Company Name: American Electric
Company Ticker: AEP US
Date: 2017-01-26
Event Description: Q4 2016 Earnings Call

Market Cap: 30,773.77
Current PX: 62.585
YTD Change($): -.375
YTD Change(%): -.596

Bloomberg Estimates - EPS
Current Quarter: 1.013
Current Year: 3.674
Bloomberg Estimates - Sales
Current Quarter: 4318.200
Current Year: 16292.400

Q4 2016 Earnings Call

Company Participants

- Nicholas K. Akins
- Brian X. Tierney

Other Participants

- Greg Gordon
- Ali Agha
- Jonathan Philip Arnold
- Julien Dumoulin-Smith
- Paul T. Ridzon
- Stephen Calder Byrd
- Steve Fleishman
- Paul Patterson
- Anthony C. Crowdell

MANAGEMENT DISCUSSION SECTION

Nicholas K. Akins

Business Highlights

EPS, Dividend and ROE

- I'm very pleased to report that AEP finished the year off strong with GAAP earnings coming in at $0.76 per share and operating earnings at $0.67 per share vs. $0.96 per share and $0.48 per share, respectively, in fourth quarter 2015
- This brings the YTD earnings to $1.24 per share GAAP and $3.94 per share operating for the year compared to $4.17 per share and $3.69 per share, respectively, for 2015
- So overall, finishing up strong in 2016 due to some tax-related settlements
- Of course, the GAAP difference between 2015 and 2016 was primarily driven by the write-off we took in third quarter 2016 of the mainly Ohio competitive generation
- This was a year of reducing risk and volatility of earnings for the company in the future and reinforcing our balance sheet to provide a strong platform for future growth
- We also increased our dividend 5.4% in 2016 and improved our overall regulated operating ROE

Operating Guidance

Asset Sale and Load Growth

- As you know, we set operating guidance for 2017 at $3.55 to $3.75 per share with the $3.65 mid-point due to the rebasing after the unregulated generation asset sale and establishing a long-term future growth rate of 5 to 7%
- We continue to reaffirm this guidance range and long-term growth rate
- Load growth, as Brian will discuss in more detail later, was positive for Q1 in over a year but was still minimal

New Presidential Administration

- So we continue to watch the economy closely particularly now that we have a new presidential administration with a pro-growth agenda
- President Trump's focus of enhancing the ability for manufacturing industries to thrive and produce jobs, well, that's AEP's service territory
  - His focus on a balanced portfolio of energy resources, including fossil fuels, that's also AEP's service territory
- So as I said before the election, whether focused on the Clean Power Plan as in Hillary Clinton's proposals or President Trump's proposals, AEP should prosper, and we are very much looking forward to working with the Trump administration to bring prosperity and jobs back to this country

Trump Initiatives

- There are several key areas regarding Trump initiatives that make us optimistic concerning the future of AEP, namely focus on infrastructure development, including the electric system, truly all of the above strategies regarding generation resources, reduction of regulatory burdens for permitting et cetera, expansion of the US manufacturing base, security of the nation, in our case cyber and physical security, and the creation of jobs overall
  - All of these bode well for AEP service territory and the economy as a whole
- And of course, tax reform is on everyone's mind, but because we have positioned AEP well with relatively little debt at the parent level and a strong balance sheet metrics as well, AEP should be in good shape based on our analysis of potential outcomes
- Brian will discuss this issue in more detail in a few minutes

Repositioning and De-Risking

- 2016 has been a pivotal year for AEP
- Three years ago we were talking to you all about the daunting task ahead of us in light of the Ohio move to deregulation and there was a legitimate concern whether AEP could deliver a 2016 that met our objectives of consistent earnings growth and dividend growth trajectory, which is the hallmark of a premium regulated energy company
- I'm very proud of our employees, management, and board to work together to deliver strong operating results in the face of the headwinds that occurred during the years preceding 2016
  - This has been a year of repositioning and de-risking the company to provide a firm foundation for financial stability, earnings and dividend growth, as well as a refocus on our customer
- We have come through with flying colors, but as a premium energy regulated company our work is far from done
- Yes, there have been challenges but there is no question AEP has set a firm foundation for the future, and I personally feel really good about that

Disposition of the Sale

- So let's talk about a few of the things that are ongoing
- First, regarding the disposition of the sale of the competitive generation Ohio, the first group of generation, which we formally called the non-PPA assets, that has been sold to Lightstone should be completed very soon

FERC Approval

- We just obtained the FERC approval for transfer as well as other prerequisites for the sale and expect that to happen very soon
- I just want to take a moment to thank the employees of Gavin, Lawrenceburg, Darby, and Waterford, who have made those generating stations what they are today and for being patient through a process that I know has been challenging to say the least
- It should be over very soon with the baton of leadership been passed to the capable hands of Lightstone
- We wish you all the very best in the future

Strategic Process

- The strategic process also continues for the remaining competitive assets, formally called the PPA assets
- We continue to be in discussions with the other co-owners to make decisions regarding retirement, consolidation of interest, and/or sales to complete this process
  - We expect this process to be completed sometime in 2017

Industry Restructuring

- Second, regarding industry restructuring in Ohio, we are having discussions with the utilities and other stakeholders concerning proposed legislation to allow the utilities to continue to invest in generation resources in the state of Ohio
- AEP will not invest in new generation in Ohio unless we have a clear path to recovery of our investment, so enabling legislation is critical
- Because AEP and its shareholders have already taken a write-down on these assets, our focus is forward-looking and additive to the earnings capability of this company if successful
- The process continues on pace, and we expect a result from our efforts in 2017
  - More to come on this subject as we progress during the year

Global Settlement

- Notwithstanding the generation issue in Ohio during Q4, we were successful in a global settlement with the parties on several outstanding cases, some of which have been outstanding for years thereby eliminating risk to AEP Ohio into the future
- Ron will also cover these settled cases in his comments

    - It is a great outcome because it really does provide us a clean slate in Ohio from which to continue to build our positive business case around wires-related activities in Ohio such as transmission, distribution, smart grid, renewables, et cetera

Equalizer Graph

- So with that, let's move to the equalizer graph
- That's on page five of the package
- So you can see that our overall regulated ROE is currently at 10.7%, mainly driven by weather, a little help from weather and some one-time regulatory adjustments and tax adjustments
- So really a good ROE for the quarter
- Generally, we focus on these being around the nominally 10% level, so – and you'll see the different companies go up and down based upon where they're at in terms of ratemaking or in terms of activities that they may have ongoing from an O&M perspective
- But obviously, some progress is continuing to be made relative to our regulatory recovery
- You'll see that a couple of them are pretty low, Kentucky and PSO
    - Not surprising that they'll be going in for rate cases, so I'll cover that as we go individually into each one of these companies

ROE

- Regarding Ohio Power, the ROE for AEP Ohio is – at the end of Q4 was 13.9%
- That was primarily due to rate relief associated with the distribution investment program, shared savings attributed to the energy efficiency programs, and the annual transmission formula rate true-up

APCo

- APCo, which stands at 10.3%, is obviously doing very well, primarily due to favorable taxes and continued efforts from the one-time recognition of the forward billing in West Virginia and then also an increase in weather-related usage
- Base rates remain frozen in Virginia as a result of the February 2015 rate freeze law, but everything is going fine there as well

Kentucky

- Kentucky? Kentucky obviously is pretty low at 7.5%
- We continue close fiscal management of the O&M expenses in Kentucky
- Obviously, we're trying to react to some of the recovery associated with these expenses
- The ROE is at or near our projected peak with current rates, so the company will need to address this shortfall with a base rate application in 2017

I&M

- I&M achieved an ROE of 11.7% at the end of fourth quarter 2016
- I&M continues to benefit from strong revelatory frameworks in place for major capital programs across all of its business units
- For 2016, I&M's earnings were positively impacted by multiple one-time tax and accounting adjustments and sales being up across all retail customer segments

PSO

- PSO, that also has an ROE that's pretty low at 8.5%
- The declining ROE is primarily due to the rate relief granted by the OCC in its December final order, which was less than anticipated
- PSO is in the process of preparing their next base rate case, which will be filed mid-year in response to that

SWEPCO

- SWEPCO continues to be at 7.4%, and that range has come up a little bit
- But it continues to be challenged by the weakness in oil and gas prices
- You may have seen an article yesterday about Louisiana being in recession regarding to oil and gas activities
- So SWEPCO is obviously feeling the brunt of that and weakness in industrial load and rate settlement with wholesale customers
  - They are nevertheless filing – and filed December 16 to update its Texas rates and also working on Louisiana formula base rates as well
  - So they are – and some transmission-related activities as well
  - So – and there was also some intentional spending around tree trimming and those types of activities there that we needed to do and some increased O&M as well in their budget
  - So it is a work in progress there

AEP Texas

- And then as far as AEP Texas, the ROE for AEP Texas at end of fourth quarter was 11.7% which they got approval of DCRF, distribution cost recovery factor filing, which is the first one they had filed into that new regime in Texas and obviously turned out a good outcome
- And then also they are experiencing some 3.1% normalized load growth over 2015 with all sectors seeing favorable load growth, so obviously a growing part of the territory

AEP Transmission

- AEP Transmission, the HoldCo, the ROE for AEP Transmission at the end of fourth quarter is 12.1%, which is driven by the ETT ROE of 12.35% and Transco ROE of 11.22%
- So – and ETT's 2016 ROE is certainly exceeding its authorized ROE of 9.96% so be it the lower interest expense, lower property taxes and no impact of accumulated deferred income tax and rate base
  - So they are doing very well from a transmission perspective

    - So that really goes to the overall 10.7%
  - Obviously the companies are doing well
  - We are working on the ones that we believe there's a path toward improvement and we'll continue that effort

Closing Remarks

So to wrap up, 2016 was a very successful year for AEP. 2017 will be another transformational year and then you would ask why? You're – I mean, you're now a fully regulated utility

You've made the transition

But the truth be known, we spent a lot of time and energy trying to make a volatile unregulated business along with our core business growth, produce outcomes consistent with the earnings and dividend growth of a fully regulated company

We were largely successful in that endeavor, but risk fundamentals had to change

So obviously there was never any doubt about it, but just in respective of passing of Mary Tyler Moore, I will just say, "We're going to make it after all"

- And that's something I think that we will continue to strive for as we change this company

AEP has to continue to reinvent ourselves to remain relevant to our customers by investing in infrastructure and technological innovation, as well as dramatically improving the customer experience as we move to a cleaner energy future

- This is obviously a different focus and a different American Electric Power, the premium regulated energy company

Brian X. Tierney

Financial Highlights

Opening Remarks

- I will take us through the financial results for both the quarter and the year
- I will also provide some insight on load in the economy, review our balance sheet strength and liquidity position, discuss potential tax reform impacts, and finish with a preview of 2017

Operating Earnings

Regulated Segments

- Let's begin on slide 6, which shows that operating earnings for Q4 were $0.67 per share or $330mm, compared to $0.48 per share or $233mm for 2015
- As you can see, all of our regulated segments experienced growth for the quarter compared to last year, as did our competitive generation and marketing business
- The growth in our regulated businesses was driven by positive weather impacts, a lower effective tax rate, and rate impacts that reflected increased investment to serve our customers

Transmission and Distribution Utilities Segment

- The quarterly comparison in the transmission and distribution utilities segment was negatively impacted by a global regulatory settlement that we recently filed in Ohio
  - However, this settlement closes 17 cases and largely clears the deck of lingering historical rate cases, many associated with regulatory transition in the state
- Hearings on the settlement were earlier this week and we expect an order before February 28
- The agreement covers the capacity pricing case, the retail stability rider case, the phase-in recovery rider case, the double counting of capacity issue, and several historical fuel cases, as well as two significantly excessive earnings test cases
  - We appreciate the hard work of interveners and commission staff to help resolve these issues globally
- Now, we have a healthy AEP Ohio wires company with little financial overhang from the regulatory transition
- It was a long road, but we have finally arrived at a steady state of electric utility regulation in Ohio
- AEP Ohio will focus is capital investment on transmission and new distribution technologies to improve reliability to better serve our customers

Generation & Marketing Segment

- For the quarter, the Generation & Marketing segment improved $0.08 per share over last year due to lower depreciation expense from the competitive units, as well as increased earnings from our retail business
- Corporate and Other was down $0.01 per share largely from the sale of our River Operations business in 2015

Operating EPS

Regulated Segments

- Turning to slide seven, our annual operating earnings were $3.94 per share or $1.9B, compared to $3.69 per share or $1.8B in 2015
- Similar to the quarterly comparison, all of our regulated segments experienced growth for the year, however the sale of our River Operations business in 2015 and the expected revenue challenges in our competitive Generation & Marketing business combined for $0.31 drag on the annual comparison
- The growth in our regulated segments was largely driven by rate changes from recovery of incremental investment to serve our customers, increased earnings in our transmission business, a lower effective tax rate, and weather
- For several years now our employees have been planning for the revenue challenges associated with the full transition to market in Ohio

Competitive Generation & Marketing Segment

- Looking at the annual results for the competitive Generation & Marketing segment, it is clear how dramatic these challenges were for 2016 alone recognizing that this was the final year of a multiyear transition
- Looking at this slide, it is equally clear how well the women and men of American Electric Power have responded to the challenge

- Through continuous improvement, strategic procurement initiatives, and spending discipline, they have reinvested in our regulated businesses to better serve our customers
- I am proud and grateful for what they have accomplished over the last several years

Normalized Load Performance

Retail Sales

- Now, let's take a look at slide eight to review normalized load performance
- Starting with the lower right chart, our normalized retail sales grew by 0.3% for Q4
- As Nick said earlier, this was Q1 in over a year where we experienced growth in overall retail sales
- For the year, our normalized retail sales declined by 0.2% due to lower industrial sales, partially offset by growth in commercial sales

Residential Sales

- In the upper left chart, normalized residential sales were down 2% for the quarter, giving back some of the gains from earlier in the year
- For the year, residential sales were essentially flat
- Customer counts for the system were up 0.2% in 2016
- The relatively strong growth in our Texas territory was offset by the weak performance in the Appalachian coal regions

Commercial Sales

- In the upper right chart, commercial sales grew by 2.6% for the quarter and ended the year up 0.9% compared to last year
- For the quarter, every operating company posted positive growth in their commercial sales
- For the year, the results were mixed but followed a similar pattern as described earlier for the residential sector, with the strongest growth coming from our transmission and distribution utilities segment

Industrial Sales

- Finally, in the bottom left, industrial sales increased by 0.4% this quarter and ended the year down 1.4%. 2016 was a challenging year for manufacturing within our service territory with lower energy prices, a strong dollar and weak global demand
- We started to see slight improvement in these areas as we finished the year and are more optimistic about our industrial sales class outlook for 2017

Regional Economies

Eastern Service Territories

- Slide nine demonstrates how different the various regional economies of our service area performed throughout the year
- On the top left of the slide, AEP's eastern service territories have experienced GDP growth of between 1.2% and 1.5% since Q4 2015
  - This growth has trailed that of the U.S. by about a half a percentage point
  - This is not surprising, given the exposure that Kentucky and West Virginia have to coal mining
- The textbook definition of a recession is a period with two or more consecutive quarters of GDP contraction

Western Service Areas

- AEP's western service areas have been in recession throughout 2016
- GDP growth was weakest in Q2 2016 and has experienced modest improvement since
  - This mirrors the pattern of oil prices in 2016 and is not surprising given the high concentration of oil and gas activity in Oklahoma, Louisiana, and Texas

Appalachian Power and Kentucky Power

- Looking at the eastern vertically integrated utilities in the upper right, Indiana and Michigan Power Company has experienced strong GDP growth of between 2% and 3% in 2016, driven by its exposure to the growing auto industry
- This is in contrast to Appalachian Power and Kentucky Power with their exposure to coal mining
- Appalachian Power returned to growth in Q3 2016 and has been improving since
- Kentucky Power has reduced its contraction in Q4 and is forecasted to return to growth in Q2 this year

SWEPCO and Public Service of Oklahoma

- On the bottom left, both SWEPCO and Public Service of Oklahoma were in recession in 2016
- SWEPCO returned to growth in Q4 2016, and PSO is expected to do so in Q1 this year
- Improving oil and natural gas prices are helping to lift these regional economies
  - This is expected to continue in 2017

Transmission and Distribution Utilities

- Finally, looking at Transmission and Distribution Utilities on the bottom right, AEP Texas, which also has significant oil and gas exposure, was in a mild recession in 2016 but emerged in Q4 as oil and gas prices rose
- AEP Ohio, on the other hand, has been in expansion mode throughout 2016 driven by growth in the construction and healthcare sectors
  - It is interesting to note that over 70% of all jobs added in our service area in 2016 have been in Ohio and Texas

Capitalization and Liquidity

Debt-to-Total Capital, Asset Impairment, FFO and Pension Funding

- Now, let's move on to slide 10 and review the company's capitalization and liquidity
- Our debt-to-total capital ratio increased by 0.8 of a percent during the quarter to 55.9%
- The asset impairment in Q3 2016 had about a 200 basis point impact on this ratio
- Our credit metrics, FFO interest coverage, and FFO-to-debt are solidly in the BBB and BAA1 range at 5.8 times and 20.2%, respectively
- Our qualified pension funding improved a percentage point to 96%
- Although plan assets decreased during the quarter, plan liabilities decreased more, primarily due to the sharp rise in the discount rate in November

OPEB Funding, O&M Expense and Revolving Credit Facilities

- Our OPEB funding improved 3 percentage points to the end of the year to end the year at 107%
- November sharp increase in the discount rate benefited our OPEB funding more than our pension funding due to the lower fixed income allocation in OPEB assets
- Plan assets decreased by 4% during the quarter, while plan liabilities decreased by 7%
- The estimated after-tax O&M expense for both plans for 2017 is expected to be about $15mm
- Finally, our net liquidity stands at about $2.7B and is supported by our two revolving credit facilities
- Nick mentioned earlier that the sale of the competitive assets is expected to close in the very near future

Use of Cash

- Let me give some color on the immediate use of cash from the sale
- The cash coming in the door will be approximately $2.2B
- We will refund approximately $1B of commercial paper, repay the $500mm AEP Generation Resources term loan facility, as well as about $200mm in debt associated with the Lawrenceburg generating facility
  - This activity will leave us well-positioned to execute our capital plan and is expected to improve our debt-to-total capitalization ratio by about 200BPS

Tax Reform

- Turning to slide 11, we have gotten a number of questions regarding tax reform since the likelihood of it actually happening has increased
- As many of you know, I profess to be intellectually challenged in regard to tax issues, but I will share with you AEP's expected positioning as explained to me by our tax experts

Debt and Rate Base Implications

- First, in regard to the prospect of the elimination of interest expense deductibility, AEP has less than $1B of debt that is not subject to rate regulation

- The majority of the debt we hold is at the operating company level where the elimination of deductibility would be mitigated through the ratemaking process
- Second, in regards to the prospect of negative rate base implications of 100% capital expense deductibility, AEP has ample organic growth opportunities
- Just as we did a little over year ago with the extension of bonus depreciation, we would seek to use the cash freed up to reinvest in our system for the benefit of our customers

Unused Tax Credits and Interest Expense

- Third, AEP has very few unused tax credits that were accumulated under the current tax rates which would be negatively impacted by the prospect of a lower corporate tax rate
- Fourth, assuming the elimination of interest expense deductibility, the 100% deductibility of CapExs, the elimination of the manufacturing tax credit, and AEP's low level of non-rate regulated debt, AEP's breakeven 10-year average tax rate would be 22%
    - This is positive since a reduction in the rate to 20% level is being discussed

Regulated Deferred Federal Income Taxes

- Finally, let's look at the potential access regulated deferred federal income taxes at a 20% rate on the right-hand side of the slide
- Today, our regulated deferred FIT balance is $10.5mm
- At a 20% rate $4.3B would be excess, but $3.3B of that would be depreciation-related and would be expected to flow back over the life of the property
    - This would leave about $1B in unprotected excess that would need to flow back to our customers over some negotiated period of time
    - We would make the case that we should flow this excess back to customers at a pace consistent with the originally expected reversal period
- In 1986, we negotiated flow-back periods of between 2 and 18 years

Tax Rate

- In total, we believe that a globally competitive tax rate is good for the American businesses that we serve, with some legislative adjustments for our historically regulated utility, with some reasonable jurisdictional treatment of excess deferred tax flow-back to customers
- And with AEP's current low-risk balance sheet, we believe the company is competitively positioned for the prospect of corporate tax reform
- We are actively engaged with industry peers and legislators and trying to shape legislation that is both positive for the country and takes into account the idiosyncrasies of our regulated industry
- With that overview, please save your really hard tax questions for Bette Jo

Regulated Earnings, O&M Discipline and Dividend

- Let's try to wrap up my remarks on slide 12

- We begin 2017 with a strong track record
- Regulated earnings were strong in 2016, as we continued to invest capital in our regulated businesses to better serve our customers
- For several years now, we have maintained O&M discipline and kept spending in a tight range of between $2.8B and $3.1B
    - We expect to remain in that range this year
- In addition, over time, we have grown our dividend with earnings and expect to be able to do so going forward
- Last year, AEP's Board of Directors increased the dividend 5.4% on an annual basis

Guidance

Looking ahead to 2017, we are reiterating our guidance of $3.55 to $3.75 per share

Back in November, we indicated that we anticipated about $0.09 per share in 2017 earnings from the assets we expect to sell, and we assumed a sale date of March 31

As Nick said earlier, we expect to sell those assets in the very near future, and this creates a few cents of earnings that we will need to offset

In 2016, we demonstrated our ability to execute on our capital plan by investing $4.93B

In 2017, we anticipate investing $5.7B in capital, 95% of that in regulated businesses and 76% in wires

QUESTION AND ANSWER SECTION

<Q - Greg Gordon>: I only have one question in 27 parts on tax reform. The $2.2B cash coming in, you gave us $1.1B paying down CP, $0.5B for another tranche of debt, and $200mm for another tranche, so that does leave some excess cash. Should we assume that that gets consumed in the normal course of business for capital and dividends?

<A - Brian X. Tierney>: It does, Greg. We also anticipate being a taxpayer by dint of the transaction, so we anticipate quarterly tax payments as well. And those will begin in Q1.

<Q - Greg Gordon>: Okay. And just to be clear on your comments you made on tax, out of the gate, if reform were to take the form that you use as your base case there, there would initially be a headwind associated with the return of rate base capital, but you think that you could, as most companies did in 2016 when bonus depreciation was extended, find enough customer friendly projects to invest in to offset that? I just want to be clear that that's what you're saying.

<A - Brian X. Tierney>: We do, Greg, and we believe that would be for our capital spend a fairly modest percentage increase.

<Q - Greg Gordon>: Okay. That was going to be my next question, could you size sort of the quantum of how much you'd have to increase your capital spend every year to offset that?

<A - Brian X. Tierney>: Call it between $300mm and $400mm.

<Q - Ali Agha>: Brian, can you just quantify what were the drivers for the lower than expected tax in Q4? And what's kind of the effective tax rate we should assume 2017 and beyond?

<A - Brian X. Tierney>: Perfect, Ali. So we said overall that the tax impact for the year was $0.17 when you include Corporate and Other in that as well. When you are not breaking it out by segment that impact comes down to about $0.13. And let me break out for you what the composition of that is. Resolution of prior period audits was about $0.02 per share. There was a Texas policy change that allowed for a lower taxable income that included a deduction for T&D

expense that added about $0.04, some tax planning that we did that allowed some prior period charitable deductions to come through added about $0.03, and then there were other currently accrued adjustments that mostly included tax to book differences accounted for on a flow-through basis that were about $0.04. So that's the composition of the $0.13 difference, and the rate that we assume going forward is 35%.

<Q - Ali Agha>: Okay. And second question, in terms of – Nick, you had mentioned you're working with the Ohio legislature. Can you give a sense of what – roughly what it is that you would like to see change and what the mechanics would be? Would that be a new bill that they would introduce or how would this work technically?

<A - Nicholas K. Akins>: Yeah. And I mentioned AEP is sort of moving forward with a clean slate, so we really are focused on the ability to invest in new generation. And that's a sort of a broad context, but certainly we want to be able to put renewables in place, perhaps natural gas, other forms of resources, distributed energy resources. Those are key areas for us in terms of the buildout of the – what we believe is the smart grid of the future and all the interoperability issues associated with it.

So without provisions, that may be shrinking up the needs provisions of the existing legislation, for example, to allow us a more prescriptive path to the commission for recovery of those expenses. So once we – we would file something for new resource of some kind and it would go through the commission proceedings and we would be. And certainly, we'd like the legislation to be prescriptive in terms of how the commission deals with that, so that it would be very clear so we're not winding up back at the Ohio Supreme Court all the time.

So that's really what we're after. And some questions always come up about obligation to serve and that kind of thing, but really we're starting with a clean slate and we want to be able to one-off file these things as opposed to have some obligation to serve that looks like a re-regulation. So there's still a lot of discussions about that, but AEP certainly is focused on that provision because we're doing very well from the regulatory structure in Ohio relative to transmission distribution and the interface associated with that. So we want to be able to augment that growth potential here in Ohio as well.

<Q - Ali Agha>: Yeah. And last question, Brian, I just wanted to clarify a point you'd made, the fact that the merchant asset sales will happen sooner than March 31 that you'd assumed. Did I hear that you guys felt you could offset that earlier than expected sale with other efforts or that you're just pointing out that maybe that 9, 10 number may be lower, keeps you in the range, but we should consider that in our numbers? Just want to be clear what you were saying.

<A - Brian X. Tierney>: It's the latter, Ali. The $0.09 that we had expected given the March 31 sale will be less. We're going to need to try to find a way to offset that, but we're still in the range.

<Q - Jonathan Philip Arnold>: Just a quick question on sales, Brian. I think, you said you were feeling more optimistic about 2017. But when I look at the analyst day, what you were forecasting then and what you're forecasting now, it seems to be a little lower. And then 2016 also came in a little lower. So could you just reconcile your comment about feeling better? Is that relative to the past or relative to coming out of analyst day?

<A - Brian X. Tierney>: Relative to the past. So the slide that I took us through on the regional economies shows that through 2016 a lot of our service areas were in recession, but towards the end of 2016, they started to come out and started to show some growth. As we saw oil and natural gas prices start to improve, we started to see improvement in the industrial regions that have exposure to oil and gas. If prices stay the same or continue to improve, we expect that trend to continue into 2017. Most of our growth in 2017 is forecasted to come from the industrial sector.

<Q - Jonathan Philip Arnold>: Right. So would you say your forecast you feel more conservative – your forecast more conservative relative to what you're actually seeing now or similar?

<A - Brian X. Tierney>: No. It's – we think our forecast reflects what we're seeing right now, which is some improvement in industrial, particularly oil and gas.

<A - Nicholas K. Akins>: We're actually seeing a lot of oil and gas projects that aren't just being talked about. They're already in the pipeline and being – and under construction of some kind. So that tells us a lot about what will actually true-up in that stream of new projects that are occurring, because when we started going down in 2016 we had all these projects, and at the end of 2015 that we thought were coming in 2016, but they weren't materializing. Or at least there was a propensity to slow them down because obviously prices were coming down.

But now we're seeing a different direction. So if you look at those underlying fundamentals relative to the automobile industry, relative to oil and gas activity starting to pick up and actually confirm projects that are under construction, I think it makes you somewhat optimistic. But at the same time, we're being very careful about this economy, like we have been for several quarters now, in terms of we really need to see a trend develop.

<Q - Jonathan Philip Arnold>: Great. Thank you, guys. And if I could, just following up on the Ohio legislation, Nick, can you give us, I mean, a little more sense of when in the year you would anticipate this coming together and is there – do you already have a draft bill? Do you know who might sponsor it, or are we sort of still at the more exploratory stage?

<A - Nicholas K. Akins>: Yes, we're still in discussions with the other parties that would be involved with this thing, and obviously all the utilities and others. And really we have to get it nailed down on the provisions, all the provisions that would go into the bill. And some parties are looking for different thing than others, so we have to manage through that process a little bit. But the legislature obviously is being kept up to speed on what's going on and we're having regular meetings with leaders in the legislature. So nothing is going to happen that's really unknown at this point.

I think really a major focus right now is not to burden the legislation with provisions that may slow it down because if you start talking about re-regulation or obligation to serve, or all those kinds of things, it just brings in more issues associated with how, okay, do you actually restructure this market? But if it's surgical in terms of its approach and actually there may be other surgical provisions that other companies want, let's put those together and move forward very quickly through the legislature. So I'm still thinking probably second quarter we'll have something that we can have someone sponsor.

<Q - Jonathan Philip Arnold>: So Q2, a bill, material, and then we start to see the shape of it?

<A - Nicholas K. Akins>: Yes. Again, there's already drafts of legislation that are circulating around and we just need to make sure all the parties are comfortable with that. And so it is a work in progress with the new legislature as well here in Ohio. And from AEP's perspective, like I said, it's additive to our ability to invest in this state. We already have some measure of renewables that are in place, we're – went out for bid for those and that kind of thing, but this is really centered on ensuring that we're able to address really what Ohio wants to do regarding its energy future and our part in it. And so that's where it stands right now.

<Q - Julien Dumoulin-Smith>: So maybe to just follow up on the last question just if you permit me? You mentioned burdensome provision. Can you elaborate just a little bit what would you not want to see as part of this that might get it dragged down vis-à-vis timing or ultimately palatability? And I've got a few others.

<A - Nicholas K. Akins>: Yes. I think from AEP's perspective and obviously you'll have to ask the others, but from AEP's perspective to try to have AEP Ohio responsible for capacity in the future. I mean, we sort of lived through that and done that. And obviously if you try to have AEP Ohio responsible for capacity and having to go out for – because obviously we're in the process of selling our generation. So you could wind up in a situation where we have long-term large PPAs and that would be a balance sheet issue for AEP Ohio.

So you think about that obligation and of course the obligation to serve and it becomes pretty onerous in terms – not only in terms of how we deal with the financial picture of AEP Ohio going forward, but also in terms of you're trying to restructure a market and everyone, if you try – if we put that – invested it back in with the utilities then you would basically have to go through a whole lot of discussions with multiple parties of what does that mean and how do you deal with that completely different structure, short of re-regulation? And so if it's more surgical in its approach in terms of new facilities or that kind of thing, then I think it's a lot easier.

<Q - Julien Dumoulin-Smith>: Got it but no opposition to nuclear, for instance?

<A - Nicholas K. Akins>: Well, I mean, I'll let FE speak on the nuclear point, but I will say this from AEP's perspective. If there is support – and I don't call it like New York or Illinois, but if there is support in terms of ZEC or something like that for nuclear, I'm supportive of that being in legislation as long as ZEC gets attributable to FE's connected customers. And so because we're a little different in Ohio than the other states, you know, AEP Ohio doesn't have any nuclear and the others don't either. So I think you have to sort of think about that.

But overall I'm very supportive of nuclear. I think it's a travesty that these nuclear units are getting retired. And if there is any kind of state support that can be given to support these nuclear units, that's a good thing because this competitive market – we call it a market and PJM is not working for long-term base load capacity.

So I really believe that there should be some – there can be some provision, but the cost of that can't be borne by our customers because AEP Ohio is moving toward its own set of resources, including renewables. And we want to make sure that there is the ability for us to invest in relation to impact on customer rates. So that's really a long answer to the short question, but I think it says a lot in terms of where things are going.

<Q - Julien Dumoulin-Smith>: Right. And if I may follow up on the Ohio site, obviously, you've got a settlement here. You obviously posted pretty healthy ROEs. Can you just give us a little bit more of a summary in terms of what that settlement means vis-à-vis your prospective earnings? And maybe just give us a little bit of sense of how you expect the cadence of your earnings at that subsidiary to proceed, given where you stand today?

<A - Nicholas K. Akins>: Yes. I think from AEP Ohio's perspective, it certainly clears out all the overhang associated with all these cases. So it really puts us in a great position. I mean, obviously, the capacity of the Supreme Court – the Ohio Supreme Court had remanded back the issues on the capacity and the RSR payment, and it gets all that squared away. And then, of course, some other historical fuel cases are resolved too that had been hanging out for years, and then as well as too excessive earnings there. So it really provides a clean slate going forward.

So I fully expect AEP Ohio to continue to be a very good investment from a wires perspective. Transmission and distribution that we're trying to do, and I think the commission is somewhat responsive to this, and that is with the Smart Cities challenge in Columbus, we're working on interoperability with the grid, going back to transportation. And we want to be able to do that throughout our territories, but certainly Ohio and Columbus, Ohio, is central to that theme going forward.

And I really believe we'll have a supportive commission in that regard. So I think that really bodes well for the investment potential in AEP Ohio, but also the benefits for customers. And the commission should be very happy with that.

<Q - Paul T. Ridzon>: Looking at, I think it's slide nine, kind of your economic forecast, you issued guidance November 1 before the election, before OPEC had cut production. Is there a tailwind now that you have the midpoint of your guidance here? I mean, obviously, you've got one offset on the timing of the sale of the generation, but it looks like the world has improved since you gave guidance.

<A - Brian X. Tierney>: Yes. So it has, right? As you look at the trend of what's happened with GDPs there, they seem to be coming from contraction into growth, and we've reflected that in the update for our numbers. You'll see on slide eight our numbers are slightly different than what they were on page 24 of our release at the analyst day but what that really reflects is the passage of another quarter, new data being updated, and us looking at the dead reckoning forecast that we have for our service areas for 2017.

<A - Nicholas K. Akins>: The other thing you have to look at is sort of I know business is getting repetitive quarter after quarter, but these quarters are a snapshot in time that we don't see intuitively obvious long-term trends that we can really hang our hat on in terms of how the year goes. So I would say if we continue to see bolstering activity in Q2, and then there – we'll continue looking at what that means in terms of load forecast. And then keep in mind, too, it's the mixture of load, too. Whether if it's industrial load that's picking up, well, the margins on industrial load are much less than others. So you have to really look at this thing in the context of overall trends moving forward throughout the economy. And we'll just have to take that quarter by quarter and make a determination.

<Q - Paul T. Ridzon>: And then just next on your pension discussion, I missed it. You said there would be an expense of $15mm in 2017. What was that expense and what was it in 2016?

<**A - Brian X. Tierney**>: It's the after-tax expense for both pension and OPEB. So it's after-tax O&M, pension, and OPEB, about $15mm, and it was roughly the same in 2016.

<**Q - Paul T. Ridzon**>: That is 15?

<**A - Brian X. Tierney**>: Yes.

<**Q - Paul T. Ridzon**>: And then just a question from my tech analyst, now that you've got Ohio pretty much cleaned up, when do you think you can start the AMI spend?

<**A - Brian X. Tierney**>: Grid smart.

<**A - Nicholas K. Akins**>: Oh, yes, the grid smart, we were set for hearing. I think it was yesterday. They delayed it until next week. So we should get a decision then and be off and running.

<**Q - Stephen Calder Byrd**>: Just wanted to – a quick question on Ohio restructuring. In your discussion with the other utilities in the state, do have a sense that you all are on the same page? Are there still key issues that have to be resolved to make sure that you all are arm in arm as you think about legislation?

<**A - Nicholas K. Akins**>: I think I'd say generally we recognize we need to be arm in arm, but there's still outstanding issues that we need to resolve. And – but that I really believe that the participants are motivated to move this process forward because they understand the importance of the restructuring effort here in Ohio. So I'd say the parties are motivated, but still there's issues that we have to resolve specifically related to if it's a surgical legislation.

<**Q - Stephen Calder Byrd**>: Understood. And then tax reform, I think we're all trying to get our arms around the implications, and the slide you laid out was very helpful. When we think about you – laid out your breakeven tax rate at 22%. Maybe just a dumb mechanical question, but if I – there's some discussion that maybe the corporate tax rate goes down to 25% and not 20% or 15%. If it were at 25% instead of the 20%, could you just talk through some mechanically earnings power and other impacts from that kind of an outcome?

<**A - Brian X. Tierney**>: Yes. So if it's 25% rather than 22% or less, it means that from a net income standpoint the takeaways that we would have from interest deductibility would not outweigh the reduction in the tax rate that we're talking about. Does that make sense?

<**Q - Stephen Calder Byrd**>: Okay. So it would be a net drag compared to, say, a 22% or 20% outcome and we could try to mechanically kind of trace that out?

<**A - Brian X. Tierney**>: Correct.

<**Q - Steve Fleishman**>: First I thank you for setting a high bar on tax reform disclosures. We'll see if others could get close to this. Thanks. Couple of questions, on the former PPA assets, could you give us an update on resolving the future of those?

<**A - Nicholas K. Akins**>: Yes. On the former PPA assets, as I mentioned, we're talking to the other parties. And really it focuses on what the swap potential is, and of course looking at units that may – I mean, you look at them and say, well, we should go ahead and retire them. And then if there is consolidation of interest, then is there a strategic process that needs to continue in some variation associated with those?

And I would say those conversations are going very well. Timing of those conversations I still suspect we'll be completing something by – certainly in 2017. So obviously it's pretty complicated given that there's multiple owners. But also there's multiple issues to be dealt with in terms of how you move forward from whatever the result may be of part of the discussions with the parties themselves. So but I would say those conversations are going very good.

<**Q - Steve Fleishman**>: Okay. Secondly, just on the transmission business, you had that 206 filing. And then, I think, did you make the 205 filing?

<**A - Nicholas K. Akins**>: We did.

<Q - Steve Fleishman>: Okay.

<A - Nicholas K. Akins>: We did – made the 205 filing, yes.

<Q - Steve Fleishman>: And is there any updates on either of those or is that just going to be a long process?

<A - Nicholas K. Akins>: Yes. On the 205 filing, I think, we have – it's a March timeframe for, I guess, for the forecast to act and then for the 206 filing that's still sitting out there. And it may be a couple years. But obviously that process will continue, if they decide to set it for hearing or whatever. But we haven't heard anything else on there.

<Q - Steve Fleishman>: Okay. And then lastly, is there any update on your renewables investment program, the $1B you're targeting? Are you – I think, obviously, after your analyst day, we had the Trump election win. That was unexpected and the like. So...

<A - Nicholas K. Akins>: Yes.

<Q - Steve Fleishman>: ...I'm curious just how you're feeling about being able to get to the $1B of renewables that you're targeting?

<A - Nicholas K. Akins>: Yes. I think Chuck still has his billion dollar number out there. I think he is probably over a third of the way, but we're going to be very selective and as I said earlier. And we have our return thresholds that we expect, and we have not changed those return thresholds. He continues to be involved with projects, and if he can't make it to a billion, well, he'll give it back to us and we'll put it somewhere else including transmission in other places. So I think we're going to continue with the same degree of discipline that we have today regardless of what would happen to tax provisions or anything else.

And so it's not – this is not where AEP is trying to form some major business. It really is focused on an augmentation that's disciplined and has a return expectation associated with it that actually contributes to what we're trying to achieve. So that process hasn't changed at all, and Chuck continues to be involved with projects, both solar and wind, and we will continue with that.

<Q - Paul Patterson>: I've just got sort of a really basic one, and that is that we've seen tax reform proposals before. Obviously this seems like it's got more momentum to it. And it doesn't – it looks like you guys have – your disclosure is pretty clear and – but the impact doesn't look necessarily huge. But it's pretty disruptive in many ways, generally speaking, to different players. And I just was wondering when you're looking at this and when you're talking to your people, what do you think the chances are? I mean, I know it's a tough – I mean, I'm not holding you to it or anything, but what are the chances that we actually see something this dramatic being enacted?

It just seems rather – I don't know. We've seen it before and things don't usually happen like this. What do you – when looking at this landscape now, if you had to guess 50-50, what would you say is the chances of this actually – these proposals substantially getting enacted?

<A - Nicholas K. Akins>: I would say, you know, I don't know that we've had a Trump administration before, too. I mean, the pace at which he's moving already, and I think a lot of these things have been sort of pinned up for years. And while, on its face you will say, well, it's pretty daunting to get tax reform done in these multiple things that we are talking about, particularly when you take away interest expense deductibility and issues like that, that's going to be – it's going to be tough.

I'm not saying that it can't get done because I think there's probably enough movement out there of a lot of companies who want to see that tax rate come down. And I think the importance of American industry going forward to be competitive internationally, I think that process will move forward. Then it becomes an issue of, okay, how do you pay for it? And that's where interest expense deductibility and all that kind of stuff comes in.

As far as the industry is concerned, I still think right now the Trump administration is dealing with ACA. They – the tax reform could come after that. Although, infrastructure seems to be a key issue as well. So it remains to be seen. I think it'll probably be later in the year before we really see things that we can really latch onto to fully understand where this thing is going. And so we'll continue to look at our tax situation in consideration of that, but it is something we'll watch very closely.

And if it is a broad tax reform package, well, we've probably dealt with in our analysis here some of the extremes that would occur. If you take 100% expensing and interest expense deductions away, that's pretty considerable. So I think that's probably as much of a stress test as you're going to get. As far as the industry is concerned, and AEP's position, we would – we think that our industry is the most heavily capitalized – well, it is the most heavily capitalized industry by far of anyone in the U.S. And when you talk about interest expense deductibility and deductions and how they impact ultimately customers, you really have to think twice about that.

So I really believe there ought to be a utility exception because we typically pass our rates through to customers and the benefits inure to manufacturing and other endeavors that we have for the economy. So whether that can get done or not is another question, but certainly we really have to look at those provisions and how it applies to our capital-intensive industry. And we'll obviously be active in Washington associated with that side as well.

<Q - Anthony C. Crowdell>: Just I guess on Ohio restructuring, AEP has already taken, I guess, the pain of getting rid of oil generation of the utility in the state, maybe, or have not, and AEP is looking more forward-looking with future generation needs, potentially in this restructuring bill. Do you think we could see in Ohio back to what we had, as we move to market, where the state gets split and the restructuring is differently in the northern part of the state than in the southern part of the state?

<A - Nicholas K. Akins>: I really don't see that. I think you hit upon a point though that different companies may be looking for different provisions based upon where they stand today. And somehow we've got to make sure that an industry restructuring package is transparent enough and people will understand it well enough to accommodate some of these varied interests. And that's really – that's part of the challenge. And so we will just have to see how things work out from that perspective, but yes