**Risk Factors Comparison 2024-02-26 to 2023-02-23 Form: 10-K**

**Legend:** **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

GENERAL RISKS OF REGULATED OPERATIONS AEP may not be able to recover the costs of substantial planned investment in capital improvements and additions. (Applies to all Registrants) AEP' s business plan calls for extensive investment in capital improvements and additions, including the construction of additional transmission and renewable generation facilities, modernizing existing infrastructure, installation of environmental upgrades and retrofits as well as other initiatives. AEP' s public utility subsidiaries currently provide service at rates approved by one or more regulatory commissions. If these regulatory commissions do not approve adjustments to the rates charged, affected AEP subsidiaries would not be able to recover the costs associated with their investments. This would cause financial results to be diminished. Regulated electric revenues and earnings are dependent on federal and state regulation that may limit AEP' s ability to recover costs and other amounts. (Applies to all Registrants) The rates customers pay to AEP regulated utility businesses are subject to approval by the FERC and the respective state utility commissions of Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia. In certain instances, AEP' s applicable regulated utility businesses may agree to negotiated settlements related to various rate matters that are subject to regulatory approval. AEP cannot predict the ultimate outcomes of any settlements or the actions by the FERC or the respective state commissions in establishing rates. If regulated utility earnings exceed the returns established by the relevant commissions, retail electric rates may be subject to review and possible reduction by the commissions, which may decrease future earnings. Additionally, if regulatory bodies do not allow recovery of costs incurred in providing service on a timely basis, it could reduce future net income and cash flows and negatively impact financial condition. Similarly, if recovery or other rate relief authorized in the past is overturned or reversed on appeal, future earnings could be negatively impacted. Any regulatory action or litigation outcome that triggers a reversal of a regulatory asset or deferred cost generally results in an impairment to the balance sheet and a charge to the income statement of the company involved. **In addition, regulators have initiated and may initiate additional proceedings to investigate the prudence of costs in the AEP regulated utility businesses and in base rates and examine, among other things, the reasonableness or prudence of operation and maintenance practices, level of expenditures (including storm costs and costs associated with capital projects), allowed rates of return and rate base, proposed resource acquisitions, and previously incurred capital expenditures that the regulated utility businesses seek to place in rates. The regulators may disallow costs subject to their jurisdiction found not to have been prudently incurred or found not to have been incurred in compliance with applicable tariffs, creating some risk to the ultimate recovery of those costs. Regulatory proceedings relating to rates and other matters typically involve multiple parties seeking to limit or reduce rates. Traditional base rate proceedings, as opposed to formula rate plans, generally have long timelines, are primarily based on historical costs, and may or may not be limited in scope or duration by statute. The length of these base rate proceedings can cause the regulated utility businesses to experience regulatory lag in recovering costs through rates, such that they may not fully recover all costs during the rate effective period and may, therefore, earn less than their allowed returns. Decisions are typically subject to appeal, further exacerbating the regulatory lag and leading to additional uncertainty associated with rate case proceedings. The AEP regulated utility businesses have large customer and stakeholder bases and, as a result, could be the subject of public criticism or adverse publicity focused on issues including the operation and maintenance of their assets and infrastructure, their preparedness for major storms or other extreme weather events and / or the time it takes to restore service after such events, or the quality of their service or the reasonableness of the cost of their service. Criticism or adverse publicity of this nature could render legislatures and other governing bodies, public service commissions and other regulatory authorities, and government officials less likely to view the applicable operating company in a favorable light and could potentially negatively affect legislative or regulatory processes or outcomes, as well as lead to increased regulatory oversight or more stringent legislative or regulatory requirements or other legislation or regulatory actions that adversely affect the regulated utility businesses. The regulated utility businesses, and the energy industry as a whole, have experienced a period of rising costs and investments and an upward trend in spending, especially with respect to infrastructure investments, which is likely to continue in the foreseeable future and could result in more frequent rate cases and requests for, and the continuation of, cost recovery mechanisms, all of which could face resistance from customers and other stakeholders especially in a rising cost environment, whether due to inflation or high fuel prices or otherwise, and / or in periods of economic decline or hardship. Significant increases in costs could increase financing needs and otherwise adversely affect AEP' s business, financial position, results of operation, or cash flows.** See Note 4 – Rate Matters included in the ~~2022~~ **2023** Annual Report for additional information. AEP' s transmission investment strategy and execution are dependent on federal and state regulatory policy. (Applies to all Registrants) A significant portion of AEP' s earnings is derived from transmission investments and activities. FERC policy currently favors the expansion and updating of the transmission infrastructure within its jurisdiction. If the FERC were to adopt a different policy, if states were to limit or restrict such policies, or if transmission needs do not continue or develop as projected, AEP' s strategy of investing in transmission could be impacted. Management believes AEP' s experience with transmission facilities construction and operation gives AEP an advantage over other competitors in securing authorization to install, construct and operate new transmission lines and facilities. However, there can be no assurance that PJM, SPP, ERCOT or other RTOs will authorize new transmission projects or will award such projects to AEP. Certain elements of AEP' s transmission formula rates have been challenged, which could result in lowered rates and / or refunds of amounts previously collected and thus have an adverse effect on AEP' s business, financial condition, results of operations and cash flows. (Applies to all Registrants other than AEP Texas) AEP provides transmission service under rates regulated by the FERC. The FERC has approved the cost- based formula rate templates used by AEP to calculate its respective annual revenue requirements, but it has not expressly approved the amount of actual capital and operating expenditures to be used in the formula rates. All aspects of AEP' s rates accepted or approved by the FERC, including the formula rate templates, the rates of return on the actual equity portion of its respective capital structures and the approved targeted capital structures, are subject to challenge by interested parties at the FERC, or by the FERC on its own initiative. In addition, interested parties may challenge the annual implementation and calculation by AEP of its projected rates and formula rate true- up pursuant to its approved formula rate templates under AEP' s formula rate implementation protocols. If a challenger can establish that any of these aspects are unjust, unreasonable, unduly discriminatory or preferential, then the FERC can make appropriate prospective adjustments to them and / or disallow any of AEP' s inclusion of those aspects in the rate setting formula. Inquiries related to rates of return, as well as challenges to the formula rates of other utilities, are ongoing in other proceedings at the FERC. The results of these proceedings could potentially negatively impact AEP in any future challenges to AEP' s formula rates. If the FERC orders revenue reductions, including refunds, in any future cases related to its formula rates, it could reduce future net income and cash flows and impact financial condition. End- use consumers and entities supplying electricity to end- use consumers may also attempt to influence government and / or regulators to change the rate setting methodologies that apply to AEP, particularly if rates for delivered electricity increase substantially. AEP faces risks related to project siting, financing, construction, permitting, governmental approvals and the negotiation of project development agreements that may impede their development and operating activities. (Applies to all Registrants) AEP owns, develops, constructs, manages and operates electric generation, transmission and distribution facilities. A key component of AEP' s growth is its ability to construct and operate these facilities. As part of these operations AEP must periodically apply for licenses and permits from various local, state, federal and other regulatory authorities and abide by their respective conditions. Should AEP be unsuccessful in obtaining necessary licenses or permits on acceptable terms or resolving third- party challenges to such licenses or permits, should there be a delay in obtaining or renewing necessary licenses or permits or should regulatory authorities initiate any associated investigations or enforcement actions or impose related penalties or disallowances, it could reduce future net income and cash flows and impact financial condition. Any failure to negotiate successful project development agreements for new facilities with third- parties could have similar results. Changes in technology and regulatory policies may lower the value of electric utility facilities and franchises. (Applies to all Registrants) AEP primarily generates electricity at large central facilities and delivers that electricity to customers over its transmission and distribution facilities to customers usually situated within an exclusive franchise. This method results in economies of scale and generally lower costs than newer technologies such as fuel cells and microturbines, and distributed generation using either new or existing technology. Other technologies, such as light emitting diodes (LEDs), increase the efficiency of electricity and, as a result, lower the demand for it. Changes in regulatory policies and advances in batteries or energy storage, wind turbines **, small modular reactors** and photovoltaic solar cells are reducing costs of new technology to levels that are making them competitive with some central station electricity production and delivery. These developments can challenge AEP' s competitive ability to maintain relatively low cost, efficient and reliable operations, to establish fair regulatory mechanisms and to provide cost- effective programs and services to customers. Further, in the event that alternative generation resources are mandated, subsidized or encouraged through legislation or regulation or otherwise are economically competitive and added to the available generation supply, such resources could displace a higher marginal cost generating units, which could reduce the price at which market participants sell their electricity. AEP may not recover costs incurred to begin construction on projects that are canceled. (Applies to all Registrants) AEP' s business plan for the construction of new projects **, including providing service to new large load customers,** involves a number of risks, including **incomplete or inaccurate forecasting, planning and procurement,** construction delays, non-performance by equipment and other third- party suppliers and increases in equipment and labor costs. To limit the risks of these construction projects, AEP' s subsidiaries enter into **interconnection and service agreements,** equipment purchase orders and construction contracts and incur engineering and design service costs in advance of receiving necessary regulatory approvals **, cost recovery** and / or siting or environmental permits. If any of these projects are canceled for any reason, including **shifts in large customer needs, preferences or financial stability,** failure to receive necessary regulatory approvals **, cost recovery** and / or siting or environmental permits, significant **unrecoverable costs or** cancellation penalties under the equipment purchase orders and construction contracts could occur. In addition, if any construction work or investments have been recorded as an asset, an impairment may need to be recorded in the event the project is canceled. AEP is exposed to nuclear generation risk. (Applies to AEP and I & M) I & M owns the Cook Plant, which consists of two nuclear generating units for a rated capacity of 2, 296 MWs, or about a tenth of the regulated generating capacity in the AEP System **as of December 31, 2023** . AEP and I & M are, therefore, subject to the risks of nuclear generation, which include the following: • The potential harmful effects on the environment and human health due to an adverse incident / event resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials such as SNF. • Limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations. • Uncertainties with respect to contingencies and assessment amounts triggered by a loss event (federal law requires owners of nuclear units to purchase the maximum available amount of nuclear liability insurance **unless the NRC specifies a lesser amount** and potentially contribute to the coverage for losses of others). • Uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives. There can be no assurance that I & M' s preparations or risk mitigation measures will be adequate if these risks are triggered. The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non- compliance, the NRC has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. Revised safety requirements promulgated by the NRC could necessitate substantial capital expenditures at nuclear plants. In addition, although management has no reason to anticipate a serious nuclear incident at the Cook Plant, if an incident did occur, it could harm results of operations or financial condition. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit. Moreover, a major incident at any nuclear facility in the U. S. could require AEP or I & M to make material contributory payments. Costs associated with the operation (including fuel), maintenance and retirement of nuclear plants continue to be more significant and less predictable than costs associated with other sources of generation, in large part due to changing regulatory requirements and safety standards, availability of nuclear waste disposal facilities and experience gained in the operation of nuclear facilities. Costs also may include replacement power, any unamortized investment at the end of the useful life of the Cook Plant (whether scheduled or premature), the carrying costs of that investment and retirement costs. The ability to obtain adequate and timely recovery of costs associated with the Cook Plant is not assured. AEP subsidiaries are exposed to risks through participation in the market and transmission structures in various regional power markets that are beyond their control. (Applies to all Registrants) Results are likely to be affected by differences in the market and transmission structures in various regional power markets. The rules governing the various RTOs, including SPP and PJM, may also change from time to time which could affect costs or revenues. Existing, new or changed rules of these RTOs could result in significant additional fees and increased costs to participate in those structures, including the cost of transmission facilities built by others due to changes in transmission rate design. In addition, these RTOs may assess costs resulting from improved transmission reliability, reduced transmission congestion and firm transmission rights. As members of these RTOs, AEP' s subsidiaries are subject to certain additional risks, including the allocation among existing members, of losses caused by unreimbursed defaults of other participants in these markets and resolution of complaint cases that may seek refunds of revenues previously earned by members of these markets. AEP could be subject to higher costs and / or penalties related to mandatory reliability standards. (Applies to all Registrants) Owners and operators of the bulk power transmission system are subject to mandatory reliability standards promulgated by the NERC and enforced by the FERC. The standards are based on the functions that need to be performed to ensure the bulk power system operates reliably and are guided by reliability and market interface principles. Compliance with new reliability standards may subject AEP to higher operating costs and / or increased capital expenditures. While management expects to recover costs and expenditures from customers through regulated rates, there can be no assurance that the applicable commissions will approve full recovery in a timely manner. If AEP were found not to be in compliance with the mandatory reliability standards, AEP could be subject to sanctions, including substantial monetary penalties, which likely would not be recoverable from customers through regulated rates. A substantial portion of the receivables of AEP Texas is concentrated in a small number of REPs, and any delay or default in payment could adversely affect its cash flows, financial condition and results of operations. (Applies to AEP and AEP Texas) AEP Texas collects receivables from the distribution of electricity from REPs that supply the electricity it distributes to its customers. As of December 31, ~~2022~~ **2023** , AEP Texas did business with approximately ~~127~~ **124** REPs. Adverse economic conditions, structural problems in the market served by ERCOT or financial difficulties of one or more REPs could impair the ability of these REPs to pay for these services or could cause them to delay such payments. AEP Texas depends on these REPs to remit payments on a timely basis. Applicable regulatory provisions require that customers be shifted to another REP or a provider of last resort if a REP cannot make timely payments. Applicable PUCT regulations significantly limit the extent to which AEP Texas can apply normal commercial terms or otherwise seek credit protection from firms desiring to provide retail electric service in its service territory, and AEP Texas thus remains at risk for payments related to services provided prior to the shift to another REP or the provider of last resort. In ~~2022~~ **2023** , AEP Texas' two largest REPs accounted for ~~45~~ **41** % of its operating revenue. Any delay or default in payment by REPs could adversely affect cash flows, financial condition and results of operations. If a REP were unable to meet its obligations, it could consider, among various options, restructuring under the bankruptcy laws, in which event such REP might seek to avoid honoring its obligations, and claims might be made by creditors involving payments AEP Texas had received from such REP. Ohio House Bill 6 (HB 6), which provides for beneficial cost recovery for OPCo and for plants owned by OVEC, has come under public scrutiny. (Applies to AEP and OPCo) In 2019, Ohio adopted and implemented HB 6 which benefits OPCo by authorizing rate recovery for certain costs including renewable energy contracts, OVEC' s coal- fired generating units and energy efficiency measures. AEP and OPCo engaged in lobbying efforts and provided testimony during the legislative process in connection with HB 6. In July 2020, an investigation led by the U. S. Attorney' s Office resulted in a federal grand jury indictment of an Ohio legislator and associates **and Generation Now, an entity registered as a 501 (c) (4) social welfare organization,** in connection with an alleged racketeering conspiracy involving the adoption of HB 6. **Certain defendants in that case had previously plead guilty** ~~The outcome of the U. S. Attorney' s Office investigation~~ and ~~its impact on HB 6 is not known~~ **, in March 2023, a federal jury convicted the Ohio legislator and another individual of participating in the racketeering conspiracy** . If certain provisions of HB 6 were to be eliminated, it is unclear whether new legislation addressing similar issues would be adopted. To the extent that OPCo is unable to recover the costs currently authorized by HB 6, it could reduce future net income and cash flows and impact financial condition. In addition, the impact of continued public scrutiny of HB 6 is not known ~~,~~ and may have an adverse impact on AEP and OPCo, including their relationship with regulatory and legislative authorities, customers and other stakeholders. AEP is a defendant in current litigation relating to HB 6 and AEP or OPCo may be involved in future litigation. RISKS RELATED TO MARKET, ECONOMIC OR FINANCIAL VOLATILITY AND OTHER RISKS AEP' s financial performance may be adversely affected if AEP is unable to successfully operate facilities or perform certain corporate functions. (Applies to all Registrants) Performance is highly dependent on the successful operation of generation, transmission and / or distribution facilities. Operating these facilities involves many risks, including: • Operator error and breakdown or failure of equipment or processes. • Operating limitations that may be imposed by environmental or other regulatory requirements. • Labor disputes. • Compliance with mandatory reliability standards, including mandatory ~~cyber security~~ **cybersecurity** standards. • Information technology failure that impairs AEP' s information technology infrastructure or disrupts normal business operations. • Information technology failure that affects AEP' s ability to access customer information or causes loss of confidential or proprietary data that materially and adversely affects AEP' s reputation or exposes AEP to legal claims. • Supply chain disruptions and inflation. • Fuel or water supply interruptions caused by transportation constraints, adverse weather such as drought, non- performance by suppliers and other factors. • Catastrophic events such as fires, earthquakes, explosions, hurricanes, ~~tornados~~ **tornadoes** , ice storms, terrorism (including cyber- terrorism), floods or other similar occurrences. • Fuel costs and related requirements triggered by financial stress in the coal industry. Physical attacks or hostile cyber intrusions could severely impair operations, lead to the disclosure of confidential information and damage AEP' s reputation. (Applies to all Registrants) AEP and its regulated utility businesses face physical security and cybersecurity risks as the owner- operators of generation, transmission and / or distribution facilities and as participants in commodities trading. AEP and its regulated utility businesses own assets deemed as critical infrastructure, the operation of which is dependent on information technology systems. Further, the computer systems that run these facilities are not completely isolated from external networks. Parties that wish to disrupt the U. S. bulk power system or AEP operations could view these computer systems, software or networks as targets for cyber- attack. The Federal government has notified the owners and operators of critical infrastructure, such as AEP, that the conflict between Russia and Ukraine has increased the likelihood of a cyber- attack on such systems. In addition, the electric utility business requires the collection of sensitive customer data, as well as confidential employee and shareholder information, which is subject to electronic theft or loss. A security breach of AEP or its regulated utility businesses' physical assets or information systems, interconnected entities in RTOs, or regulators could impact the operation of the generation fleet and / or reliability of the transmission and distribution system. AEP and its regulated utility businesses could be subject to financial harm associated with ransomware theft or inappropriate release of certain types of information, including sensitive customer, vendor, employee, trading or other confidential data. A successful cyber- attack on the systems that control generation, transmission, distribution or other assets could severely disrupt business operations, preventing service to customers or collection of revenues. The breach of certain business systems could affect the ability to correctly record, process and report financial information. A major cyber incident could result in significant expenses to investigate and repair security breaches or system damage and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to AEP' s reputation. In addition, the misappropriation, corruption or loss of personally identifiable information and other confidential data could lead to significant breach notification expenses and mitigation expenses such as credit monitoring. AEP and its third- party vendors have been subject, and will likely continue to be subject, to attempts to gain unauthorized access to their technology systems and confidential data or to attempts to disrupt utility and related business operations. While there have been immaterial incidents of phishing, unauthorized access to technology systems, financial fraud, and disruption of remote access across the AEP ~~System~~ **subsidiaries** , there has been no material impact on business or operations from these attacks **to date. Similarly, some of AEP' s third- party vendors have experienced cybersecurity incidents, though such incidents have not, to AEP' s knowledge, resulted in a material impact to AEP to date** . However, AEP cannot guarantee that security efforts will detect or prevent **future** breaches, operational incidents, or other breakdowns of technology systems and network infrastructure and cannot provide any assurance that such incidents will not have a material adverse effect in the future. **While AEP maintains insurance relating to cybersecurity events, such insurance is subject to a number of exclusions and may be insufficient to offset any losses, costs or damages experienced. Also, the market for cybersecurity insurance is relatively new and coverage available for cybersecurity events is evolving as the industry matures. AEP is subject to standards enacted by the North American Electric Reliability Corporation and enforced by FERC regarding protection of critical infrastructure assets required for operating North America' s bulk electric system. While AEP believes it is in compliance with such standards and regulations, AEP has been, and may in the future be, found to be in violation of such standards and regulations. To date, such violations have not resulted in material financial penalties; however, management can give no assurance that compliance efforts will not result in material penalties in the future. In addition, compliance with or changes in the applicable standards and regulations may subject AEP to higher operating costs and / or increased capital expenditures as well as substantial fines for non- compliance. The failure of AEP or third- party vendor information technology systems, or the failure to enhance existing information technology systems and implement new technology, could adversely affect AEP. (Applies to all Registrants) AEP' s operations are dependent upon the proper functioning of its internal systems, including the information technology systems that support our underlying business processes. Any significant failure or malfunction of such information technology systems may result in disruptions of our operations. In the ordinary course of business, we rely on information technology systems, including the internet and third- party hosted services, to support a variety of business processes and activities and to store sensitive data, including (i) intellectual property, (ii) proprietary business information, (iii) personally identifiable information of our customers, employees, retirees and shareholders and (iv) data with respect to invoicing and the collection of payments, accounting, procurement, and supply chain activities. Our information technology systems are dependent upon global communications and cloud service providers, as well as their respective vendors, many of whom have at some point experienced significant system failures and outages in the past and may experience such failures and outages in the future. These providers' systems are susceptible to cybersecurity and data breaches, outages from fire, floods, power loss, telecommunications failures, break- ins and similar events. Failure to prevent or mitigate data loss from system failures or outages could materially affect AEP' s results of operations, financial position and cash flows.** The amount of taxes imposed on AEP could change. (Applies to all Registrants) AEP is subject to income taxation at the federal level and by certain states and municipalities. In determining AEP' s income tax liability for these jurisdictions, management monitors changes to the applicable tax laws and related regulations, including tax incentives and credits designed to support the sale of energy from utility scale renewable energy facilities. While management believes AEP complies with current prevailing laws, one or more taxing jurisdictions could seek to impose incremental or new taxes on the company. In addition, any adverse developments in tax laws, incentives, credits or regulations, including legislative changes, judicial holdings or administrative interpretations, could have a material and adverse effect on financial condition and results of operations. If AEP is unable to access capital markets or insurance markets on reasonable terms, it could reduce future net income and cash flows and negatively impact financial condition. (Applies to all Registrants) AEP relies on access to capital markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows or proceeds from the strategic sale of assets and investments, including subsidiaries **or portions thereof** ~~such as the planned sale of KPCo and KTCo and AEP Renewables' competitive contracted renewable portfolio~~ , and insurance markets to assist in managing its risk and liability profile. Volatility, increased interest rates and reduced liquidity in the financial markets could affect AEP' s ability to raise capital on reasonable terms to fund capital needs, including construction costs and refinancing maturing indebtedness **. In addition, AEP has exposure to international banks, including those in Europe, Canada, and Asia. Disruptions in these markets could reduce or restrict the AEP' s ability to secure sufficient liquidity or secure liquidity at reasonable terms. As of December 31, 2023, approximately 10 %, 17 %, and 16 % of the Registrants' available credit facilities were with European, Canadian, and Asian banks, respectively** . Certain sources of insurance and debt and equity capital have expressed increasing unwillingness to procure insurance for or to invest in companies, such as AEP, that rely on fossil fuels. The public holds diverse and often conflicting views on the use of fossil fuels. AEP has multiple stakeholders, including our shareholders, customers, associates, federal and state regulatory authorities, and the communities in which AEP operates, and these stakeholders will often have differing priorities and expectations regarding issues related to the use of fossil fuels. Any adverse publicity in connection with AEP' s use of fossil fuels could curtail availability from certain sources of capital. If sources of capital for AEP are reduced and / or expected sale proceeds do not become available, capital costs could increase materially. Restricted access to capital or insurance markets and / or increased borrowing costs or insurance premiums could reduce future net income and cash flows and negatively impact financial condition **. If AEP is not able to access debt or equity at competitive rates or at all, the ability to finance its operations and implement its strategy and business plan as scheduled could be adversely affected. An inability to access debt and equity may limit AEP' s ability to pursue improvements or acquisitions that it may otherwise rely on for future growth** . Our financial position may be adversely impacted if announced dispositions do not occur as planned or if assets under strategic evaluation lose value. (Applies to AEP) In ~~October~~ **April** ~~2021~~ **2023** , AEP ~~entered into~~ **initiated a sales process for its ownership in AEP Energy and AEP Onsite Partners. AEP Onsite Partners also owns a 50 % interest in NM Renewable Development, LLC, (NMRD). Separate from the remainder of AEP Onsite Partners, AEP and the joint owner have signed** an agreement **in December 2023** to sell **NMRD to** ~~KPCo and KTCo for approximately~~ a ~~$ 2~~ **non- affiliated third- party** . **Any planned** ~~85 billion enterprise value. In September 2022, the agreement was amended to reduce the purchase price to approximately $ 2. 646 billion, among other terms. The~~ sale **of assets** ~~remains subject to regulatory approval~~ and **investments, including subsidiaries, may** ~~if it is not approved on terms acceptable to AEP or if the sale does~~ not occur for any **number of** ~~reason~~ **reasons beyond our control, including regulatory approval. If AEP is unable to recover the net book value or carrying value of these assets as part of the sale process** , it could reduce future net income ~~and cash flow and impact financial condition. In February 2023, AEP signed an agreement to sell the AEP Renewables' competitive contracted renewables portfolio to a nonaffiliated party for $ 1. 5 billion including the assumption of project debt. The sale is subject to regulatory approval. Any announced sale of assets and investments, including subsidiaries, may not occur for any number of reasons beyond our control, including regulatory approval on terms that are acceptable. AEP has initiated a strategic evaluation for its ownership in AEP Energy, a wholly- owned retail energy supplier that supplies electricity and / or natural gas to residential, commercial and industrial customers. AEP has not made a decision regarding the potential alternatives and expects to complete the evaluation in the first half of 2023. Certain of these alternatives could result in a loss which could reduce future net income and cash flow~~ and impact financial condition. Shareholder activism could cause AEP to incur significant expense, hinder execution of AEP' s business strategy and impact AEP' s stock price. (Applies to all Registrants) Shareholder activism, which can take many forms and arise in a variety of situations, could result in substantial costs and divert management' s and AEP' s board' s attention and resources from AEP' s business. Additionally, such shareholder activism could give rise to perceived uncertainties as to AEP' s future, adversely affect AEP' s relationships with its employees, customers or service providers and make it more difficult to attract and retain qualified personnel. Also, AEP may be required to incur significant fees and other expenses related to activist shareholder matters, including for third- party advisors. AEP' s stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any shareholder activism. Downgrades in AEP' s credit ratings could negatively affect its ability to access capital. (Applies to all Registrants) The credit ratings agencies periodically review AEP' s capital structure and the quality and stability of earnings and cash flows. Any negative ratings actions could constrain the capital available to AEP and could limit access to funding for operations. AEP' s business is capital intensive, and AEP is dependent upon the ability to access capital at rates and on terms management determines to be attractive. If AEP' s ability to access capital becomes significantly constrained, AEP' s interest costs will likely increase and **that** could reduce future net income and cash flows and negatively impact financial condition. AEP and AEPTCo have no income or cash flow apart from dividends paid or other payments due from their subsidiaries. (Applies to AEP and AEPTCo) AEP and AEPTCo are holding companies and have no operations of their own. Their ability to meet their financial obligations associated with their indebtedness and to pay dividends is primarily dependent on the earnings and cash flows of their operating subsidiaries, primarily their regulated utilities, and the ability of their subsidiaries to pay dividends to ~~,~~ **them** or repay loans from them. Their subsidiaries are separate and distinct legal entities that have no obligation (apart from loans from AEP or AEPTCo) to provide them with funds for their payment obligations, whether by dividends, distributions or other payments. Payments to AEP or AEPTCo by their subsidiaries are also contingent upon their earnings and business considerations. AEP and AEPTCo indebtedness and dividends are structurally subordinated to all subsidiary indebtedness. AEP' s operating results may fluctuate on a seasonal or quarterly basis and with general economic and weather conditions. (Applies to all Registrants) Electric power consumption is generally seasonal. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. As a result, overall operating results in the future may fluctuate substantially on a seasonal basis. In addition, AEP has historically sold less power, and consequently earned less income, when weather conditions are milder. Unusually mild weather in the future could reduce future net income and cash flows and negatively impact financial condition. In addition, unusually extreme weather conditions could impact AEP' s results of operations in a manner that would not likely be sustainable. Further, deteriorating economic conditions triggered by any cause, including international tariffs, generally result in reduced consumption by customers, particularly industrial customers who may curtail operations or cease production entirely, while an expanding economic environment generally results in increased revenues. As a result, prevailing economic conditions may reduce future net income and cash flows and negatively impact financial condition. Volatility in the securities markets, interest rates, and other factors could substantially increase defined benefit pension and other postretirement plan costs and the costs of nuclear decommissioning. (Applies to all Registrants and to AEP and I & M with respect to the costs of nuclear decommissioning) The costs of providing pension and other postretirement benefit plans are dependent on a number of factors, such as the rates of return on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plan, changes in actuarial assumptions, future government regulation, changes in life expectancy and the frequency and amount of AEP' s required or voluntary contributions made to the plans. Changes in actuarial assumptions and differences between the assumptions and actual values, as well as a significant decline in the value of investments that fund the pension and other postretirement plans, if not offset or mitigated by a decline in plan liabilities, could increase pension and other postretirement expense, and AEP could be required from time to time to fund the pension plan with significant amounts of cash. Such cash funding obligations could have a material impact on liquidity by reducing cash flows and could negatively affect results of operations. Additionally, I & M holds a significant amount of assets in its nuclear decommissioning trusts to satisfy obligations to decommission its nuclear plant. The rate of return on assets held in those trusts can significantly impact both the costs of decommissioning and the funding requirements for the trusts. Supply chain disruptions and inflation could negatively impact our operations and corporate strategy. (Applies to all Registrants) AEP' s operations and business plans depend on the global supply chain to procure the equipment, materials and other resources necessary to build and provide services in a safe and reliable manner. The delivery of components, materials, equipment and other resources that are critical to AEP' s business operations and corporate strategy has been restricted by domestic and global supply chain upheaval. This has resulted in the shortage of critical items. International tensions, including the ramifications of regional conflict, could further exacerbate the global supply chain upheaval. These disruptions and shortages could adversely impact business operations and corporate strategy. The constraints in the supply chain could restrict the availability and delay the construction, maintenance or repair of items that are needed to support normal operations or are required to execute on AEP' s corporate strategy for continued capital investment in utility equipment **and impact AEP' s strategy to transition its generation fleet** . These disruptions and constraints could reduce future net income and cash flows and possibly harm AEP' s financial condition. Supply chain disruptions have contributed to higher prices of components, materials, equipment and other needed commodities and these inflationary increases may continue in the future. The economy in the United States has encountered a material level of inflation compared to the recent past and that has contributed to increased uncertainty in the outlook of near- term economic activity, including the level of future inflation and the possibility of a recession. AEP typically recovers increases in capital expenses from customers through rates in regulated jurisdictions. Failure to recover increased capital costs could reduce future net income and cash flows and possibly harm AEP' s financial condition. Increases in inflation raises our costs for labor, materials and services, and failure to secure these on reasonable terms may adversely impact our financial condition. AEP' s results of operations and cash flows may be negatively affected by a lack of growth or slower growth in the number of customers, a decline in customer demand or a recession. (Applies to all Registrants) Growth in customer accounts and growth of customer usage each directly influence demand for electricity and the need for additional power generation and delivery facilities. Customer growth and customer usage are affected by a number of factors outside the control of AEP, such as mandated energy efficiency measures, demand- side management goals, distributed generation resources and economic and demographic conditions, such as population changes, job and income growth, housing starts, new business formation and the overall level of economic activity, including changes due to public health considerations. Certain regulatory and legislative bodies have introduced or are considering requirements and / or incentives to further reduce energy consumption. Additionally, technological advances or other improvements in or applications of technology could lead to declines in per capita energy consumption. Some or all of these factors, could impact the demand for electricity. Failure to attract and retain an appropriately qualified workforce could harm results of operations. (Applies to all Registrants) Certain events, such as an aging workforce without appropriate replacements, mismatch of skillset or complement to future needs, or unavailability of contract resources may lead to operating challenges and increased costs. The challenges include potential higher rates of existing employee departures, lack of resources, loss of knowledge and a lengthy time period associated with skill development. In this case, costs, including costs for contractors to replace employees, productivity costs and safety costs, may rise. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect the ability to manage and operate the business. If AEP is unable to successfully attract and retain an appropriately qualified workforce, future net income and cash flows may be reduced. Changes in the price of purchased power and commodities, the cost of procuring fuel, emission allowances for criteria pollutants and the costs of transport may increase AEP' s cost of purchasing and producing power, impacting financial performance. (Applies to all Registrants except AEP Texas, AEPTCo and OPCo) AEP is exposed to changes in the price and availability of purchased power and fuel (including the cost to procure coal and gas) and the price and availability to transport fuel. AEP has existing contracts of varying durations for the supply of fuel, but as these contracts end or if they are not honored, AEP may not be able to purchase fuel on terms as favorable as the current contracts. AEP typically recovers increases in fuel expenses and purchased power from customers in regulated jurisdictions. Failure to recover these costs could reduce future net income and cash flows and possibly harm AEP' s financial condition. The inability to procure fuel at costs that are economical could cause AEP to retire generating capacity prior to the end of its useful life, and while AEP typically recovers expenditures for undepreciated plant balances, there can be no assurance in the future that AEP will recover such costs. Similarly, AEP is exposed to changes in the price and availability of emission allowances. AEP uses emission allowances based on the amount of fuel used and reductions achieved through emission controls and other measures. Based on current environmental programs remaining in effect, AEP has sufficient emission allowances available through either EPA original issuance or market purchases to cover projected needs for the next two years and beyond. Additional costs may be incurred either to acquire additional allowances or to achieve further reductions in emissions. If AEP needs to obtain allowances, those purchases may not be on as favorable terms as those under the current environmental programs. AEP' s risks relative to the price and availability to transport coal include the volatility of the price of diesel which is the primary fuel used in transporting coal by barge. Prices for coal, natural gas and emission allowances have shown material swings in the past. Changes in the cost of purchased power, fuel or emission allowances and changes in the relationship between such costs and the market prices of power could reduce future net income and cash flows and negatively impact financial condition. In addition, actual power prices and fuel costs will differ from those assumed in financial projections used to value trading and marketing transactions, and those differences may be material. As a result, as those transactions are marked- to- market, they may impact future results of operations and cash flows and impact financial condition. AEP is subject to physical and financial risks associated with climate change. (Applies to all Registrants) Climate change creates physical and financial risk. Physical risks from climate change may include an increase in sea level and changes in weather conditions, such as changes in precipitation and extreme weather events, such as fires. Customers' energy needs vary with weather conditions, primarily temperature and humidity. For residential customers, heating and cooling represent their largest energy use. To the extent weather conditions are affected by climate change, customers' energy use could increase or decrease depending on the duration and magnitude of the changes. Increased energy use due to weather changes may require AEP to invest in additional generating assets, transmission and other infrastructure to serve increased load. Decreased energy use due to weather changes may affect financial condition through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stress, including service interruptions. Weather conditions outside of the AEP service territory could also have an impact on revenues. AEP buys and sells electricity depending upon system needs and market opportunities. Extreme weather conditions creating high energy demand on AEP' s own and / or other systems may raise electricity prices as AEP buys short- term energy to serve AEP' s own system, which would increase the cost of energy AEP provides to customers. Severe weather and weather- related events impact AEP' s service territories, primarily when thunderstorms, tornadoes, hurricanes, fires, floods and snow or ice storms occur. To the extent the frequency and intensity of extreme weather events and storms increase, AEP' s cost of providing service will increase, including the costs and the availability of procuring insurance related to such impacts, and these costs may not be recoverable. Changes in **wind patterns or in** precipitation resulting in droughts, water shortages or floods could adversely affect operations, principally **wind generation facilities for changes in wind patterns and** the fossil fuel generating units **for changes in precipitation** . A **change in wind patterns or a** negative impact to water supplies due to long- term drought conditions or severe flooding could adversely impact AEP' s ability to provide electricity to customers, as well as increase the price they pay for energy. AEP may not recover all costs related to mitigating these physical and financial risks. To the extent climate change impacts a region' s economic health, it may also impact revenues. AEP' s financial performance is tied to the health of the regional economies AEP serves. The price of energy, as a factor in a region' s cost of living as well as an important input into the cost of goods and services, has an impact on the economic health of the communities within ~~the~~ AEP ~~System~~ **' s service territories. Climate change may impact the economy, which could impact our sales and revenues. The cost of additional regulatory requirements, such as regulation of carbon dioxide emissions, could impact the availability of goods and prices charged by AEP' s suppliers which would normally be borne by consumers through higher prices for energy and purchased goods. To the extent financial markets view climate change and carbon dioxide emissions as a financial risk, this could negatively affect AEP' s ability to access capital markets or cause AEP to receive less than ideal terms and conditions in capital markets. The generation, transmission and distribution of electricity are dangerous and involve inherent risks of damage to private property and injury to AEP' s workforce and the general public. (Applies to all Registrants) Electricity poses hazards for AEP' s workforce and the general public in the event that either comes in contact with electrical current or equipment, including through energized downed power lines or through equipment malfunctions. In addition, the risks associated with the operation of transmission and distribution assets and power generation and storage facilities include public and workforce safety issues and the risk of utility assets causing or contributing to wildfires. Deaths, injuries and property damage caused by such events can subject AEP to liability that, despite the existence of insurance coverage, can be significant. In addition, AEP may be held responsible for the actions of its contractors. No assurance can be given that future losses will not exceed the limits of AEP' s or its contractors' insurance coverage** . Management cannot predict the outcome of the legal proceedings relating to AEP' s business activities. (Applies to all Registrants) AEP is involved in legal proceedings, claims and litigation arising out of its business operations, the most significant of which are summarized in Note 6- Commitments, Guarantees and Contingencies included in the ~~2022~~ **2023** Annual Report. Adverse outcomes in these proceedings could require significant expenditures that could reduce future net income and cash flows and negatively impact financial condition. Disruptions at power generation facilities owned by third- parties could interrupt the sales of transmission and distribution services. (Applies to AEP and AEP Texas) AEP Texas transmits and distributes electric power that the REPs obtain from power generation facilities owned by third- parties. If power generation is disrupted or if power generation capacity is inadequate, sales of transmission and distribution services may be diminished or interrupted, and results of operations, financial condition and cash flows could be adversely affected. Management is unable to predict the course, results or impact, if any, of current or future litigation or investigations relating to the ~~extreme~~ **severe** winter weather in Texas in February 2021. (Applies to AEP and AEP Texas) As a result of the February 2021 severe winter weather in Texas which caused a shortage of electric generation, ERCOT instructed AEP Texas and other Texas electric utilities to initiate power outages to avoid a sustained large-scale outage and prevent long- term damage to the electric system. At its peak, approximately 468, 000 (44 %) AEP Texas customers were without power. **In February 2021,** AEP Texas ~~and~~ **received a Civil Investigative Demand from the Office of the Attorney General of Texas requesting, among** other **data, information about its communications to and from ERCOT, PUCT, retail electric providers, utilities, or power generation companies, concerning power outages related to the February 2021 winter storm. The company responded to the Civil Investigative Demand in March 2021.** AEP ~~entities~~ **Parent and AEP Texas** are named in approximately 100 lawsuits ~~generally~~ alleging ~~the failure to exercise reasonable care in maintaining~~ **multiple claims of wrongful death, personal injury, property damage** and ~~updating their -~~ **other** ~~generation~~ **injuries and damages. Certain wind farms formerly owned by AEP have also been named as defendants in up to approximately 125 lawsuits** , **along with other Texas energy companies and** transmission and distribution **utilities. Most of** ~~facilities in order to prevent cold-weather failures and other -~~- **the** ~~related negligence~~ **lawsuits contain hundreds of plaintiffs and one of the suits is a purported class action on behalf of all customers in ERCOT** . The complaints seek monetary damages among other forms of relief. ~~In February 2021, AEP~~ **The litigation has been consolidated into a multi- district litigation (MDL) proceeding in** Texas **state court** ~~received a Civil Investigative Demand from the Office of the Attorney General of Texas requesting, among other data, information about its communications to and from ERCOT, PUCT, retail electric providers, utilities, or power generation companies, concerning power outages related to the February 2021 winter storm~~ . The **judge overseeing** ~~company responded to~~ the ~~Civil Investigative Demand in March 2021~~ **MDL issued an initial case management order and stayed all proceedings and discovery** . Management is unable to predict the course or outcome of these or any future litigation or investigations or their impact, if any, on future results of operations, financial condition and cash flows. Hazards associated with high- voltage electricity transmission may result in suspension of AEP' s operations or the imposition of civil or criminal penalties. (Applies to all Registrants) AEP operations are subject to the usual hazards associated with high- voltage electricity transmission, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, equipment interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases and other environmental risks. The hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage, and may result in suspension of operations and the imposition of civil or criminal penalties. AEP maintains property and casualty insurance, but AEP is not fully insured against all potential hazards incident to AEP' s business, such as damage to poles, towers and lines or losses caused by outages. AEPTCo depends on ~~its~~ **AEP** affiliates ~~in the AEP System~~ for a substantial portion of its revenues. (Applies to AEPTCo) AEPTCo' s principal transmission service customers are ~~its~~ **AEP** affiliates ~~in the AEP System~~. Management expects that these affiliates will continue to be AEPTCo' s principal transmission service customers for the foreseeable future. For the year ended December 31, ~~2022~~ **2023** , ~~its~~ **AEP** affiliates were responsible for approximately 79 % of the consolidated transmission revenues of AEPTCo. Most of the real property rights on which the assets of AEPTCo are situated result from affiliate license agreements and are dependent on the terms of the underlying easements and other rights of its affiliates. (Applies to AEPTCo) AEPTCo does not hold title to the majority of real property on which its electric transmission assets are located. Instead, under the provisions of certain affiliate contracts, it is permitted to occupy and maintain its facilities upon real property held by the respective AEP ~~System~~ **subsidiary** utility affiliate that overlay its operations. The ability of AEPTCo to continue to occupy such real property is dependent upon the terms of such affiliate contracts and upon the underlying real property rights of these utility affiliates, which may be encumbered by easements, mineral rights and other similar encumbrances that may affect the use of such real property. AEP can give no assurance that (a) the relevant AEP ~~System~~ **subsidiary** utility affiliates will continue to be affiliates of AEPTCo, (b) suitable replacement arrangements can be obtained in the event that the relevant AEP ~~System~~ **subsidiary** utility affiliates are not its affiliates and (c) the underlying easements and other rights are sufficient to permit AEPTCo to operate its assets in a manner free from interruption. Compliance with legislative and regulatory requirements may lead to increased costs and result in penalties. (Applies to all Registrants) Business activities of electric utilities and related companies are heavily regulated, primarily through national and state laws and regulations of general applicability, including laws and regulations related to working conditions, health and safety, equal employment opportunity, employee benefit and other labor and employment matters, laws and regulations related to competition and antitrust matters. Many agencies employ mandatory civil penalty structures for regulatory violations. Registrants are subject to the jurisdiction of many federal and state agencies, including the FERC, NERC, Commodities Futures Trading Commission, Federal EPA, NRC, Occupational Safety and Health Administration, the SEC and the United States Department of Justice which may impose significant civil and criminal penalties to enforce compliance requirements relative to AEP' s business, which could have a material adverse effect on financial operating results including earnings, cash flow and liquidity. The impact of new laws, regulations and policies and the related interpretations, as well as changes in enforcement practices or regulatory scrutiny generally cannot be predicted, and changes in applicable laws, regulations and policies and the related interpretations and enforcement practices may require extensive system and operational changes, be difficult to implement, increase AEP' s operating costs, require significant capital expenditures, or adversely impact the cost or attractiveness of the products or services AEP offers, or result in adverse publicity and harm AEP' s reputation. RISKS RELATED TO OWNING AND OPERATING GENERATION ASSETS AND SELLING POWER Costs of compliance with existing and evolving environmental laws are significant. (Applies to all Registrants except AEPTCo) Operations are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources and health and safety. A majority of the electricity generated by ~~the~~

AEP ~~System~~ **subsidiaries** is produced by the combustion of fossil fuels. Emissions of nitrogen and sulfur oxides, mercury and particulates and the discharge and disposal of solid waste (including coal- combustion residuals or CCR) resulting from fossil fueled generation plants are subject to increased regulations, controls and mitigation expenses. Compliance with these legal requirements (including any new and more stringent application of existing CCR regulations) requires AEP to commit significant capital toward environmental monitoring, installation of pollution control equipment, emission fees, disposal, remediation and permits at AEP facilities and could cause AEP to retire generating capacity prior to the end of its estimated useful life. Costs of compliance with environmental statutes and regulations could reduce future net income and negatively impact financial condition, especially if emission limits, CCR waste discharge and / or discharge disposal obligations are tightened, more extensive operating and / or permitting requirements are imposed or additional substances or facilities become regulated. Although AEP typically recovers expenditures for pollution control technologies, replacement generation, undepreciated plant balances and associated operating costs from customers, there can be no assurance in the future that AEP will recover the remaining costs associated with such plants. Failure to recover these costs could reduce future net income and cash flows and possibly harm financial condition. Regulation of greenhouse gas emissions **and / or voluntary climate goals** could materially increase costs to AEP and its customers or cause some electric generating units to be uneconomical to operate or maintain. (Applies to all Registrants except AEP Texas, AEPTCo and OPCo) Federal or state laws or regulations may be adopted that would impose new or additional limits on the emissions of greenhouse gases, including, but not limited to, carbon dioxide and methane, from electric generation units using fossil fuels like coal. The potential effects of greenhouse gas emission limits on AEP' s electric generation units are subject to significant uncertainties based on, among other things, the timing of the implementation of any new requirements, the required levels of emission reductions, the nature of any market- based or tax-based mechanisms adopted to facilitate reductions, the relative availability of greenhouse gas emission reduction offsets, the development of cost- effective, commercial- scale carbon capture and storage technology and supporting regulations and liability mitigation measures, and the range of available compliance alternatives. AEP **routinely submits IRPs in various regulatory jurisdictions to address future generation and capacity needs. These IRPs take into account economics, customer demand, grid reliability and resilience, regulations and RTO capacity requirements. The objective of the IRPs is to recommend future generation and capacity resources that provide the most cost- efficient and reliable power to customers. Based on the output of the company' s IRPs, in October 2022, AEP announced new intermediate and long-term CO2 emission reduction goals. AEP adjusted its near- term CO2 emission reduction target from a 2000 baseline to a 2005 baseline, upgraded its 80 % reduction by 2030 target to include full Scope 1 emissions and accelerated its net-zero goal by five years to 2045 for Scope 1 and Scope 2 emissions. Risks to achieving these goals include, among other things, the ability to execute on renewable resource plans, evolving RTO requirements, regulatory approvals, customer demand for carbon- free energy, potential tariffs, carbon policy and regulation, operational performance of renewable generation and supply chain costs and constraints, all while continuing to provide the most cost- efficient and reliable power to customers. Technology research and development, innovation, and advancements in carbon- free generation are also critical to AEP' s ability to achieve its 2045 goal. AEP** ' s results of operations could be materially adversely affected to the extent that new federal or state laws or regulations **or voluntary climate goals** impose any new greenhouse gas emission limits. Any future limits on greenhouse gas emissions could create substantial additional costs in the form of taxes or emissions allowances, require significant capital investment in carbon capture and storage technology, fuel switching, or the replacement of high- emitting generation facilities with lower- emitting generation facilities and / or could cause AEP to retire generating capacity prior to the end of its estimated useful life. Although AEP typically recovers environmental expenditures, there can be no assurance in the future that AEP can recover such costs which could reduce future net income and cash flows and possibly harm financial condition. **Further, real or alleged violations of environmental regulations, including those related to climate change, or an inability to meet AEP' s voluntary climate goals, could adversely impact AEP' s reputation. AEP may be constrained by the ability to procure resources or labor needed to build new generation at a reasonable price as well as to construct projects on time. In addition, new technologies that are not yet commercially available or are unproven at utility scale will likely be needed including new resources such as advanced nuclear, hydrogen and long-duration storage. If these technologies are not developed or are not available at reasonable prices, or if AEP invests in early- stage technologies that are then supplanted by technological breakthroughs, AEP' s ability to achieve a net- zero target by 2045 at a cost- effective price could be at risk. Achieving our carbon reduction goals will require continued operation of our existing carbon- free technologies including nuclear and renewables. The rapid transition to and expansion of certain low- carbon resources, such as renewables without cost- effective storage, may challenge our ability to meet customer expectations of reliability in a carbon constrained environment. AEP cannot predict the ultimate impact of achieving these objectives, or the various implementation aspects, on its system reliability, or its results of operations, financial condition, or liquidity. AEP may be unable to procure or construct generation capacity when needed or to recover the costs of such generation capacity. (Applies to all Registrants except AEP Texas, AEPTCo and OPCo) AEP' s capacity obligations are subject to a number of factors including load growth, requirements that can be imposed by the states, RTOs and other jurisdictions in which it operates or participates as a member and the retirement of existing generating facilities. AEP must obtain new and replacement generation to comply with prevailing capacity needs and reserve obligations. AEP' s ability to acquire, retrofit and / or construct power generation facilities in a timely manner and within budget is contingent upon many variables and subject to substantial risks. These variables include, but are not limited to, project management expertise, escalating costs for capital, materials, labor, and environmental compliance, reliance on suppliers for timely and satisfactory performance, continued pandemic- related delays and cost increases, and supply chains and material constraints, including those that may result from major storm events. Delays in obtaining permits, challenges in securing suitable land for the siting, shortages in materials and qualified labor, levels**

**of public support or opposition, suppliers and contractors not performing as expected or required under their contracts and / or experiencing financial problems that inhibit their ability to fulfill their obligations under contracts, changes in the scope and timing of projects, poor quality initial cost estimates from contractors, the inability to raise capital on favorable terms, changes in commodity prices affecting revenue, fuel costs, or materials costs, downward changes in the economy, changes in law or regulation, including environmental compliance requirements, further direct and indirect trade and tariff issues, supply chain delays or disruptions, and other events beyond AEP' s control may occur that may materially affect the schedule, cost, and performance of needed acquisitions or construction projects. If these projects or other capital improvements are significantly delayed or become subject to cost overruns or cancellation, AEP could incur additional costs and termination payments or face increased risk of potential write- off of the investment in the project. In addition, AEP could be exposed to higher costs, penalties and market volatility, which could affect cash flow and cost recovery, should one or more applicable regulator decline to approve the acquisition or construction of the project or new generation needed to meet the reliability needs of customers at the lowest reasonable cost.** Courts adjudicating nuisance and other similar claims in the future may order AEP to pay damages or to limit or reduce emissions. (Applies to all Registrants except AEP Texas and AEPTCo) In the past, there have been several cases seeking damages based on allegations of federal and state common law nuisance in which AEP, among others, were defendants. In general, the actions allege that emissions from the defendants' power plants constitute a public nuisance. The plaintiffs in these actions generally seek recovery of damages and other relief. If future actions are resolved against AEP, substantial modifications or retirement of AEP' s existing coal- fired power plants could be required, and AEP might be required to purchase power from third- parties to fulfill AEP' s commitments to supply power to AEP customers. This could have a material impact on revenues. In addition, AEP could be required to invest significantly in additional emission control equipment, accelerate the timing of capital expenditures, pay damages or penalties and / or halt operations. Unless recovered, those costs could reduce future net income and cash flows and harm financial condition. Moreover, results of operations and financial position could be reduced due to the timing of recovery of these investments and the expense of ongoing litigation. Commodity trading and marketing activities are subject to inherent risks which can be reduced and controlled but not eliminated. (Applies to all Registrants except AEP Texas, AEPTCo and OPCo) AEP routinely has open trading positions in the market, within guidelines set by AEP, resulting from the management of AEP' s trading portfolio. To the extent open trading positions exist, fluctuating commodity prices can improve or diminish financial results and financial position. AEP' s power trading activities also expose AEP to risks of commodity price movements. To the extent that AEP' s power trading does not hedge the price risk associated with the generation it owns, or controls, AEP would be exposed to the risk of rising and falling spot market prices. In connection with these trading activities, AEP routinely enters into financial contracts, including futures and options, OTC options, financially- settled swaps and other derivative contracts. These activities expose AEP to risks from price movements. If the values of the financial contracts change in a manner AEP does not anticipate, it could harm financial position or reduce the financial contribution of trading operations. Parties with whom AEP has contracts may fail to perform their obligations, which could harm AEP' s results of operations. (Applies to all Registrants) AEP sells power from its generation facilities into the spot market and other competitive power markets on a contractual basis. AEP also enters into contracts to purchase and sell electricity, natural gas, emission allowances, renewable energy credits and coal as part of its power marketing and energy trading operations. AEP is exposed to the risk that counterparties that owe AEP money or the delivery of a commodity, including power, could breach their obligations. Should the counterparties to these arrangements fail to perform, AEP may be forced to enter into alternative hedging arrangements or honor underlying commitments at then- current market prices that may exceed AEP' s contractual prices, which would cause financial results to be diminished and AEP might incur losses. Although estimates take into account the expected probability of default by a counterparty, actual exposure to a default by a counterparty may be greater than the estimates predict. AEP relies on electric transmission facilities that AEP does not own or control. If these facilities do not provide AEP with adequate transmission capacity, AEP may not be able to deliver wholesale electric power to the purchasers of AEP' s power. (Applies to all Registrants) AEP depends on transmission facilities owned and operated by other nonaffiliated power companies to deliver the power AEP sells at wholesale. This dependence exposes AEP to a variety of risks. If transmission is disrupted, or transmission capacity is inadequate, AEP may not be able to sell and deliver AEP wholesale power. If a region' s power transmission infrastructure is inadequate, AEP' s recovery of wholesale costs and profits may be limited. If restrictive transmission price regulation is imposed, the transmission companies may not have sufficient incentive to invest in expansion of transmission infrastructure. The FERC has issued electric transmission initiatives that require electric transmission services to be offered unbundled from commodity sales. Although these initiatives are designed to encourage wholesale market transactions, access to transmission systems may not be available if transmission capacity is insufficient because of physical constraints or because it is contractually unavailable. Management also cannot predict whether transmission facilities will be expanded in specific markets to accommodate competitive access to those markets. OVEC may require additional liquidity and other capital support. (Applies to AEP, APCo, I & M and OPCo) AEP and several nonaffiliated utility companies own OVEC. The Inter- Company Power Agreement (ICPA) defines the rights and obligations and sets the power participation ratio of the parties to it. Under the ICPA, parties are entitled to receive and are obligated to pay for all OVEC capacity (approximately 2, 400 MWs) in proportion to their respective power participation ratios. The aggregate power participation ratio of APCo, I & M and OPCo is 43. 47 %. If a party fails to make payments owed by it under the ICPA, OVEC may not have sufficient funds to honor its payment obligations, including its ongoing operating expenses as well as its indebtedness. As of December 31, ~~2022~~ **2023** , OVEC has outstanding indebtedness of approximately $ 1. 1 billion, of which APCo, I & M, and OPCo are collectively responsible for $ ~~478~~ **465** million through the ICPA. Although they are not an obligor or guarantor, APCo, I & M, and OPCo are responsible for their respective ratio of OVEC' s outstanding debt through the ICPA and if OVEC' s indebtedness is accelerated for any reason, there is risk that APCo, I & M and / or OPCo may be required to pay some or all of such accelerated indebtedness in amounts equal to their aggregate power participation ratio of 43. 47 %. New climate disclosure rules proposed by the U. S. Securities and Exchange Commission may increase our costs of compliance and adversely impact our business. (Applies to all Registrants) On March 21, 2022, the SEC proposed new rules relating to the disclosure of a range of climate- related risks. AEP is currently assessing the proposed rule, but at this time AEP cannot predict the costs of implementation or any potential adverse impacts resulting from the rule. To the extent this rule is finalized as proposed, AEP could incur increased costs relating to the assessment and disclosure of climate- related risks. AEP may also face increased litigation risks related to disclosures made pursuant to the rule if finalized as proposed. In addition, enhanced climate disclosure requirements could accelerate the trend of certain stakeholders and lenders restricting or seeking more stringent conditions with respect to their investments in certain carbon- intensive sectors.