

**AMERICAN ELECTRIC POWER COMPANY, INC.**  
**PRINCIPLES OF CORPORATE GOVERNANCE**  
**OF THE BOARD OF DIRECTORS**

*Amended as of December 13, 2006*

Under New York law, the Company is managed under direction of the Board of Directors. The Board of Directors establishes broad corporate policies and authorizes various types of transactions, but it is not involved in day-to-day operational details. Its various responsibilities include the selection and compensation of the Chief Executive Officer (“CEO”), the understanding and approval of corporate strategies and the understanding of the numerous issues and risks the Company faces on an ongoing basis.

I. **DIRECTOR QUALIFICATION STANDARDS**

A. Selection of Directors

The Board of Directors (the “Board”) is responsible for nominating Directors who will be elected annually by the shareholders. In nominating a slate of Directors, the Board’s objective, with the assistance of the Committee on Directors and Corporate Governance, is to select individuals with skills and experience that can be of assistance to management in operating the Company’s business.

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

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively.

B. Board Size

The Board determines, with the assistance of the Committee on Directors and Corporate Governance, the appropriate Board size, taking into consideration the parameters set forth in the Company’s charter and by-laws, the Company’s diversity goals and objectives, and the overall Board composition. The Board should neither be too small to maintain the needed expertise and independence, nor too large to be efficiently functional. If appropriate, the Board should recommend amendments to the Company’s charter or by-laws in order to provide for a different Board size than may be set forth therein. The Board should consist of a majority of independent directors as determined by the Committee on Directors and Corporate Governance.

C. Change of Principal Occupation or Business Association

Directors should offer their resignation in the event of any significant change in their principal job responsibilities or business associations. The Committee on Directors and Corporate Governance will recommend to the Board the action to be taken with respect to the resignation.

D. Term Limits

The Board does not believe it should limit the number of terms for which an individual may serve as a director. Directors who have served on the Board for an extended period of time are able to provide valuable insight into the operations and future of the Company based on their experience with and understanding of the Company's history, policies and objectives. The Board believes that, as an alternative to term limits, it can ensure that the Board continues to evolve and adopt new viewpoints through the evaluation and nomination process described in these guidelines. The Company's Directors are elected annually.

E. Retirement Policy

The Board believes that 72 is an appropriate retirement age for outside directors. Directors generally will not be nominated for re-election at any annual shareholders meeting following their 72<sup>nd</sup> birthday.

F. Other Boards

Without specific approval from the Board, (i) no director may serve on more than six public company boards (including the Company's Board); (ii) directors who also serve as CEOs of publicly-traded companies should not serve on more than two public company boards in addition to their employer's board; and (iii) no director who serves on the Audit Committee may serve on more than three public company audit committees (including the Company's Audit Committee). The Committee on Directors and Corporate Governance and the Board will take into account the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors and making its recommendations to Company shareholders.

II. DIRECTOR RESPONSIBILITIES

A. Chairman and CEO

The Board elects its Chairman and appoints the Company's CEO. If the Chairman and CEO positions are held by two different people, the Chairman will be one of the independent directors (an "Independent Chairman"). If the roles of Chairman and CEO are performed by the same person, the Board will establish the position of a Presiding Director.

B. Independent Chairman or Presiding Director

The Independent Chairman or the Presiding Director, as applicable (i) should work closely with the CEO to finalize information flow to the Board, set meeting agendas and arrange meeting schedules and (ii) will chair meetings of the non-management directors and serve as principal liaison between non-management directors and the CEO.

The purpose of the Presiding Director is to promote the independence of the Board of Directors in order to represent the interests of the shareholders. The Presiding Director is selected by non-management Directors. If there is a Presiding Director, his or her name will be

communicated to shareholders. His or her responsibilities would be to (i) preside over meetings of non-management and independent Directors; (ii) review and approve the agenda for all Board meetings; (iii) call special meetings of the Board as needed; (iv) serve as a channel of communications between the Directors and the CEO; (v) assure that Directors receive timely and necessary information in advance of meetings; and (vi) receive communications from shareholders on behalf of non-management Directors.

C. Board Meetings

The Board has eight scheduled meetings per year and special meetings are held as required. Every effort should be made to schedule meetings sufficiently in advance to ensure maximum attendance at each meeting. All Directors are expected to participate in all Board meetings, review relevant materials, serve on Board committees, and prepare appropriately for meetings and for discussions with management. Accordingly, each Director is expected to devote the time and attention necessary to properly discharge his or her responsibilities as Director.

D. Conduct of Meetings

Board meetings shall be conducted by the Chairman in accordance with customary practice in a manner that ensures open communication, meaningful participation and timely resolution of issues. All Directors have the opportunity to raise items for consideration to be placed on the agenda. Management and any committees of the Board should provide Directors with materials concerning matters to be acted upon in advance of the applicable meeting. Directors should review such materials carefully prior to the applicable meeting.

E. Executive Sessions of Directors

Those Directors of the Company who are not officers of the Company will meet at least two times a year in executive sessions at which management, including the CEO, is not present. The Independent Chairman or the Presiding Director, as applicable, will chair these executive sessions.

F. Ethics and Conflicts of Interest

The Board expects Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to a Code of Business Conduct and Ethics for Directors after adoption by the Board. The Board will not permit any waiver of any ethics policy for any director or executive officer. If an actual or potential conflict of interest arises for a Director, the Director shall promptly inform the CEO and Chairman of the Committee on Directors and Corporate Governance. If a significant conflict exists and cannot be resolved, the Director should resign. All Directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests.

Anyone who has a concern about the Company's conduct may communicate that concern directly to the Presiding Director. Such communications may be confidential or anonymous, and

may be submitted in writing to a special address that will be published on the Company's website.

### III. DIRECTOR ACCESS TO MANAGEMENT

Directors shall have complete access to the Company's management in order to become and remain informed about the Company's business and for such other purposes as may be helpful to the Board in fulfilling its responsibilities.

The Board encourages management to, from time to time, invite to Board meetings managers who (a) can provide additional insight into the items being discussed because of responsibility for and/or personal involvement in these areas, and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

### IV. DIRECTOR COMPENSATION

#### Compensation Generally

The Board establishes the form and amount of compensation of outside Directors. Outside Directors are called on to devote significant time and energy to the performance of their duties. To attract and retain able and experienced Directors, the Company must compensate them fairly. Directors who are employees of the Company receive no additional compensation for service on the Board.

The Committee on Directors and Corporate Governance is responsible for making recommendations to the Board concerning Director compensation. To assist in setting compensation, the Committee or the full Board may request information from the staff of the Company or from independent consultants on the compensation of boards of comparable corporations. In general, the Board believes that the compensation for outside Directors should consist of both cash and ownership of stock.

The Company shall disclose its policy regarding compensation for Directors in its annual proxy statement. The Board, with the assistance of the Committee on Directors and Corporate Governance, shall periodically review Director compensation (including additional compensation for committee members) in comparison to corporations that are similarly situated to ensure that such compensation is reasonable and competitive.

### V. DIRECTOR ORIENTATION AND CONTINUING EDUCATION

Under the direction of the Committee on Directors and Corporate Governance, the Company shall establish an orientation program for all newly elected Directors in order to ensure that the Company's Directors are fully informed as to their responsibilities and the means at their disposal for the effective discharge of those responsibilities. The orientation program shall, at a minimum, familiarize new Directors with the Company's (i) strategic plans; (ii) financial control systems and procedures and any significant financial, accounting and risk-management issues; (iii) compliance programs, including with SEC reporting obligations and NYSE corporate

governance listing standards; (iv) code of ethics, conflict policies and other controls; (v) principal officers; and (vi) internal and independent auditors. The new Directors shall be introduced to such management and other personnel, and representatives of the Company's outside legal, accounting and other outside advisors as is appropriate to familiarize them with the resources available to them.

The Company shall also make continuing education opportunities available to the Company's Directors in areas relevant to its business activities and with respect to corporate governance issues. In addition, Directors are encouraged to participate in educational opportunities that will enhance their performance as a director of AEP.

## VI. MANAGEMENT SUCCESSION

The Human Resources Committee shall, together with the full Board, establish policies, principles and procedures for the selection of the CEO and his or her successors, including policies regarding succession in the event of an emergency or the retirement of the CEO. The Board, with the assistance of the Human Resources Committee, shall review annually with the CEO management succession planning and development.

## VII. ANNUAL PERFORMANCE EVALUATIONS

### A. Board Evaluation

The Board shall evaluate annually the effectiveness of the Board and its committees. The purpose of this evaluation is to increase the effectiveness of the Board as a whole, and specifically review areas in which the Board and/or management believes a better contribution could be made from the Board. As appropriate, the Board shall then meet in executive session to discuss these assessments.

### B. Evaluation of CEO

The Human Resources Committee shall establish policies, principles and procedures for the evaluation of the CEO. This evaluation shall be made annually by the Board under the oversight of the Human Resources Committee. Such evaluation shall be based on objective criteria including performance of the business, accomplishment of long-term strategic objectives and development of management. The Board shall meet in executive session to discuss the Human Resources Committee's evaluation of the CEO.

## VIII. BOARD COMMITTEES

### A. Number and Type of Committees

The Board has 7 committees – an Audit Committee, a Human Resources Committee, a Committee on Directors and Corporate Governance, a Nuclear Oversight Committee, a Policy Committee, a Finance Committee and an Executive Committee. The Board may add new committees or remove existing committees as it deems advisable for purposes of fulfilling its

primary responsibilities. Each committee will perform its duties as assigned by the Board of Directors in compliance with Company bylaws. These may be described briefly as follows:

- Audit Committee. The Audit Committee oversees and monitors the Company's financial reporting, auditing and accounting process; is directly responsible for the appointment, compensation and oversight of the Company's independent auditors; reviews and oversees the Company's internal audit department, and provides an open avenue of communication among the independent auditors, financial and senior management, the internal auditor and the Board of Directors.
- Human Resources Committee. The Human Resources Committee stays informed as to market levels of compensation, recommends compensation of the CEO and COO to the Board and approves compensation of the other executive officers.
- Committee on Directors and Corporate Governance. The Committee on Directors and Corporate Governance is responsible for recommending to the Board individuals to be nominated as directors. This includes evaluation of new candidates. This committee also takes a leadership role in shaping the corporate governance of the Company and performs other duties as are described in these guidelines.
- Nuclear Oversight Committee. The Nuclear Oversight Committee is responsible for overseeing and reporting to the Board with respect to the management and operation of the Company's nuclear generation.
- Policy Committee. The Policy Committee is responsible for examining the Company's policies on major public issues affecting the AEP System, including environmental, industry change and other matters, as well as established System policies that affect the relationship of the Company and its subsidiaries to their service areas and the general public.
- Finance Committee. The Finance Committee monitors the present and future capital requirements and opportunities pertaining to the Company's business and provides guidance with respect to major financial policies of the Company.
- Executive Committee. The Executive Committee is empowered to exercise all the authority of the Board of Directors, subject to certain limitations prescribed in the By-Laws, during the intervals between meetings of the Board.

#### B. Selection of Committee Members

The Board shall select the Directors to serve on each committee, giving consideration to the independence and other requirements of the NYSE (and any other applicable law or any rule or regulation of any other regulatory body or self-regulatory body applicable to the Company) and to any recommendations put forth by the Committee on Directors and Corporate Governance.

C. Responsibilities

The Board, or the applicable committee pursuant to a Board delegation of authority, shall adopt a charter for such committee in compliance with all applicable rules and regulations. The charters for each of the Committee on Directors and Corporate Governance, the Human Resources Committee and the Audit Committee shall include, at a minimum, those responsibilities required to be set forth therein by the rules of the NYSE, by law or by the rules or regulations of any other regulatory body or self-regulatory body applicable to the Company.