

American Electric Power Co. Inc.

New York Stock Exchange: AEP

Industry: Electric utilities

With more than 36,000 megawatts of U.S. generating capacity, American Electric Power is the nation's largest electricity generator and largest consumer of coal. AEP has more than 5 million customers linked to its 11-state electricity transmission and distribution grid. Its major regulated utility operations include AEP Ohio, AEP Texas, Appalachian Power, Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma and Southwestern Electric Power. It had sales of \$14.1 billion in 2004.

Climate governance summary:

AEP recognizes that climate change is a serious long-term, global issue that demands comprehensive, sustained, and cost-effective solutions by all countries, developed and developing. AEP believes that enough is known about the science and environmental impacts of climate change for us to take actions to address its consequences. To address this issue in a responsible and effective manner, AEP believes that strategies to reduce greenhouse gas (GHG) emissions must be driven by the larger goal of stabilizing atmospheric GHG concentrations at a level that prevents dangerous human interference with the climate system. AEP is confident that a successful climate change policy can be compatible with continuing economic and social progress.

In support of its public policy position, AEP has made a voluntary, legally binding commitment to cap and gradually reduce or offset its GHG emissions to 6 percent below its baseline emissions (average of 1998-2001) by the year 2010, amounting to a 46 million metric ton cumulative reduction during 2003-10.

AEP believes that gasifying coal to generate electricity and disposing of carbon dioxide underground is a viable option to pursue in reducing greenhouse gas emissions. As such, AEP has proposed to construct up to 1200 MW of commercial-scale integrated gasification combined cycle (IGCC) power plants (designed to accommodate retrofit of technology to capture and sequester CO₂ emissions) in Ohio, West Virginia, or Kentucky around 2010 and into the next decade.

At the request of the US government, AEP is leading representatives of the US power sector in the Asia-Pacific Partnership. The Company has proposed a utility-to-utility technical transfer program with power companies in China and India where CO₂ emissions are very rapidly increasing. This program will initially focus on increasing the efficiency of coal-fired generation, effectively reducing CO₂ emissions.

Further, AEP is leading the FutureGen Alliance that is partnering with the US DOE on development of the world's first nearly emission-free plant using IGCC technology to produce electricity and hydrogen from coal while capturing and disposing of carbon dioxide in geologic formations. The plant is planned to be operational in the next decade.

Contact Information

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Board Oversight of Environmental Affairs

Board committee: Policy

Committee chair: Robert W. Fri, Visiting Scholar, Resources for the Future

Actions taken by board or board committee: In August 2004, a subcommittee of the board's Policy Committee prepared a report in response to a shareholder proposal that summarized and assessed the actions that AEP is taking to mitigate the economic impact of increasing regulatory requirements, competitive pressures and public expectations to significantly reduce carbon dioxide and other emissions. The report included an assessment of proposed legislation to cut greenhouse gases and concluded that enactment of such proposals would not likely strand AEP's near-term planned investments of \$3.5 billion in emission control technologies by 2010 (part of an overall \$5 billion planned investment by 2020). The proposed legislation could materially alter the amount and manner of the anticipated \$1.5 billion in additional investments after 2010, however. The proposed legislation has never been enacted into law.

Management Execution

CEO statement on climate change: *Chairman's letter to shareholders in the 2004 annual report—*

"AEP will continue as an industry leader in addressing global climate change. As a founding member of the Chicago Climate Exchange, the first voluntary platform for trading greenhouse gas emission credits, we have committed to reduce or offset greenhouse gas emissions a cumulative 10 percent between 2003 and 2006. This is in addition to our widely recognized tree-planting program and our efforts to preserve forests to sequester carbon dioxide.

Keeping coal as a viable energy option will require advanced technologies... While other companies remain focused on supercritical coal-fired generation – pioneered by AEP nearly 50 years ago – we are moving to the next level of generation technology. We believe increasingly stringent air-quality regulations and the possibility of eventual constraints on carbon dioxide emissions make IGCC the right investment and the most environmentally responsible choice for future coal-fired generation. IGCC technology has the potential to provide the environmental benefits of a high-efficiency, natural gas-fired, combined-cycle facility while capitalizing on the comparatively low and stable fuel costs associated with coal... IGCC technology has the potential to provide the lowest capital cost, highest efficiency and best emission characteristics among coal-based technologies, and the most carbon-friendly fossil-fuel technology over the long term.

Chief environmental officer: Dennis E. Welch, Senior Vice President – Environment and Safety

Number of reporting levels to CEO: Dennis E. Welch is a member of the Executive Council reporting directly to the CEO and Chairman of the Board.

Climate change executive officer: Climate change executive committee: Dennis E. Welch, Senior Vice President – Environment and Safety

Link to executive compensation: In 2005, environmental goals accounted for 25% of the targeted annual incentive award for senior executives.

Public Disclosure

Company statement on climate change: *From company website—*

“As a steward of the environment, AEP believes strongly in its obligation to provide reliable, affordable power while addressing climate change issues.... We believe that the nation should follow the technology roadmap developed by leading energy experts to stabilize atmospheric greenhouse gas concentrations this century. This roadmap, called the Global Energy Technology Strategy for Addressing Climate Change, shows that gasifying coal to generate electricity and disposing of carbon dioxide underground can achieve this goal.... AEP advocates comprehensive, cost-effective public policies that facilitate prudent, near-term emission controls and the development and deployment of a new generation of highly efficient, low carbon-emitting technologies to power economies around the globe.

AEP has voluntarily agreed to cap, reduce, and offset its emissions as the only U.S. electric power company in the Chicago Climate Exchange; AEP also supports federal and state clean coal technology research and development programs; serves in leadership positions in industry coalitions; has joined the U.S. Environmental Protection Agency and the U.S. Department of Energy to reduce greenhouse gas emissions voluntarily; has joined The Nature Conservancy and other environmental organizations to create and protect habitats with carbon-storing forests; and creates public education energy programs about wind, solar, hydro and other generating technologies.”

Statements in most recent securities filings: *From the Management Discussion & Analysis—*

“There are new environmental control requirements that we expect will result in substantial capital investments and operational costs. The sources of these future requirements include:

...Possible future requirements to reduce carbon dioxide emissions to address concerns about global climate change.

...In 2002, we joined the Chicago Climate Exchange, a pilot greenhouse gas emission reduction and trading program. We committed to reduce or offset approximately 18 million short tons of CO₂ emissions during 2003-2006 below our baseline emissions (i.e. average emission levels during 1998-2001) as adjusted to reflect any changes in our baseline during the commitment period. During 2003, we reduced or offset our emissions by approximately seven million tons below our voluntary emissions cap and, based on preliminary estimates, we anticipate being below our voluntary emissions cap in 2004.

In August 2004, we released “*An Assessment of AEP’s Actions to Mitigate the Economic Impacts of Emissions Policies.*” The assessment evaluated our operating emissions control technology, planned investment in additional control equipment and risks associated with an uncertain regulatory environment. It concluded that our actions over the past decade constitute a solid foundation for future efforts to address the intersection between environmental policy and business opportunities. It also concluded that irrespective of the uncertainties surrounding potential air emission regulations and possible future mandatory greenhouse gas regulations, the pollution control investments planned over the next six to eight years are sound. The report also details many of the voluntary actions we are undertaking to limit our greenhouse gas emissions and to develop and/or advance future clean energy technologies.”

The MD&A also makes reference to a lawsuit filed by attorneys general from eight states in July 2004, and a nearly identical complaint from three environmental groups, alleging that CO₂ emissions from power plants owned by AEP and four other electric utilities are creating a public nuisance and should be subject to controls. This case has been dismissed by a judge in the Southern District of New York and has been appealed to the Second Circuit Court of Appeals.

Environmental/Sustainability Report: *Toward Environmental Excellence 2001-2002* (available at www.aep.com); *e7 Annual Report* (available at www.e7.org)

GRI Report: Report to be published in 2006.

Carbon Disclosure Project: Answered questionnaire, permitted disclosure.

Securities Filings: 10K filings; Extensive environmental filings with national and state regulatory entities.

Emissions Accounting

Savings Calculated by Company

Amount saved: 22,200,000 tonnes of CO2 in 1991 - 2002

Scope: Entity-level

These savings were registered with the U.S. Energy Information Administration under the Section 1605(b) reporting program. AEP avoided these emissions through its participation in DOE's Climate Challenge Program. Initiatives undertaken to reduce GHG emissions include development of a Multi-Emission Compliance Optimization model to analyze investments; co-founding the Chicago Climate Exchange; investing in terrestrial carbon projects and geologic sequestration research; investing in renewables, such as wind generation and biomass; and reducing emissions of sulfur hexafluoride.

AEP reports that its emissions intensity rate also fell from 1,940 lbs. of CO2/MWh in 1999 to 1,820 lbs. of CO2/MWh in 2003.

Company Inventory of GHG Emissions

2004 Amount: 162,423,000 tons

Region: U.S.

2000 Amount: 185,300,000 tons

Region: U.S.

Third party certification of GHG emissions data? Yes.

Audit protocol used: WRI GHG Protocol

Industry standard used for audit: Emission data reported to the Chicago Climate Exchange are independently audited by the National Association of Securities Dealers.

Strategic Planning

Emissions Targets

Baseline year: 1998-2001 average **Target year:** 2010

Region: U.S.

Amount: 46,000,000 metric ton reduction of CO2

AEP has made a voluntary, legally binding commitment to cap and gradually reduce or offset its greenhouse gas emissions to 6 percent by 2010 below the average of 1998-2001 emission levels. As a founding member of the Chicago Climate Exchange (CCX), AEP committed in 2003 to reduce or offset its emissions by 1 percent in 2003, 2 percent in 2004, 3 percent in 2005 and 4 percent in 2006 below the average of 1998-2001 levels. In August 2005, AEP expanded and extended its commitment to 4.25 percent in 2007, 4.5 percent in 2008, 5 percent in 2009 and 6 percent in 2010 below the same baseline. Through this commitment, AEP expects to reduce or offset approximately 46 million metric tons of greenhouse gas emissions (equal to a cumulative reduction of nearly 30 percent between 2003 and 2010). AEP's initiatives to meet this goal include both on-system actions, such as plant efficiency improvements, and off-system projects, such as reforestation projects and the purchase of emission reduction credits.

Participation in GHG emissions trading programs:

Voluntary programs-- AEP purchased allowances in the Chicago Climate Exchange's initial auction and is actively trading on the exchange. It is also a member of the International Emissions Trading Association.

Government programs—Not applicable.

Green power:

AEP is the third largest generator of wind energy in the United States, operating 311 megawatts (MW) of wind generation in Texas. The company also purchases and distributes an additional 373.5 megawatts of wind generation from wind facilities in Oklahoma and Texas. Additionally, AEP operates 884 megawatts of hydro and pumped-storage generation.

Until the company sold the plants in 2004, AEP co-fired biomass in 4,000 MW of coal-based power generation in the United Kingdom. AEP has been testing biomass co-firing at its smaller coal-fired power plants in the United States to evaluate potential reductions in CO₂ emission levels.

The company promotes renewables to educators, students and the public through its award-winning '*Learning from Light!*' program and its complementary '*Learning from Wind!*' initiative. AEP is also leading the installation of 2.4 MW of wind turbines in 2006 to replace 50% of the diesel generation (avoiding 2800 tons of CO₂ emissions annually) in the Galapagos Islands, supported by the United Nations and the government of Ecuador.

Energy efficiency:

AEP has implemented a number of power plant efficiency improvements at its existing fossil units, which have or will lower the heat rates of a number of plants in the system. A 1% heat rate improvement across the fleet has the potential to reduce CO₂ emissions by 1.6 million tons annually. Efficiency will be increased with turbine blade replacements, control valves and other equipment upgrades. AEP has also recently earned a 20-year operating life extension at its Cook nuclear plant that set site-records in 2004 producing 16,700 GWH of electricity with a capacity factor of 92.7%. During a planned refueling outage in 2006, AEP plans on turbine replacements that will further increase electrical output by 41 MW.

AEP is implementing "*Energy Efficiency Plans*" to offset 10% of the annual energy demand growth in its Texas service territory. In 2003 alone, AEP invested more than \$8 million to achieve over 47 million kilowatt-hours of reductions from installation of energy efficiency measures in customers' homes and businesses. Total investments for the four-year program will exceed \$43 million, achieving more than 247 million KWH of energy efficiency gains.

Annual savings of tons of CO₂ continue to accrue from AEP's lighting upgrades in all of its facilities in the 1990's under EPA's *Green Lights Program*. EPA named AEP its 'Utility Ally of the Year' for making the upgrades and promoting energy efficiency to its customers.

Commercial business:

AEP has proposed to construct up to 1200 MW of commercial-scale integrated gasification combined cycle (IGCC) power plants (designed to accommodate retrofit of technology to capture and sequester CO₂ emissions) in Ohio, West Virginia, or Kentucky around 2010 and into the next decade.

Membership in GHG-related organizations/programs

Chicago Climate Exchange

AEP was the first and largest U.S. utility to join the Chicago Climate Exchange (CCX) and make a legally binding commitment to reduce or offset its greenhouse gas emissions.

EPA Climate Leaders

AEP joined Climate Leaders in 2003 and was recognized with an EPA Climate Leader Protection Award in 2005 for demonstrating ingenuity, leadership and public purpose in its efforts to reduce greenhouse gases.

International Emissions Trading Association

AEP serves on the Board of Directors of the International Emissions Trading Association (IETA) -a multi-national organization that promotes cost-effective, emissions trading as an important component of greenhouse gas emission reduction programs.

EPA SF6 Emission Reduction Partnership for Electric Power Systems

As a charter member, AEP has significantly reduced emissions of SF6, an extremely potent greenhouse gas, from 1999 levels of 19,778 pounds (a leakage rate of 10 percent) to 2004 emissions of 1,962 pounds (a leakage rate of 0.5 percent).

Pew Center on Global Climate Change

AEP is a member of the Business Environmental Leadership Council, a group of major companies that demonstrate leadership by establishing and meeting greenhouse gas emissions reduction targets; investing in more efficient products, practices and technologies; and supporting domestic and international action to achieve cost-effective emissions reductions.

MIT/EPRI

AEP funds research coordinated by the MIT Energy Laboratory and the Electric Power Research Institute that is evaluating the environmental impacts, technological approaches, and economic issues associated with carbon sequestration. The MIT research specifically focuses on efforts to better understand and reduce the cost of carbon separation and sequestration.

FutureGen

AEP is leading the FutureGen Alliance that is partnering with the US DOE on development of the world's first nearly emission-free plant using IGCC technology to produce electricity and hydrogen from coal while capturing and disposing of carbon dioxide in geologic formations. The plant is planned to be operational in the middle of the next decade.

US DOE Research

AEP's Mountaineer Plant is the site for a \$4.2 million carbon sequestration research project funded by the U.S. Department of Energy and a consortium of public and private sector participants. Scientists from Battelle Memorial Institute lead this climate change mitigation research project, which is designed to obtain data required to better understand and test the capability of deep saline aquifers for storage of carbon dioxide emissions from power plants.

Forestry Activities

To reduce carbon dioxide (CO₂) concentrations in the global atmosphere, AEP has invested nearly \$24 million in terrestrial sequestration projects designed to conserve and reforest sensitive areas and offset more than 20 million metric tons of CO₂ over the next 40 years. These projects, totaling more than 52,000 acres, include protecting nearly 4 million acres of threatened rainforest in Bolivia, restoring and protecting 20,000 acres of degraded or deforested tropical Atlantic rainforest in Brazil, reforesting nearly 10,000 acres of the Mississippi River Valley in Louisiana with bottomland hardwoods, and planting trees on 23,000 acres of company-owned land.

- AEP, under *DOE's Climate Challenge Tree Planting Project*, has planted 22,685 acres with nearly 19 million mixed hardwood and conifer trees at a cost of approximately \$6.5 million. In a separate initiative in Louisiana, AEP has planted 9,784 acres with nearly 3 million bottomland hardwood trees at a cost of \$6.25 million.
- AEP is a founding member of *PowerTree Carbon Company, LLC*, a voluntary carbon sequestration initiative. PowerTree, which has 25 member companies, will invest \$3.4 million for reforestation of over 3,800 acres of bottomland hardwood projects in Arkansas, Mississippi, and Louisiana. The project will sequester over 2 million tons of CO₂ over the 100-year project term.
- AEP is a participating member of the *UtiliTree Carbon Company*. UtiliTree is a consortium of 41 utilities organized by the Edison Electric Institute to invest in a portfolio of forestry projects that manage GHG emissions, particularly CO₂. A \$3.2 million investment in eight domestic and two international projects will capture over 3 million tons of CO₂ over the life of these projects.
- American Electric Power is part of a collaborative GHG mitigation pilot project with the Government of Bolivia, The Nature Conservancy, and the Bolivian Friends of Nature Foundation. The *Noel Kempff Mercado Climate Action Project* will protect nearly 4 million acres of threatened forest and offset 5 to 7 million tons of carbon over 30 years.
- AEP is a partner in the *Guaraqueçaba Climate Action Project*, which seeks to restore and protect nearly 20,000 acres of partially degraded and/or deforested land in the tropical Atlantic rainforest of Brazil. The Project is expected to offset approximately 1 million metric tons of carbon over 40 years.

e7

AEP is a member of e7, a consortium of nine of the world's leading electric companies from G7 countries. e7 promotes sustainable energy projects through a "learn by doing" approach on electricity-related issues in developing countries with host countries, UN agencies, NGOs, and local energy providers. e7 also works to develop human capacity building—an example being its Micro-Solar Distance Learning Program, which focuses on electrification for information and telecommunications needs using photovoltaics. AEP serves as the U.S. delegate to the e7 and has undertaken the project leadership for an e7 effort to install wind turbines on environmentally sensitive San Cristobal Island in the Galapagos in 2006. This project is eligible for certification under the CDM.

Asia-Pacific Partnership

At the request of the US government, AEP is leading representatives of the US power sector in the Asia-Pacific Partnership. The Company has proposed a utility-to-utility technical transfer program with power companies in China and India where CO₂ emissions are very rapidly increasing. This program will initially focus on increasing the efficiency of coal-fired generation, effectively reducing CO₂ emissions.