$ 42,771                 |
| Perquisites                                | \$ 13,983                    | \$ 12,799                   | \$ 13,133                   | \$ 11,887                    | \$ 13,311                 |
| Total                                      | \$ 103,687                   | \$ 95,026                   | \$ 93,931                   | \$ 75,435                    | \$ 68,007                 |

Perquisites provided in 2016 included: financial counseling and tax preparation services, and, for Mr. Akins, director's accidental death insurance premium. Executive officers may also have the occasional personal use of event tickets when such tickets are not being used for business purposes, however, there is no associated incremental cost. From time to time executive officers may receive customary gifts from third parties that sponsor sporting events (subject to our policies on conflicts of interest).

**Table of Contents****Grants of Plan-Based Awards for 2016**

The following table provides information on plan-based awards granted in 2016 to each of our named executive officers.

| Name                                    | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) |        |           | Estimated Future Payouts Under Equity Incentive Plan Awards(3) |        |         | All Other Stock Awards: Number of Shares of Stock or Units (#)(6) | Grant Date Fair Value of Stock and Option Awards (\$)(7) |
|---|--|--------|-----------|--|--------|---------|---|--|
|   | Grant Threshold  | Target | Maximum   | Threshold  | Target | Maximum |   |  |
|   | Date   | (\$)   | (\$)(2)   | (#)(4)   | (#)    | (#)(5)  |   |  |
| <b>Nicholas K. Akins</b>                |  |        |           |  |        |         |   |  |
| 2016 Annual Incentive Compensation Plan |  |        | 1,648,053 | 4,120,133  |        |         |   |  |
| 2016 2018 Performance Units             | 2/23/16  |        |           |  | 12,046 | 80,306  | 160,612   | 5,040,005  |
| Restricted Stock Units                  | 2/23/16  |        |           |  |        |         | 26,769  | 1,680,022  |
| <b>Brian X. Tierney</b>                 |  |        |           |  |        |         |   |  |
| 2016 Annual Incentive Compensation Plan |  |        | 581,806   | 1,454,515  |        |         |   |  |
| 2016 2018 Performance Units             | 2/23/16  |        |           |  | 3,397  | 22,646  | 45,292  | 1,421,263  |
| Restricted Stock Units                  | 2/23/16  |        |           |  |        |         | 7,549   | 473,775  |
| <b>Robert P. Powers</b>                 |  |        |           |  |        |         |   |  |
| 2016 Annual Incentive Compensation Plan |  |        | 576,399   | 1,440,998  |        |         |   |  |
| 2016 2018 Performance Units             | 2/23/16  |        |           |  | 3,397  | 22,646  | 45,292  | 1,421,263  |
| Restricted Stock Units                  | 2/23/16  |        |           |  |        |         | 7,549   | 473,775  |
| <b>David M. Feinberg</b>                |  |        |           |  |        |         |   |  |
| 2016 Annual Incentive Compensation Plan |  |        | 428,523   | 1,071,308  |        |         |   |  |
| 2016 2018 Performance Units             | 2/23/16  |        |           |  | 2,020  | 13,467  | 26,934  | 845,189  |
| Restricted Stock Units                  | 2/23/16  |        |           |  |        |         | 4,489   | 281,730  |
| <b>Lisa M. Barton</b>                   |  |        |           |  |        |         |   |  |
| 2016 Annual Incentive Compensation Plan |  |        | 370,631   | 926,578  |        |         |   |  |
| 2016 2018 Performance Units             | 2/23/16  |        |           |  | 1,798  | 11,987  | 23,974  | 752,304  |
| Restricted Stock Units                  | 2/23/16  |        |           |  |        |         | 3,995   | 250,726  |

- (1) Represents potential payouts under the 2016 Annual Incentive Compensation Plan (ICP), which are based on base earnings paid during the year.
- (2) The amounts shown in this column represent 250 percent of the target award for each of the named executive officers, which is maximum amount generally payable to any individual employee under the ICP.
- (3) Represents performance units awarded under our Long-Term Incentive Plan for the 2016-2018 performance period. These awards generally vest at the end of the three year performance period based on our attainment of specified performance measures. For further information on these awards, see the description under 2016 Stock Award Grants below. The number of performance units does not include additional units that may accrue due to dividend credits.
- (4) The amounts shown in the Threshold column represent 15% of the target award for each of the named executive officers because the Operating Earnings per Share measure has a 30% payout for threshold performance, the Total Shareholder Return measure has a 0% payout for threshold performance and these measures are equally weighted. However, the Operating Earnings per Share threshold does not guarantee a minimum payout because the score would be 0% of target if threshold performance is not achieved.
- (5) The amounts shown in this column represent 200 percent of the target award for each of the named executive officers, which is the maximum overall score for the 2016-2018 performance units.
- (6) Represents restricted stock units awarded under the Long-Term Incentive Plan. These awards generally vest in three equal installments on May 1, 2017, May 1, 2018 and May 1, 2019. The number of restricted stock units does not include additional units that may accrue due to dividend credits.
- (7) Amount represents the grant date fair value of performance units and RSUs measured in accordance with FASB ASC Topic 718, utilizing the assumptions discussed in Note 15 to our consolidated financial statements for the fiscal year ended December 31, 2016, without taking into account estimated forfeitures. With respect to performance units, the grant date fair value assumes the target number of performance units granted will vest. The actual number of performance units earned will depend on AEP's performance over the 2016 through 2018 period, which could vary from 0 percent to 200 percent of the target award plus dividend credits. The value of performance units earned will be equal to AEP's average closing share price for the last 20 trading days of the performance period multiplied by the number of performance units earned.

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### **Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table**

**2016 Stock Award Grants.** Effective February 23, 2016, the named executive officers were granted long-term incentive awards as part of AEP's regular annual grant cycle. These awards were granted with double trigger change in control provisions that provide early vesting of awards in the event of a change in control and a covered separation from service. Of these awards, 75 percent were granted in the form of performance units for the 2016-2018 three-year performance period that generally vest, subject to the participant's continued AEP employment, at the end of the performance period. Performance units are generally equivalent in value to shares of AEP common stock. Dividend equivalents are reinvested in additional performance units with the same vesting conditions as the underlying performance units.

The 2016-2018 performance units, including the dividend credits, are subject to two equally weighted performance measures for the three-year performance period, which are:

Three-year total shareholder return relative to the S&P 500 Electric Utilities Industry Index, and

Three-year cumulative operating earnings per share relative to a performance objective established by the HR Committee.

These performance measures are described in detail in Compensation Discussion and Analysis-Performance Units beginning on page 40. The scores for these performance measures determine the percentage of the performance units earned at the end of the performance period, which can range from zero percent to 200 percent. Generally, recipients must remain employed by AEP through the end of the vesting period to receive a payout. For further information, see Potential Payments Upon Termination of Employment or Change in Control beginning on page 60.

The remaining 25 percent of AEP's long-term incentive awards were granted in the form of RSUs that generally vest, subject to the executive officer's continued employment, in three equal installments on May 1, 2017, May 1, 2018 and May 1, 2019. Generally, recipients must remain employed by AEP through the vesting date to receive a payout for the RSUs that vest on such date. Upon vesting, the RSUs pay out in cash to executive officers. For further information, see Potential Payments Upon Termination of Employment or Change in Control beginning on page 60.

#### **Employment Agreements.**

Mr. Powers has an agreement with the Company, which credits him with 17 additional years of service under AEP's Supplemental Benefit Plan. In 1997, the Company granted additional years of credited service to Mr. Powers when he joined AEP to offset pension benefits that he would have been able to earn from his prior employer due to his length of service at that company. For further information on this, see note (2) under Pension Benefits for 2016 on page 56.



**Table of Contents****Outstanding Equity Awards at Fiscal Year-End for 2016**

The following table provides information with respect to holdings of restricted stock units and performance units by the named executive officers at December 31, 2016. The named executive officers do not have any outstanding stock options.

| Name                           | Stock Awards  |  |   |   |
|--------------------------------|---|--|---|---|
|                                | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(1) |
| <b>Nicholas K. Akins</b>       |   |  |   |   |
| 2015 2017 Performance Units(2) |   |  | 85,513  | 10,767,797  |
| 2016 2018 Performance Units(2) |   |  | 83,201  | 10,476,670  |
| 2014 Restricted Stock Units(3) | 16,294  | 1,025,870  |   |   |
| 2015 Restricted Stock Units(4) | 24,432  | 1,538,239  |   |   |
| 2016 Restricted Stock Units(5) | 27,734  | 1,746,133  |   |   |
| <b>Brian X. Tierney</b>        |   |  |   |   |
| 2015 2017 Performance Units(2) |   |  | 24,270  | 3,056,078   |
| 2016 2018 Performance Units(2) |   |  | 23,462  | 2,954,335   |
| 2014 Restricted Stock Units(3) | 4,562   | 287,224  |   |   |
| 2015 Restricted Stock Units(4) | 6,935   | 436,628  |   |   |
| 2016 Restricted Stock Units(5) | 7,821   | 492,410  |   |   |
| <b>Robert P. Powers</b>        |   |  |   |   |
| 2015 2017 Performance Units(2) |   |  | 24,025  | 3,025,228   |
| 2016 2018 Performance Units(2) |   |  | 23,462  | 2,954,335   |
| 2014 Restricted Stock Units(3) | 4,562   | 287,224  |   |   |
| 2015 Restricted Stock Units(4) | 6,865   | 432,220  |   |   |
| 2016 Restricted Stock Units(5) | 7,821   | 492,410  |   |   |
| <b>David M. Feinberg</b>       |   |  |   |   |
| 2015 2017 Performance Units(2) |   |  | 12,704  | 1,599,688   |
| 2016 2018 Performance Units(2) |   |  | 13,952  | 1,756,836   |
| 2014 Restricted Stock Units(3) | 2,334   | 146,949  |   |   |
| 2015 Restricted Stock Units(4) | 3,631   | 228,608  |   |   |
| 2016 Restricted Stock Units(5) | 4,651   | 292,827  |   |   |
| <b>Lisa M. Barton</b>          |   |  |   |   |
| 2015 2017 Performance Units(2) |   |  | 12,704  | 1,599,688   |
| 2016 2018 Performance Units(2) |   |  | 12,419  | 1,563,800   |
| 2014 Restricted Stock Units(3) | 1,952   | 122,898  |   |   |
| 2015 Restricted Stock Units(4) | 3,631   | 228,608  |   |   |
| 2016 Restricted Stock Units(5) | 4,139   | 260,591  |   |   |

(1) Pursuant to applicable SEC rules, the market value of the performance units reported in this column was computed by multiplying the closing price of AEP's common stock on December 31, 2016 (\$62.96) by the maximum number of performance units issuable (200% of the target amount set forth in the preceding column) because the results for 2016 were above target for the performance units. However, the actual number of performance units credited upon vesting will be based on AEP's actual performance over the applicable three year period.

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- (2) AEP currently grants performance units at the beginning of each year with a three-year performance and vesting period. This results in awards for overlapping successive three-year performance periods. These awards generally vest at the end of the three year performance period. The performance units awarded for the 2014 – 2016 performance period, including associated dividend credits, vested at December 31, 2016 and are shown in the Options Exercises and Stock Vested for 2016 table below. The awards shown for the 2015 – 2017 and 2016 – 2018 performance periods include performance units resulting from reinvested dividends which are subject to the same performance criteria.
- (3) Amounts include RSUs resulting from reinvested dividends. They will generally vest, subject to the executive officer's continued employment, on May 1, 2017. These RSUs were granted on December 10, 2013.

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- (4) Amounts include RSUs resulting from reinvested dividends. They will generally vest, subject to the executive officer's continued employment, in two equal installments, on May 1, 2017 and May 1, 2018. These RSUs were granted on February 24, 2015.
- (5) These RSUs were granted on February 23, 2016 and include restricted stock units resulting from reinvested dividends. They will generally vest, subject to the executive officer's continued employment, in three equal installments, on May 1, 2017, May 1, 2018 and May 1, 2019.

**Table of Contents****Option Exercises and Stock Vested for 2016**

The following table provides information with respect to the vesting of RSUs and performance units in 2016 that were granted to our named executive officers in previous years. The named executive officers did not exercise any stock options in 2016.

| Name              | Option Awards                             |                                 | Stock Awards                                |                                   |
|-------------------|---|---------------------------------|---|-----------------------------------|
|                   | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#)(1) | Value Realized on Vesting (\$)(2) |
| Nicholas K. Akins |   |                                 | 231,032                                     | 14,607,502                        |
| Brian X. Tierney  |   |                                 | 64,751                                      | 4,094,107                         |
| Robert P. Powers  |   |                                 | 64,717                                      | 4,091,919                         |
| David M. Feinberg |   |                                 | 33,114                                      | 2,093,732                         |
| Lisa M. Barton    |   |                                 | 29,601                                      | 1,871,621                         |

- (1) This column includes the following performance units and related dividend equivalents for the 2014–2016 performance period that vested on December 31, 2016: 186,941 for Mr. Akins; 52,334 for each of Messrs. Tierney and Powers; 26,775 for Mr. Feinberg; and 22,393 for Ms. Barton. This column also includes the following RSUs that vested on May 2, 2016: 44,091 for Mr. Akins; 12,417 for Mr. Tierney; 12,383 for Mr. Powers; 6,339 for Mr. Feinberg; and 4,680 for Ms. Barton. This column also includes 2,528 RSUs that vested on October 3, 2016 for Ms. Barton.
- (2) As is required, the value included in this column for the 2014–2016 performance units is computed by multiplying the number of units by the closing price of AEP's common stock on the vesting date of December 31, 2016 (\$62.96). However, the actual value realized from these units was based on the 20-day average closing market price of AEP common stock prior to the vesting date (\$61.86). Also as required, this column includes the value of RSUs that vested on May 2, 2016 computed by multiplying the number of units vesting by the closing price of AEP's common stock on this date, which was \$64.36 per share. However, the actual value realized from these units was based on the 20-day average closing market price of AEP common stock prior to the vesting date (\$64.776). This column also included the value of RSUs for Ms. Barton that vested on October 3, 2016, which had a market value of \$63.51 per share (the closing price of AEP's common stock on the vesting date).

**2014–2016 Performance Units**

Performance units that were granted for the 2014–2016 performance period vested on December 31, 2016. The combined score for the 2014–2016 performance period was 163.9 percent of target. The final score calculation for these performance measures is shown in the chart below.

| Performance Measures | Threshold Performance | Target Performance | Maximum Payout Performance | Actual Performance | Score  | Weight | Weighted Score |
|----------------------|-----------------------|--------------------|----------------------------|--------------------|--------|--------|----------------|
| 3-Year Cumulative    | \$9.90                | \$10.250           | \$10.97                    | \$11.056           | 200.0% | 50%    | 100.0%         |

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| Earnings Per Share      | (30% payout)     | (100% Payout)    | (200% Payout)    |            |        |              |
|-------------------------|------------------|------------------|------------------|------------|--------|--------------|
| 3-Year Total            | 20 <sup>th</sup> | 50 <sup>th</sup> | 80 <sup>th</sup> |            |        |              |
| Shareholder Return vs.  | Percentile       | Percentile       | Percentile       | 58.3       |        |              |
| S&P Electric Utilities  | (0% Payout)      | (100% Payout)    | (200% Payout)    | Percentile | 127.7% | 50%          |
| <b>Composite Result</b> |                  |                  |                  |            |        | <b>63.9%</b> |

**Table of Contents****Pension Benefits for 2016**

The following table provides information regarding the pension benefits for our named executive officers under AEP's pension plans. The material terms of the plans are described following the table.

| <u>Name</u>       | <u>Plan Name</u>              | <u>Number of<br/>Years<br/>Credited<br/>Service (#)</u> | <u>Present Value<br/>of<br/>Accumulated<br/>Benefit(\$)(1)</u> | <u>Payments<br/>During<br/>Last<br/>Fiscal<br/>Year(\$)</u> |
|-------------------|-------------------------------|---|--|---|
| Nicholas K Akins  | AEP Retirement Plan           | 34.6  | 599,058  |   |
|                   | CSW Executive Retirement Plan | 34.6  | 1,344,710  |   |
| Brian X. Tierney  | AEP Retirement Plan           | 18.7  | 326,573  |   |
|                   | AEP Supplemental Benefit Plan | 18.7  | 1,013,205  |   |
| Robert P. Powers  | AEP Retirement Plan           | 18.5  | 603,373  |   |
|                   | AEP Supplemental Benefit Plan | 35.5 (2)  | 3,901,685  |   |
| David M. Feinberg | AEP Retirement Plan           | 5.7   | 81,087   |   |
|                   | AEP Supplemental Benefit Plan | 5.7   | 211,716  |   |
| Lisa M. Barton    | AEP Retirement Plan           | 10.1  | 153,106  |   |
|                   | AEP Supplemental Benefit Plan | 10.1  | 210,420  |   |

- (1) The Present Value of Accumulated Benefits is based on the benefit accrued under the applicable plan through December 31, 2016, and the following assumptions (which are consistent with those used in AEP's financial statements):

The named executive officer retires at normal retirement age (age 65), except for Mr. Tierney, whose benefit is calculated at age 62 because he is eligible for an unreduced annuity benefit when he reaches that age, and Mr. Powers whose benefit is calculated as of December 31, 2016 because he is eligible for an unreduced annuity benefit because he has already reached age 62.

The named executive commences the payment of benefits (the accrued benefit) immediately upon retirement.

The value of the annuity benefit at the named executive officer's assumed retirement age is determined based upon the accrued benefit, an assumed interest rate of 4.05 percent, 3.85 percent and 3.85 percent for the benefits accrued under the AEP Retirement Plan, AEP Supplemental Benefit Plan and the CSW Executive Retirement Plan, respectively, and assumed mortality based upon modified versions of the RP-2014 mortality tables. Base mortality rates are derived from the RP-2014 table factored to 2006 with no collar adjustment for the qualified pension benefits and a white collar adjustment for non-qualified pension benefits. Mortality improvements are projected generationally with rates that grade linearly by year from MP-2014 in 2007 to 0.75% in 2015 and thereafter and that also grade linearly by age to zero at age 95 from age 85. The value of the lump sum benefit at that assumed retirement age is determined based upon the accrued benefit, an assumed interest rate of 4.20 percent and assumed mortality based on current law IRS lump sum mortality. The present value of each named executive officer's benefits is determined by discounting the value of benefits described above at the assumed retirement age to each executive's current age using an assumed interest rate of 4.05 percent, 3.85 percent and 3.85 percent for the benefits accrued under the AEP Retirement Plan, AEP Supplemental Benefit Plan and CSW Executive Retirement Plan, respectively.

For the AEP Retirement Plan, the present value of the accrued benefit is weighted based on 75 percent lump sum and 25 percent annuity (or 40 percent lump sum and 60 percent annuity for Mr. Powers due to his eligibility for early retirement under the final average pay benefit formula), based on the assumption that participants elect those benefit options



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in that proportion. For the AEP Supplemental Benefit Plan and the CSW Executive Retirement Plan, the present value of the accrued benefits is weighted based on 100 percent lump sum.

- (2) Under a letter agreement negotiated pursuant to his hire in 1998, AEP credits Mr. Powers with 17 years of service in addition to his actual years of service with AEP to offset pension benefits that he would have been able to earn from his prior employer due to his length of service at that company. The additional years of service credit have augmented the present value of his accumulated benefits under the AEP Supplemental Benefit Plan by \$2,308,901. The benefits enhanced under this letter agreement were frozen as of December 31, 2010 (see Final Average Pay Formula below).

**Overview.** AEP maintains tax-qualified and nonqualified defined benefit pension plans for eligible employees. The nonqualified plans provide (i) benefits that cannot be paid under the tax-qualified plan because of maximum limitations imposed on such plans by the Internal Revenue Code and (ii) benefits pursuant to an individual agreement with one of the named executive officers (Mr. Powers). The plans are designed to provide a retirement income to executives and their spouses, as well as a market competitive benefit opportunity as part of a market competitive total rewards package.

**AEP Retirement Plan.** The AEP Retirement Plan is a tax-qualified defined benefit pension plan under which benefits are generally determined by reference to a cash balance formula. The AEP Retirement Plan also encompasses the Central and South West Corporation Cash Balance Retirement Plan (the CSW Retirement Plan), which was merged into the AEP Retirement Plan effective December 31, 2008. As of December 31, 2016, each of the named executive officers was vested in their AEP Retirement Plan benefit.

In addition, employees who have continuously participated in the AEP Retirement Plan (but not the CSW Retirement Plan) since December 31, 2000 (Grandfathered AEP Participants, which includes Mr. Tierney and Mr. Powers) remain eligible for an alternate pension benefit calculated by reference to a final average pay formula. The benefits under this final average pay formula were frozen as of December 31, 2010.

**Cash Balance Formula.** Under the cash balance formula, each participant has an account established to which dollar credits are allocated each year.

1. **Company Credits.** Each year, participants' accounts are credited with an amount equal to a percentage of their salary for that year and annual incentive award for the prior year. The applicable percentage is based on the participant's age and years of service. The following table shows the applicable percentage:

| Sum of Age Plus<br>Years of Service | Applicable<br>Percentage |
|-------------------------------------|--------------------------|
| Less than 30                        | 3.0%                     |
| 30-39                               | 3.5%                     |
| 40-49                               | 4.5%                     |
| 50-59                               | 5.5%                     |
| 60-69                               | 7.0%                     |
| 70 or more                          | 8.5%                     |

Each year, the IRS calculates a limit on the amount of eligible pay that can be used to calculate pension benefits in a qualified plan. For 2016, the limit was \$265,000.



2. *Interest Credits.* All amounts in the cash balance accounts earn interest at the average interest rate on 30-year Treasury securities for the month of November of the prior year, with a floor of 4 percent. For 2016, the interest rate was 4 percent.

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**Final Average Pay Formula.** Grandfathered AEP Participants receive their benefits under the cash balance formula or the final average pay formula, whichever provides the higher benefit. On December 31, 2010, the final average pay benefit payable at the Grandfathered AEP Participant's normal retirement age was frozen, meaning that their final average pay formula benefit is not affected by the participant's service or compensation subsequent to this date. This frozen final average pay normal retirement benefit is based on the following calculation as of December 31, 2010: the participant's then years of service times the sum of (i) 1.1 percent of the participant's then high 36 consecutive months of base pay (High 36); plus (ii) 0.5 percent of the amount by which the participant's then High 36 exceeded the participant's applicable average Social Security covered compensation.

Grandfathered AEP Participants may become entitled to a subsidized early retirement benefit under the final average pay formula if they remain employed with AEP through age 55 with at least three years of service. The early retirement benefit payable under the final average pay formula is the unreduced normal retirement age benefit if it commences at age 62 or later. The early retirement benefit is reduced by 3 percent for each year prior to age 62 that the benefits are commenced. Mr. Powers is eligible for an unreduced early retirement benefit.

**AEP Supplemental Benefit Plan.** The AEP Supplemental Benefit Plan is a nonqualified defined benefit pension plan. It generally provides eligible participants with benefits that are in excess of those provided under the AEP Retirement Plan (without regard to the provisions now included as the result of the merger of the CSW Retirement Plan into the AEP Retirement Plan) as determined upon the participant's termination of employment. These excess benefits are calculated under the terms of the AEP Retirement Plan described above with the following modifications: (i) additional years of service or benefit credits are taken into account; (ii) annual incentive pay was taken into account for purposes of the frozen final average pay formula; and (iii) the limitations imposed by the Internal Revenue Code on annual compensation and annual benefits are disregarded. However, eligible pay taken into account under the cash balance formula is limited to the greater of \$1 million or two times the participant's year-end base salary.

Mr. Powers negotiated 17 additional years of service under the AEP Supplemental Benefit Plan when he joined the Company in 1997 to offset pension benefits that he would have been able to earn from his prior employer due to his length of service at that company.

Participants do not become vested in their AEP Supplemental Plan benefit until they become vested in their AEP Retirement Plan benefit or upon a change in control. As of December 31, 2016, each of the named executive officers was fully vested in their AEP Supplemental Benefit Plan benefit.

**CSW Executive Retirement Plan.** The CSW Executive Retirement Plan is a nonqualified defined benefit pension plan. It generally provides eligible participants with benefits that are in excess of those provided under the terms of the former CSW Retirement Plan (which was merged into the AEP Retirement Plan) as determined upon the participant's termination of employment. The excess benefits are calculated without regard to the limitations imposed by the Internal Revenue Code on annual compensation and annual benefits. As of December 31, 2016, Mr. Akins was fully vested in his CSW Executive Retirement Plan benefit.

**Table of Contents****Nonqualified Deferred Compensation for 2016**

The following table provides information regarding contributions, earnings and balances for our named executive officers under AEP's three non-qualified deferred compensation plans which are each further described below.

| <b>Name</b>       | <b>Plan<br/>Name(1)</b> | <b>Executive<br/>Contributions<br/>in Last FY(2)<br/>(\$)</b> | <b>Registrant<br/>Contributions<br/>in Last FY(3)<br/>(\$)</b> | <b>Aggregate<br/>Earnings<br/>in Last<br/>FY(4)<br/>(\$)</b> | <b>Aggregate<br/>Withdrawals/<br/>Distributions<br/>(\$)</b> | <b>Aggregate<br/>Balance at<br/>Last FYE(5)<br/>(\$)</b> |
|-------------------|-------------------------|---|--|--|--|--|
| Nicholas K. Akins | SRSP                    | 104,100   | 78,075   | 46,755   |  | 1,599,366  |
|                   | ICDP                    |   |  | 11,906   |  | 326,005  |
|                   | SORP                    |   |  | 753,815  |  | 6,569,464  |
| Brian X. Tierney  | SRSP                    | 156,226   | 70,302   | 237,843  |  | 3,441,925  |
|                   | SORP                    |   |  | 134,642  |  | 1,173,398  |
| Robert P. Powers  | SRSP                    | 91,830  | 68,873   | 277,992  |  | 3,825,841  |
|                   | ICDP                    |   |  | 65,611   |  | 976,618  |
|                   | SORP                    |   |  | 378,673  |  | 3,300,123  |
| David M. Feinberg | SRSP                    | 68,831  | 51,623   | 12,614   |  | 466,395  |
|                   | SORP                    | 9,418   |  | 224,737  |  | 1,958,577  |
| Lisa M. Barton    | SRSP                    | 57,028  | 42,771   | 11,798   |  | 432,741  |
|                   | ICDP                    |   |  | 447  |  | 27,648   |
|                   | SORP                    | 502,170   |  | 170,377  |  | 1,484,825  |

- (1) SRSP is the American Electric Power System Supplemental Retirement Savings Plan, ICDP is the American Electric Power System Incentive Compensation Deferral Plan, and SORP is the American Electric Power System Stock Ownership Requirement Plan.
- (2) The amounts set forth under Executive Contributions in Last FY for the SRSP are reported in the Summary Compensation Table as either (i) Salary for 2016 or (ii) the Non-Equity Incentive Plan Compensation for 2015. The amount set forth under Executive Contributions in Last FY for the SORP for Mr. Feinberg was reported in the Summary Compensation Table in the Stock Awards column for 2013.
- (3) The amounts set forth under Registrant Contributions in Last FY for the SRSP are reported in the All Other Compensation column of the Summary Compensation Table.
- (4) No amounts set forth under Aggregate Earnings in Last FY have been reported in the Summary Compensation Table as there were no above market or preferential earnings credited to any named executive officer's account in any of the plans.
- (5) The amounts set forth in the Aggregate Balance at Last FYE column for the SRSP include the SRSP amounts reported in the Executive Contributions in Last FY and Registrant Contributions in Last FY columns. In addition, the Aggregate Balance at Last FYE for the SRSP includes the following amounts previously reported in the Summary Compensation Table for prior years: \$813,631 for Mr. Akins, \$941,978 for Mr. Tierney, \$952,146 for Mr. Powers and \$314,546 for Mr. Feinberg. The amounts set forth in the Aggregate Balance at Last FYE for the SORP include the SORP amounts reported in the Executive Contributions in Last FY. In addition, the Aggregate Balance at Last FYE for the SORP includes the following amounts previously reported in the Summary Compensation Table for prior years: \$2,670,419 for Mr. Akins, \$5,297 for Mr. Tierney, \$4,980 for Mr. Powers and \$1,607,646 for Mr. Feinberg.

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**Overview.** AEP maintains non-qualified deferred compensation plans that allow eligible employees, including the named executive officers, to defer receipt of a portion of their base salary, annual incentive compensation and performance unit awards. The plans are unfunded. Participants have an unsecured contractual commitment from the Company to pay the amounts due under the plans from the general assets of the Company. AEP maintains the following non-qualified deferred compensation plans for eligible employees:

The American Electric Power System Supplemental Retirement Savings Plan;

The American Electric Power System Incentive Compensation Deferral Plan; and

The American Electric Power System Stock Ownership Requirement Plan.

**Supplemental Retirement Savings Plan.** This plan allows eligible participants to save on a pre-tax basis and to continue to receive Company matching contributions beyond the limits imposed by the Internal Revenue Code on qualified plans of this type.

Participants can defer up to 50 percent of their base salary and annual incentive award in excess of the IRS eligible compensation limit for qualified plans, which was \$265,000 for 2016, up to \$2,000,000.

The Company matches 100 percent of the participant's contributions up to 1 percent of eligible compensation and 70 percent of the participant's contributions from the next 5 percent of eligible compensation (for a total Company match of up to 4.5% of eligible compensation).

Participants may not withdraw any amount credited to their account until their termination of employment with AEP. Participants may elect a distribution of their account as a lump-sum or annual installment payments over a period of up to 10 years. Participants may delay the commencement of distributions for up to five years from the date of their termination of employment.

Participants may direct the investment of their plan account among the core investment options that are available to all employees in AEP's qualified Retirement Savings Plan and one additional option that provides interest at a rate set each December at 120 percent of the applicable federal long-term rate with monthly compounding. There were no above-market or preferential earnings with respect to the Supplemental Retirement Savings Plan.

**Incentive Compensation Deferral Plan.** This plan allows eligible employees to defer payment of up to 80 percent of vested performance units.

AEP does not offer any matching contributions.

Participants may direct the investment of their plan accounts among the core investment options that are available to all employees in AEP's qualified Retirement Savings Plan. There were no above-market or preferential earnings with respect to the Incentive Compensation Deferral Plan in 2016.

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Generally, participants may not withdraw any amount credited to their account until their termination of employment with AEP. However, participants may make one withdrawal of amounts attributable to their pre-2005 contributions prior to termination of employment. The withdrawal amount would be subject to a 10 percent withdrawal penalty. Participants may elect among the same payment options for the distributions of their account value as described above for the Supplemental Retirement Savings Plan.

**Stock Ownership Requirement Plan.** This plan assists executives in achieving their minimum stock ownership requirements. It does this primarily by tracking the executive's AEP Career Shares. AEP Career Shares are a form of deferred compensation, which are unfunded and unsecured general obligations of AEP. The rate of return on AEP Career Shares is equivalent to the total return on AEP stock with dividends reinvested. Participants may not withdraw any amount

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credited to their account until their termination of employment with AEP. Participants may elect among the same payment options for the distribution of the value of their AEP Career Shares as described above for the Supplemental Retirement Savings Plan.

## **Potential Payments Upon Termination of Employment or Change in Control**

The Company has entered into agreements and maintains plans that will require the Company to provide compensation to the named executive officers in the event of a termination of their employment or a change in control of the Company. Actual payments will depend on the circumstances and timing of any termination of employment or change of control. In addition, in connection with any actual termination or change in control transaction, we may enter into agreements or establish arrangements that provide additional or alternative benefits or amounts from those described below. The agreements and plans summarized below are complex legal documents with terms and conditions having precise meanings, which are designed to address many possible but currently hypothetical situations.

**Severance.** AEP currently provides full-time employees, including the named executive officers, with severance benefits if their employment is terminated as the direct result of a restructuring or downsizing ( **Severance-Eligible Employees** ) and the employee releases AEP from any and all claims. These severance benefits include:

A lump sum severance payment equal to two weeks of base pay for each year of Company service, with a minimum of 8 weeks for employees with at least one year of AEP service;

Continued eligibility for medical and dental benefits at the active employee rates for eighteen months or until the participant becomes eligible for coverage from another employer, whichever occurs first;

For employees who are at least age 50 with 10 years of AEP service and who do not qualify for AEP's retiree medical benefits or who will be bridged to such retiree benefit eligibility (described below), AEP also provides medical and dental benefit eligibility at rates equivalent to those provided to retirees until age 65 or until the participant becomes eligible for coverage from another employer, whichever occurs first; and

Outplacement services, the incremental cost of which may be up to \$28,000 for executive officers.

Severance-Eligible Employees who have enough weeks of severance (up to one year) and vacation to cover a period that would allow them to become eligible for retiree medical benefits, which is available to those employees who are at least age 55 with at least 10 years of service ( **Retirement-Eligible Employees** ) are retained as employees on a paid leave of absence until they become retirement eligible. This benefit applies in lieu of severance and unused vacation payments that these employees would otherwise receive. The Company pays any remaining severance and vacation pay at the time of their retirement. This delay of an employee's termination date does not apply to the plans providing nonqualified deferred compensation, which define a participant's termination date by reference to Internal Revenue Code Section 409A.

A Severance-Eligible executive's termination entitles that executive to a pro-rata portion of any outstanding unvested performance units that the executive has held for at least six months and to the payment of a pro-rata portion of any RSUs to the extent not already vested and paid. The pro-rated performance units will not become payable until the end of the performance period and remain subject to all performance objectives.

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Severance-Eligible executives may continue financial counseling and tax preparation services for one year following their termination up to a maximum annual incremental cost to the Company for 2016 of \$13,390 plus related incidental expenses of the advisor.

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The Company also has an Executive Severance Plan (Executive Severance Plan) that provides severance benefits to selected officers of the Company, including the named executive officers, subject to the executive's agreement to comply with the provisions of the plan, including confidentiality, non-solicitation, cooperation and non-disparagement provisions during their employment and following termination. Executives remain eligible for benefits under the general severance plan described above; however, any benefits provided under the Executive Severance Plan will be reduced by any amounts provided under the general severance plan. Benefits under the Executive Severance Plan would be triggered by a resignation for good reason or an involuntary termination by the Company without cause (each as defined below).

The term cause with respect to the Executive Severance Plan means:

- (i) Failure or refusal to perform a substantial part of the executive's assigned duties and responsibilities following notice and a reasonable opportunity to cure (if such failure is capable of cure);
- (ii) Commission of an act of willful misconduct, fraud, embezzlement or dishonesty either in connection with the executive's duties to the Company or which otherwise is injurious to the best interest or reputation of the Company;
- (iii) Repeated failure to follow specific lawful directions of the Board or any officer to whom the executive reports;
- (iv) A violation of any of the material terms and conditions of any written agreement or agreements the executive may from time to time have with the Company;
- (v) A material violation of any of the rules of conduct of behavior of the Company;
- (vi) Conviction of, or plea of guilty or nolo contendere to, (A) a felony, (B) a misdemeanor involving an act of moral turpitude, or (C) a misdemeanor committed in connection with the executive's employment with the Company which is injurious to the best interest or reputation of the Company; or
- (vii) Violation of any applicable confidentiality, non-solicitation, or non-disparagement covenants or obligations relating to the Company (including the provisions to which the executive agreed when enrolling in the plan).

An executive's termination of employment that is covered by his or her change in control agreement (described in the next section) or due to mandatory retirement, disability or death would not be considered an involuntary termination that may trigger the payment of benefits under the Executive Severance Plan.

An executive would have good reason for resignation under the Executive Severance Plan if there is any reduction in the executive's then current annual base salary without the executive's consent; provided, however, that a uniform percentage reduction of 10% or less in the annual base salary of all executives participating in the Executive Severance Plan who are similarly situated would not be considered good reason for resignation. Also, the Company must be given 10 days following receipt of written notice from the executive to restore the executive's base salary before his or resignation may trigger plan benefits.

If benefits under the Executive Severance Plan are triggered, the affected named executive officers would receive two times their base salary and target annual incentive payable over two years. In addition, a pro-rated portion of their outstanding unvested performance units and RSUs would



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vest. The pro-rated performance units will not become payable until the end of the performance period and remain subject to all performance objectives. Any severance benefits payable under the Executive Severance Plan and prorated vesting of RSUs are conditioned on the execution of an agreement by the executive officer releasing claims against the Company and committing to a non-competition obligation.

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**Change In Control.** AEP defines "change in control" under its change in control agreements and Long-Term Incentive Plan as:

The acquisition by any person of the beneficial ownership of securities representing more than one-third of AEP's voting stock;

A merger or consolidation of AEP with another corporation unless AEP's voting securities outstanding immediately before such merger or consolidation continue to represent at least two-thirds of the total voting power of the surviving entity outstanding immediately after such merger or consolidation; or

Approval by the shareholders of the liquidation of AEP or the disposition of all or substantially all of the assets of AEP.

AEP has a change in control agreement with each of the named executive officers that is triggered if there is a Qualifying Termination of the named executive officer's employment. A "Qualifying Termination" for this purpose generally occurs when the executive's employment is terminated in connection with that change in control (i) by AEP without "cause" or (ii) by the named executive officer for "good reason", each as defined below. Such termination must be no later than two years after the change in control. These agreements provide for:

A lump sum payment equal to 2.99 times the named executive officer's annual base salary plus target annual incentive compensation award under the annual incentive program as in effect at the time of termination; and

Outplacement services.

The term "cause" with respect to AEP's change in control agreements means:

- (i) The willful and continued failure of the executive to perform the executive's duties after a written demand for performance is delivered to the executive by the Board; or
- (ii) The willful conduct or omission by the executive, which the Board determines to be illegal; gross misconduct that is injurious to the Company; or a breach of the executive's fiduciary duty to the Company.

The term "good reason" with respect to AEP's change in control agreements means:

- (i) An adverse change in the executive's status, duties or responsibilities from that in effect immediately prior to the change in control;
- (ii) The Company's failure to pay in a timely fashion the salary or benefits to which the executive is entitled under any employment agreement in effect on the date of the change in control;
- (iii) The reduction of the executive's salary as in effect on the date of the change in control;

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- (iv) Any action taken by the Company that would substantially diminish the aggregate projected value of the executive's awards or benefits under the Company's benefit plans or policies;
- (v) A failure by the Company to obtain from any successor the assent to the change in control agreement; or
- (vi) The relocation, without the executive's prior approval, of the office at which the executive is to perform services to a location that is more than fifty (50) miles from its location immediately prior to the change in control.

The Company must be given notice and an opportunity to cure any of these circumstances before they would be considered to be good reason.

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All awards under the Long-Term Incentive Plan will vest upon a Qualifying Termination, which may occur coincident with or within one year after a change in control. The term Qualifying Termination with respect to long-term incentive awards generally is the same as that described for the change in control agreements, except that an executive's mandatory retirement at age 65 is explicitly excluded, and Cause is defined more broadly to encompass:

- (i) Failure or refusal to perform assigned duties and responsibilities in a competent or satisfactory manner;
- (ii) Commission of an act of dishonesty, including, but not limited to, misappropriation of funds or any property of AEP;
- (iii) Engagement in activities or conduct injurious to the best interest or reputation of AEP;
- (iv) Insubordination;
- (v) Violation of any material term or condition of any written agreement with AEP;
- (vi) Violation of any of AEP's rules of conduct of behavior;
- (vii) Commission of a felony, a misdemeanor involving an act of moral turpitude, or a misdemeanor committed in connection with employment at AEP which is injurious to the best interest or reputation of AEP; or
- (viii) Disclosure, dissemination, or misappropriation of confidential, proprietary, and/or trade secret information.

In addition, performance units would be deemed to have been fully earned at 100 percent of the target score upon a Qualifying Termination following a change in control. The value of each vested performance unit following a Qualifying Termination would be (1) the closing price of a share of AEP common stock on the date of the Qualifying Termination or (2) if the date of the Qualifying Termination is coincident with the change in control and if the change in control is the result of a tender offer, merger, or sale of all or substantially all of the assets of AEP, the price paid per share of common stock in that transaction.

The AEP Supplemental Benefit Plan also provides that all accrued supplemental retirement benefits to the extent then unvested become fully vested upon a change in control.

## **Termination Scenarios**

The following tables show the incremental compensation and benefits that would have been paid to each named executive officer who was employed by AEP on December 31, 2016 assuming the hypothetical circumstances cited in each column occurred on December 31, 2016 and calculated in accordance with the methodology required by the SEC. In connection with any actual termination or change in control, the Company may enter into agreements or establish arrangements that provide additional benefits or amounts, or may alter the terms of benefits described below.

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With respect to annual incentive compensation for the completed year, the initial calculated annual incentive opportunity is shown, before any individual discretionary adjustment, which varies from the actual value paid and reported in the Summary Compensation Table.

The values shown in the change in control column are triggered only if the named executive officer's employment is terminated under the circumstances (described above under Change In Control) that trigger the payment or provision of each of the types of compensation and benefits shown.

No information is provided for terminations due to disability because it is not generally AEP's practice to terminate the employment of any employee so long as they remain eligible for AEP's

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long-term disability benefits. AEP successively provides sick pay and then long-term disability benefits for up to two years to employees with a disability that prevents them from returning to their job. Such disability benefits continue for employees that cannot perform any occupation for which they are reasonably qualified generally until the employee reaches age 65. Because disabled participants remain employed by the Company, they continue to vest in long-term incentive awards while they are disabled. AEP treats a participant's disability as a termination to the extent required by the regulations issued under Internal Revenue Code Section 409A, but such terminations only trigger the payment of benefits that had previously vested. Employment may be terminated due to disability under a separate definition of employment termination that applies to restricted stock unit awards and compensation and benefit programs that may be considered non-qualified deferred compensation under Section 409A of the Internal Revenue Code. However restricted stock unit awards allow participants terminated due to disability to continue to vest as if their employment had continued so long as they remain continuously disabled.

**Table of Contents****Potential Incremental Compensation and Benefits****That Would Have Been Provided as the Result of Employment Termination****as of December 31, 2016****For Nicholas K. Akins**

| <b>Executive Benefits and Payments<br/>Upon Termination</b> | <b>Resignation<br/>or Retirement</b> | <b>Severance</b>     | <b>Involuntary<br/>Termination<br/>for Cause</b> | <b>Change In<br/>Control</b> | <b>Death</b>         |
|---|--------------------------------------|----------------------|--|------------------------------|----------------------|
| <b>Compensation:</b>  |                                      |                      |  |                              |                      |
| Base Salary (\$1,320,000)                                   | \$ 0                                 | \$ 2,640,000         | \$ 0   | \$ 3,946,800                 | \$ 0                 |
| Annual Incentive for Completed Year(1)                      | \$ 2,809,930                         | \$ 2,809,930         | \$ 0   | \$ 2,809,930                 | \$ 2,809,930         |
| Other Payment for Annual Incentives(2)                      | \$ 0                                 | \$ 3,300,000         | \$ 0   | \$ 4,933,500                 | \$ 0                 |
| <b>Long-Term Incentives:(3)</b>                             |                                      |                      |  |                              |                      |
| 2015-2017 Performance Units(4)                              | \$ 3,589,266                         | \$ 3,589,266         | \$ 0   | \$ 5,383,898                 | \$ 3,589,266         |
| 2016-2018 Performance Units(4)                              | \$ 1,746,112                         | \$ 1,746,112         | \$ 0   | \$ 5,238,335                 | \$ 1,746,112         |
| 2014 Restricted Stock Units                                 | \$ 0                                 | \$ 695,680           | \$ 0   | \$ 1,025,870                 | \$ 1,025,870         |
| 2015 Restricted Stock Units                                 | \$ 0                                 | \$ 610,652           | \$ 0   | \$ 1,538,239                 | \$ 1,538,239         |
| 2016 Restricted Stock Units                                 | \$ 0                                 | \$ 523,840           | \$ 0   | \$ 1,746,133                 | \$ 1,746,133         |
| <b>Benefits:</b>  |                                      |                      |  |                              |                      |
| Financial Counseling  | \$ 0                                 | \$ 13,390            | \$ 0   | \$ 13,390                    | \$ 13,390            |
| Outplacement Services(5)                                    | \$ 0                                 | \$ 28,000            | \$ 0   | \$ 28,000                    | \$ 0                 |
| <b>Total Incremental Compensation and<br/>Benefits</b>      | <b>\$ 8,145,308</b>                  | <b>\$ 15,956,870</b> | <b>\$ 0</b>                                      | <b>\$ 26,664,095</b>         | <b>\$ 12,468,940</b> |

Notes for the Potential Incremental Termination Scenario tables are provided collectively following the last such table.

**Table of Contents****Potential Incremental Compensation and Benefits****That Would Have Been Provided as the Result of Employment Termination****as of December 31, 2016****For Brian X. Tierney**

| <b>Executive Benefits and Payments Upon Termination</b> | <b>Resignation<br/>or Retirement</b> | <b>Severance</b>    | <b>Involuntary<br/>Termination<br/>for<br/>Cause</b> | <b>Change In<br/>Control</b> | <b>Death</b>        |
|---|--------------------------------------|---------------------|--|------------------------------|---------------------|
| <b>Compensation:</b>                                    |                                      |                     |  |                              |                     |
| Base Salary (\$728,000)                                 | \$ 0                                 | \$ 1,456,000        | \$ 0   | \$ 2,176,720                 | \$ 0                |
| Annual Incentive for Completed Year(1)                  | \$ 991,979                           | \$ 991,979          | \$ 0   | \$ 991,979                   | \$ 991,979          |
| Other Payment for Annual Incentives(2)                  | \$ 0                                 | \$ 1,164,800        | \$ 0   | \$ 1,741,376                 | \$ 0                |
| <b>Long-Term Incentives:(3)</b>                         |                                      |                     |  |                              |                     |
| 2015-2017 Performance Units(4)                          | \$ 0                                 | \$ 1,018,693        | \$ 0   | \$ 1,582,039                 | \$ 1,018,693        |
| 2016-2018 Performance Units(4)                          | \$ 0                                 | \$ 492,389          | \$ 0   | \$ 1,477,168                 | \$ 492,389          |
| 2014 Restricted Stock Units                             | \$ 0                                 | \$ 194,755          | \$ 0   | \$ 287,224                   | \$ 287,224          |
| 2015 Restricted Stock Units                             | \$ 0                                 | \$ 173,314          | \$ 0   | \$ 436,628                   | \$ 436,628          |
| 2016 Restricted Stock Units                             | \$ 0                                 | \$ 147,723          | \$ 0   | \$ 492,410                   | \$ 492,410          |
| <b>Benefits:</b>  |                                      |                     |  |                              |                     |
| Financial Counseling                                    | \$ 0                                 | \$ 13,390           | \$ 0   | \$ 13,390                    | \$ 13,390           |
| Outplacement Services(5)                                | \$ 0                                 | \$ 28,000           | \$ 0   | \$ 28,000                    | \$ 0                |
| <b>Total Incremental Compensation and Benefits</b>      | <b>\$ 991,979</b>                    | <b>\$ 5,681,043</b> | <b>\$ 0</b>  | <b>\$ 9,172,394</b>          | <b>\$ 3,732,713</b> |

Notes for the Potential Incremental Termination Scenario tables are provided collectively following the last such table.



**Table of Contents****Potential Incremental Compensation and Benefits****That Would Have Been Provided as the Result of Employment Termination****as of December 31, 2016****For Robert P. Powers**

| <b>Executive Benefits and Payments Upon Termination</b> | <b>Resignation<br/>or Retirement</b> | <b>Severance</b>    | <b>Involuntary<br/>Termination<br/>for<br/>Cause</b> | <b>Change-In-<br/>Control</b> | <b>Death</b>        |
|---|--------------------------------------|---------------------|--|-------------------------------|---------------------|
| <b>Compensation:</b>                                    |                                      |                     |  |                               |                     |
| Base Salary (\$721,000)                                 | \$ 0                                 | \$ 1,442,000        | \$ 0   | \$ 2,155,790                  | \$ 0                |
| Annual Incentive for Completed Year(1)                  | \$ 982,761                           | \$ 982,761          | \$ 0   | \$ 982,761                    | \$ 982,761          |
| Other Payment for Annual Incentives(2)                  | \$ 0                                 | \$ 1,153,600        | \$ 0   | \$ 1,724,632                  | \$ 0                |
| <b>Long-Term Incentives:(3)</b>                         |                                      |                     |  |                               |                     |
| 2015-2017 Performance Units(4)                          | \$ 1,008,409                         | \$ 1,008,409        | \$ 0   | \$ 1,512,614                  | \$ 1,008,409        |
| 2016-2018 Performance Units(4)                          | \$ 492,389                           | \$ 492,389          | \$ 0   | \$ 1,477,168                  | \$ 492,389          |
| 2014 Restricted Stock Units                             | \$ 0                                 | \$ 194,755          | \$ 0   | \$ 287,224                    | \$ 287,224          |
| 2015 Restricted Stock Units                             | \$ 0                                 | \$ 171,566          | \$ 0   | \$ 432,220                    | \$ 432,220          |
| 2016 Restricted Stock Units                             | \$ 0                                 | \$ 147,723          | \$ 0   | \$ 492,410                    | \$ 492,410          |
| <b>Benefits:</b>  |                                      |                     |  |                               |                     |
| Financial Counseling                                    | \$ 0                                 | \$ 13,390           | \$ 0   | \$ 13,390                     | \$ 13,390           |
| Outplacement Services(5)                                | \$ 0                                 | \$ 28,000           | \$ 0   | \$ 28,000                     | \$ 0                |
| <b>Total Incremental Compensation and Benefits</b>      | <b>\$ 2,483,559</b>                  | <b>\$ 5,634,593</b> | <b>\$ 0</b>  | <b>\$ 9,106,209</b>           | <b>\$ 3,708,803</b> |

Notes for the Potential Incremental Termination Scenario tables are provided collectively following the last such table.

**Table of Contents****Potential Incremental Compensation and Benefits****That Would Have Been Provided as the Result of Employment Termination****as of December 31, 2016****For David M. Feinberg**

| <b>Executive Benefits and Payments Upon Termination</b> | <b>Resignation<br/>or Retirement</b> | <b>Severance</b>    | <b>Involuntary<br/>Termination<br/>for Cause</b> | <b>Change In<br/>Control</b> | <b>Death</b>        |
|---|--------------------------------------|---------------------|--|------------------------------|---------------------|
| <b>Compensation:</b>                                    |                                      |                     |  |                              |                     |
| Base Salary (\$613,000)                                 | \$ 0                                 | \$ 1,226,000        | \$ 0   | \$ 1,832,870                 | \$ 0                |
| Annual Incentive for Completed Year(1)                  | \$ 730,631                           | \$ 730,631          | \$ 0   | \$ 730,361                   | \$ 730,361          |
| Other Payment for Annual Incentives(2)                  | \$ 0                                 | \$ 858,200          | \$ 0   | \$ 1,283,009                 | \$ 0                |
| <b>Long-Term Incentives:(3)</b>                         |                                      |                     |  |                              |                     |
| 2015-2017 Performance Units(4)                          | \$ 0                                 | \$ 533,229          | \$ 0   | \$ 799,844                   | \$ 533,229          |
| 2016-2018 Performance Units(4)                          | \$ 0                                 | \$ 292,806          | \$ 0   | \$ 878,418                   | \$ 292,806          |
| 2014 Restricted Stock Units                             | \$ 0                                 | \$ 99,637           | \$ 0   | \$ 146,949                   | \$ 146,949          |
| 2015 Restricted Stock Units                             | \$ 0                                 | \$ 90,725           | \$ 0   | \$ 228,608                   | \$ 228,608          |
| 2016 Restricted Stock Units                             | \$ 0                                 | \$ 87,848           |  | \$ 292,827                   | \$ 292,827          |
| <b>Benefits:</b>  |                                      |                     |  |                              |                     |
| Financial Counseling                                    | \$ 0                                 | \$ 13,390           | \$ 0   | \$ 13,390                    | \$ 13,390           |
| Outplacement Services(5)                                | \$ 0                                 | \$ 28,000           | \$ 0   | \$ 28,000                    | \$ 0                |
| <b>Total Incremental Compensation and Benefits</b>      | <b>\$ 730,631</b>                    | <b>\$ 3,960,466</b> | <b>\$ 0</b>                                      | <b>\$ 6,234,546</b>          | <b>\$ 2,238,440</b> |

Notes for the Potential Incremental Termination Scenario tables are provided collectively following the last such table.

**Table of Contents****Potential Incremental Compensation and Benefits****That Would Have Been Provided as the Result of Employment Termination****as of December 31, 2016****For Lisa M. Barton**

| <b>Executive Benefits and Payments Upon Termination</b> | <b>Resignation or Retirement</b> | <b>Severance</b>    | <b>Involuntary Termination for Cause</b> | <b>Change-In-Control</b> | <b>Death</b>        |
|---|----------------------------------|---------------------|--|--------------------------|---------------------|
| <b>Compensation:</b>                                    |                                  |                     |  |                          |                     |
| Base Salary (\$530,000)                                 | \$ 0                             | \$ 1,060,000        | \$ 0                                     | \$ 1,584,700             | \$ 0                |
| Annual Incentive for Completed Year(1)                  | \$ 631,926                       | \$ 631,926          | \$ 0                                     | \$ 631,926               | \$ 631,926          |
| Other Payment for Annual Incentives(2)                  | \$ 0                             | \$ 742,000          | \$ 0                                     | \$ 1,109,290             | \$ 0                |
| <b>Long-Term Incentives:(3)</b>                         |                                  |                     |  |                          |                     |
| 2015-2017 Performance Units(4)                          | \$ 0                             | \$ 533,229          | \$ 0                                     | \$ 799,844               | \$ 533,229          |
| 2016-2018 Performance Units(4)                          | \$ 0                             | \$ 260,633          | \$ 0                                     | \$ 781,900               | \$ 260,633          |
| 2014 Restricted Stock Units                             | \$ 0                             | \$ 83,338           | \$ 0                                     | \$ 122,898               | \$ 122,898          |
| 2015 Restricted Stock Units                             |                                  | \$ 90,725           |  | \$ 228,608               | \$ 228,608          |
| 2016 Restricted Stock Units                             | \$ 0                             | \$ 78,177           | \$ 0                                     | \$ 260,591               | \$ 260,591          |
| <b>Benefits:</b>  |                                  |                     |  |                          |                     |
| Financial Counseling                                    | \$                               | \$ 13,390           | \$ 0                                     | \$ 13,390                | \$ 13,390           |
| Outplacement Services(5)                                | \$ 0                             | \$ 28,000           | \$ 0                                     | \$ 28,000                | \$ 0                |
| <b>Total Incremental Compensation and Benefits</b>      | <b>\$ 631,926</b>                | <b>\$ 3,521,418</b> | <b>\$ 0</b>                              | <b>\$ 5,561,147</b>      | <b>\$ 2,051,275</b> |

- (1) Executive officers and all other employees are eligible for an annual incentive award based on their earnings for the year if they remain employed with AEP through year-end, if they die or if they incur a retirement-eligible termination. The amount shown is the calculated annual incentive opportunity, as shown in the table on page 38, but annual incentives for executive officers are awarded at the discretion of the HR Committee or independent members of the Board pursuant to the award determination process described in the Compensation Discussion and Analysis.
- (2) The amount shown in the Severance column is two times the target annual incentive opportunity for each of the named executive officers. The amount shown in the Change-In-Control column is 2.99 times the target annual incentive opportunity for each of the named executive officers.
- (3) The long-term incentive values shown represent the values that would be paid under such circumstances shown in each column based on the closing price of AEP common stock on December 31, 2016, which is the methodology required by the SEC. These amounts differ from the values calculated in accordance with FASB ASC Topic 718. These amounts also differ from the amounts that would actually be paid under such circumstances, which would be based on the 20-day average closing market price of AEP common stock as of the end of the performance period for performance units and as of the termination date for Restricted Stock Units.
- (4) The target value of performance unit awards are shown. The actual value paid in the event of resignation or retirement, severance or death, if any, will depend on the actual performance score for the full performance period. Any payments for awards under those circumstances are not paid until the end of the three year performance period. In the event of a qualifying termination in connection with a change in control, awards would be paid at a target performance score as soon as administratively practical after the change in control.
- (5) Represents the maximum cost of Company-paid outplacement services, which the Company provides through an unaffiliated third party vendor.

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The following table shows the value of previously earned and vested compensation and benefits as of December 31, 2016, that would have been provided to each named executive officer following a termination of his or her employment on December 31, 2016. These amounts were generally earned or vested over multiple years of service to the Company.

**Non-Incremental Post-Termination Compensation and Benefits on December 31, 2016**

| Name                     | Long-Term Incentives            |                          | Benefits               |                                 |                              |
|--------------------------|---------------------------------|--------------------------|------------------------|---------------------------------|------------------------------|
|                          | Vested Performance Units<br>(1) | AEP Career Shares<br>(2) | Vacation Payout<br>(3) | Post Retirement Benefits<br>(4) | Deferred Compensation<br>(5) |
| <b>Nicholas K. Akins</b> | \$ 11,769,805                   | \$ 6,686,289             | \$ 76,154              | \$ 1,928,163                    | \$ 1,925,371                 |
| <b>Brian X. Tierney</b>  | \$ 3,294,949                    | \$ 1,194,288             | \$ 26,642              | \$ 1,270,763                    | \$ 3,441,925                 |
| <b>Robert P. Powers</b>  | \$ 3,294,949                    | \$ 3,358,790             | \$ 13,750              | \$ 4,779,432                    | \$ 4,802,459                 |
| <b>David M. Feinberg</b> | \$ 1,685,754                    | \$ 1,993,377             | \$ 42,144              | \$ 288,832                      | \$ 466,395                   |
| <b>Lisa M. Barton</b>    | \$ 1,409,863                    | \$ 1,511,229             | \$ 15,798              | \$ 357,706                      | \$ 460,389                   |

- (1) Represents the value of performance units that vested on December 31, 2016 calculated using the market value of these shares on December 31, 2016. However, the actual value realized or deferred from these performance units was based on the 20-day average closing market price of AEP common stock on the vesting date.
- (2) Represents the value of AEP share equivalents deferred mandatorily into the AEP Stock Ownership Requirement Plan calculated using the market value of these shares on December 31, 2016. However, the actual value that would have been realized from these AEP share equivalents would have been based on the 20-day average closing market price of AEP common stock at the end of the month of employment termination.
- (3) Represents accumulated but unused vacation.
- (4) Represents the lump sum benefit calculated for the named executive officer pursuant to the terms of the AEP Retirement Plan, the AEP Supplemental Benefit Plan and the CSW Executive Retirement Plan, as applicable.
- (5) Includes balances from the Supplemental Retirement Savings Plan and the Incentive Compensation Deferral Plans, but does not include AEP Career Share balances, which are listed separately in column (2).

**Table of Contents****Share Ownership of Directors and Executive Officers**

The following table sets forth the beneficial ownership of AEP Common Stock and stock-based units as of February 18, 2017 for all Directors, director nominees, each of the persons named in the Summary Compensation Table and all Directors and executive officers as a group.

Unless otherwise noted, each person had sole voting and investment power over the number of shares of AEP common stock set forth across from his or her name. Fractions of shares and units have been rounded to the nearest whole number.

| <b>Name</b>   | <b>Shares(a)</b> | <b>Stock<br/>Units(b)</b> | <b>Total(c)</b> |
|---|------------------|---------------------------|-----------------|
| N. K. Akins   | 57,534           | 106,199                   | 163,733         |
| D. J. Anderson  | 0                | 18,671                    | 18,671          |
| L. M. Barton  | 1,315            | 24,003                    | 25,348          |
| J. B. Beasley, Jr   | 0                | 7,939                     | 7,939           |
| R. D. Crosby, Jr.   | 0                | 41,094                    | 41,094          |
| D. M. Feinberg  | 1,760            | 31,661                    | 33,421          |
| L. A. Goodspeed   | 0                | 41,960                    | 41,960          |
| T. Hoaglin  | 1,000            | 34,649                    | 35,649          |
| S. B. Lin   | 1,032            | 13,504                    | 14,536          |
| R. C. Notebaert   | 0                | 18,671                    | 18,671          |
| L. L. Nowell III  | 0                | 37,667                    | 37,667          |
| R. P. Powers  | 0                | 53,348                    | 53,348          |
| R. S. Rasmussen   | 0                | 12,913                    | 12,913          |
| O. G. Richard III   | 2,195            | 11,673                    | 13,868          |
| B. X. Tierney   | 9,915            | 30,950                    | 40,865          |
| S. M. Tucker  | 1,532(d)         | 30,069                    | 31,601          |
| All directors, nominees and executive officers as a group (21 persons)(e) | 99,685           | 630,181                   | 729,866         |

- (a) None of the shares is pledged. This column also includes share equivalents held in the AEP Retirement Savings Plan.
- (b) This column includes amounts deferred in stock units and held under the Stock Unit Accumulation Plan for Non-Employee Directors and amounts deferred in share equivalents in the Retainer Deferral Plan for Non-Employee Directors. This column also includes amounts deferred in share equivalents held under AEP's Supplemental Retirement Savings Plan, AEP's Incentive Compensation Deferral Plan and the following numbers of AEP Career Shares: Mr. Akins, 106,199; Mr. Feinberg, 31,661; Mr. Powers, 53,348; Mr. Tierney, 18,969; Ms. Barton, 24,003 and all directors and executive officers as a group, 341,959.
- (c) This column excludes RSUs that will not vest within 60 days.
- (d) Includes 32 shares held by family members of Ms. Tucker over which she disclaimed beneficial ownership.
- (e) As of February 18, 2017, the directors and executive officers as a group beneficially owned less than one percent of the outstanding shares of the Company's common stock.

**Table of Contents****Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires AEP's executive officers, the principal accounting officer, directors and persons who beneficially own more than 10 percent of AEP's common stock to file initial reports of ownership and reports of changes in ownership of AEP common stock with the SEC. Executive officers, the principal accounting officer and directors are required by SEC regulations to furnish AEP with copies of all reports they file. AEP believes that all of its directors, executive officers and the principal accounting officer, timely met all of their respective Section 16(a) filing requirements during 2016.

**Share Ownership of Certain Beneficial Owners**

Set forth below are the only persons or groups known to AEP as of February 24, 2017, with beneficial ownership of more than five percent of AEP common stock.

| Name and Address of<br>Beneficial Owner  | AEP Shares                           |                     |
|--|--------------------------------------|---------------------|
|  | Amount of<br>Beneficial<br>Ownership | Percent of<br>Class |
| BlackRock, Inc.<br><br>55 East 52 <sup>nd</sup> Street<br><br>New York, NY 10022 | 34,182,178(a)                        | 7.0%                |
| The Vanguard Group<br><br>100 Vanguard Boulevard<br><br>Malvern, PA 19355        | 33,044,223(b)                        | 6.71%               |
| State Street Corporation<br><br>One Lincoln Street<br><br>Boston, MA 02111       | 24,912,712(c)                        | 5.07%               |

- (a) Based on the Schedule 13G filed with the SEC, BlackRock, Inc. reported that it has sole power to vote 29,472,368 shares and sole dispositive power for 34,182,178 shares.
- (b) Based on the Schedule 13G filed with the SEC, The Vanguard Group reported that it has sole power to vote 820,504 shares, shared power to vote 110,641 shares, sole dispositive power for 32,139,757 shares and shared dispositive power for 864,466 shares.
- (c) Based on the Schedule 13G filed with the SEC, State Street Corporation reported that it has shared power to vote 24,912,712 shares, and shared dispositive power for 24,912,712 shares.

**Shareholder Proposals and Nominations**

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You may submit proposals for consideration at future stockholder meetings. For a shareholder proposal to be considered for inclusion in our proxy statement for the annual meeting next year, the Corporate Secretary must receive the written proposal at our principal executive offices no later than November 16, 2017. Such proposals also must comply with SEC regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

Corporate Secretary

American Electric Power Company, Inc.

1 Riverside Plaza

Columbus, Ohio 43215

For a stockholder proposal that is not intended to be included in our proxy statement for next year's annual meeting under Rule 14a-8, the stockholder must provide the information required by

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our Bylaws and give timely notice to the Corporate Secretary in accordance with our Bylaws, which, in general, require that the notice be received by the Corporate Secretary:

not earlier than the close of business on December 26, 2017; and

not later than the close of business on January 25, 2018.

If the date of the stockholder meeting is moved more than 30 days before or 70 days after the anniversary of our annual meeting for the prior year, then notice of a stockholder proposal that is not intended to be included in our proxy statement under Rule 14a-8 must be received no earlier than the close of business 120 days prior to the meeting and not later than the close of business on the later of the following two dates:

90 days prior to the meeting; and

10 days after public announcement of the meeting date.

Deadlines for the nomination of director candidates are summarized below. This summary is qualified by our Bylaws.

Our Bylaws permit stockholders to nominate directors for consideration at an annual meeting. To nominate a director for consideration at an annual meeting, a nominating stockholder must provide the information required by our Bylaws and give timely notice of the nomination to the Corporate Secretary in accordance with our Bylaws, and each nominee must meet the qualifications required by our Bylaws. To nominate a director for consideration at next year's annual meeting, in general the notice must be received by the Corporate Secretary between the close of business on December 26, 2017 and the close of business on January 25, 2018, unless the annual meeting is moved by more than 30 days before or 70 days after the anniversary of the prior year's annual meeting, in which case the deadline will be as set forth above.

In addition, our Bylaws provide that, under certain circumstances, a stockholder or group of stockholders may include in our annual meeting proxy statement director candidates that they have nominated. These proxy access provisions of our Bylaws provide, among other things, that a stockholder or group of up to twenty stockholders seeking to include director candidates in our annual meeting proxy statement must own 3% or more of our outstanding common stock continuously for at least the previous three years. The number of stockholder-nominated candidates appearing in any annual meeting proxy statement cannot exceed the greater of (x) two or (y) 20% of the number of directors then serving on the Board. If 20% is not a whole number, the maximum number of stockholder-nominated candidates would be the closest whole number below 20%. Based on the current Board size of 12 directors, the maximum number of proxy access candidates that we would be required to include in our proxy materials for an annual meeting is two. Nominees submitted under the proxy access procedures that are later withdrawn or are included in the proxy materials as Board-nominated candidates will be counted in determining whether the 20% maximum has been reached. If the number of stockholder-nominated candidates exceeds 20%, each nominating stockholder or group of stockholders may select one nominee for inclusion in our proxy materials until the maximum number is reached. The order of selection would be determined by the amount (largest to smallest) of shares of our common stock held by each nominating stockholder or group of stockholders. The nominating stockholder or group of stockholders also must deliver the information required by our Bylaws, and each nominee must meet the qualifications required by our Bylaws. Requests to include stockholder-nominated candidates in our proxy materials for next year's annual meeting must be received by the Corporate Secretary:

not earlier than the close of business on October 16, 2017; and



not later than the close of business on November 15, 2017.

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If the date of the stockholder meeting is moved more than 30 days before or 70 days after the anniversary of our annual meeting for the prior year, then notice of a stockholder proposal that is not intended to be included in our proxy statement under Rule 14a-8 must be received no later than the close of business on the later of the following two dates:

120 days prior to the meeting; and

10 days after public announcement of the meeting date.

## **Solicitation Expenses**

These proxies are being solicited by our Board of Directors. The costs of this proxy solicitation will be paid by AEP. Proxies will be solicited principally by mail and the Internet, but some telephone or personal solicitations of holders of AEP common stock may be made. Any officers or employees of the AEP System who make or assist in such solicitations will receive no additional compensation for doing so. AEP will request brokers, banks and other custodians or fiduciaries holding shares in their names or in the names of nominees to forward copies of the proxy-soliciting materials to the beneficial owners of the shares held by them, and AEP will reimburse them for their expenses incurred in doing so at rates prescribed by the New York Stock Exchange. We have engaged Morrow & Co., LLC, 470 West Ave., Stamford, Connecticut 06902, to assist us with the solicitation of proxies for an estimated fee of \$10,500, plus reasonable out-of-pocket expenses.

**Table of Contents****Exhibit A****Reconciliation of GAAP and Non-GAAP Financial Measures.**

The Company reports its financial results in accordance with generally accepted accounting principles ( GAAP ). However, AEP's management believes that the Company's operating earnings provide users with additional meaningful financial information about the Company's performance. Management also uses this non-GAAP financial measures when communicating with stock analysts and investors regarding its earnings outlook and results. This non-GAAP measure is also used for purposes of determining performance-based compensation. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP.

For additional details regarding the reconciliation of GAAP and non-GAAP financial measures below, see the Company's Current Report on Form 8-K filed with the SEC on January 26, 2017.

|   | <b>EPS</b> |
|---|------------|
| GAAP Reported Earnings                                | \$ 1.24    |
| Special Items   |            |
| Mark-to-Market Impact of Commodity Hedging Activities | \$ (0.01)  |
| Federal Tax Audit Settlement                          | \$ (0.15)  |
| Capital Loss Valuation Allowance                      | \$ (0.09)  |
| UK Windfall Tax                                       | \$ (0.03)  |
| Impairment of Certain Merchant Generation Assets      | \$ 2.98    |
| Operating Earnings                                    | \$ 3.94    |

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**Exhibit B**

**American Electric Power Company, Inc. Senior Officer Incentive Plan**

**AMERICAN ELECTRIC POWER COMPANY, INC.**

**SENIOR OFFICER INCENTIVE PLAN**

**ARTICLE I**

**INTRODUCTION AND PURPOSE**

American Electric Power Company, Inc. previously adopted the American Electric Power System Senior Officer Incentive Compensation Plan (the Incentive Plan ) effective January 1, 1997, which was amended and restated effective February 28, 2012. This document amends and restates the Incentive Plan effective as of February 20, 2017 (the date the changes made by this Incentive Plan were approved by resolution of the Human Resources Committee) (the Effective Date ). Any changes made to the Incentive Plan by this document shall not affect Awards granted prior to the Effective Date. Grants of Awards under the Incentive Plan, as amended hereby, may be made on or after the Effective Date.

**ARTICLE II**

**DEFINITIONS**

For purposes of the Plan, the following terms shall have the following meanings:

- (a) **Award** means an incentive award, which entitles a Participant to receive a payment from the Company or a Subsidiary pursuant to Article IV, subject to such terms and conditions as the Committee may prescribe.
- (b) **Board** means the Board of Directors of the Company.
- (c) **Code** means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute, and applicable regulations.
- (d) **Committee** means the Human Resources Committee of the Board or such other committee or subcommittee as may be designated by the Board to oversee the Company's executive compensation; provided that any such Committee shall consist of two or more persons, each of whom is an outside director within the meaning of Code Section 162(m).

(e) **Company** means American Electric Power Company, Inc., a New York corporation.

(f) **Covered Employee** means a Participant who the Committee determines meets the definition of a Covered Employee as defined in Code Section 162(m)(3).

(g) **Effective Date** is defined in Article I.

(h) **Participant** means a corporate officer of the Company or of a Subsidiary who is granted an Award by the Committee.

(i) **Performance-Based Compensation** means an Award that is intended to constitute remuneration payable solely on account of the attainment of one or more or performance goals or qualified performance-based compensation within the meaning of Section 162(m)(4)(C) of the Code and the regulations promulgated thereunder.

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(j) **Performance Objective** is defined in Section 4.2.

(k) **Performance Period** is defined in Section 4.2.

(l) **Plan** means the American Electric Power System Senior Officer Incentive Plan, as set forth herein and as amended from time to time.

(m) **Subsidiary** means any corporation (other than the Company), limited liability company, partnership or other business organization of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

**ARTICLE III**

**ELIGIBILITY**

Awards may be granted to any Participant from time to time by the Committee. The Committee shall determine the terms, conditions, and limitations applicable to each Award consistent with the Plan. Designation by the Committee as a Participant for an Award in one period shall not confer on such Participant the right to participate in the Plan for any other period.

**ARTICLE IV**

**INCENTIVE AWARDS**

**Section 4.1. General.**

- (a) Awards may be granted to a Participant in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee. The Committee, at the time an Award is made, shall specify the terms and conditions which govern the Award, which terms and conditions shall prescribe that the Award shall be earned only upon, and to the extent that, Performance Objectives as described in Section 4.2, are satisfied within a designated time.
- (b) Different terms and conditions may be established by the Committee for different Awards and for different Participants with respect to the same or different Performance Periods.

**Section 4.2. Performance Objectives.** The vesting and payment of Awards shall be contingent upon the degree of attainment of such performance goal(s) (the Performance Objectives ) over such period (the Performance Period ) as shall be specified by the Committee at the time the Award is granted. Performance Objectives will be established prior to or within the first ninety (90) days of each Performance Period (or within the first 25% of the Performance Period, if the Performance Period is shorter than 360 days).

The criteria for developing the Performance Objectives upon which payment or vesting of an Award intended to qualify for the exemption under Code Section 162(m) may be based shall be limited to one or more of the following, as determined by the Committee: (i) earnings measures: primary earnings per share; fully diluted earnings per share; net income; pre-tax income; operating income; earnings before interest, taxes, depreciation and amortization; net operating profits after taxes; income before income taxes, minority interest and equity earnings; income before discontinued operations, extraordinary items and cumulative effect of accounting changes, or any combination thereof; (ii) expense control: operations & maintenance expense; total expenditures; expense ratios; and expense reduction; (iii) customer measures: customer satisfaction; service cost; service levels; responsiveness; bad debt collections or losses; and reliability such as outage frequency, outage duration, and frequency of momentary outages; (iv) safety measures: recordable

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case rate; severity rate; and vehicle accident rate; (v) diversity measures: minority placement rate and utilization; (vi) environmental measures: emissions; project completion milestones; regulatory/legislative/cost recovery goals; and notices of violation; (vii) revenue measures: revenue and margin; (viii) shareholder return measures: total shareholder return; economic value added; cumulative shareholder value added; return on equity; return on capital; return on assets; dividend payout ratio and cash flow(s) such as operating cash flows, free cash flow, discounted cash flow return on investment and cash flow in excess of cost of capital or any combination thereof; (ix) valuation measures: stock price increase; price to book value ratio; and price to earnings ratio; (x) capital and risk measures: debt to equity ratio and dividend payout as percentage of net income; (xi) employee satisfaction; (xii) project measures: completion of key milestones; (xiii) production measures: generating capacity factor; performance against the Institute of Nuclear Power Operation index; generating equivalent availability; heat rates and production cost. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods (e.g., earnings growth), or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies.

Performance Objectives may relate to attainment of specified objectives by the Participant or by the Company or one or more Subsidiaries, including a division or a department of the Company or of one or more Subsidiaries.

**Section 4.3. Payment of Awards.** An Award shall not become payable unless, after the expiration of the Performance Period, the Committee has certified either that the Performance Objectives with respect to such Award have been satisfied or the level of attainment of each Performance Objective. Unless otherwise expressly stated in the terms and conditions of a particular Award, the Committee retains the power, authority and discretion to reduce or eliminate, but not to increase, the amount calculated as payable under the terms of any Award in order to reflect other performance criteria. Payment of such Awards that have been certified shall be made to Participants in a single lump sum in cash at such time determined by the Committee, and generally no later than two and one-half months after the end of the Performance Period; provided that unless otherwise clearly specified in the terms and conditions of a particular Award, payment shall be made no later than 2-1/2 months after the end of the calendar year during which the Award became vested, or as soon as practical thereafter. In no event shall any Participant receive an Award payment or payments in any fiscal year that exceeds the lesser of (i) \$6,000,000 or (ii) 400% of the Participant's base salary (prior to any salary reduction or deferral elections) as of the date of grant of the Award.

**Section 4.4. Recoupment of Incentive Compensation.** Each Participant who is granted an Award shall reimburse the amount awarded, earned, received or paid under such Award if the Committee, in its discretion, determines that: (i) the Award or any compensation resulting from it was predicated upon the achievement of financial or other results that were subsequently materially restated or corrected, and (ii) the Award or any compensation resulting from it would have been materially lower had the achievement been calculated on such restated or corrected financial results. If and to the extent that the Committee, in its sole discretion, determines that the conditions set forth in (i) and (ii) have been met and such reimbursement is warranted by the facts and circumstances of the particular case or if the applicable legal requirements impose more stringent requirements on the Company or any of its Subsidiaries to obtain reimbursement of such compensation, then the Participant will be required to reimburse Company or its Subsidiaries, as applicable, for the value of such compensation paid to that Participant. The Company or its Subsidiaries, as applicable, also may retain any deferred compensation previously credited to the Participant and not paid, provided that the Company or its Subsidiaries, as applicable, will retain such deferred compensation only if, when and to the extent that it otherwise becomes payable to the Participant. This right to reimbursement is in addition to, and not in substitution for, any and



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all other rights the Company and its Subsidiaries might have to pursue reimbursement or such other remedies against an employee for misconduct in the course of employment or otherwise based on applicable legal considerations, all of which are expressly retained by the Company and its Subsidiaries.

### **ARTICLE V**

#### **ADMINISTRATION**

The Plan shall be administered by the Committee. The Committee shall have all of the powers necessary to enable it to properly carry out its duties under the Plan. Not in limitation of the foregoing, the Committee shall have the power and discretion to construe and interpret the Plan and to determine all questions that shall arise thereunder. The Committee shall have such other and further specified duties, powers, authority and discretion as are elsewhere in the Plan either expressly or by necessary implication conferred upon it. The Committee may appoint such agents, who need not be members of the Committee, as it may deem necessary for the effective performance of its duties, and may delegate to such agents such powers and duties as the Committee may deem expedient or appropriate that are not inconsistent with the intent of the Plan to the fullest extent permitted under applicable law. The decision of the Committee or any agent of the Committee upon all matters within the scope of its authority shall be final and conclusive on all persons.

### **ARTICLE VI**

#### **AMENDMENT AND TERMINATION**

**Section 6.1. Amendment of Plan.** The Company has the right, at any time and from time to time, to amend in whole or in part any of the terms and provisions of the Plan to the extent permitted by law for whatever reason(s) the Company may deem appropriate; provided, however, that any such amendment which requires approval of the Company's shareholders in order to maintain the qualification of Awards as performance-based compensation pursuant to Code Section 162(m) (4)(C) shall not be made without such approval.

**Section 6.2. Termination of Plan.** The Company expressly reserves the right, at any time, to suspend or terminate the Plan to the extent permitted by law for whatever reason(s) the Company may deem appropriate, including, without limitation, suspension or termination as to any Subsidiary, Employee, or class of Employees.

**Section 6.3. Procedure for Amendment or Termination.** Any amendment to the Plan or termination of the Plan shall be made by the Company by resolution of the Committee and shall not require the approval or consent of any Subsidiary or Participant to be effective to the extent permitted by law. Any amendment to the Plan or termination of the Plan may be retroactive to the extent not prohibited by applicable law.

### **ARTICLE VII**

#### **MISCELLANEOUS**

**Section 7.1. Rights of Employees.** Status as an eligible Employee shall not be construed as a commitment that any Award will be made under the Plan to such eligible Employee or to eligible Employees generally. Nothing contained in the Plan (or in any other documents related to this Plan or to any Award) shall confer upon any Employee any right to continue in the employ or service of the Company or any Subsidiary or constitute any contract or limit in any way the right of the Company to change such person's compensation or other benefits or to terminate the employment or service of such person with or without cause.

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**Section 7.2. Unfunded Status.** The Plan shall be unfunded. Neither the Company, nor any Subsidiary, nor the Committee, nor the Board shall be required to segregate any assets that may at any time be represented by Awards made pursuant to the Plan. Neither the Company, nor any Subsidiary, nor the Committee, nor the Board shall be deemed to be a trustee of any amounts to be paid under the Plan.

**Section 7.3. Limits on Liability.** Any liability of the Company or any Subsidiary to any Participant with respect to an Award shall be based solely upon contractual obligations created by the Plan. Neither the Company nor any Subsidiary nor any member of the Board or the Committee, nor any other person participating in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken or not taken in good faith under the Plan. To the extent permitted by applicable law, the Company shall indemnify and hold harmless each member of the Board and the Committee from and against any and all liability, claims, demands, costs, and expenses (including the costs and expenses of attorneys incurred in connection with the investigation or defense of claims) in any manner connected with or arising out of any actions or inactions in connection with the administration of the Plan except for such actions or inactions which are not in good faith or which constitute willful misconduct.

**Section 7.4. Interpretation.** Unless otherwise expressly stated by the Committee with respect to an Award, each Award granted to a Covered Employee under the Plan is intended to (i) be Performance-Based Compensation that is fully deductible by the Company for federal income taxes and not subject to the deduction limitation of Section 162(m) of the Code and (ii) comply with the requirements of Code Section 409A (including by reason of being exempt from the application of Code Section 409A), and the Plan shall be construed or deemed amended to the extent possible to conform any Award to effect such intent. The Committee shall not have any discretion to determine that an Award will be paid to a Covered Employee if the Performance Objective for such Award is not attained.

**Section 7.5. Tax Withholding.** The Company shall be entitled to withhold from any payment made under the Plan the full amount of any required federal, state or local taxes or such other amounts as may be required by applicable law.

**Section 7.6. Non-transferability of Benefits.** A Participant may not assign or transfer any interest in an Award. Notwithstanding the foregoing, upon the death of a Participant, the Participant's rights and benefits under the Plan shall pass by will or by the laws of descent and distribution.

**Section 7.7. Governing Law.** To the extent not governed by federal law, the Plan shall be construed in accordance with and governed by the laws of the State of Ohio.

## **ARTICLE VIII**

### **EFFECTIVE DATE; DURATION OF THE PLAN**

The Plan shall be effective as of the Effective Date. Notwithstanding any provision of this Plan to the contrary, this Plan shall be subject to approval by a vote of the shareholders of the Company at its 2017 annual meeting, and such shareholder approval shall be a pre-condition to the right of any Participant to receive any benefits pursuant to an Award made under this Plan on or after the Effective Date.

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1 Riverside Plaza

Columbus, OH 43215 2378

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**Electronic Voting Instructions**

**Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Eastern Time, on April 25, 2017.**

**Vote by Internet**

Go to **[www.envisionreports.com/AEP](http://www.envisionreports.com/AEP)**  
Or scan the QR code with your smartphone  
Follow the steps outlined on the secure website

**Vote by telephone**

Call toll free 1-800-652-VOTE (8683)  
within the USA, US territories & Canada on a touch tone telephone  
Follow the instructions provided by the recorded message

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

**A** Proposals The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2, 3 and 4 and 1 YEAR for Proposal 5.

## Edgar Filing: AMERICAN ELECTRIC POWER CO INC - Form DEF 14A

### Election of

| Election of        |     |         |         |
|--------------------|-----|---------|---------|
| 1. Directors:      | For | Against | Abstain |
| 2. Officers:       |     |         |         |
| 3. Resolutions:    |     |         |         |
| 4. Other Business: |     |         |         |

**For    Against    Abstain**

**For    Against    Abstain**

01 - Nicholas K. Akins

02 - David J. Anderson

03 - J. Barnie Beasley, Jr.

+

04 - Ralph D. Crosby, Jr.

05 - Linda A. Goodspeed

06 - Thomas E. Hoaglin

07 - Sandra Beach Lin

08 - Richard C. Notebaert

09 - Lionel L. Nowell III

10 - Stephen S.  
Rasmussen

11 - Oliver G. Richard III

12 - Sara Martinez Tucker

**For    Against    Abstain**

**For      Against    Abstain**

2. Reapproval of the material terms of the American Electric Power System Senior Officer Incentive Plan.

3. Ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017.

**For    Against    Abstain**

**1 Year      2 Years    3 Years    Abstain**

4. Advisory approval of the Company's executive compensation.

5. Advisory vote on the frequency of holding an advisory vote on executive compensation.

**B Authorized Signatures** This section must be completed for your vote to be counted. Date and Sign Below

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy) Please print date below.

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

/ /

**IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A AND B.**

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**American Electric Power Company, Inc.**

2017 Annual Meeting of Shareholders and Admission Ticket

Tuesday April 25, 2017, at 9:00 a.m. Eastern Time

Clay Center

1 Clay Square

Charleston, West Virginia

**If you wish to attend and vote at the meeting, please bring this admission ticket and identification with you.**

**AGENDA**

**Introduction and Welcome**

**Ratification of Auditors**

**Chief Executive Officer's Report**

**Election of Directors**

**Advisory approval of the Company's executive compensation**

**Comments and Questions from Shareholders**

**Approval of Senior Officer  
Incentive Plan**

**Advisory vote on the frequency of holding an advisory vote  
on executive compensation**

The Clay Center is located at 1 Clay Square, Charleston, West Virginia. Shareholders may park free of charge at 1118 Washington Street, which is directly across the street from the east side of the Clay Center. Please let the attendant know that you are attending AEP's shareholders meeting to gain access to the lot. Directional signage will guide you to the Clay Center's lobby, where you may register and enjoy a continental breakfast prior to the start of the meeting.

q IF YOU HAVE NOT VOTED VIA THE INTERNET **OR** TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

**+**

**Proxy American Electric Power Company, Inc.**

## Edgar Filing: AMERICAN ELECTRIC POWER CO INC - Form DEF 14A

### Proxy Solicited on behalf of the Board of Directors for the Annual Meeting to be held April 25, 2017

The shareholder signing on the reverse of this proxy card appoints Nicholas K. Akins and Brian X. Tierney, and each of them, acting by a majority if more than one be present, attorneys and proxies to the undersigned, with power of substitution, to represent the undersigned at the annual meeting of shareholders of American Electric Power Company, Inc. to be held on April 25, 2017, and at any adjournment thereof, and to vote all shares of Common Stock of the Company which the undersigned is entitled to vote on all matters coming before said meeting. If no direction is given, such shares will be voted in accordance with the recommendations of the Board of Directors and at the discretion of the proxy holders as to any other matters coming before the meeting.

**Trustee s Authorization.** The undersigned authorizes JP Morgan Chase Bank, National Association to vote all shares of Common Stock of the Company credited to the undersigned s account under the American Electric Power System retirement savings plan at the annual meeting in accordance with instructions on the reverse side.

**You are encouraged to specify your choices by marking the appropriate boxes (SEE REVERSE SIDE), but you need not mark any boxes if you wish to vote in accordance with the Board of Directors recommendations.**

#### Nominees for Election of Directors:

01 - Nicholas K. Akins    02 - David J. Anderson    03 - J. Barnie Beasley, Jr.    04 - Ralph D. Crosby, Jr.    05 - Linda A. Goodspeed    06 - Thomas E. Hoaglin  
07 - Sandra Beach Lin    08 - Richard C. Notebaert    09 - Lionel L. Nowell III    10 - Stephen S. Rasmussen    11 - Oliver G. Richard III    12 - Sara Martinez Tucker



**C** Non-Voting Items

**Change of Address** Please print new address below.

**Comments** Please print your comments below.

**IF VOTING BY MAIL, YOU MUST COMPLETE SECTIONS A AND B ON THE OTHER SIDE OF THIS CARD.**

**+**