

Asset Management

The Power of a Balanced Perspective For Now and the Future

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American Electric Power



Why Asset Management

- **Pressure to improve cost/quality balance for customers**
- **Pressure to increase earnings for shareholders**
- **Need to bring regulatory perspective to spending decisions**
 - **timing of rate cases versus spending plans**
 - **focus on distribution as separate business**
 - **greater emphasis on performance measures**

Asset Management Balance

Managing and Balancing the Critical Perspectives is Key to Future Success in Distribution

- **Regulatory**
- **End customer reliability/quality of service**
- **Financial**
- **Technology**
- **Safety**

Asset Management is fundamentally a process to manage and balance these critical perspectives



Regulatory Challenges

- **Accurate, complete and timely information/reporting**
- **Avoiding unreasonable performance standards**
- **Meeting the performance standards**
- **Managing the relationships**
- **Managing the issues – distributed generation, momentary interruptions, etc.**

Reliability/Quality of Service Challenges

- Optimization of spend to achieve results at lowest cost
- Avoiding mandated expenditures/penalties
- Avoiding prescribed standards
- And Ultimately.....
 - Reliability of service is what Distribution sells



Financial Challenges

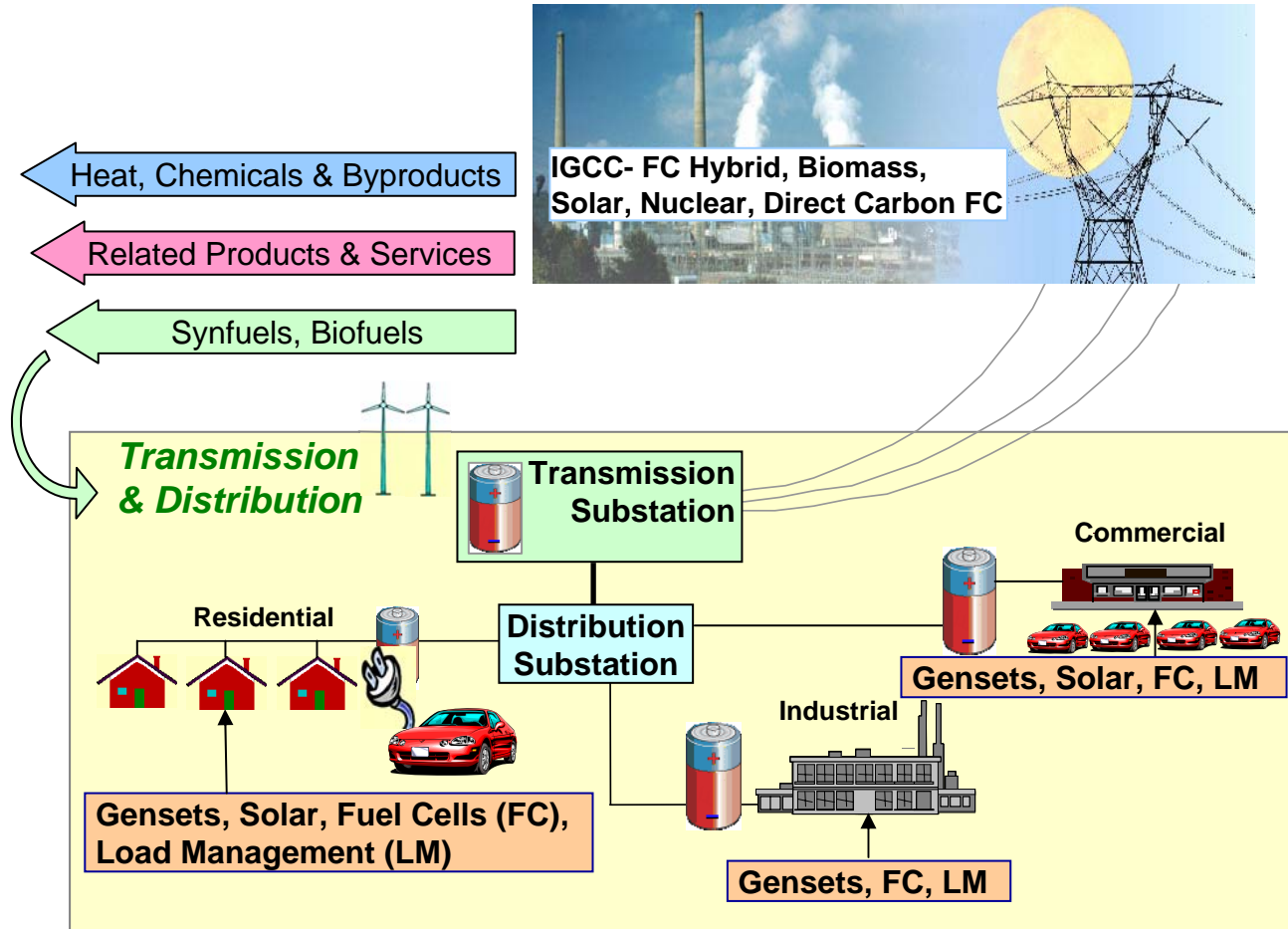
- **Earnings growth objectives**
- **Underutilized assets**
- **Price caps/timing of rate cases**
- **Competition with Generation and Transmission for capital and O&M**

Innovation and New Technology

- **AMI pilot in Columbus**
- **Sarnoff detector for voltage on equipment**
- **Automation**
- **Fuel Cells – Rolls Royce**
- **NAS battery**
- **Etc.**

AEP in 2027?

- How does AEP manage the opportunities and threats of this potential future?



There are No Major Technical Barriers to Achieving this Vision.



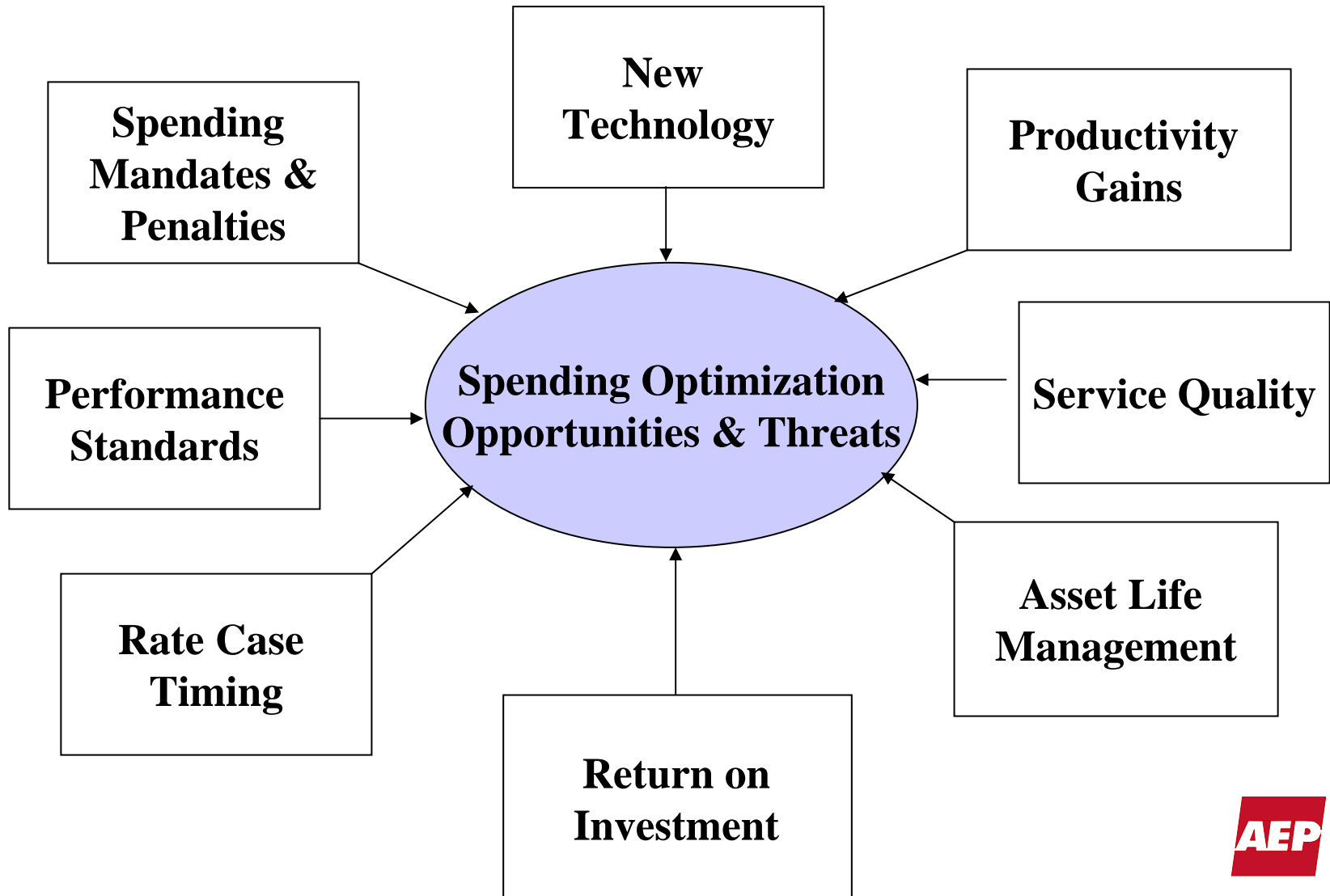
The Priority of Safety

**A non-negotiable core value
in all we plan and do at AEP Ohio!!**

- **Public**
- **Employee**



How to Find the Right Balance?



Asset Management - Key Capabilities Required

- **Asset analysis skills**
- **Expenditure optimization and tracking**
- **Knowledge of regulatory environment**
- **Knowledge of emerging technology**
- **Business skills**
- **Teamwork across organizations**
- **Supporting IT systems**

Individual capabilities are important but integration of all the capabilities is essential

Asset Management Within Multiple AEP Companies

Challenges:

- Expected contribution by each operating company to corporate earnings targets
- Varying regulatory environments across operating companies
- Varying customer expectations across operating companies
- Historical attention to asset issues such as replacements, maintenance and tree programs
- Control over allocated corporate costs
- Learning across operating companies and central organizations
- Leveraging common systems, process and analysis to reduce costs and create comparability across companies

