



Materiality: More Important than Ever

Sandy Nessing
Managing Director, Corporate Sustainability
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What I'll Cover Today

1. About AEP
2. Defining materiality
3. Why materiality matters
4. Layers of disclosure – aligning, rationalizing
5. Conducting an assessment
6. AEP's materiality assessment
7. Electric power industry's materiality assessment
8. Key Takeaways



American Electric Power

Company Overview 2015

American Electric Power has been providing electric service for more than 110 years and is one of the nation's largest electric utilities.

Regulated Customers (approximate, year-end in millions)	5.4	Service Territory (square miles)	200,000
Competitive Customers (approximate, year-end)	375,000	Transmission (miles)	40,000
Employees	17,405	765-kV Lines (miles)	2,114
GAAP Revenues (millions)	\$16,453	Distribution (miles)	224,000
GAAP Earnings (millions)	\$2,047	Generating Capacity	32,000 MW¹
GAAP Earnings Per Share	\$4.17	Generating Units	179²
Operating Earnings (millions)	\$1,808	Renewable Portfolio (hydro)	285 MW³
Operating Earnings Per Share	\$3.69	Pumped Storage	586 MW⁴
Cash Dividends Per Share	\$2.15	Regulated Renewable Portfolio (wind, solar)	2,193 MW⁵
		Total Kilowatt-hour Sales (millions)	195,755⁶

Defining Materiality



Securities & Exchange Commission

...{materiality} limits the information to those to which there is a substantial likelihood that a reasonable investor would attach importance in determining whether to buy a security...

Global Reporting Initiative

Disclosure should:

Reflect significant environmental, economic and social impacts.

Substantively influence decisions and assessments of stakeholders.

International Integrated Reporting Council

Information is material if omitting it or misstating it could influence decisions or assessments that users make with regard to an organization's ability to create value over the short, medium and long term.

Sustainability Accounting Standards Board

Material issues are matters that individually or in aggregate are important to the fair representation of an entity's financial condition and operational performance.

Why Materiality Matters

“*An ocean of definitions, principles, criteria, concepts and applications*”

- Central to disclosure, investment performance
- Speaks language management, stakeholders understand
- Eliminates the “noise” – keeps you focused on what really matters
- Competitive advantage – it is a strategic business tool
- Identifies trends on the horizon
- Helps to navigate stakeholder expectations, risks, opportunities
- Helps mitigate exposure to reputational and legal risks
- Demonstrated positive correlation between sustainability and financial performance when differentiating between material and immaterial sustainability issues*

**Source: Harvard Business School's 2015 study, Corporate Sustainability: First Evidence on Materiality*

Materiality Concept



Layers of Disclosure

- Reporting is increasingly important to satisfy stakeholders, manage risk, identify opportunity
- Frameworks offer conflicting materiality principles
- Different stakeholders, different agendas, different concerns
- Integrated disclosure increasingly important, especially for public companies
- To address layers of disclosure, materiality needs to be flexible, time-bound and heavily dependent on context



Conducting An Assessment

There is no universal right or wrong way to determine material topics.

- What's your objective?
- Who is your audience?
- Define what materiality means for your organization
- Define the scope – will it cover the entire value chain or just portions of the business?
- Make a list – what are potential topics to explore?
- Group issues together that make sense (i.e. cyber and physical security; safety and health)
- Survey your stakeholders – they can help prioritize, identify or eliminate topics
- Engage management – does your list align with the company's material risks?
- Communicate results – transparency is important

AEP defines materiality as:

Issues that that have affected, or are reasonably likely to affect, the company's reputation, the environment, public and employee safety, liquidity, credit standing, capital resources or operational results. These issues also take into account the concerns and interests of our many stakeholders.

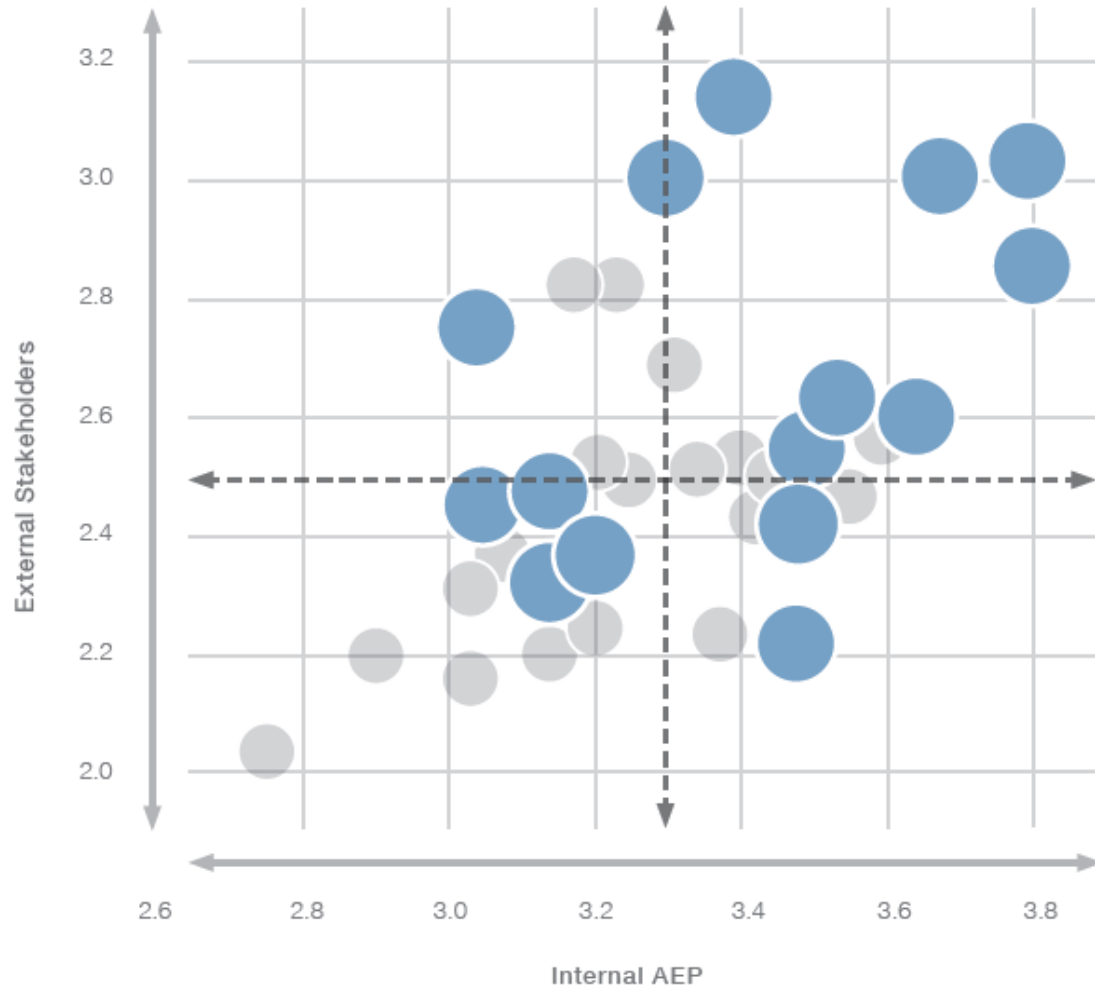
AEP's Materiality Assessment

- Analysis of current state
 - Reported on +80 issues in 2012
 - Narrowed to 36 and defined issues
- Stakeholder survey central to prioritization
 - +250 internal and external stakeholders
 - Included AEP Board members
 - Investor perspective
 - 56% response rate
- Narrowed priorities to 15 issues
 - Some shifts in priorities among stakeholder groups
 - Final list of issues modified to reflect business need
- Followed up with internal review of issues and input from stakeholders via normal stakeholder engagement process
- New Enterprise Sustainability Council – governance to help set priorities
 - Stakeholder engagement process incorporates material issues discussions, assessment

AEP's Materiality Assessment

AEP Materiality Matrix

Prioritized Issues

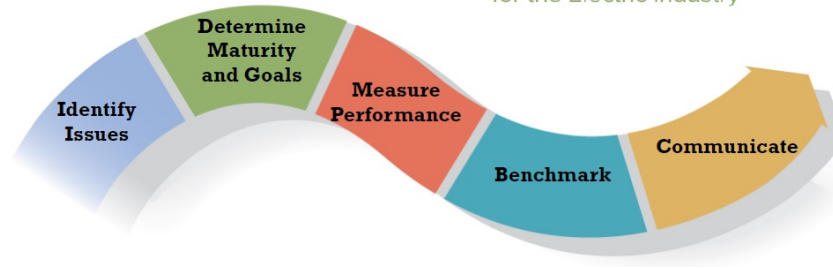


- Climate Change
- Cyber Security
- Economic Development
- Effective Partnerships & Engagement
- Energy Efficiency
- Energy Reliability & Security
- Environmental Performance
- Financial Performance
- Fuel Diversity
- Innovation & Technology
- Political Involvement & Lobbying Activities
- Rate Case & Regulatory Policy Management
- Safety & Health Compliance & Performance
- Value of Electricity
- Water

*Issues are listed in alphabetical order and not as a ranking of importance.

Industry Materiality Assessment

Advancing Strategic
SUSTAINABILITY
for the Electric Industry



Sustainability Pillar	Issues
Environmental	<ol style="list-style-type: none"> 1. Greenhouse gas emissions 2. Reductions of other air emissions 3. Water quality 4. Water availability 5. Habitat protection and biodiversity 6. Waste management
Social	<ol style="list-style-type: none"> 7. Public safety and health 8. Employee safety and health 9. Job satisfaction 10. Community support and economic development 11. Engagement and collaboration
Economic	<ol style="list-style-type: none"> 12. Energy reliability 13. Energy affordability 14. Skilled workforce availability 15. Economic viability of electric utilities

Clarifying Materiality Principles

Statement of Common Principles of Materiality of the Corporate Reporting Dialogue

Background

The Corporate Reporting Dialogue is designed to respond to market calls for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements. The initiative aims to:

- Communicate about the direction, content and ongoing development of reporting frameworks, standards and related requirements
- Identify practical means by which respective frameworks, standards and related requirements can be aligned and rationalized
- Share information, and express a common voice on areas of mutual interest, where possible, to engage key regulators.

The Corporate Reporting Dialogue includes the eight principal organizations chartered with establishing standards and guidance for reporting to investors, creditors and other stakeholders. Regardless of their individual missions, participants share a mutual interest in clarifying reporting concepts based on market demand. *The Statement of Common Principles of Materiality* is one response to this demand.



INTEGRATED REPORTING <IR>

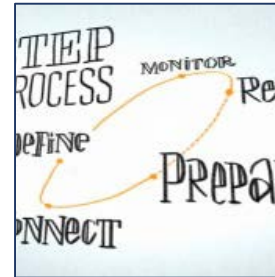


Key Takeaways



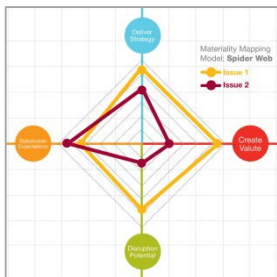
- Increasing interest in greater disclosure among all stakeholders.

- Not just about numbers anymore.
- Keeps you focused on what matters most to you and your stakeholders.



A materiality assessment is a collaborative process.

Stakeholder engagement (internal and external) is essential to achieving alignment.



- Validate results – does it align with your organization's risks, financial disclosure?

- Use judgment if results don't align with business or stakeholder interests



- Validate issues annually.

- Refresh when material changes occur that affect your company and your stakeholders.

Questions?



Sandy Nessing
Managing Director, Corporate Sustainability
American Electric Power



www.AEPsustainability.com



smnessing@AEP.com