Company Name: American Electric
Company Ticker: AEP US
Date: 2015-10-22
Event Description: Q3 2015 Earnings Call

Q3 2015 Earnings Call

Company Participants

- Nicholas K. Akins
- Brian X. Tierney

Other Participants

- Dan L. Eggers
- Greg Gordon
- Anthony C. Crowdell
- Praful Mehta
- Paul Patterson
- Julien Dumoulin-Smith
- Stephen Calder Byrd
- Hugh D. Wynne
- Paul T. Ridzon
- Shahriar Pourreza
- Andrew Levi
- Ali Agha

MANAGEMENT DISCUSSION SECTION

Nicholas K. Akins

Business Highlights

Operating EPS

- Once again, AEP is reporting a strong quarter performance, driven by the strength of our regulated utilities and our transmission businesses, and as a result, we're also increasing our 2015 guidance as well
- For Q3 2015, AEP is reporting GAAP and operating earnings of $1.06 per share compared with $1.01 per share for third quarter 2014
  - This brings 2015 YTD GAAP and operating earnings to $3.22 per share and $3.21 per share respectively compared with 2014 YTD GAAP and operating earnings of $2.95 per share
- With the positive quarterly and YTD results in hand, AEP is increasing our 2015 guidance range from $3.50 to $3.65 per share to $3.67 to $3.77 per share and reaffirming our 4% to 6% growth rate

Dividend, Loads, Margins and Lean Activities

- As you already know, the board of AEP increased the dividend from $0.53 to $0.56 per share, representing a 5.7% increase on an annualized basis, indicating once again confidence in the direction we are taking to become The Next Premium Regulated Utility, the tag line we used at last year's EEI Financial Conference

- While load was also up in all three sectors, residential, commercial, and industrial; for third quarter year-on-year, we continue to analyze the makeup of loads and margins of each sector, as Brian will discuss in more detail later
- Our employees focused on continuous improvement and culture initiatives
- They've been instrumental in not only achieving our earnings objectives, but redesigning our lines of businesses for future success
- Lean activities continue to progress across the enterprise
    - This has been a three-year effort of what is now over 65 initial three-month to four-month deployment efforts, generating over 20,000 ideas from employees to improve efficiency and deliver better outcomes

Deployments

- We're in the process of finishing up the few remaining deployments and we'll begin a process of ensuring the sustainability of the cultural and process related changes that enable continuous improvement
- It is because of primarily these efforts, along with investment growth in the regulated companies and transmission, as well as the outcomes from the PJM supplemental auctions that have improved our confidence regarding 2016
    - More to come on that in November at the EEI Financial Conference

Sale of AEP River Operations

- As you know, we announced the sale of AEP River Operations to American Commercial Lines for approximately $550mm, plus the assumption of capital lease obligations of approximately $235mm
- We're very pleased with the outcome from the process we began back in March to sell river ops at a fair price to a company we truly believe understands what it takes to be successful on the river

Net Cash Proceeds

- AEP will receive about $400mm in net cash proceeds to invest in our regulated businesses
- We have filed for the federal Hart-Scott-Rodino clearance and don't expect any delays, so we should close in November
- I do want to take the opportunity to recognize and thank the entire river operations management and operations team for their continuing emphasis on providing value to AEP and its customers over the years
    - This sale represents a step towards the desired direction of delivering customer and shareholder value as a regulated utility company

PPA

- The PPA story in Ohio continues to develop with ongoing hearings that are occurring and should conclude here very quickly
- We don't know the outcome yet, but AEP is actively pursuing discussions with various parties in the case to ultimately drive to a solution that makes sense for AEP, its customers, and other stakeholders
- We believe the PUCO should be able to render a decision sometime before the end of the year

- Because we believe the timeframe for a decision is at hand
    - This will have a direct bearing on AEP's ultimate decision regarding long-term PPA covered generation assets within our ongoing strategic evaluation process regarding the unregulated generation in Ohio

Supply and Pricing

- The PPA arrangements are important for the security of supply and pricing for Ohio customers and will provide an important signal regarding future investments in Ohio
- We will complete our review with the board as expeditiously as possible, and as we deal with such issues that you all continue to ask about concerning strategic options, sale proceeds, use of proceeds, potential dilution, share buy-backs, et cetera, I fully expect not only the PPA decision, but the broader strategic decisions to be answered in early 2016

Clean Power Plan

- AEP continues to work with each of our states regarding the Clean Power Plan
- We believe our states should file initial plans with the EPA by September of next year to ensure the state maintains ownership in the development of resource plans that make sense for their particular jurisdictions
- AEP and the industry needs clarity regarding investment decisions in new resources and will continue to work with the states to develop integrated resource plans that comport with the requirements of these ultimate state plans

Investment

- During the last quarter, you may have seen AEP's investment in Greensmith, an energy storage integration platform company and our continued development of utility-scale solar in Indiana and Michigan as well as our relationships with the universities to define energy solutions such as rooftop and utility-scale solar along with battery technologies
    - These investments in combination with our BOLD technology in transmission and other distributor-related investments will move us toward a cleaner, more balanced energy portfolio that is focused on the quality of service to our customers
    - You'll hear more about this during the EEI in November as well

ROE

- Now moving to what I usually call the equalizer chart of ROEs by operating units, note that the overall ROE has improved to 9.4% from 9.1% from last quarter
- As I go through the state, I'll mention what's going on in each one of those so you can have sort of a trend line of what to see in the future

Ohio Powe and APCo

- For Ohio Power, the ROE for AEP Ohio is in line with expectations and we expect to finish the year in line with the 12% ROE forecasted

- For APCo, Virginia earnings are expected to remain steady during the period because of the previous legislations and the rate freezes in effect
- For West Virginia, we had recently the rate case order that should address the weak returns there
  - That was where our issues was in the APCo jurisdictions
- The order authorized a rate increase of $99mm with an authorized ROE of 9.75%
- Rates were implemented in June of 2015, so we expect to see higher ROEs for APCo for the balance of the year

Kentucky

- Kentucky, I know that looks a little strange to you; we didn't know what to do when return for the quarter was actually negative 0.1%
- It almost looks like last year we probably should have just put the Kentucky investment into a mattress, but just understand that we did recently get through a rate case there and we expect it to continue to improve and that was part of the strategic decisions we made previously about what gets included in rate cases and the timing associated with them, so we expect Kentucky to move up to 4% by the end of the year
- And then by midyear, it'll be – midyear 2016, it'll be back in the 8% to 9% range
  - So while we have this short-term perturbation of lower ROEs, we expect that to improve

I&M and PSO

- For I&M, I&M continues to be on track to grow earnings and achieve its authorized ROE range which is around 10.2%
- I&M had a good third quarter as it continues to execute major capital investment programs in generation, Rockport, STR, solar, and the nuclear lifecycle management, along with PJM transmission related projects
- PSO, its ROE is about the same as last quarter and we continue to progress there through the rate case process
- A base rate case was filed in July of 2015 to recover generation environmental control investments and cost increases since the last base rate case
  - We expect new rates to be put in place by Q1 2016

SWEPCO

- SWEPCO, transmission cost recovery in Texas in the form of a rate true-up in Louisiana, as well as a true-up and increase in wholesale customer rates were the primary drivers for SWEPCO ROE improvement, although we continue to see it under pressure because of the Arkansas portion – what we believe is the Arkansas portion of Turk that we ultimately will be looking for in terms of a retail solution, but the timing is yet to be determined

AEP Texas

- For AEP Texas, we expect the ROE in AEP Texas will continue to decline through 2015 as distribution CapEx increases are put in place

  - And we're looking – presently looking at alternatives for addressing the ROEs coming down in that jurisdiction, either through distribution cost recovery or DCRF or a rate case, but we're still looking at those options
  - AEP Transmission Holdco, it's – Holdco return of 11.3% is in line with the authorized return so that keeps plugging along and we keep investing more and more in transmission

Accomplishments

- So with all of that said, as we look at the accomplishments of Q3 and YTD, it should be instructive as to what the future holds for AEP
- I'm reminded that yesterday, October 21, 2015, was Back to the Future Day, the day that Marty McFly and Dr Emmett Brown time traveled into the future from the 1989 sequel to Back to the Future
- When we look back at 1989 and where we are today, during that time, AEP has reduced:
  - SO2 emissions by over 80%
  - NOx emissions by over 80%
  - Mercury emissions by over 54%
  - And CO2 emissions since 2005 levels of 15%

Battery Storage Technologies

  - More recently, we have deployed battery storage technologies, the BOLD transmission line, utility and rooftop solar, and now embark on the infrastructure of the future to define a better customer experience
  - These are all examples of Back to the Future's version of hover boards and self-tying sneakers
    - But all of this is to say that we believe AEP is uniquely positioned, both financially and culturally, to be successful during this huge transition that is occurring within our industry

Infrastructure Development, Technology and Resources

- We'll continue to focus on infrastructure development, technology and resources of the future and a renewed focus on the customer experience
- Our investors expect consistency and quality of earnings and dividend growth, so any decision we make should be viewed through the lens of being the next premium regulated utility

Brian X. Tierney

Financial Highlights

Operating EPS

- Let's begin on slide five with a review of the major drivers affecting the earnings comparison for the quarter
- This year's third quarter operating earnings were $1.06 per share or $521mm, compared to $1.01 per share or $493mm last year

- This solid performance was driven by our regulated businesses, which were all at or above last year's prior results
- With that background, let's review the major earnings drivers by segment

Vertically Integrated Utilities Segment

- EPS for the Vertically Integrated Utilities segment were $0.56, up $0.11 from last year
- Key drivers in the quarterly comparison included rate changes, which added $0.09 per share and are related to the recovery of incremental investment to serve our customers
- Warmer temperatures in 2015 also contributed significantly to the earnings, adding $0.07 per share
- Cooling degree days were 25% higher in the East and 18% higher in our Western service areas
- Margins from normalized load were off $0.03 per share for the quarter, due to lower residential sales and a slight decline in the average realization
- Off-system sales were down $0.03 per share, primarily due to much lower power prices this year
- O&M expense was higher than the prior period, adversely affecting the quarter by $0.03 per share, mostly due to higher employee related costs
  - This segment did benefit from higher AFUDC as a result of our capital spending program, adding $0.01 per share, and lower state and federal income taxes contributed $0.03

Transmission and Distribution Utilities Segment

- The Transmission and Distribution Utilities segment earned $0.23 per share for the quarter, up $0.04 from last year
- The primary driver was an unfavorable regulatory provision recorded last year that was not repeated in 2015, which contributed $0.04 per share for the quarter
- The remaining other variances were relatively small, including rate changes in Ohio and weather in Texas each adding a penny vs. last year, and these were offset by lower off-system sales and higher O&M

Transmission Holdco Segment

- The Transmission Holdco segment contributed $0.09 per share for the quarter, up $3mm over last year
- We remain on track to meet our guidance level for this segment for the year
- Y-over-y, the Transco's net plant grew by approximately $1.2B, an increase of 51%

Generation and Marketing Segment

- The Generation and Marketing segment produced earnings of $0.19 per share, off $0.05 from Q3 last year
- We are beginning to see the adverse effect of lower Ohio capacity in revenue and earnings, partially offset by lower O&M
- AEP River Operations declined $0.01 per share and corporate and other lost $0.02 per share, down $0.04 from last year, primarily due to higher O&M and franchise taxes

YTD Operating Earnings

- On slide six, we have a view of YTD operating earnings compared to last year
- Operating earnings for the YTD period stand at $3.21 per share or $1.6B compared to last year's $2.95 per share or $1.4B

Regulated Businesses

- Similar to the quarterly comparison, growth from our regulated businesses are driving the improved results with the competitive businesses performing at or below last year
- Consistent with our original guidance for 2015, our Vertically Integrated and Transmission Holdco segments are realizing strong growth, driven by our continued capital investment and rate base and execution of our regulatory plans
- Favorable weather also contributed to y-over-y earnings growth

Competitive Generation Business

- As expected, we are seeing a decline in year-to-year earnings in our competitive generation business, reflecting the loss of capacity revenue which was tempered by lower O&M and the performance of our commercial and retail teams taking advantage of market opportunities
- The combination of all our businesses allowed us to exceed last year's results by $0.26 per share
  - These strong results and our confidence in our plan for the remainder of the year allow us to raise and narrow the operating earnings guidance range to $3.67 per share to $3.77 per share

Load Performance

- Now let's take a look at slide seven to review the normalized load performance for the quarter
- Starting in the lower right corner, you see that our load increased by 0.9% for the quarter with growth spread across all major retail classes
  - This brings our YTD normalized load in line with last year

Residential Sales

- The upper left quadrant shows that our residential sales grew by 0.8% compared to last year
- The growth in residential sales is coming from a mix of customer and usage growth
- Most of the customer growth is happening in our western territory, especially Texas, where residential counts are up 1.2% vs. last year
- The growth in residential usage is coming from Ohio, where we saw the strongest growth in employment for the quarter
- YTD residential sales are down 1.1% vs. last year, but this is mostly caused by the weak normalized growth reported in Q1; and remember that had the impacts from last year's polar vortex in it as well

Commercial and Industrial Sales

- In the upper right corner, commercial sales were up 1.3% for the quarter
- The strongest growth in commercial sales happened in Ohio, which is consistent with the economic indicators we will discuss in more detail later
- Finally, the lower left quadrant shows that our industrial sales grew at 0.7% compared to last year
- We continue to see robust industrial sales growth from customers in oil and gas related sectors despite the decline in oil prices, which I'll cover in more detail later in the presentation

T&D Utilities Segment

- I'd like to point out that most of our load growth for the quarter and YTD period is coming from our T&D Utilities segment, where we only recover the wires portion in our rates
- Unfortunately, normalized sales are down 0.8% in our Vertically Integrated Utilities, where we recover the full bundled rate
  - This means even though our normalized load is similar to last year, we lost approximately $0.08 for the year due to the mix of our sales by segment and class

GDP

- With that, let's review the most economic data for AEP service territory on slide eight
- Starting with GDP, you can see that the estimated 1.6% growth for the AEP service area is about 0.5% less than the estimated growth for the U.S
- This is not surprising considering the impact of falling oil prices, especially in our Western footprint
- While the nation benefits from lower fuel prices, the regional economies supporting the shale plays are experiencing the direct impact of lost jobs
  - For example, there are a number of metro areas like Shreveport, Tulsa, and Abilene that have fewer people working today than they did at the start of the year

Job Growth

- The bottom left quadrant shows that the job market within AEP's service area is holding steady, but grew at half the pace of the U.S
- Job growth within AEP's Eastern territory exceeded the Western service area for the first time since 2011
- The sectors showing the strongest job growth for the quarter include construction, leisure, and hospitality, and education and health services
- We should point out that the sector which saw the biggest employment decline this quarter is natural resources and mining
  - This is no surprise given the decline in oil prices and active rig counts

Domestic Shale Gas Activity

- Now let's turn to slide nine to update you on the domestic shale gas activity happening in AEP's footprint

- Given the impact low energy prices are having on our regional economy, one might expect our electricity sales to the oil and gas related sectors to be down
- However, we continue to see significant load increases in the parts of our service area located near major shale formations, as illustrated in the upper left chart

Oil and Gas

- We are still seeing nearly 10% growth in our sales to the oil and gas sectors this quarter, despite oil prices being down 50% from last year, rig counts being down nearly 60% and the fact that there are over 10,000 fewer oil and gas workers today than we had at the end of last year
- The upper right chart shows that growth in oil and gas loads was spread across all major shale plays within AEP's service territory with the strongest growth coming from the Eagle Ford, Permian, and Marcellus Shale regions
- If we dissect the oil and gas growth into its components as shown in the bottom left chart, we continue to see the strongest growth from the midstream pipeline transportation sector, which grew by over 33% over last year
  - This is mostly due to the expanding natural gas infrastructure in West Virginia, Ohio, and Texas
- Our upstream oil and gas extraction sales were up nearly 8%, while downstream petroleum and coal product sales declined by 0.8%
- We still have a large number of new oil and gas related expansions expected to come on line over the next 18 months that will drive our industrial sales growth through 2016

Industrial Sectors

- In contrast to the oil and gas sectors, the red bars on the upper left chart show that sales to the remaining industrial sectors are not growing as they were last year at this point, down 3.1% in Q3
- In fact, through September, half of our top 10 industrial sectors were down from last year's results
- One industry clearly affected by the low energy prices is the mining sector, where sales were down 9% for the quarter and 8% for the year

Capitalization and Liquidity

- On a lighter note, let's turn to slide 10 and review the company's capitalization and liquidity
- Our debt-to-total capital improved by nearly a percent this quarter and is now at a healthy 53.4%
- Our credit metrics, FFO interest coverage, and FFO-to-debt are solidly in the BBB, Baa1 range at 5.7 times and 21.6% respectively

Pension Funding and Revolving Credit Facilities

- Our qualified pension funding declined a bit this quarter, dropping from fully funded last quarter to 97% this quarter
  - This is a result of declining equity values and a slight decrease in interest rates

- Our pension assets are now weighted to 60% in duration-matching fixed income securities with the balance being held in global equity and alternative investments
  - We adopted this more conservative investment stance as we approached full funding late last year
  - Our OPEB obligations remain fully funded at 112%
- Finally, our net liquidity stands at $3.6B and is supported by our two revolving credit facilities that extend into the summers of 2017 and 2018

Treasury Group

- Our Treasury group was active during the quarter taking advantage of the low cost of debt capital
- First in August, Texas North accessed the market for $125mm of senior private placement notes
  - The offering utilized a delayed funding structure and realized a weighted average life of issuance of 13.4 years and a weighted average interest rate of 4.04%
- Secondly, in September, the Treasury group and Texas central management accessed the market for $250mm of 10-year senior unsecured notes at a coupon rate of 3.85%
- Over the past two years, the Treasury group has been able to lower AEP's weighted average cost of debt to 4.64%
- We are well-positioned as we approach 2016 where we have a manageable debt maturity stack of slightly more than $1B

EEI Financial Conference

- Finally, before we turn the call over to your questions, let me review on slide 11, some of the information that we will be providing at the upcoming EEI Financial Conference
- We will confirm our previously stated 4% to 6% growth rate
  - Which assumes the sale of river operations and the retention of the other businesses in AEP's portfolio
- We will provide an updated operating earnings guidance range for 2016 with detail by segment
- As in the past, our growth rate is predicated on our continued investment in our regulated properties, so we will provide a CapEx plan for the next three years, details on transmission and utility investment opportunities and a three-year financing plan for getting it all done

Generation Fleet Transformation

- We will also have some slides detailing our generation fleet transformation over the past several years, as Nick just described
- These slides will demonstrate how AEP has invested over $8B to transform the fleet and the resulting dramatic reductions in emissions that this investment has enabled
  - This story is becoming increasingly important to a certain class of investors, and we believe AEP has a great story to tell
- Finally, we will surely be talking about any developments in both the Ohio PPAs and the strategic review of our competitive generation business

QUESTION AND ANSWER SECTION

<Q - Dan L. Eggers>: Just on the – you know you guys made a great progress on the equalizer chart as far as improving the overall earned ROEs. How much more room if you thought about 2016, given the rate cases you see coming, where do you see the 2016 ROE headed and how much more improvement you need in ROE to be able to hit the 4% to 6% growth rate?

<A - Nicholas K. Akins>: Yeah, I think it's going to continue to improve, Dan. We're probably on the order of 9.6% to 10% in that range for 2016, so it'll continue to improve overall. And then with Kentucky coming up, that's helpful, although Kentucky's pretty small in the overall comparison, but the others are doing quite well.

<Q - Dan L. Eggers>: Okay. And I guess preemptive on the Ohio generation side, but given the weakness of the power stocks and the IPP sector, is there a market of buyers still sitting out there who'd be willing to transact on your assets right now or are market conditions potentially going to slow down maybe the urgency of making a decision on those assets?

<A - Nicholas K. Akins>: Yeah, I think there's still a set of buyers out there, it's just – it certainly goes to the question whether a spin option is, while it's still on the table, it's more difficult because you have the paper involved with those companies, but for sale, there's still parties out there, and some of the recent transactions have shown that.

<Q - Dan L. Eggers>: I guess maybe just one last question. When you guys look at the load trends going on right now, how is the residential vs. commercial trends having bearing on what you guys expect to see for load growth next year?

<A - Nicholas K. Akins>: Yeah, so commercial continues to improve. As a matter of fact, that's probably the bright spot of the portfolio, and you have these cycles that change as we go along, and the residential, that's gone up and down the last few quarters and it really does drive this view that we need the economy to really start picking back up, particularly from the energy policy perspective. If we start exporting or if we continue a build-out of the economy that's focused on energy, then our economy will pick up as well. So we're getting some benefits from auto manufacturing and that kind of thing, but primary metals on the world market, mining, those kinds of activities are certainly having an impact. So yeah, we've been in sort of a strange period for several quarters, and actually, years now, and we obviously need to get the economy moving again from an energy perspective.

<Q - Greg Gordon>: A couple questions. First, the 4% to 6% earnings growth aspiration, is that still off the midpoint of the original 2014 guidance of $3.20 to $3.40 per share?

<A - Nicholas K. Akins>: Yes, it is.

<Q - Greg Gordon>: Okay, great, because you earned $3.43 in 2014, and this year, at the new midpoint, you're going to earn $3.73. Even if I weather normalize that, that's $3.65. So notwithstanding the deceleration in load growth trends that you're experiencing, one would presume you're doing very well relative to that aspiration, so I have to ask, does that aspiration build in the expectation that there'll be some dilution from the sale of the generation assets, which gets offset over time as you redeploy that capital into the transmission business?

<A - Brian X. Tierney>: Go ahead.

<A - Nicholas K. Akins>: Go ahead. Go ahead, Brian. I'll follow.

<A - Brian X. Tierney>: No, Greg, that assumes the business as usual case, that we continue to own the properties that we do today with the exception of river operations. And we'll do for you at EEI like we do the normal waterfall stair-step between 2015 and what we anticipate 2016 to be. In addition to weather, which if you look across all our businesses, is probably closer to $0.12, we've had things like inception gains, the generation and marketing, they're about $0.06. We've had the benefit from the sale of some plants and reducing ARO obligations. That's another $0.06. So you can pretty easily do a stair-step that would take off that – of that $3.72 about $0.24 for things that we don't anticipate to be recurring parts of our business.

<Q - Greg Gordon>: Okay. That was really – that was the gist of my question. I appreciate that.

<A - Nicholas K. Akins>: Yeah. Greg, I think you have to sort of look at it like in the previous quarters, we've been talking about working to try to get to a solution for 2016, and now we've moved to confident about 2016.

<Q - Greg Gordon>: Well, certainly even taking into account the things you just articulated, looking back at your aspiration at the beginning of 2014, you're doing very well.

<A - Nicholas K. Akins>: Yes.

<Q - Greg Gordon>: The second question is with regard to the timeline for getting an answer from Ohio on whether or not you'll be able to contract a portion of that fleet and whether that is a gating factor for concluding an asset sale or whether there's a deadline at which you would move on an asset sale and not wait around for – sort of in an open-ended process.

<A - Nicholas K. Akins>: Yeah. So it won't negate the discussion. I think really what matters here is, is we get through the process with Ohio by the end of the year, we have a result that says these particular units are going to be covered by a long-term PPA, then that says that we're sort of ambivalent, whether, assuming the PPA addresses our concerns as certainly being long term, we have lots of plan out there. And as well, some of the other provisions to ensure that we're able to make it quasi-regulated then we're somewhat ambivalent as to whether we hold those units or not. And I think it certainly bodes well for our ability to hold onto those units and still be a regulated utility. For the remaining assets that aren't covered by the PPA, there's still a process ongoing. And so we'll go through this.

And as I said earlier, our board has been and for the last two years as you know, we've been going through this with our board and the PPA because originally we thought it may be later for a decision. No-one knew because we didn't have the schedule. We're concerned by that and we weren't going to wait for and now there's a schedule in place, there's hearings that have occurred and we'll conclude here pretty soon. We'll have a result pretty soon and the PPA is very, very important to our standing in Ohio overall and whether we keep that portion of the generation or not, but it doesn't change the objectivity and the measured approach that we're using to go through this process to ensure that we're making the right decisions for our shareholders. And so because we get a PPA doesn't mean certainly that the process is off for any of those, the remaining generation that's not covered by that type of PPA. So we're looking at this very straightforward and we've been very consistent in our discussions.

I know last quarter, previous quarter, we were saying that we were, after the capacity auctions, the capacity performance supplemental auctions, that we would know and understand a lot more. We do. We were assuming that it was a never-ending approach associated with getting a PPA resolved and it appears that the Ohio Commission has taken this on seriously and are moving forward with determining what the solution would be. And so we're going to go through that process, fully understand it, and by first quarter next year, our board will certainly know all the ins and outs of the issues that we're dealing with and then we'll move forward.

<Q - Greg Gordon>: Great. Is there the potential – there's been chatter about the potential for substantive settlement talks in the contract discussions. Is that going on or not?

<A - Nicholas K. Akins>: You're talking about the PPAs?

<Q - Greg Gordon>: The PPAs, yeah.

<A - Nicholas K. Akins>: Well certainly there's been a lot of chatter and a lot of discussion with multiple parties in this case and it's a complex issue and certainly we continue to have conversations and certainly FE can speak for themselves, but we both have the firm belief that there needs to be some kind of support for this generation in Ohio, and it's really discussion around what those mechanisms would look like. So we'll continue, in discussions with the parties. I'll stop there.

<Q - Anthony C. Crowdell>: I didn't know you guys were such Back to the Future fans.

<A - Nicholas K. Akins>: We all remember that. Some of us do anyway. I'm probably talking to some people that don't even remember it, so.

<Q - Anthony C. Crowdell>: If you wanted to wear a Star Trek outfit at EEI, Nick, I'm okay with it.

<A - Nicholas K. Akins>: Well you know, I happened to think about that when I was talking about the BOLD line, boldly going where no man has gone before.

<Q - Anthony C. Crowdell>: Greg asked most of my questions, but just quickly, when do you think on the PPA process, if we don't reach a settlement or whatever, if we end up going a fully litigated track, when do you guys expect that to be finished?

<A - Nicholas K. Akins>: So if it's fully litigated, we still expect to get an order by the end of the year and that's – now, fully litigated means obviously there'll still be I am sure, there'll be appeals and all that kind of stuff, but we're actually focusing on the Commission order itself because that really tells us where the policy making decision in this state is moving toward. We certainly believe that'll occur before the end of the year.

<Q - Anthony C. Crowdell>: Do you think such a big issue like this for Ohio with getting a PPA or entering into PPAs, do you think the appeals process would be lessened if you do get a fully-litigated order. I mean are the parties better off getting a litigated order just so that the appeals process is maybe less shorter or the record is stronger vs. a settlement?

<A - Nicholas K. Akins>: Yeah, certainly I think it depends on what the order looks like, but certainly – I mean the Commission certainly has taken a deliberative approach to this and we have certainly done a lot of analysis along with FE and others who participate in hearings about can a PPA be used, we feel really good about where we stand from a legal perspective going forward. I think the real issue is the Commission needs to come out with an order that comports with the discussions that occurred relative to the PPA so if there's deviation from that in some fashion, maybe could be opening yourself up to more substantial appeals, but we've given the recipe. The recipe is there, and certainly, it drives a positive solution for the customers, for Ohio and the Commission certainly has the track-record to be able to put that kind of thing in place that holds up.

<Q - Praful Mehta>: So my key question was around the generation business. And as we look at it from an EBITDA perspective YTD for the generation business, you've already achieved about $725mm of EBITDA relative to guidance midpoint of about $590mm for 2015. So just wanted to understand more long term like is this more specific things that have happened in 2015 that are driving 2015 EBITDA to be higher? But longer term, your guidance stays consistent?

<A - Brian X. Tierney>: Praful, a couple of things going on there. One is for H1, we still had some considerable capacity revenues coming from Ohio. That dropped off in May and we'll be experiencing that negative impact through the balance of the year. So that's something that on an annualized basis, you need to factor that out of the business going forward. We also had two other pieces that contributed to the gen & marketing results this year that we don't think you can consider as regular ongoing items. One is we've had inception gains of about $0.06 per share. And the other is we've had reductions in liabilities that in a positive way flow through O&M associated with the sales of two plants, one is Muskingum River and the other is a [ph] coal impalement (40:14) that we were able to sell. The combination of those two items is another $0.06. So there are some things that you need to factor out if you're going to annualize that business on a go forward-looking basis.

<Q - Praful Mehta>: I've got you. That's very helpful. And then finally, just a key question on Ohio. I heard your points around the ESP and the PPA. I guess I'm just trying to understand from a long-term perspective, I get the message that if it's long term, it's a different answer or you're at least indifferent between sale vs. keeping it. What defines long term? Is it – is seven years long term enough? If you don't get the full 15, at what point do you say I actually do have a difference between keeping the business vs. selling it?

<A - Nicholas K. Akins>: Well certainly I don't want to get into that too much because – but long-term, to us I mean we have filed for loss of plant. And I'll just say this, the term has to be substantial because we have to have a feeling that we can invest. And with the large capital investments that we make in generation, we need to know that we can do that and be secure from a future perspective. So when I look at our FERC wholesale contracts, we've had contracts that are 10 years, 15 years, we've had same customers for 75 years so when we talk about long-term it has to be substantial enough for us to make that kind of investment and so I'm not going to say an actual number at this point because we have lots of plants sitting out there and that's what we believe what it takes. We'll wait and see what it winds up being, but I can tell you this, it's three years, which is the length of the capacity deal in PJM, that was a three-year capacity market, that's not long enough. And that's a problem within PJM and the state has an opportunity to fix that.

<Q - Paul Patterson>: I just wanted to follow up, I guess, on that question about the generation business and the asset retirement obligation, and I'm sorry, but I was cutting out a little bit. On slide 22, I noticed this that there's $62mm benefit, and just to make sure I understood that, a lot of that has to do with the asset retirement obligation going away because of some plant sales and for the most part you don't see that recurring. Is that correct?

<A - Brian X. Tierney>: Yeah, we had reserved asset retirement obligations that ended up being higher than what we were able to realize by selling the plant to a third party, so we were able to get the third party to take those obligations for less than what we had recorded on the books and that allowed us to flow the difference between what we had recorded through O&M. And we have gone back now and checked for the remaining plants both from an engineering standpoint and from a market standpoint, those values that we've recorded the AROs at and we believe those values to be accurate as they are in the books today.

<Q - Paul Patterson>: Okay. And then just with respect to the AEP Dayton ATC liquidations which seem to be leveling off, how should we think about how they actually impacted YTD earnings in generation & marketing and how do you see the outlook for those in 2016?

<A - Brian X. Tierney>: We think those prices are going to continue to be under pressure, but I'll say this, Paul, and we've talked about this before; we do have, as we go into a year, significant component of that generation is hedged. So for Q3 this year, we were at about 60% of the margins and MWh were hedged going into that period. So we will have similar amounts hedged going forward in 2016, so for two things. One, we'll be able to take advantage of prices if they do recover and we do see them under pressure right now in 2016, but also if we were to have unit outages or increased load from our hedges, we wouldn't be subject to market pricing for that as well.

<Q - Paul Patterson>: Great. And then back to Ohio and the PPA situation, and I mean, take this with a grain of salt, if there was outcome if you thought in terms of settlement vs. fully litigated, what would you say the odds are that it would be settled as opposed to fully litigated?

<A - Nicholas K. Akins>: I wish I could answer that this point. There's a lot of context within discussions, and there's multiple aspects of this, not just the units, the generation that's within a PPA, but really what's the total answer for Ohio? And I even think about it from the Clean Power Plan perspective. The state of Ohio needs to have some framework for a foundation of a transition with base load generation that allows it to make plans associated with ultimate retirements of that generation and replacement with new resources that are put in place, and all incremental resources are either going to be natural gas, renewables, certainly efficiencies regarded the grid itself. Those are the kinds of investments that I think can really drive Ohio to a more balanced energy future that mitigates a lot of risk for consumers.

And so what we're talking about here is a foundation to be provided for a transition, and that's clearly important. I think it should be important to the governors, should be important to the policymakers in the state. And if you drive that kind of solution, you can wind up at a much better place than you would otherwise. And so I know I said a lot other than what the direct question you ask and what's the percentage chances, but I think I'm going to those kinds of things that should and will be discussed in the framework of supporting a PPA type arrangement.

<Q - Paul Patterson>: Okay. And I gathered from your previous comments that you feel pretty confident that we'll get decision one way or the other by the end of the year. I just want to make sure that as you know, sometimes regulators whatever there's an issue that's got some whatever lot of speculation et cetera associated with, there's delay. Do you follow what I'm saying? You don't get the feeling that that's – you feel pretty confident. Am I wrong? Tell me if I'm wrong that you feel that this is very likely to be settled one way or the other by the end of the year?

<A - Nicholas K. Akins>: I think it will. There's – it certainly should be settled by the end of the year. And if it goes the settlement route, then you have to think about, okay, how do you argue about the settlement and that kind of stuff and who's involved and all that kind of stuff? If you litigate it, well the Commission needs to make a decision. I'm really focused on making sure we drive to a solution as quickly as possible. And this has been two years, by the way. The first case that was filed by AEP and then FirstEnergy followed up. I think both, or certainly Chuck can speak for himself, but both companies need to get on with the investment and decisions that need to be made relative to these assets. And I certainly believe there's recognition by the Commission that they do need to make this decision.

<Q - Julien Dumoulin-Smith>: So perhaps just to follow up a little bit of detail from the last question, and again I hate to hit you with a little bit too much. Is there a minimum tenor that defines getting a long-term solution for PPA? I know it's a transient question. But kind of how do you think about that?

<A - Nicholas K. Akins>: The minimum tenor would be a long time. I just – we just want to make sure that everyone understands that if, regardless of the solution here, if there is a PPA, there's sort of two parts of the gate here. One is that the Commission approves a PPA. The second is what does the PPA look like? And AEP has been very out front and very focused and measured in our discussion about this to say that our expectation is a long-term PPA, one that goes past a three-year ESP cycle or has adjustment mechanisms or all that kind of stuff. We want to make sure that we have a long-term PPA that we can depend on and that we can actually make the investments we need to make. So minimum is long-term.

<Q - Julien Dumoulin-Smith>: Got it. Very clear now. Secondly, just sort of a bigger picture question, when you think about CPP obviously we got that finalized recently. How are you thinking about coordination between the various states that you have operations in? T&D Utilities, fully integrated, when do you think you start to get clarity about what needs to happen in each of those states through the filing process et cetera, and perhaps to add to that do you have, or do you need legislative approval in any state to kick off the CPP compliance?

<A - Nicholas K. Akins>: No, I think we want to make sure that the commissions are certainly involved with this. Now the states are going to take their own approach. They may litigate. I'm sure some states will litigate it, but that could be done in parallel. Our message is regardless of what you decide to do, you really need to work with us on developing a state implementation plan because that's the only way that, not only can a state have its own approach – but keep in mind, EPA did allow the states to say, okay come back with a plan and tell us what the reliability implications are. Because I believe that when the states look at their plans and they go through with the process that needs to occur and if there are reliability implications they're in a much better position to have a plan and the factual information to support that. And then who knows what administration changes and all that occurs along the way, but you're also in a much better position to negotiate relative to your own state implementation plan as opposed to a one-size-fits-all federal plan that is very difficult for one state to change.

So this is why we're sort of staying out of the arguments where the states and attorney generals and all that get involved from that perspective, from the litigation perspective. We want to make sure that the states continue to move forward. And for us, the states that do work with us on developing these plans will be in a much better position because every filing we make relative to our resource plan, integrated resource plan, or other types of plans, we'll be able to comport with what the state really wants to see that may be based upon their own unique views of how they want to approach this. So we want to be part of that and be part of the discussion. We want to be able to drive that discussion because we have a lot of factual information that I think the states will benefit from.

We've already started those discussions and will continue with that dialogue. For states that just refuse to do a plan, we'll continue to look at the clean energy economy of the future and the technology of the future and we'll continue to advance that within the resource plans that we have. So we just want to make sure we have answers to the questions of where a states' preferences are in terms of resources that they want to move forward with, and that we're there to do it. And so that's where we're at. I believe the states obviously have to make their own decisions relative to this, but we're working with the state EPAs and the state public utility commissions. As far as legislation is concerned, we believe each individual state is unique from that perspective, but we'll be working with the commissions and we'll be making our voice known in terms of where we think it should go in the future.

<Q - Stephen Calder Byrd>: I just had two I wanted to discuss. Transmission's always been a good area of growth for you and you're in a pretty strong financial position. I wondered if you could just comment on how bullish you are in terms of finding additional transmission growth opportunities, and to the extent that you do see more opportunities, could you talk at a high level at the types of transmission opportunities that you see out there?

<A - Nicholas K. Akins>: Yeah, so we continue to have – like I said I think I said last quarter there's well over 2,000 projects that we're working on today, we have other projects out there that are waiting for capital and we constantly are reviewing the capital situation that occurs. If we wind up with bonus depreciation or other opportunities that we could advance capital and actually in anticipation of the sale of river ops, we started the transmission spin last quarter when we raised the transmission in anticipation of that so that we wouldn't have the delay in terms of the earnings power of transmission associated with that so we're constantly looking at ways to do that and you're going to hear more about that at EEI and we'll have more to say about, and I think Brian was talking about the capital plans for the future, we'll have more to say about that.

<Q - Stephen Calder Byrd>: Understood. And then just thinking about, you had mentioned utility-scale solar investments, when you look across your territories and you think about the ability to actually invest capital vs. entrants at PPAs, could you talk at high level in terms of the regulatory landscape for the decision of preference between direct investment vs. being an off-taker?

<A - Nicholas K. Akins>: Yeah, we historically have been an off-taker of renewables. We have like over 2,000 megawatts of wind power. I'm a little tired of others taking credit for wind power when they wouldn't exist without the PPAs that exist from AEP, so we're going to be obviously much more outspoken about what we're doing relative to PPAs, but also from an investment perspective, we believe for utility-scale solar we should invest in that because it is a resource of the future and we have very good operations, maintenance, and project management expertise that we believe we have something to bring to the table in terms of efficiencies associated with that so when we talk to our regulatory jurisdictions, remember our regulatory jurisdictions are sort of on the cusp of dealing with these kinds of situations.

So for us, when we file a resource plan you're going to see some portion of natural gas, you're going to see utility-scale solar, and you're going to see other grid-type efficiency technologies to put in place whether it's energy storage, whether it's integrated Volt VAR control, information system deployment, advanced metering, those kinds of things will be key to our future. And that's something that we're very focused on, so we have transmission. Transmission is a great opportunity for us because it's a large-scale system that needs refurbishment. So is distribution. Distribution is a great opportunity for us, but even the build-out of distributed generation, particularly this type of utility-scale, we know where to place it on the system, it could be part of a resource plan that's filed with commissions and we're in the best position to build and own that type of generation.

<Q - Stephen Calder Byrd>: Okay. That's great color. Thank you very much.

<A - Nicholas K. Akins>: The other thing, just to add onto that, the other thing that we're doing is we are focused also on PPA arrangements with customers, directly with customers, and we've done that in some respects with the Ohio State University, with Denison University and others and as long as we have, again, a long-term PPA to back up the supply provisions for energy storage, for utility-scale solar, for rooftop solar, we'll do it. So that's why I say AEP has a very firm foundation. We're not having to spend large amounts of capital on environmental equipment, like we spent the $8.2B that Brian mentioned earlier. We're about done with that. And we have a real opportunity to advance this company in the future from a new-age energy supply perspective.

<Q - Hugh D. Wynne>: I had a question about the AEP Transmission Holdco. You've had a very good result YTD, earnings up $0.07 off of a 2015 base $0.30. But third quarter had uncharacteristically poor result with the sort of flat earnings y-over-y. And I was wondering if you could perhaps explain a little bit what happened, if there are any implications for the future?

<A - Brian X. Tierney>: So we had a onetime blip there, Hugh, related to O&M. At ETT, we had a cross-arm issue from some of the build out that we had to do there and we had to spend some dollars to address that physical issue. We don't anticipate that to be a recurring item and we believe it was a blip for the quarter and we'll be able to get back on track for the end of the year.

<Q - Hugh D. Wynne>: Okay. And then if I could just quickly, following up on the prior question on the Clean Power Plan, is there a form of regulation or a structure of regulation that you're trying to push your states to consider? Or are you happy to work with states on their individual objectives even if those are materially different structures or regulatory approaches?

<A - Nicholas K. Akins>: Yeah. I think we're willing to work with the states on their own individual unique circumstances, and we'll be working in that vein. Now, what we are looking at is we'd rather see and this is sort of tentative for us because we're still looking at a mass-based approach because that's more amicable to trading within states. But we've got to have the state solutions before we really understand how important the trading aspects are going to be. But we believe we're better off with a mass-based approach.

<Q - Hugh D. Wynne>: Is it a view that your other CEOs share or is that subject to debate?

<A - Nicholas K. Akins>: Yeah. You'd have to talk to them. Their states may be in different places. I know California obviously is in a different place. And – but it will be unique to each individual region of the country I believe, and then really what kind of resources that you're transitioning from within the states as well.

<Q - Paul T. Ridzon>: But can you remind us what your indicative guidance for 2016 was?

<A - Brian X. Tierney>: It's $3.45 to $3.85.

<Q - Paul T. Ridzon>: And any comment on how you feel about where in that range things are looking?

<A - Brian X. Tierney>: We'll be updating that at EEI in a couple of weeks.

<Q - Paul T. Ridzon>: And given that, I guess the decision of what to do with the Ohio generation is going to be a big driver of 2016. How will you handle that in guidance?

<A - Nicholas K. Akins>: Yeah, that's why Brian said earlier that the forecast for 2016 and the guidance that we'll give in November will still include those generation resources, it's not an assumption that we're going to continue to own, and I want to be careful with that. What it does say is that's what we know today, and so we'll plan for 2016 with that assumption, and if something does happen first quarter or whenever a transaction is actually completed, then we'll have to re-benchmark and adjust.

<Q - Paul T. Ridzon>: And you indicated you expect oil and gas to expand through 2016. Are there any particular regions where that's driving that expansion?

<A - Brian X. Tierney>: Yeah, it's all shale related, Paul, so it's Texas in particular and then West Virginia and Ohio.

<A - Nicholas K. Akins>: Yeah, keep in mind while the rig count's not going up, the electric load is and that's because there's a lot of consolidation that's occurring and efficiencies around compressor load that continues to get added so you have to sort of de-link what rig count's doing vs. what the electric load itself is doing.

<Q - Paul T. Ridzon>: Basically, we're behind the curve on the development of the infrastructure to move the gas out and that's going to continue through 2016?

<A - Nicholas K. Akins>: That's right.

<Q - Shahriar Pourreza>: I know we'll touch on 2016 at EEI, but just under a scenario where you retain the approximate 3 giga-watts under a PPA and you sell the remaining 5 gigs, does that scenario necessarily have to lend itself to dilution or do you have enough leverage to pull, i.e., or 2,000 plus transmission projects or even buy-backs to mitigate any type of a dilution opportunity?

<A - Nicholas K. Akins>: Yeah, I think you're sort of answering the question and that is we have to understand certainly what the proceeds would be. If there is dilution, then there's all kinds of transactions that could be done to mitigate that but also from a share buy-back and that kind of thing you could make adjustments there as well, so but it's too difficult to answer at this point. I mean, there's just so many moving parts in that analysis, but we will certainly go through that process.

<**Q - Shahriar Pourreza**>: Got it. Excellent. And just one last question, obviously we've got [ph] staff rec the route on (1:05:57) the PPAs. And sort of when you look at sort of what the recommendations are, obviously what's the most contentious item? Is it the tenor of the PPA? There were certainly some comments as far as the ROE. Is everything sort of up for negotiation?

<**A - Nicholas K. Akins**>: Yeah. I guess probably the most contentious issue is the PPA itself. The staff said well we object to a PPA but it can work under certain provisions. So if you get to the second door then it's probably tenor and those types of things that would be discussed. I mean just like with a long-term wholesale provider that we provide to you all the time, it's always price, tenor, and what the provisions are. So but I would say certainly on the former getting the PPA addressed and then secondly around tenor and then what's included.

<**Q - Andrew Levi**>: Just on the PPAs, could you categorize the settlement talks that are going on?

<**A - Nicholas K. Akins**>: Well I've said there was discussions going on. And so, we're obviously going through that process and talking about a lot of issues. And really, I can't say anything more at this time about that. But I can tell you that we're discussing with several parties.

<**Q - Andrew Levi**>: Great. Thank you. And then on the potential asset sales, the generation, I guess they're two buckets is kind of the way to look at it. They could become one bucket or be broken up into two buckets depending on the PPA. Is it possible that the bucket that is not involved in the PPA gets moved before the PPA gets resolved?

<**A - Nicholas K. Akins**>: I would say not likely because we're looking for an overall answer to this. I mean obviously if the PPA is not put in place, then we have a larger amount of generation that we have to go through this process with. So they'll probably be answered at the same time.

<**Q - Andrew Levi**>: And if you were to get a PPA on the first bucket, would it be possible that you would pursue a PPA for the second bucket?

<**A - Nicholas K. Akins**>: Well that's an interesting question, but I think getting the PPA through and getting whatever units are included in a PPA I would say that the open units that aren't included in the PPA, we're not going to assume that they're going to be brought back in at some later time, and so besides we really don't have the time for that.

<**Q - Andrew Levi**>: And just regulatory-wise right, the only potential for PPA at this stage is with what's been filed for, right? You wouldn't be able to add megawatts or assets to that through a settlement process, could you?

<**A - Nicholas K. Akins**>: Unless there's a settlement.

<**Q - Andrew Levi**>: So through a settlement it's possible to add megawatts for no better way to put it, I guess?

<**A - Nicholas K. Akins**>: Well...

<**Q - Andrew Levi**>: Is that correct? Or...

<**A - Nicholas K. Akins**>: Yeah, but then you wind up with a lot of additional discovery and that kind of stuff around that, so I'm just saying potentially it could be done, but it would open up perhaps another can of worms that we have to deal with.

<**Q - Ali Agha**>: I know that, Brian or Nick, you mentioned that on 2016 guidance you presumed the sale of the river operations, but you kept the generation as is, should we assume that that sale at least from a timing perspective is dilutive in 2016? Is that a fair assumption?

<**A - Brian X. Tierney**>: The sale of river ops?

<**Q - Ali Agha**>: Yes.

<**A - Brian X. Tierney**>: No, Ali, let's just look at recent earnings history from that business. Last year, we earned $0.10. This year we were forecast to earn $0.08 for the year. In 2012 and 2013, we earned $0.02 per share from that

business, so I would not think of that as being dilutive for 2016.

<Q - Ali Agha>: Okay, and then also, Brian, as you mentioned earlier, your current 4% to 6% growth is based off the midpoint of the original 2014 guidance, so as we look forward, is that sort of the way to be thinking about it, that when you're looking at 4% to 6% we should use your original midpoint of your 2015 guidance as you move things forward? Or conceptually, how should we be thinking about what base to use for that 4% to 6% going forward?

<A - Brian X. Tierney>: We'll lay out a framework for that at EEI. I need to stop talking about 2014 original guidance, because that's getting pretty far back in the rearview mirror now. But we'll lay out that framework at EEI. It's – our long-term anticipated growth rate is 4% to 6% and we can normalize everything and take you through that discussion in more detail at EEI with some charts that we're putting together.

<Q - Ali Agha>: I got it. And last question, Nick, as you looked at the timeline on strategic issues on merchant, the Ohio PPA, obviously, things have moved as other events have gotten delayed. Are you now at a point where you say, look we think this will happen by year-end and so we'll get clarity by early next year, but if regulatory processes continue to get shifted further, is early next year sort of casting stone in your mind to finally resolve the strategic issue on merchant or would you still be flexible depending on how the PPA staff is moving?

<A - Nicholas K. Akins>: This thing has gone on long enough, and I think that we have to get on with making a decision and really our board has been dealing with this for a year and a half, two years now as well. So it's very important that we get the answers that we need from the Commission so that we understand what Ohio's policy is going to be in the future. So my view is that first quarter this coming year, we'll have an answer ready with the Commission that we know not so much whether it holds up in court or anything like that, or what the thinking this. And that's what's clearly important is the way we address this process and to not be thinking about it for a long period of time or not hearing what people are thinking about it externally from a policy perspective. That is very important to us. So my view is our patience has sort of run thin here and we need to get on with it.

<Q - Ali Agha>: Just to clarify, so if the PPA rider discussion for whatever reason is continuing beyond Q1, you are not going to wait for that to continue beyond that. Is that fair?

<A - Nicholas K. Akins>: I think that's fair. I think that's fair. Now, I can't say that on January 29 or January 30, we think we're going to get an order on February 1. That we're going to pull the plug on January 30. But we fully expect the Commission to get done by year-end and then we'll go about the process as quickly as we can to focus on what the future holds. And so I'm just saying that first quarter we should be in a position where we move on