Q3 2020 Earnings Call

Company Participants

- Brian X. Tierney, Executive Vice President and Chief Financial Officer
- Darcy Reese, Managing Director, Investor Relations
- Nicholas K. Akins, Chairman, President and Chief Executive Officer

Other Participants

- Durgesh Chopra, Evercore ISI
- James Thalacker, BMO Capital Markets
- Julien Dumoulin-Smith, Bank of America Merill Lynch
- Michael Lapides, Goldman Sachs
- Sophie Karp, KeyBanc

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the American Electric Power Third Quarter 2020 Earnings Release Conference Call. At this point, only participant lines are in a listen-only mode. However, there will be an opportunity for your questions. (Operator Instructions) As a reminder, today's call is being recorded.

I'll turn the call now over to the Managing Director of Investor Relations, Ms.Darcy Reese. Please go ahead.

Darcy Reese {BIO 20391516 <GO>}

Thank you, John. Good morning, everyone, and welcome to the third quarter 2020 earnings call for American Electric Power. We appreciate you taking the time to join us today. Our earnings release, presentation slides and related financial information are available on our website at aep.com.

Today, we will be making forward-looking statements during the call. There are many factors that may cause future results to differ materially from these statements. Please refer to our SEC filings for a discussion of these factors.

Joining me this morning for opening remarks are Nick Akins, our Chairman, President and Chief Executive Officer; and Brian Tierney, our Chief Financial Officer. We will take your questions following their remarks.

I will now turn the call over to Nick.

Nicholas K. Akins {BIO 15090780 <GO>}

Okay. Thanks Darcy, and welcome everyone to American Electric Power's third quarter 2020 earnings call. The third quarter has been another strong quarter for AEP. Despite the continued challenges of COVID-19 and its effects on the economy, we continue to be optimistic about our ability to execute and provide the consistent quality of earnings and dividend growth, our shareholders expect and provide focus on our customers and communities we serve to get past the multiple challenges we face as a result of the pandemic.

I know many of us have had the feeling during 2020 with its multiple challenges that Lenny Kravitz saying about in his song fly away, singing, "Oh, I want to get away, I want to fly away, yes, yes, yes", probably figuratively and literally but there is light at the end of the tunnel. As we move through this memorable year, AEP continues to drive firmly within the guidance range with targeting the midpoint as we move to the last quarter. We're accomplishing this by executing on cost control in response to the pandemic, keeping our employees safe through the crisis by taking all the extra precautions and working with our customers to alleviate the economic pressures during this time.

We are also learning a lot during this crisis, the value of efficient work-from-home environments, the focus on capital and O&M management, the acceleration of our achieving excellence program and the focus on social issues that drive a cultural brand that brings everyone into the journey of being the premier regulated utility AEP strives to be. In fact, AEP just made the Forbes just capital 100 list for 2021 being the highest ranked utility on the list.

We've also been involved with two major storm events, Hurricanes Laura and Delta in SWEPCO's Louisiana territory. I'm proud of how our employees stepped up during these major weather events in the midst of COVID-19 protocols to effectively and efficiently return service to our customers in a safe manner, just as they do every day to keep the lights on. And now it's even more important service during work from home and stay at home environments.

Financially our operating performance continues to be strong in the face of these challenges. AEP's operating earnings for the quarter came in at $1.47 per share versus $1.46 per share last year, bringing us to $3.56 per share for year-to-date 2020 versus $3.65 per share last year at this time. We continue to be firmly within the stated 2020 guidance range of $4.25 to $4.45, and we continue to be optimistic regarding our progress going into 2021. We are reaffirming our current guidance range in our long-term 5% to 7% growth rate. And as I have said previously, I would be disappointed not to be in the upper half of that 5% to 7% range.

Our board just approved a dividend increase of approximately 6%, in line with our earnings in the middle of our targeted payout ratio of 60% to 70% and consistent with our long-term growth rate of 5% to 7%, an incredible accomplishment given the headwinds we expected we were facing in the first quarter and the second quarter of this year. Even with this success in turbulent times, we are not out of the woods yet, but we are seeing improvement in industrial and residential load. However commercial loads such as churches, restaurants, hotels and schools not surprisingly are still challenged. Brian will get into more detail on the economy later.

We could not have achieved the outcome that AEP has is achieved thus far during the year without our employees' attention in cutting our costs to compensate for losses from the COVID economy. Our achieving excellence program is going very well, and not only has it helped us compensate for the revenue losses due to the pandemic, but has set an excellent catalyst for the future in terms of continued O&M cost control. More to come on this at November EEI.

Most of the economists believe that 2021 economy will improve. And while we are seeing positive progress going into fourth quarter industrial and commercial progress has slowed perhaps until after the election cycle or during the second wave of the COVID cases or during the pendency of upcoming therapeutics and vaccines. With all of that said, it has been a very productive quarter and we expect improvement to continue into 2021.

We continue to adhere to COVID pandemic related protocols of temperature testing, mask requirements, social distancing and hygiene related activities. Our confirmed cases are increasing with the apparent second wave and we are doubling down on messaging around practicing safeguards outside of the work environment as much as inside. Thankfully, we have not lost any one due to the virus, but vigilance and fighting complacency is key here. We also have continued our outreach to employees and the communities we serve regarding racial injustice. As I mentioned last quarter our seize the moment initiative is important to reach a deeper understanding of the racial divides that exist and gain perspective from one another about actionable next steps.

Before I get to the regulatory updates, I'll just head this off of the past questions about HB6 in Ohio. I'll just say flatly that we have nothing new to report from AEP's perspective. Any potential legislative change is not imminent, particularly given the noisy election cycle. So perhaps we'll hear more after the election. As we have said earlier, any change to the existing legislation is likely to be financially insignificant to AEP and we will still be pushing for forward-looking legislation regarding clean energy options, energy efficiency and other technology enhancements at grid scale and with our customers. Regarding the legal issues surrounding HB6, also nothing new to report and my previous comments stand on this subject.

Now for the regulatory update. If there is one observation, that has become apparent through this pandemic, it is the acknowledgment of the criticality of the service that we provide to our customers and communities. This year, we have weathered through the effects of the pandemic and overcome significant storm activity that have challenged our system and our workforce. As we work with our regulators to position the company to be able to continue to meet the expectations of our customers and communities, we are stressing the fundamentals of a strong balance sheet. Now more than ever, it is essential for our operating companies to be well-positioned to have the cash flows and returns needed to attract the capital necessary to meet the ongoing needs of our customers and communities. And as you all know we have a number of regulatory proceedings pending before our state regulators this quarter, most of which, are needed to conform with previous regulatory stipulations, stay-out provisions, or to address the timing needs of critical investments.

Ohio filed its most recent base case June 1, as required under the terms of our prior ESP IV settlement. We are seeking a $41 million rate increase with a 10.15% ROE. A procedural schedule has not been established yet on that case. APCo filed its base rate case in March as required by Virginia law. We have completed hearings and the case has been submitted to the commission for a decision. Our Virginia residential customers have not experienced a rate increase over the past 10 years. In this case, we have asked for $37.9 million net of depreciation with an ROE of 9.9%. We were disappointed with the position taken by both staff and the AG which fails to recognize our need to have an opportunity to earn our authorized return over the next triennial period. We remain confident that the commission will see through these arguments and recognize their obligation under the law to allow the company an opportunity to earn a fair return. A decision is expected in November.

Kentucky was subject to a stay-out provision until June of this year. We subsequently filed our base rate case on June 29, where we asked for a $65 million increase and an ROE of 10%. The company has also sought to use the remaining unprotected AVIT funds in Kentucky to offset bills for customers who cannot afford to pay their bills. The commission elected to combine this request with the base rate case filing and we expect resolution by year-end.

Last but not least in our SWEPCO jurisdiction, we received approval from the commission to create a regulatory asset for the costs associated with Hurricane Laura. We will ask for similar treatments for the costs associated with Hurricane Delta, and we are hopeful that we can put this year's hurricane season safely behind us.

In Texas, SWEPCO made its base rate case filing on October 13, where we are seeking a 90.2 million increase with an ROE of 10.35%. We are also seeking to increase the storm reserve and increase our vegetation management expenditures to minimize the risk of future outages to our Texas customers.

We continue to make progress on our North Central Wind projects which will benefit our customers in Louisiana, Arkansas and Oklahoma. Foundation work has commenced at the Sundance facility, which is expected to be in service by the end of first quarter 2021. Invenergy is currently completing final site preparation on both the Maverick and Traverse locations. We continue to expect to acquire the Maverick facility by December '21 and the Traverse facility in the December to first quarter of 2022 timeframe. We have followed our settlement true-up in Arkansas and are finalizing our settlement true-up in Oklahoma. We are looking forward to the benefits that these projects will bring to our customers by providing access to some of the nation's richest wind resources and helping SWEPCO and PSO advance a greener energy future.

Okay. So now to the equalizer chart. I'll talk about that, I think it's on Page 5 of the presentation. So our current ROE is about 9%. And you know we generally target these returns to be in the 9.5% to 10% range. The ROEs below are not weather normalized. And certainly keep in mind that we're also thickening equity layers as well.

So I'll talk about AEP Ohio first. I just mentioned the rate case there. It's above authorized primarily due to favorable regulatory items partially offset by the roll-off of the legacy issues that we've been talking about for years regarding the PIRR and the RSR but we also expect the year-end ROE to trend around the authorized levels of 10%.

For APCo, which I had mentioned earlier is slightly below authorized due to lower normalized usage and higher depreciation from increased capital investments partially offset by continued management of the O&M expenses. Effective January 2020, costs associated with the last 17.5% of wheeling Power's interest in the Mitchell plant became recoverable through APCo and wheeling rates.

And then I already discussed Virginia's tri-annual review. Kentucky already discussed the rate case there, but they're below and as you can see well below authorized due to loss of load from weak economic conditions and loss of major customers along with higher expenses during the stay out period. So we have a lot of work to do there.

I&M. The ROE for I&M at the end of the third quarter was 10.4%. Its ROE was above authorized due to continued management of O&M expenses, reduced interest expense and rate true-ups partially offset by lower commercial industrial sales. I&M's ROE is projected to trend slightly below 10% by year-end consistent with authorized ROEs in Michigan and in Indiana.

PSO. Its a ROE is 8% at the end of the third quarter. It was below its authorized level primarily due to lower normalized usage and unfavorable weather in 2020, partially offset by continued management of O&M expenses. PSO's 2019 base case, as you recall approved a transmission tracker, a partial distribution tracker and an ROE of 9.4% authorized. So we'll continue to make progress there.

SWEPCO. The ROE for SWEPCO is about 7.4%. And as you recall much of that is related to the Turk Plant not being in retail rates in Arkansas, and that impacts it about -- by about 110 basis points. SWEPCO received an order in its Arkansas base case settlement in December 2019 and effective 2020, approved a $24 million revenue increase and ROE of 9.45%. In October 2020, we also filed the rate case in Texas, as I mentioned earlier.

In AEP Texas, its ROE is around 7.5%. It was below authorized due to lag associated with the timing of annual costs recovery filings. We had -- we did not make those due to during the pendency of the previous rate case, and of course one time, adjustments from our finalized base rate case itself. Favorable regulatory treatment allows AEP Texas to file annual DCRF and TCOS filings and we've since filed many of those, at this point, I think there has been three cases that have been filed. And while earnings should improve in 2020 with the base rate case finalized and annual filings now resumed, continued levels of investment in Texas will impact the ROE. The expectation is for the ROE to trend towards an authorized ROE of 9.4% in the long term, but be around probably 8% by the end of 2020.

As far as the transmission company is concerned, AEP Transmission Holdco was 9.8%, and it was below authorized, primarily driven by the annual revenue true-up in the second quarter of 2020 to return the over collection of 2019 revenues. Transmission has forecasted an ROE of 9.8% to 10.1% range in 2020. It is also interesting to note that, when you look at the average equity in our operating jurisdictions the Transmission Holdco is now the largest which -- that's happened for the first quarter, this is the first quarter that, that has actually occurred. So making a lot of progress. But at the same time, though the investment that is being made relative to transmission is certainly improving the quality of service to our customers. So very happy with the progress we're making around our T&D investments and its ability to improve customers' experiences.

As I close, I'd be remiss in not thanking our employees at the Oklaunio power station that was officially retired from service a couple of weeks ago, after several decades of providing generation resources and meeting the needs of our customers' electricity demands in Texas and Oklahoma. Oklaunion was under construction about the time I joined AEP out of college. And when you see people and assets retiring it just further illustrates the resiliency of AEP over the last 114 years, but also that change occurs and we have to change with it. Thanks again, to all the Oklaunion employees through the years.

So all in all a solid quarter for AEP, and I can't resist when thinking about AEP's future post COVID with the latent value of the need for resiliency and reliability of the grid to support work from home environments, moving forward with the transformation to clean energy resources, which we at AEP are in the beginning stages of and the further electrification of the economy, we would say in the words of the late Eddie Van Halen, "It's about time. This time is our time and right on, we'll let it shine." I am convinced in overcoming the challenges of 2020 this company will be even stronger as we move into 2021 and beyond. Brian?

Brian X. Tierney {BIO 15917272 <GO>}

Thank you, Nick, and good morning everyone. I will take us through the third quarter and year-to-date financial results, provide some insight on load and the economy, review our balance sheet and liquidity and finish with a preview of what we will present at the EEI conference.

Let's stop briefly on Slide 6, which shows the comparison of GAAP to operating earnings for the quarter and year-to-date periods. GAAP earnings for the third quarter were $1.51 per share compared to $1.49 per share in 2019. GAAP earnings through September were $3.56 per share compared to $3.58 per share last year. There is a reconciliation of GAAP to operating earnings on pages 15 to 16 of the presentation.

Let's turn to Slide 7 and look at the drivers of quarterly operating earnings by segment. Operating earnings for the third quarter were $1.47 per share or $728 million compared to $1.46 per share or $722 million in 2019.

Operating earnings for vertically integrated utilities were $0.85 per share down $0.04. This was driven by unfavorable weather, primarily due to warmer than normal temperatures last year particularly in September. Other drivers included lower wholesale load and other operating revenue as well as higher depreciation and taxes primarily due to timing, that were reversed in the fourth quarter. Favorable items included lower O&M, favorable rate changes and higher transmission revenue.

The Transmission and Distribution Utilities segment earned $0.31 per share up $0.04 from last year. Favorable items included higher rate changes and transmission revenue as well as lower O&M. These favorable items were partially offset by unfavorable weather, depreciation, taxes and interest expense. The AEP Transmission Holdco segment continued to grow contributing $0.28 per share, an improvement of $0.03. This reflected the return on investment growth as net plant increased by $1.5 billion or 16% since September of last year. Generation & Marketing produced operating earnings of $0.13 per share down $0.03 from last year. This was driven by timing around income taxes and lower wholesale margins. Finally, corporate and other was up

$0.01 from last year, primarily driven by lower taxes related to consolidating items that will reverse by year-end.

Let's turn to Slide 8 and review our year-to-date results. Operating earnings through September were $3.56 per share or $1.77 billion compared to $3.65 per share or $1.8 billion in 2019. Looking at the drivers by segment. Operating earnings for vertically integrated utilities were $1.90 per share comparable to last year. Favorable items in this segment included lower O&M, the impact of rate changes across multiple jurisdictions and higher transmission revenue primarily due to true-ups. Weather was unfavorable due to warmer than normal winter temperatures this year and a warmer summer in 2019. Other decreases included higher depreciation and tax expenses primarily due to timing and lower revenue items in AFUDC.

The Transmission and Distribution Utilities segment earned $0.84 per share, down $0.01from last year. The negative variance was primarily driven by the 2019 reversal of a regulatory provision in Ohio. Other smaller drivers included higher depreciation and interest expense, the roll-off of legacy riders in Ohio, prior year Texas carrying charges, unfavorable weather, and tax expenses. These items were mostly offset by higher rate changes, the recovery of increased transmission investment in ERCOT, and the impact of the Ohio transmission true-up on both O&M and transmission revenue.

Other O&M was also favorable due to the concerted effort to decrease O&M expenditures through one time and sustainable reductions.

The AEP Transmission Holdco segment contributed $0.75 per share down $0.07 from last year, due to the impact of the annual true-up and prior-year FERC settlements. Our fundamental return on investment growth continued. Generation & Marketing produced $0.31 per share up $0.01 from last year. The renewables business grew with asset acquisitions more than offsetting lower wholesale and retail margins and timing around income taxes. Land sales and other one time items offset the impact of weaker wholesale prices on the generating business.

Finally, corporate and other was down $0.02 per share due to higher interest and taxes related to consolidating items that will reverse by the year end, and offset by a prior year income tax adjustment. Partially offsetting these items was lower O&M. Overall we are pleased with our financial results and are confident in confirming our annual operating earnings guidance of $4.25 to $4.45 per share.

Turning to Slide 9. Let's review the assumptions we shared during the first quarter earnings call to reaffirm guidance. Starting with the top-line. We recently updated our retail sales forecast. Third-quarter sales came in higher than previously projected. We now expect 2020 normalized sales to come in 2.7% below last year, which is 0.7% better than the load forecast from the first quarter. While the outlook has improved it is still below the pre-recession forecast used for our original guidance. The favorable sales mix in 2020 has helped to mitigate the impact on earnings.

The second item was the impact of weather. While the first quarter weather produced a significant drag, the second quarter and third quarter weather impacts were slightly favorable. In the second quarter presentation we mentioned that July's weather was quite favorable.

However, August and September weather was mild. As a result, we have revised the weather impact on 2020 earnings and now expect an $0.08 drag to 2020 results.

The next item was untracked O&M expense. We had originally planned to drive O&M costs down to $2.8 billion from $3.1 billion in 2019. In response to the expected sales decline, we identified an additional $100 million of savings from both one time and sustainable reductions and are on track to hit this lower expense target.

Finally, we identified approximately $500 million of capital expenditures in the first quarter that couold be shifted out of 2020 and into future years. We made this decision to support our cash position through the expected downturn during the pandemic. As we discussed at the second quarter earnings call, results have come in better than expected and we have reinstated approximately $100 million of the $500 million back into 2020. Given the progress we have made on these key assumptions, we are able to reaffirm our 2020 operating earnings guidance range.

Now let's turn to Slide 10 to provide an update on our normalized load. Starting in the lower right corner, our third quarter normalized load was down 2.6%. This was slightly better than the forecast we shared with you in the first quarter. Through September, our normalized sales were down 3% from last year. In the upper left quadrant, our normalized residential sales increased by 3.8% in the quarter. Year-to-date residential sales were up 2.6%. We saw significant increases in our residential load at the beginning of the pandemic. The growth in residential sales has moderated as people returned to work over the summer. Weather normalized residential sales are up across all jurisdictions. Moving clockwise, our normalized commercial sales decreased by 4.6% in the third quarter, bringing the year-to-date decline to 4.9%. As expected the biggest declines in this class came from schools, churches, restaurants and hotels.

Finally in the lower left chart, industrial sales decreased by 7.8% in the quarter, bringing the year-to-date decline to 7%. A number of factors have changed the outlook for this class, but the biggest driver is overall economic activity. The industrial sectors that posted the biggest declines for the quarter were mining, oil and gas extraction and primary metals. By contrast, plastics and rubber manufacturing posted a strong quarter related to the recovery of the automotive industry. Overall, load growth across the service territory followed the pattern we anticipated earlier in the year. During the second quarter residential sales peaked and commercial and industrial sales hit their lows. Since then our service territory has been working its way back to more normalized levels. Because some businesses will continue to work remotely we expect our residential sales to continue at higher levels for some time.

Let's take a deeper look into why we raised our outlook for normalized load on Slide 11. Solid bars represent weather normalized load growth by quarter in 2020. The green lines represent the updated load forecast we shared during the first quarter earnings call. At that time, there was still a lot of uncertainty regarding the depth and duration of the economic slowdown and how customers would respond. While that forecast accurately predicted the depth of the contraction in the second quarter, our third quarter results indicated a better recovery than forecasted. Our latest view anticipates a continuation of this trend barring another shutdown of the economy.

Now let's move on to Slide 12 and review the company's capitalization and liquidity. Our debt-to-capital ratio remained unchanged in the third quarter and stands at 61.1%. Our FFO-to-debt ratio decreased 1.3% during the quarter to 12.8% on a Moody's basis, primarily due to timing of fuel recovery, storm cost deferrals and the pension contribution. Importantly, we expect this metric to end the year in the low to mid-teens consistent with the guidance we have provided. Our liquidity position remains strong at $3.8 billion supported by our revolving credit facility.

Before providing an update on pension funding, I would like to discuss the plan to finance the North Central Wind project. As a reminder, we have stated that we intend to use equity to finance approximately two-thirds of this $2 billion project. We plan to issue equity in coordination with the completion of the three individual projects that comprise North Central Wind. For this reason, we will take a flexible approach, which could include an at the market mechanism, asset rotation, as well as traditional secondary offerings. This approach avoids unnecessary dilution and helps us deliver on the 5% to 7% earnings growth rate.

Turning to our pension. I'm pleased to report that funding increased 3.6% during the quarter to 97%. And our OPEB funding increased 5% to 141%. Strong equity returns was the primary driver for the increases. The pension plan also benefited from a company contribution in the amount of the plan's annual service cost of $111.5 million.

Let's wrap this up on Slide 13, so we can get to your questions. We are reaffirming our existing 2020 operating earnings guidance of $4.25 to $4.45 per share. Our message at EEI will be that we are leading the way forward as a premium regulated utility with an ESG focus delivering 5% to 7% earnings growth with dividends growing in line with earnings. Our plan includes the $2 billion North Central Wind project in Oklahoma, benefiting our customers in PSO and SWEPCO, as we transition to a cleaner energy future. We will provide detailed drivers for 2021 earnings guidance by segment and updates to our capital expenditure and financing plans. We look forward to talking with many of you at the virtual EEI conference in a couple of weeks. One final item. In 2021, we will release 2020 fourth quarter and full year earnings in late February coincident with the filing of the 2020 10-K, like we did last year.

With that, I will turn the call over to the operator for your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) And we will go to Julien Dumoulin-Smith with Bank of America Merrill Lynch. Please go ahead.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Good morning, Julien.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hey, howdy. Thanks for the time, guys. Perhaps just to kick things off, you talk about rolling out and reaffirming or perhaps preemptively reaffirming in the EEI at the slide 7. Can you talk a little bit about what's backstopping that? And specifically, in the last few months we've seen some pretty substantial changes from some of your peers in Virginia. How can that play into APCo and perhaps also similarly in Indiana, many of your peers are talking about opportunities, you all have perhaps Rockport. Just curious if you can talk about or perhaps foreshadow some of the conversations here on that roll forward, if you don't mind, at the outset?

A - Brian X. Tierney {BIO 15917272 <GO>}

Julien, I think a lot of the things that we're going to talk about are renewable opportunities in addition to North Central Wind, how we're transitioning from a carbon-based generating fleet much more to a lot of the renewables that the Virginia Clean Energy Act enables and Legislation in Indiana enables as well. So we're going to provide a lot more detail on that at EEI and take you through what that looks like.

A - Nicholas K. Akins {BIO 15090780 <GO>}

We do have the renewable requirement in Virginia. I mean you mentioned APCo, we've got the requirement there. And also Indiana & Michigan, we continue to do renewables in various areas there. We're also doing renewables. We just did fourth sale in Oklahoma And then we also have renewable applications here in Ohio that are brewing as well. So we'll have plenty to talk about.

And I think we don't spend, and then maybe we should spend more talking about the opportunities we've got available to us from a renewable standpoint. But the way I see it is, is that we are just on the precipice of a massive transformation to renewable resources. And AEP, if you look at the runway, is pretty substantial. So -- and that will continue particularly as we do individual relationships with customers, but also in terms of the regulated side as well through the integrated resource planning process. So we'll certainly talk more about that at November EEI.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. Thanks for entertaining that. Perhaps, if I can get more detailed here, if you don't mind. I know you all provided a little bit more of a view of '23 here, but in tandem, you gave an updated view on FFO to total debt under Moody's definition of low to mid teens versus perhaps prior characterizations of mid teens. Is that simply a factor of rolling forward here? Or how are you thinking about this at this point?

A - Nicholas K. Akins {BIO 15090780 <GO>}

Julien, it's -- low to mid teens is completely consistent with our prior our messaging on FFO to debt. And that outlook was incorporated in Moody's when they made their adjustment back in August.

A - Brian X. Tierney {BIO 15917272 <GO>}

And remember, that will continue to improve as we -- as some of this accumulated deferred income taxes that has being repaid to the regulatory jurisdictions are occurring much more quickly than we thought. I mean we were originally think in 10 years and it turned out to be five years. So -- and that's occurring more quickly. So that FFO to debt metric will pick up as that rolls off.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. Excellent. Thank you.

Operator

Our next question is from Durgesh Chopra with Evercore ISI. Please go ahead.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Hey, good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning. Thanks, great. Hey, just digging in a little bit into 2021, and I appreciate you will sort of share more color at EEI. But could you quantify for us what that 2% -- 2.7% sales degradation was year-to-date, part one. And Part two, should we assume some of that $51 million year-to-date O&M savings to be carried forward into the next year?

A - Brian X. Tierney {BIO 15917272 <GO>}

Yes. So let me start with the 2.7% load degradation. It's what you would expect. It's largely commercial and industrial sales decreases being offset by residential. And so what we've seen is, it takes more than just looking at the raw numbers on residential, commercial and industrial, it's really the mix. You remember we make more margin on residential sales than we do on commercial and industrial. And that mix has come in better than we had anticipated at the beginning of the pandemic. So it's not been as dire as what we thought it might be because of what's happened with the sales mix rather than just the overall decreases. So that's been positive.

Looking forward on O&M, we have for a number of years been tightening our belt and been very, very tight around untracked O&M in that $2.8 billion to $3.1 billion range. And with what we're doing with achieving excellence and everything else we're doing with sustainable and non-sustainable O&M cuts, I'd anticipate us being towards the lower end of that range going forward.

A - Nicholas K. Akins {BIO 15090780 <GO>}

When we look at the load forecast, I mean, if you assume 2021 is going to be better, which we believe it is, and you look at that mix, we don't see residential -- I mean, obviously, it will moderate as the economy comes back on the industrial and commercial side, commercial in particular. But still you're going to have a continued long-standing remnant of improved residential support just by virtue of what companies have learned from the work-from-home environment. So I'm a little bit bullish on the load, and at least a financial picture associated with the load.

And then, when you look at the O&M, this Achieving Excellence program, I don't -- it has truly been a fundamental change for us, an augmentation of all the lean activities and other things that we did before. And it really is focused on a regular part of our budget process to ensure that we're capturing savings in every step along the way. So feeling pretty good about the continual progress year-on-year of Achieving Excellence.

Q - Durgesh Chopra {BIO 20053859 <GO>}

That's great, guys. Thanks for that color. Maybe just initial thoughts, and I appreciate the devil is going to be in the details, but initial thoughts on elections, taxes, climate plan and implications for AEP.

A - Nicholas K. Akins {BIO 15090780 <GO>}

So I guess well, first of all, the election. Certainly is a noisy election cycle and who knows what's going to happen here, we never know. But we've got a 114 years history of managing between the goal post here. So we'll continue to do that. And our focus is on moving to that clean energy economy. So really the only difference I see is maybe the pace at which the change will occur if there's a Biden administration versus Trump. But nevertheless it doesn't change that much for us, because we're focused on moving that clean energy economy as quickly as we can to ensure that we are making that transition into the future that we know is going to happen.

Now who knows where technology will go even for fossil fuels. But nevertheless we'll continue that transition to renewables and certainly some natural gas to ensure that we are delivering for our customers in the future. So from a climate perspective, we've got a very -- we have an excellent record. As a matter of fact, that's why we get seen from the ESG Community. They know what we're doing. They know what our message is. We're making continual progress, and we'll continue to make that progress.

And then when you think about, as I said in my original write up, I used the word latent, because it is somewhat of an undeveloped or emerging activity around electrification of the economy certainly around O&M and what we find with digitization and automation. And then of course as we move forward with the transformation, the generation transformation that we see ahead of us. So that's why I'm feeling pretty good about where this company is heading.

A - Brian X. Tierney {BIO 15917272 <GO>}

Just a quick update on taxes. If we were to have an increase in taxes, we anticipate that our commissions would handle it, really one of two ways and not dissimilar to how they handled tax reform three or four years ago. We anticipate that they would either allow the increase to be deferred until the next rate proceeding or we anticipate that they'd have kind of a one issue order come out where they would allow us to adjust rates just to reflect the new expected higher income tax rate. In any event, we wouldn't expect it to be a significant driver to earnings or cash for the company going forward.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Right. Thanks. But could be a modest sales into cash flow,like given sort of a reset in ADIT amongst other things?

A - Nicholas K. Akins {BIO 15090780 <GO>}

I think it'll help FFO to debt.

A - Brian X. Tierney {BIO 15917272 <GO>}

Yes. Again, we don't anticipate it to be significant one way or the other.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Understood. Thanks, Brian. Thank you, Nick.

A - Brian X. Tierney {BIO 15917272 <GO>}

Thank you. Yep.

Operator

Our next question is from James Thalacker with BMO Capital Markets. Please go ahead.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Good morning, James. Hello?

Operator

James, your line is on mute possibly. Your line is open.

Q - James Thalacker {BIO 1794957 <GO>}

Hey, thanks, guys. Apologize -- Good morning.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Good morning.

Q - James Thalacker {BIO 1794957 <GO>}

Two real quick questions. Just first, I guess Brian, just addressing North-Central wind. I noticed in the slides that Traverse looked like potentially the in-service could be pushed out maybe by a quarter or so. Could you talk a little bit about is that just a supply chain issue related to COVID? Or is there something else that was kind of driving that extended outlook?

A - Brian X. Tierney {BIO 15917272 <GO>}

Yes. A lot of it has to do more so than actual physical things. It's our ability to get permitting and the like done. And so during the shutdown it was hard to be able to get into the offices, do land acquisitions, title searches, and things like that. And that just pushed us -- potentially pushed it back a bit, James. We're not anticipating anything material there. We still anticipate late this year to early next year, but just wanted to signal that due to some of those unanticipated issues -- largely associated with COVID that that project could have a range of when it would come online.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Hey, James, we feel like it's still going to be the end of December, but obviously, it could fall into that range in the first quarter. We're confident of that particular range. But remember, we're not making any progress payments either. It's sort of a -- we require it when it's done. So from a financial perspective, it's fine.

Q - James Thalacker {BIO 1794957 <GO>}

Okay. Great. Thanks. And I guess just following up on that same issue. Brian, you talked about three sort of potential ways to finance the final acquisition of those. And this has been beaten to death. But as you guys look to give 2021 guidance, obviously an ATM would be something to be kind of spread over the full year, but asset rotation or even block equity would be probably something. And I think as you were saying sort of coordinating it with the final close would be something maybe closer to the end of the year. How are you guys, I guess, thinking about that from a modeling perspective as you present 2021?

A - Brian X. Tierney {BIO 15917272 <GO>}

It kind of matches what Nick was saying is that, the projects don't -- we don't get the projects until commercial completion is done. We then get the project. And given the discrete nature of them we can really time the equity issuance very closely with when the project comes online. And James, the reason we need that flexibility, you look at Sundance, which we're anticipating in the first quarter of 2020. That's about a $300 million project. We'll be able to time the equity issuance, if that's what it is, closely with when that project comes online. The next one which we're anticipating at the end of 2021 is about a $400 million project, Maverick. And then the last one is Traverse, which is about $1.3 billion, and we talked about that being late 2021, early 2022.

We believe that whether it's an at-the-market program, a follow-on issuance or asset rotation, we're going to be able to time those very, very closely with when those discrete projects come online. So from a modeling standpoint, the timing that we're talking about really is going to be insignificant to 2021. And it's just -- I'll start repeating myself, it's insignificant to 2021.

A - Nicholas K. Akins {BIO 15090780 <GO>}

James, Brian mentioned the options we're looking at. And rest assured, internally we are also beating it to death. So we'll make sure that we're making the right decisions relative to the timing associated with those investments.

Q - James Thalacker {BIO 1794957 <GO>}

No, no worries. I understand the in-service dates and it gives you guys a lot of flexibility. Last question I guess I just had, and you kind of answered my initial question, was going back to the trailing 12 month FFO, it kind of dipped down. You guys are looking for that to show sort of trend back into kind of where you guys are thinking sort of low to mid-teens I guess. Is that -- are you still targeting that in the sort of '21, '22, '23 time frame? I know you just updated your cash flow forecast for that recently.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Yes, we are. It's that time frame, yes.

Q - James Thalacker {BIO 1794957 <GO>}

Okay, perfect. Thank you so much for the time.

A - Brian X. Tierney {BIO 15917272 <GO>}

Thanks, James.

Operator

And next, we'll go to Michael Lapides with Goldman Sachs, please go ahead.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey guys...

A - Nicholas K. Akins {BIO 15090780 <GO>}

Good morning, Michael.

Q - Michael Lapides {BIO 6317499 <GO>}

Morning, Nick. Thank you guys for taking my question. And Nick, sorry about your LSU Tigers, fell from the...

A - Nicholas K. Akins {BIO 15090780 <GO>}

Yes. Alabama's doing good though. I'm sure you're happy with that.

Q - Michael Lapides {BIO 6317499 <GO>}

Yes. Well, let's hope (they keep fighting). Hey, I want to come back to tax a little bit. And who the heck knows what Uncle Sam is going to do in the next year or so regarding corporate tax rates. But if there's a change in administration, if there's a higher corporate tax rate. I think we've seen numbers floated around of 27% or 28%. I get that it's probably not much of an impact on the earnings power one way or another for AEP. But if you're talking to State Commissioners or staff at the PSCs or PUCs or others, it is a rate increase on customers. And it's a double whammy because the cost of service goes up due to the higher tax rate and that just kind of flows through the rates, but also the flow back of ADFIT kind of slows down or declines. And it just strikes me as a -- if I'm a, say, Utility Commissioner or a public policy maker in given states, you're asking for what could be pretty decent-sized rate increases on customers coming out of an economic downturn? How do you -- how does that get offset? I think about it from a customer standpoint, what's the giveback?

A - Nicholas K. Akins {BIO 15090780 <GO>}

I think there's no doubt that -- and again, I think there was a lot of advantage taken with the tax reductions that occurred. And you're right. There's no doubt that there will be headroom that is reduced because it is certainly going to be an impact to put those back in.

Now the question is how it's put back in or over what time frame and that kind of thing. But also that's why it's so important for us to move forward as quickly as possible and accelerate Achieving Excellence so that we can mitigate that impact as much as possible. But still you're looking at it in the face of a definite need for rehabilitation and continued capitalization of the grid to ensure that we have reliability and resiliency of supply. Particularly when dealing with hurricanes, wildfires, cyber, all those kinds of issues, we have to respond to that.

So there will be rate increases associated with the implementation of new taxes. And I don't -- I think it's unavoidable, but certainly it's incumbent on us to make sure we mitigate that as much as possible with our Achieving Excellence program and other measures. And we'll have discussions with the Commissions just like we had discussions when Tax Reform occurred. And it's unfortunate we didn't do it over a longer period of time like we had suggested, because then it would mitigate even the return of taxes. And if we continue vacillating back and forth like this, that's going to be a continual issue for our industry that our regulators need to recognize. We do have to keep some reserve there to ensure that we're not moving customer rates around as much as could be if it becomes pretty volatile. So your point is well recognized, but we'll do what we can to mitigate the effects and we'll have those conversations.

But I think one thing that's also come into play here, though, is the nature of the importance of the service that we provide, for everyone to be able to watch their Netflix or do all the things they need to do at home, work-from-home, all those types of activities will change the nature of how we look at residential supply. And there's no question that that's going to change going forward. And that's why I'm always troubled by Commission saying that AMR versus AMI for example, the investments we want to make in AMI. It's not because AMI is -- you don't just look at the cost of the meters of AMI and the undepreciated balances associated with AMR, you've got to look at what you're leveraging into. And that's the customer's ability to adjust to the -- their own energy picture and be able to drive energy efficiency and all those things and give the customer the opportunity to do that as opposed to -- of -- the system just deciding that for them.

So I think there's just a lot of things we need to have discussions about with our regulators to really focus on what that future actually means. And with electrification of the economy, that's clearly going to be an issue that we need to deal with to make sure our customers are more resilient, more reliable and as economically -- economic as possible, but also give them the opportunity to make adjustments on their total bill as opposed to dealing on a headline on rate increases.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you for that, Nick. And then one other question, totally unrelated. I'm thinking about States where you've not really talked about sizable rate base growth in investment. One of those that stands out a little bit is West Virginia. How do you think about going forward the pace of generation transformation in a State like West Virginia?

A - Nicholas K. Akins {BIO 15090780 <GO>}

Yes. I think -- well, we're looking at all of our States now and all our state jurisdictions. And it's really sort of our resource planning on steroids, and even the dog likes it. And I think there's no question that we are in the process of moving forward with that transformation as quickly as possible, making significant T&D investments, but all -- and you see that based on the changes in capital. But then when you look at States like West Virginia, we will be -- I think the first step is going to be how we run coal-fired capacity for example.

Will we have other forms of energy coming in and have lower capacity factors on coal units? But still they'd be available at those times where you have severe cold weather or really warm weather in the summer. So it's the way we run these facilities during the interim, but then it's also that transition that we make going forward. I think that's true for all of the jurisdictions. And our jurisdictions have been fairly conservative in making that transition. I think that pace can quicken though as a result of the -- even the bipartisan focus on continuing to lower emissions at our plants.

So I think the catalysts are there. And actually, Post-Election, who knows what will happen, but I still see -- you're already seeing some Republican and Democratic Legislation that's being proposed, that tries to answer that question. And if you have that from a national standpoint and the states are moving forward with their own resolutions, then we can be particularly helpful in ensuring that occurs as quickly as possible.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you, Nick. Sorry about the dog, my dog (inaudible) and I, both appreciate it. Thanks, guys.

A - Nicholas K. Akins {BIO 15090780 <GO>}

No, that's fine.

Operator

Our next question is from the line of Sophie Karp with KeyBanc. Please go ahead.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning, and thanks for taking my question.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Yes. Sure, thanks. Good morning.

Q - Sophie Karp {BIO 19699392 <GO>}

I'm curious, I want to go back to kind of the load composition and the rate case activity. So as we roll forward and the load dislocation continues to be -- continues to persist where we have this unusual situation where residential maybe is higher but C&I is suppressed, and that's not really a normalized picture. So as you go through your rate cases now and the future rate cases where this period becomes your test here, right, how do you address that? Do you attempt normalize? Or do you just go with what they actually look like? So that's my first question, I guess.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Yes. So we have multiple utilities, right? So we have the opportunity to move around capital investment to time it with relative rate case activity to ensure that we are spending on the right things at the right time, not to say that we're trying to load the budgets or anything. What we're saying is, is that when we go through the rate case filings, it's important to not only have discussions with the commissions about what we're spending on, but what the results of that spending will be.

So if a load is not increasing, obviously it exaggerate -- it certainly challenges the rate impacts because the denominator is not growing. Now if the denominator is growing, obviously that's helpful. But if it isn't, you're still having to make choices about what the priorities are for each regulatory jurisdiction based on discussions with the commissions to help us determine, okay, what -- number one, what are we willing to pay for? Number two, what are those priorities that exist. And some of those are absolute priorities and some of them are things that, yes, we'd like to do, but it may be that we have to work out for longer period of time before bringing that in. So there's all kinds of dialogues that occur relative to what that prioritization should be. And we will continue doing that with our commissions and we have done, whether it's is going whether the economy has going well or whether the economy's been in a downturn.

I think we're moving toward an upturn. So that's going to be helpful.

A - Brian X. Tierney {BIO 15917272 <GO>}

Sophie, we also have some jurisdictions that have forward-looking test years, so we'll be able to incorporate a forward-looking view. And then we have places like Ohio where residential and small commercial are already decoupled. So there are lots of mitigants to unusual load circumstances that we find ourselves in right now.

A - Nicholas K. Akins {BIO 15090780 <GO>}

And some of these things are known and reasonable adjustments too. So you have to look at the 2020 test year and say, hey, we had to make these changes because of COVID. And COVID's going to be sort of a unique circumstance. I mean, we had to react. And actually, the commissions themselves, we had moratoriums on customer cut-offs. So there's adjustments we all have made in that process, and I think we'll make those adjustments coming out of that process as well.

Q - Sophie Karp {BIO 19699392 <GO>}

Great. Thank you. And then, if I may, a quick follow-up on North Central Wind. You mentioned asset rotation I guess as a part of a considerations for equity, part of financing there. What might those be? Is this more of like a one-off situation with certain assets in your portfolio? Or could we be looking at something more strategic here? Thank you.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Well, so when we talk about potential assets, we look at everything, and we look at sources and uses. And obviously, we want the use part of it right no, is how do we finance North Central Wind, a major project. And the sources can be anything in our portfolio. And that's where portfolio management is going to be a key part of what we do in the future.

So I'm not going to say specifically what we're looking at or anything like that at this point. But what I will say is that, it's incumbent on us to be looking at everything from a source perspective and then focusing on how we deploy capital in the best way and transfer that into really projects like North Central and be able to fund it in the best way to ensure our shareholder value. So -- and we'll continue to do that. So I think you have to let the -- sort of have to let the year play out.

Q - Sophie Karp {BIO 19699392 <GO>}

Thank you.

A - Nicholas K. Akins {BIO 15090780 <GO>}

Yep.

Operator

And with no further questions, I'll turn it back to you.

A - Darcy Reese {BIO 20391516 <GO>}

Great. Thank you for joining us on today's call. As always, the IR team will be available to answer any questions you have. John, please give the replay information.

Operator

Certainly. And ladies and gentlemen, this conference is available for replay. It starts today, October 22 at 11:30 a.m. Eastern Time and will last until October 29 at midnight. You may access the replay at any time by dialing 866-207-1041 or 402-970-0847. The access code is 8222465. Those numbers again, 866-207-1041 or 402-970-0847 access code 8222465. That does conclude your conference for today. We thank you for your participation. You may now disconnect.