AMERICAN ELECTRIC POWER CO INC
Form DEF 14A
March 12, 2008

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 x

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))**

x 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)

Payment of Filing Fee (Check the appropriate box):

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(4) Date Filed:

Notice of 2008 Annual Meeting   Proxy Statement

American Electric Power

1 Riverside Plaza

Columbus, OH 43215

Michael G. Morris

Chairman of the Board,

President and

Chief Executive Officer

March 12, 2008

Dear Shareholder:

This year s annual meeting of shareholders will be held at The Hotel Roanoke & Conference Center, 110 Shenandoah Avenue, Roanoke, Virginia, on Tuesday, April 22, 2008, at 9:30 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 27, 2008, 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.

This year, we are pleased to be using the new U.S. Securities and Exchange Commission rule that allows companies to furnish their proxy materials over the Internet. As a result, we are mailing to many of our shareholders a notice instead of a paper copy of this proxy statement and our 2007 Annual Report. The notice contains instructions on how to access those documents over the Internet. The notice also contains instructions on how each of those shareholders can receive a paper copy of our proxy materials, including this proxy statement, our 2007 Annual Report and a form of proxy card or voting instruction card. We believe that this new process will conserve natural resources and reduce the costs of printing and distributing our proxy materials.

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

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,

/s/ Michael G. Morris

NOTICE OF 2008 ANNUAL MEETING

American Electric Power Company, Inc.

1 Riverside Plaza

Columbus, Ohio 43215

TIME	9:30 a.m. Eastern Time on Tuesday, April 22, 2008
PLACE	The Hotel Roanoke & Conference Center 110 Shenandoah Avenue Roanoke, Virginia
ITEMS OF BUSINESS	(1) To elect 11 directors to hold office until the next annual meeting and until their successors are duly elected. (2) To ratify the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the year 2008. (3) To consider and act on such other matters as may properly come before the meeting.
RECORD DATE	Only shareholders of record at the close of business on February 27, 2008, are entitled to notice of and to vote at the meeting or any adjournment thereof.
ANNUAL REPORT	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. AEP s Summary Annual Report to Shareholders contains our chairman s letter to shareholders and condensed financial statements.
PROXY VOTING	It is important that your shares be represented and voted at the meeting. Please vote in one of these ways: **(1) MARK, SIGN, DATE AND PROMPTLY RETURN** your proxy card if you receive paper copies of the proxy materials. **(2) USE THE TOLL-FREE TELEPHONE NUMBER** shown on the notice of internet availability of proxy materials. **(3) VISIT THE WEB SITE** shown on the notice of internet availability of proxy materials to vote via the internet. Any proxy may be revoked at any time before your shares are voted at the meeting.

March 12, 2008

John B. Keane

Secretary

Our annual meeting of shareholders also will be webcast at http://www.AEP.com/go/webcasts at 9:30 a.m. Eastern Time on April 22, 2008.

Proxy Statement

March 12, 2008

Proxy and Voting Information

A notice of internet availability of proxy materials is to be mailed to shareholders on March 12, 2008, 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 22, 2008 in Roanoke, 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 27, 2008, 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 401,051,962 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.

When proxies are 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 27, 2008.

Revocation of Proxies. A shareholder giving a proxy may revoke it at any time before it is voted at the meeting by giving notice of its revocation to the Company, by executing another proxy dated after the proxy to be 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.

If you are a beneficial shareholder and your broker holds your shares in its name, the broker is permitted to vote your shares on the election of directors and the ratification of Deloitte & Touche LLP as our independent registered public accounting firm even if the broker does not receive voting instructions from you.

A plurality of the votes cast is required for the election of directors. Only votes for or withheld affect the outcome. Abstentions are not counted for purposes of the election of directors.

The votes cast for must exceed the votes cast against to approve the ratification of Deloitte & Touche LLP as our independent registered public accounting firm. Abstentions and broker non-votes are not counted as votes for or against this proposal.

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 or Proxy Statement to Shareholders. Securities and Exchange Commission (SEC) rules provide that more than one annual report or proxy statement 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 or proxy statement is being householded indefinitely unless you instruct us otherwise. If more than one annual report or proxy statement is being sent to your address, at your request, mailing of the duplicate copy will be discontinued. If you wish to resume receiving separate annual reports or proxy statements at the same address, you may call our transfer agent, Computershare Trust Company, N.A., at 800-328-6955 or write to them at P.O. Box 43081, Providence, RI 02940-3081. The change will be effective 30 days after receipt. We will deliver promptly upon oral or written request a separate copy of the annual report or proxy statement to a shareholder at a shared address. To receive a separate copy of the annual report or proxy statement, contact AEP Shareholder Direct at 800-551-1AEP (1237) or write to AEP, attention: Investor Relations, at 1 Riverside Plaza, Columbus, OH 43215.

Additional Information. Our website address is *www.aep.com*. We make available free of charge on the Investor Relations section of our website (*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 by contacting Investor Relations at: AEP, attention: Investor Relations, 1 Riverside Plaza, Columbus, OH 43215. We do not intend for information contained in our website to be part of this proxy statement.

You also may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC, 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (*www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

1. Election of Directors

Currently, AEP s Board of Directors consists of 14 members. Messrs. Robert W. Fri, William R. Howell and Donald G. Smith will end their service as members of the Board effective as of the date of the annual meeting; therefore, the Board of Directors has authorized a reduction in the size of the Board to 11 members, effective as of April 22, 2008, as permitted by the Company s Bylaws.

The 11 nominees named on pages 3 through 5 were selected by the Board on the recommendation of the Committee on Directors and Corporate Governance of the Board, following individual evaluation of each nominee s performance. The proxies named on the proxy card or their substitutes will vote for the Board s nominees, unless instructed otherwise. Shareholders may withhold authority to vote for any or all of such nominees on the proxy card. All of the Board s nominees were elected by the shareholders at the 2007 annual meeting, except for Mr. Hoaglin, who was elected as a director as of December 12, 2007. Mr. Morris introduced Mr. Hoaglin to Dr. Hudson, our Presiding Director. Mr. Hoaglin is a prominent business leader in the Columbus community. Dr. Hudson interviewed Mr. Hoaglin and recommended him to the Committee on Directors and Corporate Governance. That Committee reviewed the qualifications of Mr. Hoaglin and recommended him to the full board. 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 should occur before the meeting, the proxies may be voted for another person nominated by the Board or the number of directors may be reduced accordingly.

Cumulative Voting. Shareholders may exercise cumulative voting rights in the election of directors. That right permits each shareholder to multiply the number of shares the shareholder is entitled to vote by the number of directors standing for election to determine the number of votes the shareholder is entitled to cast for director nominees. The shareholder can then cast all such votes for a single nominee or spread such votes among the nominees in any manner.

Biographical Information. The following brief biographies of the nominees include their principal occupations, ages on the date of this 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, options exercisable within 60 days and stock-based units beneficially owned by each of them appear on page 59.

Nominees For Director

E. R. Brooks	Retired chairman and chief executive officer of Central and South West Corporation (CSW) (February 1991-June 2000). A director of Hubbell, Inc.
Granbury, Texas	
Age 70	
Director since 2000	
Donald M. Carlton	Retired president and chief executive officer of Radian International LLC. A director of National Instruments Corporation and Temple-Inland Inc.
Austin, Texas	
Age 70	
Director since 2000	
Ralph D. Crosby, Jr.	Chairman and Chief Executive Officer of EADS North America, Inc since 2002. A director of Ducommun Incorporated.

McLean, Virginia

Age 60

Director since 2006

Nominees For Director continued

John P. DesBarres Park City, Utah Age 68 Director since 1997	Former Chairman of the Board, President and Chief Executive Officer of Transco Energy Company. A director of Magellan Midstream Partners, L.P. and Penn Virginia GP, LLC, an indirect wholly-owned subsidiary of Penn Virginia Corporation and the general partner of Penn Virginia Resource Partners, L.P.
Linda A. Goodspeed Richardson, Texas Age 46 Director since 2005	Managing Partner of Wealthstrategies Financial Advisors, LLC since 2008. From 2001 to 2007, Executive Vice President and Chief Supply Chain Logistics and Technology Officer of Lennox International, Inc. A director of Columbus McKinnon Corp.
Thomas E. Hoaglin Columbus, Ohio Age 58 Director since 2007	Chairman and chief executive officer of Huntington Bancshares Incorporated since 2001. He is also a director of The Gorman-Rupp Co.
Lester A. Hudson, Jr. Charlotte, North Carolina Age 68	Professor and the Wayland H. Cato, Jr. Chair in Leadership at McColl Graduate School of Business at Queens University of Charlotte since 2003. Professor of Business Strategy at Clemson University (1998-2003). Retired chairman, chief executive officer and president of Wunda Weve Carpets, Inc. and Dan River, Inc. A director of American National Bankshares Inc.

Director since 1987

Michael G. Morris Columbus, Ohio Age 61 Director since 2004	Elected president and chief executive officer of AEP in January 2004; chairman of the board in February 2004; and chairman, president and chief executive officer of all of its major subsidiaries in January 2004. A director of certain subsidiaries of AEP with one or more classes of publicly held preferred stock or debt securities and other subsidiaries of AEP. From 1997 to 2003 was chairman of the board, president and chief executive officer of Northeast Utilities, an unaffiliated electric utility system. A director of Alcoa Inc. and The Hartford Financial Services Group, Inc. He is also a director of Cincinnati Bell, Inc., where he will not stand for re-election in 2008.

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Nominees For Director continued

Lionel L. Nowell III Purchase, New York Age 53 Director since 2004	Senior vice president and treasurer of PepsiCo, Inc. since 2001. A director of Reynolds American Inc.
Richard L. Sandor Chicago, Illinois Age 66 Director since 2000	Chairman and chief executive officer of Chicago Climate Exchange, Inc. since 2002. Chairman and chief executive officer of the Chicago Climate Futures Exchange since 2004. Chairman of Climate Exchange PLC since 2003. Research professor at the J.L. Kellogg School of Management, Northwestern University since 1999. Chairman and chief executive officer of Environmental Financial Products LLC (1998-2003). A director of Intercontinental Exchange, Inc.
Kathryn D. Sullivan Columbus, Ohio Age 56 Director since 1997	Director, Battelle Center for Mathematics and Science Education Policy The John Glenn School of Public Affairs at The Ohio State University since November 1, 2006. Science Advisor to Columbus science museum COSI (Center of Science & Industry) from December 2005 to November 2006. President and chief executive officer of COSI from 1996 to 2005.

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 2007, the Board held eight regular meetings, one of which was held in a city where we have a regional office and one of which was held in a city where we have facilities that the Board visited. AEP encourages but does not require members of the Board to attend the annual shareholders meeting. Last year, all members attended the annual meeting.

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.

The Board has seven standing committees. The table below shows the number of meetings conducted in 2007 and the directors who currently serve on these committees. The functions of the committees are described in the paragraphs following the table.

DIRECTOR	BOARD COMMITTEES						
	Audit	Directors and Corporate Governance	Policy	Executive	Finance	Human Resources	Nuclear Oversight
Mr. Brooks	X (Chair)		X	X			
Dr. Carlton			X			X	X
Mr. Crosby			X			X	X
Mr. DesBarres		X	X	X		X (Chair)	
Mr. Fri		X	X			X	
Ms. Goodspeed	X		X				X
Mr. Howell		X	X	X	X (Chair)		
Dr. Hudson	X	X (Chair)	X	X			
Mr. Morris			X	X (Chair)			
Mr. Nowell	X	X	X				
Dr. Sandor			X		X		X
Mr. Smith			X (Chair)		X		X
Dr. Sullivan			X		X		X (Chair)
2007 Meetings	9	5	3	0	4	6	4

During 2007, no director attended fewer than 88% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all committees during the period on which he or she served.

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, Director Independence Standards, and charters for the Audit, Directors and Corporate Governance and Human Resources Committees of the Board. The corporate governance page can be found at *www.aep.com/investors/corporategovernance*. Printed copies of all of these materials also are available upon written request to Investor Relations at: AEP, attention: Investor Relations, 1 Riverside Plaza, Columbus, OH 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 policies;
- A majority of the Board members are independent of AEP and its management;

All members of the Audit Committee, Human Resources Committee (HR Committee) and the Committee on Directors and Corporate Governance are independent;

The non-management members of the Board meet regularly without the presence of management, and the independent members of the Board meet at least once a year;

AEP has a code of business conduct that also applies to its principal executive officer, principal financial officer and principal accounting officer;

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

AEP has an ethics office with a hotline available to all employees, and AEP s Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal controls or auditing matters; and

The Board, the Committee on Directors and Corporate Governance, the Audit Committee and the HR Committee conduct annual self-assessments. The Committee on Directors and Corporate Governance also evaluates annually the performance of the individual directors.

Director Independence. The Board has adopted categorical standards it uses to determine whether its members are independent. These standards are consistent with the NYSE corporate governance listing standards and are as follows:

1. Employment: A member who is an employee, or whose immediate family member is an executive officer, of AEP or any of its subsidiaries is not independent until three years after such employment has ended.

2. Other Compensation: A member who receives, or whose immediate family member receives, more than $100,000 per year in direct compensation from AEP or any of its subsidiaries, other than director or committee fees, and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than $100,000 per year in such compensation.

3. Material Relationship: A member, or whose immediate family member, (a) is a current partner of AEP s external auditor; (b) is a current employee of such firm; (c) is a current employee of such firm who participates in that firm s audit, assurance or tax compliance practice; or (d) was within the last three years a partner or employee of such firm and personally worked on AEP s audit, is not independent.

4. Interlocking Directorships: A member who is employed, or whose immediate family member is employed, as an executive officer of another company on whose compensation committee any of AEP s executive officers serve is not independent until three years after such service or employment has ended.

5. Business Transactions: A member who is a current executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, AEP or any of its subsidiaries for property or services in an amount which, in any fiscal year, exceeds the greater of $1 million or 2% of such other company s consolidated gross revenues is not independent.

6. Charitable Contributions: A member, or whose family member, serves as an executive officer of a non-profit organization, which receives discretionary charitable contributions in an amount exceeding the greater of $100,000 or 2% of such organization s latest annual gross revenues, is not independent until three years after such service has ended.

7. Director Status: A relationship arising solely from a director s position as a director or advisory director (or similar position) of another company or entity that engages in a transaction with AEP is independent so long as the director satisfies the other standards.

Each year, our directors complete a questionnaire that, among other things, elicits information to assist the Committee on Directors and Corporate Governance in assessing whether the director meets the Company s independence standards. Utilizing these responses and other information, the Committee on Directors and Corporate Governance evaluates, with regard to each director, whether the director has any material relationship with AEP or any of its subsidiaries (either directly or as a partner, shareholder or officer of an

entity that has a relationship with AEP or any of its subsidiaries). If a director has a relationship with an organization that made or received payments from AEP, information regarding the amount of such payments is provided to the Committee on Directors and Corporate Governance. The Committee on Directors and Corporate Governance then determines whether the amount of any such payments requires, pursuant to the Company s independence standards or otherwise, a finding that the director is not independent. The Committee on Directors and Corporate Governance also discusses 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, might impede a director s independence. No member of the Board is independent unless the Board affirmatively determines annually that such member is independent.

In making its independence determinations, the Board considered transactions between the Company and entities associated with the directors or their immediate family members. The Board s independence determinations included reviewing the following transactions:

Mr. Crosby, Mr. Hoaglin, Mr. Nowell and Dr. Sandor are each executive officers of companies with which the Company does business. The amount that the Company paid to each of these companies for goods and services, and the amount received by the Company for goods and services from each company, did not, in the previous fiscal year, exceed the greater of $1 million, or 2% of such other company s consolidated gross revenues.

Mr. Brooks, Dr. Carlton, Mr. DesBarres, Mr. Fri, Ms. Goodspeed, Mr. Howell and Dr. Sandor each is a non-employee director, trustee or advisory board member of another company or entity that did business with the Company. These business relationships generally were as a supplier or purchaser of goods or services and were in the ordinary course of business.

Dr. Carlton, Mr. Hoaglin, Dr. Hudson, Dr. Sandor, Mr. Smith and Dr. Sullivan, or one of their immediate family members, have each served as a non-employee director, trustee or advisory board member for one or more charitable institutions to which the Company has made charitable contributions. However, none of the Company s directors nor their immediate family members served as an executive officer of a non-profit organization which received charitable contributions from the Company in an amount exceeding the greater of $100,000 or 2% of such organization s latest annual gross revenues. The Committee on Directors and Corporate Governance also reviewed contributions from The American Electric Power Foundation, which was created in 2005 to support and play an active, positive role in the communities in which AEP operates by contributing funds to organizations in those communities.

Mr. Morris is not independent because he is an executive officer of AEP. Although Dr. Sandor currently meets the independence standards, the Board of Directors has determined that he is not to be classified as independent because of AEP s relationship with the Chicago Climate Exchange (CCX). Dr. Sandor serves as Chief Executive Officer of CCX. AEP is a founding member of the CCX and during 2007 AEP and its subsidiaries transacted trades of greenhouse gas emission allowances on the CCX. Dr. Sandor is also the Chief Executive Officer of the Chicago Climate Futures Exchange (CCFE), which is an exchange established for trading of SO_2 and NO_x allowances. AEP payments to CCX and CCFE currently do not exceed $1 million but AEP s payments in the future may exceed that threshold. AEP anticipates paying commissions and dues to CCX and CCFE in 2008 in an amount greater than amounts paid in 2007.

As a result of this review, the Board has determined that, other than Dr. Sandor, each of the non-employee director nominees standing for election, including Messrs. Brooks, Carlton, Crosby, DesBarres, Hoaglin, Hudson and Nowell, Ms. Goodspeed and Ms. Sullivan, and each of the three retiring board members, Messrs. Fri, Howell and Smith, 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 within the meaning of the Company s director independence standards.

Involvement by Mr. Hoaglin in Certain Legal Proceedings. On June 2, 2005, Huntington Bancshares Incorporated (Huntington) announced that the SEC approved a settlement of its previously announced formal investigation into certain financial accounting matters relating to fiscal years 2002 and earlier and certain related disclosure matters. As a part of the settlement, the SEC instituted a cease and desist administrative proceeding and entered a cease and desist order and also filed a civil action in federal district court pursuant to which, without admitting or denying the allegations in the complaint, Huntington and Mr. Hoaglin consented to pay civil money penalties. Without admitting or denying the charges in the administrative proceeding, Mr. Hoaglin agreed to cease and desist from committing and/or causing the violations charged as well as any future violations of these provisions. Additionally, Mr. Hoaglin agreed to pay disgorgement, pre-judgment interest and penalties in the amount of $667,609.

Communicating with the Board. If you would like to communicate directly with our Board, our non-management directors as a group or Dr. Hudson, our Presiding Director, you may submit your written communication to American Electric Power Company, Inc., P.O. Box 163609, Attention: AEP Non-Management Directors, Columbus OH 43216. AEP s Business Ethics and Corporate Compliance department will review such inquiries or communications. Communications other than advertising or promotions of a product or service will be forwarded to our Board, our non-management directors as a group or our Presiding Director, as applicable.

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 By-Laws.

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.

7. Reviewing the independence and possible conflicts of interest of directors and executive officers.

8. Supervising the AEP Corporate Compliance Program.

9. Overseeing the annual evaluation of the Board of Directors.

10. Reviewing annually the performance of individual directors.

11. Supervising the implementation of AEP s Related Person Transaction Approval Policy.

12. Overseeing AEP s Sustainability Report, including the material about political contributions.

A copy of the charter can be found on our website at *www.AEP.com/investors/corporategovernance*. Consistent with the rules of the NYSE, all members of the Committee on Directors and Corporate Governance are independent.

The Committee on Directors and Corporate Governance 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 60 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/corporategovernance*. Shareholders nominees who comply with these procedures will receive the same consideration that all other nominees receive.

In evaluating candidates for Board membership, the Committee on Directors and Corporate Governance reviews each candidate s biographical information and assesses each candidate s skills and expertise based on a variety of factors. Some of the major factors include whether the candidate:

- maintains the highest personal and professional ethics, integrity and values;
- is committed to representing the long-term interests of the shareholders;
- has an inquisitive and objective perspective, practical wisdom and mature judgment;
- contributes to the diversity of views and perspectives of the Board as a whole; and
- possesses a willingness to devote sufficient time to carrying out the duties and responsibilities effectively, including attendance at meetings.

The Committee on Directors and Corporate Governance also seeks balance on the Board by having complementary knowledge, expertise, experience and skill in areas such as business, finance, accounting, marketing, public policy, government, technology and environmental issues and other areas that the Board has decided are desirable and helpful to fulfilling its role. The Committee on Directors and Corporate Governance also seeks diversity in gender, race, experience, geographic location and educational background of directors.

The American Electric Power Company, Inc. Related Person Transaction Approval Policy (Policy) was adopted by the Board on December 13, 2006. The Policy is administered by the Directors and Corporate Governance Committee.

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 member of the executive council or Section 16 officer of the Company, any nominee for director, any shareholder owning an excess of 5% of the total equity of the Company and any immediate family member of any such person. The Directors and Corporate Governance Committee considers all of the relevant facts and circumstances in determining whether or not to approve such transaction and approves only those transactions that are in the best interests of the Company.

If Company management determines it is impractical or undesirable to wait until a meeting of the Directors and 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 Directors and Corporate Governance Committee at or before its next regularly scheduled meeting.

No approval or ratification of a Transaction with a Related Person necessarily satisfies or 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 Related Person. To the extent applicable, any Transaction with a Related Person is also considered in light of the requirements set forth in those documents.

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.

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

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 the short and long-term financing plans and programs of AEP and its subsidiaries.

The ***Human Resources Committee*** (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 an officer or employee of any AEP System company. In addition, each of the current members of the HR Committee has been determined to be independent by the Board in accordance with SEC and NYSE rules.

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/corporategovernance.*

For a more complete description of the HR Committee s responsibilities, see the Human Resources Committee Report on page 33.

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.

Audit Committee Disclosure

The Audit Committee of the Board operates pursuant to a charter and 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/corporate governance*. Consistent with the rules of the NYSE and the Sarbanes-Oxley Act of 2002, all members of the Audit Committee are independent. The Board determined that Mr. Nowell is an audit committee financial expert as defined by the SEC.

Audit Committee Report

The Audit Committee reviews AEP s financial reporting process as well as the internal controls 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 nine times during the year and held discussions, some of which were in private, with management, the internal auditor, and the independent auditor. 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, 2007. The Audit Committee has reviewed and discussed the consolidated financial statements and internal control over financial reporting with management, the internal auditor, and the independent auditor. The Audit Committee discussed with the independent auditor matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication With Audit Committees).

In addition, the Audit Committee has discussed with the independent auditor its independence from AEP and its management, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees). The Audit Committee has also received written materials addressing the independent auditor internal quality control procedures and other matters, as required by the NYSE listing standards.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in AEP s Annual Report on Form 10-K for the year ended December 31, 2007, for filing with the SEC.

Audit Committee Members

E. R. Brooks, Chair

Linda A. Goodspeed

Lester A. Hudson, Jr.

Lionel L. Nowell, III

DIRECTOR COMPENSATION

Directors who are employees of the Company receive no additional compensation for service as a director other than accidental insurance coverage. The following table presents the compensation provided by the Company in 2007 to the non-employee directors. Mr. Hoaglin did not receive any compensation in 2007.

Name	Fees Earned Or Paid in Cash ($) (1)	Stock Awards ($) (2)(3)	All Other Compensation ($) (4)(5)(6)	Total ($)
E. R. Brooks	94,000	88,000	2,681	184,681
Donald M Carlton	72,000	88,000	6,387	166,387
Ralph D. Crosby, Jr.	72,000	88,000	1,423	161,423
John P. DesBarres	83,200	88,000	3,373	174,573
Robert W. Fri	72,000	88,000	1,961	161,961
Linda A. Goodspeed	84,000	88,000	3,342	175,342
William R. Howell	72,000	88,000	2,518	162,518
Lester A. Hudson, Jr.	106,400	88,000	9,166	203,566
Lionel L. Nowell III	84,000	88,000	1,259	173,259
Richard L. Sandor	72,000	88,000	2,483	162,483
Donald G. Smith	72,000	88,000	5,561	165,561
Kathryn D. Sullivan	72,000	88,000	1,259	161,259

(1) Consists of amounts described below under Director Compensation and Stock Ownership Annual Retainers and Fees. With respect to Mr. Brooks, includes $10,000 paid for services as chairman of the Audit Committee. With respect to Mr. DesBarres, includes $10,000 paid for services as chairman of the Human Resources Committee. With respect to Ms. Goodspeed, Mr. Brooks, Dr. Hudson and Mr. Nowell, includes $12,000 paid for services as members of the Audit Committee. With respect to Dr. Hudson, includes $20,000 paid for services as Presiding Director. Includes the following amounts for per diems to compensate directors for special additional services beyond those contemplated by the Annual Retainer: Mr. DesBarres, $1,200; and Dr. Hudson, $2,400.

(2) Consists of awards under the Stock Unit Accumulation Plan for Non-Employee Directors in 2007 described below under Director Compensation and Stock Ownership Stock Unit Accumulation Plan. AEP Stock Units are credited to directors quarterly, based on the closing price of AEP common stock on the payment date. The grant date fair value of these awards was $88,000.

(3) Each non-employee director received 1,890 stock units in 2007. See Share Ownership of Directors and Executive Officers on page 59 for the aggregate number of stock awards outstanding for each director as of December 31, 2007.

(4) Consists of tax gross ups, premiums for accidental death insurance and annual costs of the Central and South West Corporation Memorial Gift Program and matching gift contributions. The following table presents the components of All Other Compensation for each non-employee director:

Name	Tax Gross Ups ($)	Premiums ($)	Memorial Gifts ($)	Matching Gifts ($)(6)
E. R. Brooks	1,937	744	(5)	-0-
Donald M Carlton	3,143	744	(5)	2,500
Ralph D. Crosby, Jr.	679	744	-0-	-0-
John P. DesBarres	2,629	744	-0-	-0-
Robert W. Fri	717	744	-0-	500
Linda A. Goodspeed	2,598	744	-0-	-0-
William R. Howell	1,774	744	(5)	-0-
Lester A. Hudson, Jr.	2,772	744	-0-	5,650
Lionel L. Nowell III	515	744	-0-	-0-
Richard L. Sandor	1,739	744	(5)	-0-
Donald G. Smith	2,317	744	-0-	2,500
Kathryn D. Sullivan	515	744	-0-	-0-

(5) AEP is continuing a memorial gift program for former CSW directors and executive officers who had been previously participating in this program. The program currently has 26 participants, including the four former CSW directors listed above. Under this program, AEP makes donations in a director s name to up to three charitable organizations in an aggregate amount of up to $500,000, payable by AEP upon such person s death. AEP maintains corporate-owned life insurance policies to support portions of the program. AEP paid no annual premium on those policies for 2007. The Company, however, did make donations totaling $1,000,000 upon the deaths of two of the program s participants.

(6) Directors may participate in our Matching Gifts Program on the same terms as AEP employees. Under the program, AEP will match up to $2,500 per institution each year in charitable contributions from a director.

Directors Compensation and Stock Ownership

Annual Retainers and Fees. The Board has determined that Board compensation should consist of a mix of cash and AEP stock equivalents. In September 2007, upon the recommendation of the Committee on Directors and Corporate Governance and taking into account comparative data from Hewitt Consulting, the Board determined that, effective January 1, 2008, (i) the amount of AEP stock units awarded to non-employee directors pursuant to the Stock Unit Accumulation Plan should increase from $88,000 to $120,000 annually and (ii) the amount of the annual cash retainer paid to non-employee directors should increase from $72,000 to $80,000 annually. No changes were made to the other retainer amounts. The Presiding Director fee is $20,000 annually. The fee for the chairman of the Audit Committee is $10,000 annually. Members of the Audit Committee, including the chairman, receive an additional annual retainer of $12,000. The chairman of the HR Committee receives an annual fee of $10,000. Each of these cash retainers is paid in quarterly increments.

The Company believes that the standard director compensation amount compensates directors appropriately for all general services that are rendered as a director, committee member, committee chair or as Presiding Director, including education and training appropriate to the director s responsibilities. The Company believes, however, that special compensation can be appropriate when individual directors are asked to undertake special assignments requiring a significant amount of unexpected additional time, effort and responsibility. In December 2007 the Board revised its policy (Special Compensation Policy) that 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 Committee on Directors and Corporate Governance 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.

Expenses. Non-employee 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, including participation in director education programs.

The Company invites directors spouses to travel with the directors to attend two Board meetings each year. Spouses may also join non-employee directors on Company aircraft when a non-employee director is traveling to or from those Board meetings. The Company generally provides for, or reimburses the expenses of, the non-employee directors and their spouses for attendance at such meetings, which may result in a non-employee director recognizing income for tax purposes under applicable regulations. The Company therefore reimburses the non-employee director for the estimated taxes incurred in connection with any income recognized by the director as a result of the non-employee director s or spouse s attendance at such events.

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% of their annual retainer and fees 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.

Stock Unit Accumulation Plan. In 2007 the Stock Unit Accumulation Plan for Non-Employee Directors awarded $88,000 in AEP stock units to each non-employee director. As noted above in Annual Retainers and Meeting Fees, the Stock Unit Accumulation Plan was amended effective January 1, 2008 to increase the annual award to $120,000 in AEP stock units. These AEP stock units are credited to directors quarterly, based on the closing price of AEP Common Stock on the payment date. Amounts equivalent to cash dividends on the AEP stock units accrue as additional AEP stock units. AEP stock units are not paid to the director in cash until termination of service unless the director has elected to further defer payment 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, 2007 through September 1, 2010, has a premium of $29,000. In addition, AEP pays each non-employee director an amount to provide for the federal and state income taxes incurred in connection with the maintenance of this coverage and is reflected in the tax gross up column of the Non-Employee Director Compensation Table.

Stock Ownership. The Board considers stock ownership in AEP by Board members to be important. As noted above in Stock Unit Accumulation Plan, non-employee directors are required to defer $120,000 annually in AEP stock units until termination of his or her directorship. As noted below under Share Ownership of Directors and Executive Officers, each non-employee director of AEP owns more than 16,000 shares of AEP Common Stock and AEP stock units, except for Mr. Nowell, Ms. Goodspeed, Mr. Crosby and Mr. Hoaglin, who were elected to the Board of Directors in July 2004, October 2005, January 2006 and December 2007, respectively.

Insurance

The directors and officers of AEP and its subsidiaries are insured, subject to certain exclusions, against losses resulting from any claim or claims made against them while acting in their capacities as directors and officers. The AEP System companies are also insured, subject to certain exclusions and deductibles, to the extent that they have indemnified their directors and officers for any such losses. Such insurance, effective March 15, 2007 through March 15, 2008, is provided by: Associated Electric & Gas Insurance Services Ltd., Energy Insurance Mutual Ltd., Zurich American Insurance Company, St. Paul Mercury Insurance Company (Travelers), National Union Fire Insurance Company (AIG), Liberty Mutual Insurance Company, Twin City Fire Insurance Company (Hartford), Westchester Fire Insurance Company (ACE), AXIS Reinsurance Company, Starr Excess International Ltd., Allied World Assurance Company Ltd. (AWAC), Arch Insurance Company U.S., RSUI Indemnity Company, XL Insurance Company, U.S. Specialty Insurance Company (HCC Global) and XL Insurance, Ltd. The total cost of this insurance is $4,583,138.

Fiduciary liability insurance provides coverage for AEP System companies, 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 March 15, 2007 through March 15, 2008, is provided by Energy Insurance Mutual Ltd., Indian Harbor Insurance Company (XL America Companies), U.S. Specialty Insurance Company (HCC Global) and AXIS Reinsurance Company. The total cost of this insurance is $725,000.

2. Proposal to Ratify Appointment of Independent Registered Public Accounting Firm

THE AUDIT COMMITTEE has appointed the firm of Deloitte & Touche LLP as the Company s independent registered public accounting firm for 2008. 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 Company financial controls and reporting, and will seriously consider shareholder input on this issue. Whether or not the appointment of Deloitte & Touche LLP 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 interests of the Company and its shareholders.

One or more representatives of Deloitte & Touche LLP will be in attendance at the annual meeting on April 22, 2008. The representatives will have the opportunity to make a statement, if desired, and will be available to respond to appropriate questions from shareholders.

Vote Required. Approval of this proposal requires the affirmative vote of holders of a majority of the shares present in person or by proxy at the meeting.

Your Board of Directors recommends a vote **FOR** this proposal.

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, 2007 and December 31, 2006, and fees billed for other services rendered by Deloitte & Touche LLP during those periods.

	2007	2006
Audit Fees(1)	$ 11,747,000	$ 12,644,000
Audit-Related Fees(2)	$ 1,456,000	$ 1,035,000
Tax Fees(3)	$ 1,820,000	$ 703,000
TOTAL	$ 15,023,000	$ 14,382,000

(1) Audit fees in 2006 and 2007 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 (PCAOB) Auditing Standards 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. The reduction from 2006 relates primarily to efficiencies enabled by PCAOB Auditing Standard Number 5.

(2) Audit related fees consisted principally of regulatory, statutory, employee benefit plan audits, and audit-related work in connection with acquisitions, dispositions and new ventures.

(3) Tax fees consisted principally of tax compliance services. Tax compliance services are services rendered based upon facts already in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings. The increase from 2006 relates primarily to assisting the Company in connection with an approved change in accounting method from the Internal Revenue Service.

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 Auditor

The Audit Committee s policy is to pre-approve all audit and non-audit services provided by the independent auditor. 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 auditor and management are required to report to the Audit Committee at each regular meeting regarding the extent of services provided by the independent auditor in accordance with this pre-approval policy, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis. In 2007, all Deloitte & Touche LLP services were pre-approved by the Audit Committee.

Other Business

The Board of Directors does not intend to present to the meeting any business other than the election of directors and the ratification of the appointment of the independent registered public accounting firm.

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.

Compensation Discussion and Analysis

Overview

The HR Committee administers AEP s executive compensation program. In carrying out this responsibility, the HR Committee reviews and determines all compensation, significant benefit plan changes and perquisites for AEP s executive officers. The HR Committee makes recommendations to the independent board members regarding the compensation of the Chief Executive Officer, and those independent board members approve the CEO s compensation.

AEP s executive compensation programs are designed to:

- Attract and retain a superb leadership team with market competitive compensation and benefits;
- Reflect AEP s financial and operational size and the complexity of its multi-state operations;
- Maximize shareholder value by emphasizing performance-based compensation over base salary, providing a substantial percentage of total compensation opportunity in the form of stock-based compensation, and requiring our executive officers to meet stock ownership requirements;
- Support the implementation of the Company s business strategy by tying annual incentive awards to achieving earnings per share targets and meeting operating and strategic objectives;
- Motivate and reward outstanding individual performance; 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 is intended to create a total compensation opportunity that, on average, is equal to the median of AEP s peer group, which is made up of other utility companies and industrial companies as described below under Compensation Peer Group. The HR Committee s independent compensation consultant, Towers Perrin, participates in HR Committee meetings, assists the HR Committee in developing the compensation program and meets with the HR Committee in executive session during most meetings without management present. See the Human Resources Committee Report on page 33 for additional information regarding the independence of Towers Perrin s advice to the HR Committee.

Compensation Program Design

To meet the above objectives, the HR Committee seeks to establish compensation opportunities that enhance the Company s ability to attract, retain, reward, motivate and encourage the development of highly qualified and experienced executives and to align the interests of these executives with the long-term interests of the Company s shareholders. AEP s compensation program for executive officers includes base salary, annual incentive compensation, long-term incentive compensation, a comprehensive benefits program and some perquisites. Annual incentive compensation is tied to the simultaneous achievement of specific near-term operating, strategic and financial objectives, while long-term incentive compensation is tied to longer-term shareholder return objectives. For example, the annual incentive compensation opportunity provided to the named executive officers for 2007 was tied to the achievement of AEP s ongoing 2007 earnings guidance and four equally weighted performance measure categories: safety, operating performance, regulatory performance and strategic initiatives. This approach keeps annual incentive compensation in step with the earnings of the Company while at the same time, giving equal precedence to non-financial measures, such as safety. Long-term compensation was tied to AEP s three-year total shareholder return and three-year cumulative earnings per share. This balance of near-term and longer-term objectives helps ensure that near term objectives are not achieved at the expense of the Company s long-term prospects.

Our 2007 annual incentive compensation was funded based on goals established and approved by the HR Committee in January 2007. Achieving AEP s ongoing earnings per share guidance was established as the funding goal for annual incentive compensation for nearly all AEP employees, including the named executive officers (see Annual Incentive Compensation-Annual Performance Objectives below for a detailed description of the performance measure).

The HR Committee chose earnings per share (EPS) as the funding factor because it is strongly correlated with shareholder returns, largely reflects management s performance in operating the Company and is the primary measure by which the Company communicates forward-looking financial information to the investment community. The EPS measure is clearly understood by both our shareholders and employees. We also believe that EPS growth leads to the creation of long-term shareholder value. For 2008, funding for the annual incentive compensation program will remain dependent on AEP s ongoing EPS performance relative to our 2008 earnings guidance of $3.10 to $3.30 per share. Our 2007 earnings target was approximately 13.5% (or $0.35 per share) higher than our 2006 earnings target, and our 2008 earnings target is approximately 8.5% (or $0.25 per share) higher than our 2007 earnings target.

AEP s long-term incentive program focuses on longer-term shareholder value objectives. In 2007 performance units awarded to executive officers were linked to AEP s three-year total shareholder return relative to the S&P Utility Index and AEP s three-year cumulative ongoing earnings per share. The HR Committee chose a three-year earnings per share measure for long-term incentive awards for essentially the same reasons it chose the EPS measure for the annual incentive plan. The HR Committee also chose a total shareholder return measure for long-term incentive awards to provide an external performance comparison that reflects the effectiveness of management s strategic decisions over this period. The HR Committee also uses long-term incentives as a retention tool to foster management continuity by subjecting these awards to a three-year vesting period.

AEP s compensation programs are also designed to place a substantial amount of compensation at risk in the form of variable incentive compensation instead of fixed or base pay. As mentioned earlier, annual incentive compensation is dependent on achieving the Company s EPS goals and the long-term incentive payouts are dependent on the Company s three-year cumulative EPS goal and the Company s three-year total shareholder return as compared to the S&P Utility Index. For 2007, eighty-six percent of the total compensation opportunity for the Chief Executive Officer and at least seventy-three percent of that for the other named executive officers was at risk in the form of incentive compensation. The HR Committee also annually reviews the mix of base salary, annual incentive and long-term incentive compensation opportunity provided to executives and targets this mix to the peer group median. Consistent with AEP s Compensation Peer Group, more than seventy percent of the target compensation opportunity for the CEO and between fifty-seven percent and seventy-two percent of that for the other named executive officers is in the form of long-term incentive compensation.

AEP s executive compensation program is intended to create a total compensation opportunity that is, on average, approximately equal to the median level of compensation paid to executives in similar positions in AEP s Compensation Peer Group and within a market competitive range for each individual executive officer. The HR Committee generally considers the market competitive range to be +/- 15% of the peer group median. Each of the elements of AEP s compensation program is structured to fit within this overall level of compensation opportunity. To the extent that the total compensation opportunity is above or below the peer group median, over time the HR Committee adjusts elements of pay to bring the total compensation opportunity into the competitive range.

Compensation Peer Group

The HR Committee annually reviews AEP s executive compensation relative to a peer group of companies that represent the talent markets from which AEP must compete to attract and retain executives. This Compensation Peer Group is annually reviewed and approved by the HR Committee in consultation with its independent compensation consultant. The Compensation Peer Group is chosen from a broad list of companies provided by the Committee s independent compensation consultant for which compensation data is available. The peer companies are chosen to provide a peer group that is, on average, comparable in size to AEP in revenues, assets, market capitalization, number of employees and both one and three year total shareholder return. The Compensation Peer Group currently consists of an approximately equal balance of utility and non-utility companies. The HR Committee includes industrial companies outside the utility industry (1) because AEP must compete with non-utility companies to attract and retain executives and (2) to increase the median level of assets and employees in the peer group to provide a closer comparison to AEP. For 2007, the Compensation Peer Group consisted of 14 large and diversified energy services companies and 12 Fortune 500 companies shown in the table below.

AEP s Compensation Peer Group

Energy (14 Companies)	***General Industry (12 Companies)***
Centerpoint Energy, Inc.	3M Company
Constellation Energy Group, Inc.	Bristol-Myers Squibb Company
Dominion Resources, Inc.	Caterpillar Inc.
Duke Energy Corporation	CSX Corporation
Edison International	Goodyear Tire & Rubber Company
Entergy Corporation	Northrop Grumman Corporation
Exelon Corporation	PPG Industries, Inc.
FirstEnergy Corp.	Schlumberger N.V.
FPL Group, Inc.	Sunoco, Inc.
PG&E Corporation	Textron Inc.
Public Service Enterprise Group Incorporated	Union Pacific Corporation
The Southern Company	Weyerhaeuser company
TXU Corp	
Xcel Energy	

Towers Perrin annually provides the HR Committee with an executive compensation study covering all executive officer positions and many other executive positions based on its survey information for the Compensation Peer Group. The methodology and job matches used in this study are determined by Towers Perrin based on descriptions of each executive s role and are reviewed with the HR Committee. The standard benchmark is the median value of compensation paid by the Compensation Peer Group. However, in 2007 Towers Perrin also used a regression analysis of all energy companies in their database as the market benchmark for three executive officer positions (President AEP Utilities, EVP AEP Utilities East and EVP AEP Utilities West) because in Towers Perrin s judgment, this provided the most accurate comparison. These are the only outside compensation surveys that the HR Committee used in 2007. Differences in the amounts of compensation opportunity provided to our named executive officers generally reflects differences in the roles and responsibilities of each of them, differences in individual performance over time and other factors.

Executive Compensation Program Detail

AEP provides three primary elements of compensation to named executive officers: base salary, annual incentive compensation and long-term incentive compensation. Each of these elements is structured and implemented to reflect individual performance and results.

Base Salary. AEP pays base salaries to provide a market-competitive and consistent source of income to executives. When determining executive base salaries, the HR Committee considers:

- Sustained individual performance in the following areas: communication, integrity/ethics, willingness to confront tough issues, business acumen, strategic planning, teamwork, fostering a high performance culture and, for the CEO only, leadership of the board of directors;
- The responsibilities and experience of each executive officer;
- Reporting relationships;
- Supervisor recommendations;
- Pay history;
- The impact that any change in base salary may have on other pay elements, such as annual incentive compensation; and
- The competitiveness of the executive s total compensation, which includes annual incentive compensation and long-term incentive compensation.

Before determining base salaries, executive officers are evaluated in each of the areas described above by the senior executive to whom they report. The CEO s performance is assessed by the independent members of the board of directors. To more fully assess the CEO s performance, the HR Committee Chairman solicits confidential written evaluations from all board members, senior AEP executives and AEP s external auditor.

To develop a base salary recommendation for the CEO, the HR Committee subjectively weighs the CEO s performance in executive ses-sion along with the market compensation information provided by Towers Perrin. The HR Committee also reviews tally sheets showing the CEO s total compensation, including perquisites. The HR Committee presents its recommendation to the independent members of AEP s Board who make the final determination.

In determining the base salaries for the other named executive officers, the HR Committee reviews Mr. Morris or Mr. English s written assessment of the other named executive officers performance and the market compensation benchmarks provided by Towers Perrin. The CEO presents base salary recommendations for the named executive officers, other than himself, to the HR Committee, and the HR Committee makes the final determination.

Annual Incentive Compensation. AEP provides annual incentive compensation to executive officers to drive the achievement of annual performance objectives that are critical to AEP s success, such as obtaining rate recovery for our capital investment program. The HR Committee reviews and approves the annual compensation paid to the named executive officers under the Senior Officer Incentive Plan, which was approved by shareholders at the 2007 annual meeting. The independent board members review and approve the annual incentive compensation of the CEO. The HR Committee establishes one or more objective performance measures under this plan each year that sets the maximum award that executive officers may receive, although the HR Committee can and generally is expected to award less than this maximum. The actual awards for named executive officers are the lower of the amount determined using the process described below or the maximum award determined under the Senior Officer Incentive Plan.

Annual Incentive Targets. The HR Committee, in consultation with Towers Perrin and Company management, has established and periodically adjusts the annual incentive targets for all positions by salary grade. Annual incentive targets are expressed as a percentage of each participant s base earnings. Actual awards generally vary from 0% to 200% of the annual incentive target, although the HR Committee may approve larger awards.

In setting annual incentive targets, the Company and the HR Committee consider:

- The compensation survey information provided by Towers Perrin, which shows the competitiveness of AEP s annual incentive compensation targets, total cash compensation and total compensation for the named executive officers relative to the Compensation Peer Group;

- AEP s progression of incentive targets by salary grade; and

- The expense implications of any changes.

For 2007 the HR Committee established the following annual incentive targets for the named executive officers:

- 110 percent of base salary for Mr. Morris;

- 65 percent of base salary for Ms. Tomasky and Mr. English; and

- 60 percent of base salary for all other named executive officers.

Annual Performance Objectives. In February 2007 the HR Committee established AEP s 2007 ongoing earnings guidance of $2.85- $3.05 per share as the funding measure for AEP s annual incentive compensation program. This performance measure required earnings per share equal to:

- The low end of AEP s earnings guidance ($2.85 per share) for a threshold 20% of target score and award pool;

- The mid-point of AEP s earnings guidance ($2.95 per share) for a 100% of target score and award pool; and

- The high end of AEP s earnings guidance ($3.05 per share) for a maximum 200% of target score and award pool.

If ongoing earnings were less than $2.85 per share, no annual incentive compensation would have been paid out to the named executive officers or to other employees. The 2007 EPS target was $0.35 (or approximately 13.5%) higher than the 2006 EPS target. This performance measure had the effect of sharing earnings with employees such that every one cent increase in ongoing earnings per share above the mid-point resulted in an approximate 10% increase in incentive funding, up to a max-imum 200% of target funding at earnings of $3.05 per share.

In 2007 AEP produced ongoing EPS of $3.00, which was in the higher end of this range. This resulted in a 2007 ongoing earnings per share score of 156.0% of target and an award pool equal to 156.0% of the target award pool for the Company as a whole. For 2007, ongoing EPS differed from earnings per share reported in AEP s financial statements primarily because of a return to cost based regulation in Virginia and the effect of a settlement agreement resolving litigation regarding the Clean Air Act. See our Form 8-K filed on January 29, 2008 announcing 2007 fourth quarter and year-end earnings for a reconciliation of on-going and reported EPS.

For 2007 the HR Committee also established an Executive Council Scorecard to focus AEP s executive team on four key areas of performance: employee safety, operating performance, rate recovery and strategic initiatives.

Maintaining the safety of AEP employees, customers and the general public is always a primary consideration, and safety is an AEP core value. Accordingly, the HR Committee tied 25% of the scorecard to reducing accidents and the severity of injuries across the AEP system. In addition, the HR Committee established a fatality circuit-breaker to this component, such that any accidental work related employee fatality in 2007 would have resulted in a 0% score for this component. The frequency of on-the-job injury accidents substantially improved over 2006, although the severity of these accidents, as measured by lost work days, increased slightly. Most importantly, there were no fatal employee accidents on the job in 2007. As a result the overall 2007 safety score for the Executive Council was 80% of target.

The HR Committee also tied 25% of the scorecard to the operating performance of AEP s assets. This component measures the reliability of our wires assets, the availability of our generating plants and the environmental performance across the AEP system. In 2007 AEP achieved below target results for wires reliability and plant availability but above target environmental performance results, which produced an overall operating performance score of 65%.

Since AEP has undertaken many major capital investment projects, recovering these additional costs through rate proceedings is imperative to AEP s near and long-term success. Therefore, the HR Committee tied 25% of the scorecard to AEP s overall success in achieving rate recovery in regulatory proceedings at the Federal Energy Regulatory Commission and state public utility commissions. Since AEP performed above our overall budget expectation in 2007 regulatory proceedings, the HR Committee subjectively scored this component at 175% of target.

For 2007 the strategic initiatives category included performance measures related to improving workforce diversity, meeting reliability requirements established in 2007 by the North American Electric Reliability Corporation and preserving an option to go to market rates in Ohio in 2009 or the development of an acceptable rate stabilization plan for Ohio. AEP s overall performance towards these goals in 2007 produced a score of 114% of target.

The scores for the employee safety, operating performance, rate recovery and strategic initiatives goals for 2007 combined to produce an above target Executive Council Scorecard result of 108.5% of target.

In order to allocate the award pool created by AEP s EPS to each incentive group, typically a business unit or staff function, the resulting scores are divided by the weighted average performance score for all groups. For 2007 the average performance score for all groups in AEP s annual incentive compensation program was 126.0% of target. This same weighted average performance score is applied to the group that includes the named executive officers. The chart below shows the calculation of the overall performance score for the named executive officers.

Executive Council Score		EPS Score		Average Performance Score		Overall Performance Score*
108.5%	×	156.0%	÷	126.0%	=	134.4%

* The maximum overall performance score is 200%

The annual incentive opportunity for each employee for a given year is calculated by multiplying their base earnings by their annual incentive target and the overall award score for their group. This calculated bonus opportunity, shown in the chart below for each named executive officer, is the starting point from which annual incentive awards differences attributable to individual performance are reflected.

Name	2007 Base Earnings		Annual Incentive Target %		Overall Performance Score		Calculated Bonus Opportunity
Michael G. Morris	$ 1,200,000	×	110%	×	134.4%	=	$ 1,774,100
Holly K. Koeppel	$ 449,615	×	60%	×	134.4%	=	$ 362,600
Susan Tomasky	$ 500,000	×	65%	×	134.4%	=	$ 436,800
Carl L. English	$ 509,615	×	65%	×	134.4%	=	$ 445,200
Robert P. Powers	$ 489,423	×	60%	×	134.4%	=	$ 394,700
Thomas M. Hagan	$ 452,000	×	60%	×	134.4%	=	$ 364,500

The sum of the calculated bonus opportunity for all employees is the overall bonus pool for the Company. The use of this overall bonus pool generally ensures a disciplined award allocation process, since higher awards must be offset by lower awards to avoid exceeding the bonus pool.

The HR Committee believes that annual incentive compensation should not be purely based on a formulaic calculation, but should instead be adjusted from this starting point to reflect better each executive's individual performance, contribution and situation. Therefore, after each year is completed, the HR Committee considers the following factors in determining the amount of annual incentive compensation to be paid to each executive officer, up to the maximum amount available under the Senior Officer Incentive Plan:

The calculated bonus opportunity;