Q4 2020 Earnings Call

Company Participants

- Darcy Reese, Director, Investor Relations
- Julie Sloat, Executive Vice President and Chief Financial Officer
- Nicholas K. Akins, Chairman, President and Chief Executive Officer

Other Participants

- Analyst
- Durgesh Chopra, Evercore ISI
- James Thalacker, BMO Capital markets
- Jeremy Tonet, JP Morgan
- Julien Dumoulin Smith, Bank of America
- Paul Patterson, Glenrock Associates
- Steve Fleishman, Wolfe Research

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the American Electric Power Fourth Quarter 2020 Earnings Call. At this time all lines are in a listen-only mode. Later we will conduct a question and answer session. Instructions will be given to you at that time. (Operator Instructions). And as a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Darcy Reese. Please go ahead.

Darcy Reese {BIO 20391516 <GO>}

Thank you, Cynthia. Good morning, everyone, and welcome to the fourth quarter 2020 earnings call for American Electric Power. We appreciate you taking time today to join us. 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; as well as Julie Sloat, our Chief Financial Officer. We will take your questions following the remarks.

I will now turn the call over to Nick.

Nicholas K. Akins {BIO 15090780 <GO>}

Good. Thanks, Darcy. And Darcy says happy birthday Betty Joe Rozsa, this one's for you. Welcome everyone to rewind to the American Electric Power is fourth quarter 2020 earnings call. 2020 was a year of tremendous challenges the likes of which we have never seen. It appears that 2021 has thus far had its own set of challenges.

Our hearts go out to everyone that has been and are impacted by the ongoing challenges of COVID and all the customers impacted by the severe cold and ice conditions that precipitated significant outages from Texas to West Virginia and beyond. There will be plenty of opportunities to do a post-mortem of the conditions that led to these outages and you address changes to help ensure these kinds of events do not occur again. But as of as of now getting customers back and some return to normalcy is paramount in everyone's mind.

I'll discuss these issues a little later, but I want to tell you in the midst of significant challenges come tremendous accomplishments that make us even stronger for the future and AEP has once again delivered. The fourth quarter further illustrated the resiliency of AEP and its employees to deliver and exceed expectations and ensuring the consistent quality of earnings and dividend growth that you would expect from a premium regulated utility.

AEP's operating earnings for the quarter came in at $0.87 a share ending the year at $4.44 per share which is the top of the operating earnings range that we projected for 2020. An excellent outcome buoyed by our employees aggressive moves to control costs during the COVID downturn of the economy, the arbitrage of residential to industrial and commercial loads that we discussed in previous earnings calls. And certain tax and investment related outcomes that when our way along with positive regulatory outcomes in several of our cases that concluded in 2020.

Given the progress that we have made on cost control with are achieving excellence program and updating our load forecast for 2021 AEP is now revising our operating earnings guidance range for 2021 upward from the midpoint of $4.61 per share to $4.65 per share bringing our new guidance range to $4.55 to $4.75 per share.

We're also rebasing our 5% to 7% operating earnings growth rate on the new 2021 guidance range and continuing our view that we would be disappointed not to be in the upper half of the guidance range. AP is reaffirming our $37 billion five year capital plan and are committed to our credit ratings quality as we move forward.

Additionally after further analysis as we do each and every year through our corporate accountability reporting process, AEP is now prepared to accelerate our carbon dioxide emission reduction goals to reach 80% by 2030 and to achieve net zero by 2050.

We will be releasing a new climate scenario analysis report during the first quarter that has been over a year been over a year in the making and you will find this to be a state-of-the-art report covering everything from extensive scenario analysis of carbon reduction efforts to technology innovations to just transition related aspects of the complex path before us as we require substantial stakeholder engagement as we go along.

Like all these commercials, but wait, there's more as I mentioned to you in the last earnings call. We were finding our integrated resource plan recommendations for all of our operating jurisdictions, which will roll out at our next first quarter '21 earnings call or before.

Just a brief teaser on the future plans. We are proposing up to 3,300 megawatts of new renewable energy to SWEPCO customers to be delivered in the 2025 to 2028 timeframe. We will give further updates on this as I said by next quarter's earnings call.

AEP has a lot of work to do to manage regulatory and project related activities as well as financial activities that are respectful to our balance sheet and credit metrics. I'm reminded of one of my favorite movies Gladiator in which Maximus Decimus Meridius says "the time for half-measures and talk are over", it is time for serious execution by AEP to transform ourselves to embrace our clean energy future on behalf and for our customers and communities.

Additionally, we will actively manage our portfolio of assets and companies to enable this movement while ensuring our balance sheet and credit metrics strength as we define this path forward. This execution has been recently evidenced by ourselves the Racine hydro plant, this form of asset optimization will continue as we focus on our core growth opportunities.

Moving on to our economy and load the AEP load forecast is up considering the recent improvement in our commercial and industrial loads, still trailing pre-COVID levels, but improving. We are optimistic about the recovery in both our service territory and with low during 2021.

Modest overall growth should occur led by industrials and a focus on infrastructure by the administration and in developing the hardening and resiliency related investments such as top lines, natural gas, distribution and other infrastructure particularly after the winter weather events.

Julia will be covering load related topics and more detail in a couple minutes. Our rate case activity across our jurisdictions continues to be robust. In Virginia Appalachian Power received an order in its Virginia tri-annual rate case on November 24th, 2020.

We were extremely disappointed in the commission's finding the APCo finish, the tri-annual with the earnings back within the earnings band and therefore was not entitled to a rate increase. This result hinged on the commission's determination that APCo should have amortized the disposition of certain coal plant balances over 10 years starting in June 2015 versus impairing the assets in 2019 which we believe was consistent with state law. The company believed the commission erred in this determination and as a result immediately sought both rehearing and appealed the decision to the Virginia Supreme Court for more to come on that.

AEP Ohio filed its base rate case in June of 2020. The parties have been engaged in ongoing settlement discussions and we'll update the commission on or before March fourth as to whether a settlement was reached. If not, the commission will proceed with a full hearing, but I will say that the settlement discussions continue to be positive and constructive.

In Kentucky the commission issues a constructive order on January 13th, awarding the company in net revenue increase of $52 million out of its $65 million request with a 9.3% ROE and modified the transmission tracker from 80% to 100%. In our SWEPCO jurisdictions we have rate cases pending in Louisiana and Texas, SWEPCO filed its Texas case in October seeking in net revenue increase of $73 million and ROE of 10.35%.

The following included investments made from February 2018 accelerated depreciation for three coal plants and an increase in strong reserves and vegetation management. Hearings are scheduled by for the end of May with a final order expected at the end of October.

In Louisiana, the company filed its base rate case on December 18th seeking a 10.35% ROE and net revenue increase of $93 million. A little over a month into the year and we've experienced ice storms in the East and record cold temperatures in the West.

Our APCo and Kentucky territory sustained significant ice and tree damage to our transmission distribution system with back-to-back storms. Our teams along with significant support from our operating companies and mutual assistance teams have made headway on restoring service to our impacted communities.

We intend to file for the appropriate regulatory recovery as we have with other major storms. The tragedy then unfolded in Texas is an important one for me to address. First and foremost again, our thoughts and prayers go out to the people of Texas and particularly to those families and communities who lost family members or experience loss and damage as a result of the polar vortex that engulf the state.

As, our AEP, Texas affiliate provides energy delivery services to a little over 1 million consumers of the state, the unprecedented weather conditions required ERCOT to direct AEP and others to immediately curtail load and to operate an emergency condition to maintain the stability and integrity of the Texas grid. During this event our focus centered on the responding to the directives of, from ERCOT to ensure that the flow of available power continued throughout this crisis.

We also work with our communities to identify critical loads such as hospitals and other first responder resources in an effort to mitigate the impacts of key resources within our communities. Throughout this emergency I could not have been more proud of our team's response in dealing with the situation that confronted them. This event serves as a sober reminder as to the critical nature of our nation's energy supply and maintaining and supporting not only our economy, but also our fundamental way of life.

As a T&D utility with cost-based rates in New ERCOT portion of Texas, our AEP Texas subsidiary is not a generator nor is it a retail electric provider, so we expect minimal if any financial impact from the ERCOT Texas weather events. Our AEP wind assets in ERCOT began to experience outages on February 10th and started returning to service on February 19th.

We expect all three wind farms to be returned to fully full availability soon. We have no financial exposure from our hedges, which are all based upon unit contingent performance, also financial performance related to wholesale load served by AEP energy partners and ERCOT is not material.

In the SPP, we also experienced minimal load shedding events, but fuel costs were substantially higher during this event. And as, we recover fuel through our fuel clauses as a pass-through, that being said in the SWEPCO and PSO jurisdictions, we will work with the various state commissions owning the alternative fuel recovery mechanisms to lessen the impacts to our customers, much like we do with major storm cost but we have to be respectful of the cash flow metrics and the capital structure of the company going forward.

So certainly a weighted average cost of capital is extremely important from that perspective. These events along with others around the country have indicated the need for specific policy changes that focus on further refinements in reliability and resiliency of the grid.

Specifically we would encourage more robust reliability assessments across electric gas and other critical infrastructure classes to determine where interdependencies exist and market designs that promote adequate capacity levels and increase generation reserve margins provide a sufficient safety net during emergency situations.

In addition to counteract the frequency intensity and the impact of storms we need to ensure a higher level of system resilience by implementing transmission planning and interconnection reforms to enable regions to lean on each other during times of crisis as well as winterization requirements for power plants, natural gas delivery systems and critical infrastructure.

I actually in 2014 testified before the senate energy committee regarding some of these recommendations after the polar vortex that hit the PJM territories. All stakeholders must do better to address the issues that led us to these failures that have impacted so many customers at the worst possible time.

Whether it's winter and summer weather event reliability or the speed at which the clean energy future can occur AEP stands ready to be an active participant in resolving these issues both from the state and national perspective. We will also remain active on other significant issues impacting our society from racial injustice to COVID related safety as we strive to advance in a positive way that communities that we are so fortunate to serve.

So now I'll move to the equalizer chart, and that's the, I think the second page of the handout, and I'll go through that. So our overall ROE 9.1% across the Board, we generally target the ROE for our regulated segments combined to be in the 9.5% to 10% range. But as you see the ROE is below or not, whether normalized and keep in mind that were also thickening the equity layers as we go along as well.

And you also know in the table at least the indication of the size of the bubbles that you see AEP transmission Holdco is now our largest company based on average equity followed by APCo with AEP Texas I&M, APO high on SWEPCO being comparable to each other.

So first with AEP, Ohio the ROE for AEP Ohio at the end of the fourth quarter was 10.7%. AEP, Ohio's ROE was above authorized primarily due to favorable regulatory items partially offset by the roll off of the legacy fuel and capacity carrying charge recoveries that we've discussed in the past.

We expect the ROE to trend around authorized levels of 10% as we maintain current capital recovery of distribution and transmission investment. In June 2020, as I said earlier AEP Ohio filed the base case and certainly we'll see an outcome of that pretty soon.

APCo, the ROE for APCo at the end of the fourth quarter was 8.6%, its ROE was below authorized due to lower normalized usage and higher amortization and depreciation from increased Virginia depreciation rates and increased capital investments partially offset by lower O&M expenses.

And of course, we already talked about the Virginia tri-annual review. APCo did subsequently file a petition for reconsideration with the commission, which was granted in December 2020 and result in suspension of that final order at this point.

As far as Kentucky's concerned we ended the fourth quarter at 5.5% ROE, the ROE is below authorized due to loss of load from weak economic conditions and loss of major customers along with along with higher expenses. Transmission revenues were also lower due to the delay of some capital projects.

And of course, you knew we follow the base rate case there, so we fully expect that ROE to improve after the rate case outcome.

Our I&M, its ROE is 11.4%, I&M was above authorized due to continued management O&M expenses reduce the interest expense and rates true-ups, partially offset by lower commercial and industrial sales. I&M is projecting to trend below 10% consistent with the authorized ROE's of 9.86% in Michigan and 9.7% in Indiana.

PSO, the ROE there is 9%. Its ROE 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. And PSO's 2019 base case approved the transmission tracker, the partial distribution tracker and ROE of 9.4%. PSO's 2019 base case settlement also required filing a case no later than October of 2021. So more to come on that.

SWEPCO, the ROE for SWEPCO at the end of the fourth quarter with 7.5%. ROE was below authorized you due to loss of load and it to continued impact the Arkansas share of Turk, which we've discussed several times that equates to about a 110 basis points discount associated with Turk.

And then in October 2020 as, ROE's talked about this follows a Texas case and then we received all the Louisiana case as well, so more to come on that one. AEP Texas, the ROE is 7.9% at the end of the fourth quarter, as below authorized, these lag associate with the timing of annual cost recovery filings and at one time adjustments from our finalized base rate case earlier in 2020.

Favorable regulatory treatment allows AEP Texas to file annual DCRF and biannual T cost filings to recover costs and capital investment and had to wait till after the rate case to file those. While the exception is for the ROE to trend towards an authorized ROE of 9.4% in the longer term continued significant levels of investment in Texas will continue to impact the ROE.

AEP transmission Holdco gaining at 4th quarter at 9.9%. It was blow authorized primarily driven by the annual revenue true-up in the second quarter of 2020 to return the over collection of 2019 revenues and then transmission as forecasting, they are already to be in the mid 10% range in 2021.

So all in all an outstanding year both financially and operationally given the significant challenges in 2020 and we were off to a great start in 2021. AEP has shown time and time again our agility and resilience and meeting our objective of consistent quality of earnings and dividends that embody a truly premium electric utility.

And as we emerge from the COVID challenge and get the economy back on track in 2021 while working on a clean energy future to paraphrase the lyrics of Johnny Nash you passed away in 2020, I can see clearly now the rain is gone and we can remove all obstacles in our way to a bright sunshiny day.

As many of you already know Brian Tierney has moved on to take over our focus on corporate strategy after serving over 11 years of CFO. I want to thank him for his dedication to the company and to our investors while in this important role.

Now I'll turn it over to our new CFO who many of you already know Julie Sloat. She approaches everything with the infectious energy and focus that will take AEP to the next level, even Brian would agree with that. Julie? You're up.

Julie Sloat {BIO 6462741 <GO>}

Thank you, Nick. Thank you, Darcy and happy birthday Betty Joe. It's good to be with everyone this morning. I'm going to walk us through the fourth quarter results, spend a little more time on the full financial results, share some thoughts on our service territory load and economy, review our balance sheet and liquidity and then we'll finish up with our revised outlook for 2021.

So let's go to Slide number 6, which shows the comparison of GAAP to operating earnings for the quarter and for the year-to-date period. GAAP earnings for the fourth quarter were $0.88 per share compared to $0.31 per share in 2019. GAAP earnings for the year were $4.44 per share compared to $3.89 per share in 2019. There's a reconciliation of GAAP to operating earnings on Pages 15 and 16 of the presentation today.

So let's walk through our fourth quarter operating earnings performance by segment, which is laid out on Slide number 7. Operating earnings for the fourth quarter totaled $0.87 per share compared to $0.60 per share in 2019. The detail by segment is provided in the boxes on the chart but to summarize, the change in our collective regulated businesses was driven by lower O&M and the return on incremental investment to serve our customers, which more than offset higher depreciation and under, unfavorable weather.

On the generation and marketing side earnings were up $0.5 from 2019. This was driven by land sales and favorable effects associated with the retirement of plant in the generation business as well as higher wholesale margins. Lower retail margins were offset by the expected timing of income taxes. Corporate and other was up $0.10 from last year primarily due to lower taxes relating to state tax adjustments and consolidating items, an investment gain on a privately-held investment all of which was partially offset by higher O&M.

So let's take a look at our full year results on Page number 8. Annual operating earnings for 2020 are $4.44 per share or $2.2 billion compared to $4.24 per share or $2.1 billion in 2019. Looking at the drivers by segment operating earnings for vertically integrated utilities were $2.21 per share up $0.04 year-over-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-Up. Weather was unfavorable due to warmer than normal temperatures in 2020 and a warmer summer in 2019.

Other decreases included higher depreciation and tax expenses and lower revenue items in AFUDC. Transmission and distribution utilities segment earned a $1.03 per share up $0.03 from 2019. Favorable drivers in this segment included higher rate changes, the recovery of increased transmission investment and ERCOT, and the impact of the Ohio transmission true-up both on O&M and transmission revenue. Other O&M was favorable due to the concerted effort to decrease O&M expenditures through one time and sustainable reductions.

These items were partially offset by the 2019 reversal of a other regulatory provision in Ohio and higher depreciation associated with the increased investments. Other smaller drivers included things like higher interest and tax expenses, the roll-off of legacy writers in Ohio prior year, Texas carrying charges, unfavorable weather and AFUDC.

The transmission, the AEP transmission whole cost segment contributed $1.3 per share down $0.02 from 2019 due to the impacts of the annual true-up and prior year for settlements. Our fundamental return on investment growth continued as net plant increased by $1.3 billion or 13% since December of 2019.

Generation & Marketing produced $0.36 per share up $0.6 year-over-year. The Renewables business grew with asset acquisitions, land sales and other one-time items more than offset the impact of weaker wholesale prices on the generation business and lower retail margins. Finally, Corporate and other was up $0.9 per share driven by taxes from lower state taxes and adjustments as well as an investment gain partially offsetting these items with higher interest expense.

Overall, we're pleased with our 2020 financial results as we landed in the upper half of our operating earnings guidance range.

So let's take a look at our normalized load for the quarter on Page 9. Starting in the lower right corner, our fourth quarter normalized load came in two-tenths of a percent above the fourth quarter 2019, this is significant not only because it was the first time we saw positive low growth since the pandemic began, but it was also the strongest quarter for low growth in over two years.

For the year AEP's 2020 normalized load finished down 2.2% compared to 2019, normalized load has continued to improve since bottoming out in the second quarter of 2020 when COVID restrictions were at their highest levels. The strong finish for the year and our retail load is one of the drivers that enabled us to reach the upper end of our guidance range in 2020.

I'll talk a little bit more about why this occurred when we get to Slide 11 where we can do some economic data specific to our service territory. But for 2021, we're projecting two-tenths of a percent growth in normalized load. Well, this will be an improvement from the 2.2% decline in 2020 and also shows that our service territory is gradually getting back to its normal growth trajectory.

In the upper left quadrant our normalized residential sales increased by 5.2% in the fourth quarter and ended the year up 3.2%. For both the quarter and year-to-date comparisons, growth in residential sales was spread across every operating company. Residential load spiked in the second quarter of 2020 when the COVID restrictions were at their highest and people were spending the majority of their time at home.

Looking to this year, while we expect residential sales to decline by 1.1% in 2021 as vaccinations are rolled out and we migrated to our post-pandemic lives. We are assuming a moderate sustained load benefit from this segment given the stickiness from work-from-home relationships or arrangements for many office workers across our service territory for the foreseeable future.

So let's slide over to commercial sales in the upper right quadrant. Normalized commercial sales decreased by 2.1% in the fourth quarter and finished the year down 4.2%. Even though, commercial sales were down across all operating companies in the quarter, we're seeing steady improvement since the since the pandemic began.

In fact, the same sectors that were hardest hit by the shutdowns in the second quarter of 2020 were the most improved sectors in the fourth quarter, specifically these sectors included schools, churches, restaurants and hotels. As we look forward to 2021, we expect commercial sales to experience a modest 0.5% decline as the service territory continues to recover, which is still a significant improvement from the record setting 4.2% decline we saw in 2020. The improvement in commercial sales will likely track with vaccinations and as a service territory population acquires additional immunity, this class of customers should be positioned for a strong recovery.

In the lower left chart, industrial sales increased, sorry decreased by 2% in the quarter ending the year down 5.7%. Even though industrial sales were down for the quarter in aggregate, we did have a few operating companies namely I&M, AEP Ohio and AEP Texas, post growth in industrial sales compared to the fourth quarter of 2019. Our projections for 2021 assumes Industrial Sales will continue to recover and end the year up 1.9%.

On Slide 10. We have a little more color on the industrial recovery we saw in the fourth quarter. The blue bars show the growth in sales to our oil and gas customers, led by grows in the pipeline transportation sector our total oil and gas sector sales in the fourth quarter came in 1.3% above last year.

In fact that pipeline transportation sector has been the fastest growing sector since 2018. The orange bars show the growth in Industrial Sales, excluding oil and gas while it was still down 3.3% for the quarter, you can see how dramatic the sequential improvement has been since the second quarter.

The industrial sectors that are experiencing the strongest growth for the quarter were pipeline transportation and plastics and rubber manufacturing. This is mostly offset by softer demand from oil and gas extraction mining and primary metals.

Overall, we're seeing evidence of faster recovery in the industrial sector which supports our projected growth and industrial sales for 2021. We anticipate improvements across most sectors with the exception of the coal mining sector as the industry faces headwinds, with the shift towards reduced carbon dioxide emissions.

So if you join me on Slide 11, I can provide the update, I mentioned a few moments ago on the latest economic conditions within the AEP footprint. Starting with the chart on the left, you'll notice that AEP service territory experienced of 2% decline in gross regional product compared to the fourth quarter 2019. This was 40 basis points better than the U.S.. The AEP service territory was less impacted by the virus and had fewer restrictions on businesses than other parts of the country, which allowed our territory economy to fare better than the U.S. throughout the pandemic. Looking forward, the AEP service territory is expected to grow by 4.8% in 2021 relatively consistent with the economic recovery in the U.S..

Moving to employment on the right, you can see that job that the job market for the AEP service territory also performed better than the U.S. throughout the pandemic. For the quarter employment was down 4.6% which was 1.4% better than the U.S.. This is largely the result of the mix of jobs within our local economy, which has a heavier relative concentration of manufacturing and government jobs in a smaller share of leisure and hospitality jobs. Going forward, we expect the job growth of 1.1% in our service territory in 2021.

So let's swing over to Page 12 to check on the company's capitalization and liquidity position. Our debt the cap ratio increased 0.7% in the fourth quarter to 61.8%, FFO-to-debt increased by 0.2% during the quarter to 13% on a Moody's basis, primarily due to changes in regulatory assets and working capital. Our liquidity position remains strong at $2.5 billion supported by our revolving credit facility.

I'd like to touch base on a couple things relating to our financing plan as we receive questions from time to time on this. So our current financing plan does not include an assumption of any asset rotation. I'd like to share that we do believe it is incumbent upon us to engage in analysis of any opportunity within our portfolio that can generate more value for another party than it can generate for us.

So to the extent that we engage in such activity that would result in the sale of an asset or business unit the associated proceeds would likely sub-plant some of the planned equity and or debt financing you see on Page 39 in the appendix of the presentation today.

Nick talked about the severe winter weather in Texas, which impacted both SPP and ERCOT. I want to take a moment to provide some quantification exposure details since that's top of mind for us and also for you. As, the winter storm increased the demand for natural gas and limited natural gas supply availability resulting in unanticipated market prices for natural gas power plants to meet reliability needs for the SPP electric system.

PSO's preliminary estimate of natural gas costs and purchase of -- purchases of electricity are approximately $825 million. SWEPCO's preliminary estimate of natural gas costs is $375 million. To provide some perspective, PSO's annual fuel and purchase power costs are roughly $550 million to $600 million. So you get the sense of how big that is.

Importantly PSO and SWEPCO have active fuel causes -- clauses that permit recovery of prudently incurred fuel and purchase power expenses. However, we would expect this recovery to likely occur over an extended period of time in an effort to mitigate the impact on customer bills, which is consistent with the filing we submitted yesterday seeking a regulatory asset and mechanism to recover the costs inclusive of PSO's weighted average cost to capital.

So we're taking this into consideration as it relates to our financing plans, since the payments to suppliers are due in March. On that note, we're contemplating the use of long-term debt and the possibility of making funding contributions to PSO's as SWEPCO from the parent company.

As far as ERCOT exposure goes as Nick mentioned, this would be related to an AEP Texas's receipt of funds from the Reps, AEP renewables wind generation assets and the wholesale load served by AEP Energy Partners, this exposure should not be significant.

Switching gears, our qualified pension funding increased 5% during the quarter to 101.8% and our OPEB funding increased 20.4% to 160.9%. Strong equity returns and both plans were the primary driver for the funded status increases during the fourth quarter. The OPEB plan funded status also benefited from lower-than-expected per capita and Medicare Advantage rates, which reduced the liability.

So, let's go to Slide 13 to do a quick recap quick recap of where we've been and where we're going. So we begin 2020 with a proven track record. Our earnings in 2020, I'm sorry, we begin 2021 with a proven track record. Our earnings were strong in 2020, as we continue to invest capital and our businesses and earn a return on this investment is in response to expected decline in sales from the pandemic and early mild weather. We implemented O&M savings from both one time and sustainable reductions. And we also got some help from favorable sales mix shift.

We received approval of North Central Wind project in Oklahoma, and that will be a benefit to our PSO and SWEPCO customers. In addition over time, we've been able to grow our dividend and line with earnings and expect to be able to do so going forward.

Our dividend payout ratio is solidly within our stated target range of 60% to 70%. So as we look forward to 2020, we feel confident and raising our operating earnings guidance range to $4.55 per share to $4.75 per share. This is up from our previously from a previously stated 2021 operating guidance range -- earnings guidance range of $4.51 per share to $4.71 per share.

There's an operating earnings waterfall on Page 31 of the appendix reflecting the midpoint of this updated guidance. The primary differences from what we shared EEI relate to normalize load and whether reflecting 2020 actual results as well as continued focus on sustainable O&M savings from lessons learned during the pandemic.

Not surprisingly examples on the O&M front include things like reduce non-essential travel and training since we know now a great deal of this can be done very effectively in a virtual format, sustaining some of the reduction of material and supply expenses, minimizing over time and efficiency modifications in our field, crew practices et cetera, just to name a few.

Specifically, we're originally forecasting our 2021 untracked O&M to be $2.7 billion, but now we are forecasting this to be $2.62 billion compared to the $2.68 billion actual for 2020. So as we proceed through 2021, we will finalize our pending rate cases and move forward with additional opportunities in the renewable space supporting our ESG focus as we transition toward a clean energy future.

We will continue our disciplined approach to allocating capital and we're confident, there's significant runway in our capital programs to reaffirm our 5% to 7% growth rate of the increased 2021 operating earnings guidance range. So thanks so much for joining us for the call today.

With that, I'm going to turn it over to the operator for your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) And we will go to the line of (inaudible) with Guggenheim partners. And your line is open.

Q - Analyst

Good morning guys.

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

Good morning.

Q - Analyst

Good morning. Just a couple questions. Just a couple of quick questions here, just on the Ohio settlement. It seems like you've been kind of close to a resolution for some time now would sort of the procedural schedule being paused to make room for continued dialog. Is there sort of any pushes and takes we should be sort of thinking about at this juncture. I use the noise in this state at all impacting the conversations?

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

No -- there's a no impact there. We continue in discussions with the parties and if -- the typical issues of distribution riders and ROEs and that kind of thing, so nothing unusual and like I said, I think some discussions are going positively and the parties continue to engage with one another, and we all know we have March 4th, and I think that could actually be two or three days different as well. But nevertheless -- everyone's focused on getting it concluded.

Q - Analyst

Excellent, and then just -- under the Racine hydro sale, obviously, had an immaterial impact to sort of the financing plan, but it does sort of show kind of your desire to focus on the core business. So how are you sort of thinking about further acid optimization that could potentially offset, some of the equity needs related to North Central, whether we're thinking about a full utility transaction with an underperforming asset for instance or a partial transaction may be similar to The Duke GIC deal, any sort of any sort of updated thoughts here on incremental opportunities you're seeing in the near term?

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

Yes, there's a lot of creative ways obviously and Duke showed one of those. But there's others as well. Yes, we'll continue to look at all of our assets actually. And as I mentioned in the call, the time for half measures and talk is over. So we've got to get about the process of ensuring that we're making the way to move to that clean energy future. That means we're going to have to make sure that we're rotating capital effectively and dealing with assets from an optimization standpoint in an effective fashion going forward. So that is the prime motivation for us, particularly with maintaining our balance sheet structure the way it is. We want to make absolutely sure that we manage this process actively in all of those ways, so that's why Brian is over in the strategy area to focus on some of these activities as well. So we'll continue that approach and you'll see more to come.

Q - Analyst

Got it. That's helpful and lastly for me, just on walk forward to and perky, any sort of additional thoughts there on the replacement generation and potentially what the implications could be sort of this five-year capital plan you presented this morning? Thanks.

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

Yes, so, the 3300 megawatts is an incremental 2400 megawatts of what we had before and some of that is related to perky obviously, we got our Rockport that's still yet to come. So there's still plenty of analysis getting done of all of our operating jurisdictions, and that's what I've talked about before where we'll come out with our plans, which will be reflected in our integrated resource plans and that would accommodate Rockport in any of the other measures that we have in place the mood to that cleaner energy future. So you'll see that, but like I said by the time we get to the first quarter earnings call or before.

Q - Analyst

Got it. Congrats, and I'll jump back in the queue. Great execution.

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

Okay. Thanks a lot. Appreciate it.

Operator

Thank you. Our next question will come from the line of Steve Fleishman with Wolfe Research. And your line is open.

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

Good morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey, good morning. Thanks. So just I guess first question in terms of the 2021 guidance increase. If you go back to the segments, I think EI [ph] I think a lot of it is in the corporate another segment. Could you just clarify better like what's driving that?

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

Ye, so -- in 2020 that corporate and other investments, there were some tax-related issues around the tax provisions that were put in place relative to COVID. And then also there was some investment returns that were actually around -- we had -- we were an early investor in ChargePoint and certainly we had some opportunities there to monetize by the end of the year. And there were warrants that we held. So we continue to invest in different technologies. We have investments that have gone positively, we've had investments that have gone negatively. And this is -- this happened to be a year where it was positive from an investment standpoint.

So, -- but from an ongoing perspective it really is not so much driven not there still is some investment related activity that bleeds over into '21, but I'd say the story of '21 is when we had November, yes, we didn't know exactly where load was going. Didn't know where the economy was going or feeling much better about that and the progress in 2021 and also our Achieving Excellence program. We continue to advance in a very positive away from that perspective. So we feel like -- we felt certainly the confidence level was much more for us to raise guidance. But also continue to encourage that will be in the upper half of that guidance range.

A - Julie Sloat {BIO 6462741 <GO>}

And Steve, this is Julie the items that we're calling out here, obviously, we're much more pronounced in the fourth quarter of 2020 and specifically as it relates to an investment gain in some income tax items et cetera, and if you if you look at Page 31 in the slide presentation, you can look again at that full year of view 2020 actual versus 2021 projected or revised projection. And you'll see that we still have a little bit of an investment gain associated with ChargePoint in that particular column around corporate and other. And then we'll have a little bit of pick up on the O&M front and offsetting this is going to be some increased interest expense largely due to continuing to fund the investment program. So we have slightly higher long-term debt balances out there.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Just to clarify, because I just want to yes --

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

Go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. I was just looking at the guidance you gave at EI for 2021 and then the guidance that you're giving now for 2021 and I think the corporate another is $0.08 better. So it sounds like that's mainly due to mix of interest savings and then the ChargePoint gains or some other things continuing?

A - Julie Sloat {BIO 6462741 <GO>}

As well as some O&M pick up. Yes, improvement I should say.

Q - Steve Fleishman {BIO 1512318 <GO>}

That shows up in the -- okay, and that's in the corporate segment.

A - Julie Sloat {BIO 6462741 <GO>}

Yes. Bingo [ph]. Yes, first is what we showed you in the EI. Yes.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Super helpful. And then one other question just on the SWEPCO new renewable megawatts. Do you have a sense how much of those you are going to be able to own or those all are owned or some of those maybe PPA? Or how do we know -- the mix that --

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

We would certainly like to own as much of that as possible, because I think, it's really important from a capital structure perspective and these companies to be well funded and have a firm foundation within the states we serve, we feel like that these generation resources particularly the renewable resources need to be vested within the operating company. So we'll continue that approach and that those are the followings that will make and obviously some portion of it may wind up being PAA's, but I think we have to get their message across that it's important to the vitality of the operating companies and the operating utilities in these states that we continue to flourish from a capital standpoint.

And so I think obviously too, the weather events and SPP demonstrate that and I'm going to be probably testifying again on this pretty soon. But I really think it's important for the utility to have a view of what generation looks like in these particular events and the interaction and interoperability of these resources with the transmission and distribution system is incredibly important. I started my career and as a electrical engineer and system operations, and I went to an ice storm in actually, I'll tell my age now, it's been 1984. But mills were tripping with coal, top line was freezing, valves were freezing, all these activities were occurring. And it was our ability to re-dispatch and utilize the ties and those kinds of things there were important for us to be able to manage through that crisis. And that's why I think it's important for there to be control features in place and from an ownership perspective be able to focus on ensuring those benefits for our customers.

You look at even some of the coal-fired generation that was in place that mitigated some of the impact from a fuel cost perspective going forward with natural gas prices going up so much. So there's a reason for each part of the portfolio and I think it's important for the utility to be the party that runs those particular facilities. So that's my view and certainly will go into these cases with a firm view toward that.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Thank you so much. Take Care.

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

Thank you

Operator

Thank you. Our Next question comes from the line of Jeremy Tonet with JP Morgan. And your line is open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Good morning.

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

Good morning. How are you?

Q - Jeremy Tonet {BIO 15946844 <GO>}

Good, good. Just want to start off with on O&M if I could just want to see what you guys are seeing there, because it seems like it's a nice little step down even versus what you guys had EEI there? And just wondering if you could provide a bit more color what you see now versus then in really the durability of those savings as you think about 2022 plus just sticking around all these cost savings that you're pulling out?

A - Julie Sloat {BIO 6462741 <GO>}

Yes. This is Julie. Thanks so much for the question. Yes, O&M was a nice benefit to us in 2020. And we're going to try to hang on to as much of that may be a little bit more for 2021 as you can see in our forecast. So the things that we're looking to would be things that are not only one time in nature, but then obviously sustainable and try to take the learnings that we were able to glean from the pandemic really, and how we had to operate in different ways. So things that were talking about include things like data analytics, automation, digital tools, drone usage, outsourcing, workforce force planning, and then other related items essentially those types of things that I mentioned in my kind of preamble the beginning of the call here so reducing non-essential travel and training. I mean we've been able to be very successful in a virtual format, so that actually brings a fair amount of cost savings into the pocket as well, reduce materials and supplies to the extent that we can continue to reign in on advertising minimizing over time et cetera. So we're looking at this from more of the sustainability or sustainable perspective and we'll see what else we can kind of pull out of the hat in terms of additional earnings as we go forward.

So it's a little bit of everything so I can't particularly point you to one thing. In fact, it's a variety of the entire team pulling together to be able to make this test come to fruition in the track records there we've been able to do it. So we're going to continue to turn the crank.

Q - Jeremy Tonet {BIO 15946844 <GO>}

That's very helpful. Thanks and maybe just pivoting over towards the renewables. I think you mentioned 10 gigawatts of wind and solar generation in regulate states by 2030 looking to add there and just wondering if you could provide a bit more color and where you think that could fall out jurisdiction. Why's it seems like SWEPCO has a good focus here. Just wondering where else you might be seeing the potential over that time frame?

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

Yes. That's a number that continues to be in play. Obviously we originally had, I think those like 8,000 [ph] megawatts of renewables last time we showed, and then adding the 2400 was -- is gets the 10,000 or so. And then as we further update this analysis, like I said by our first quarter earnings call from you'll see more renewables being placed in and as well, so I think it's a work in progress.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Okay, we'll stay tuned there. Thanks, and we'll just last one if I could, post the election chair just wondering, Biden's plan for 2035, if that impacts you directly and also with the new FERC -- out of FERC here. Just wondering what that could mean on the transmission side if you see kind of more supportive actions there and what opportunities that could bring to AEP?

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

Yes, I think we'll see -- continue to see supportive actions by a FERC related to transmission, because obviously the build-out necessary to support renewables and clean energy is something that the Biden administration is taking on. And I'd be highly surprised if there's any let up on that matter of fact, they're probably more aggressive than what the industry feels like they can do at this point. But certainly -- in order to do that and aggressively meet the kind of targets that are being placed out there transmission will play a critical role and that means AEP.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. Thank you.

Operator

Thank you. Our next question comes from the line of Durgesh Chopra with Evercore ISI. Your line is open.

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

Hi, Durgesh. How are you?

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning, Nick. And Gladiators is this is one of my favorite movies as well.

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

Yes.

Q - Durgesh Chopra {BIO 20053859 <GO>}

So just Julie real quick, I just want to make sure I have this right. The storm, the last week's storm related costs I think when you add those numbers up between PS1 SWEPCO roughly north of $1 billion, $2 billion call it. The financing plan, the interest related charges, are those incorporated into your 2021 guidance numbers?

A - Julie Sloat {BIO 6462741 <GO>}

Not yet, no. And so, we have not yet updated our financing plan. We're actually holding tight just a bit here until we get a little more clarity on exactly how this stuff is going to roll out and we have firming up of all those numbers as I mentioned we made an application at the commission in Oklahoma. So that's another piece of that as well. And we will update you as we continue to move forward and make those crystallized plans for you. But as I mentioned, what you can largely anticipate is, taking on a little bit more debt, obviously to picking up on that would be an increased potential interest expense. And obviously looking to be able to be sensitive to the customer needs as they try to absorb this cost, but then also managing the balance sheet in the metrics that we really need to have to stay at that BAA to stable, type rating and arrangement.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. Okay, understood. So I guess maybe just in terms of the interest charges and other things, looks like at least near term you're going to borrow debt. Is there sort of plan to offset that with O&M or other savings in the business?

A - Julie Sloat {BIO 6462741 <GO>}

Yes, as a matter of fact a couple of things that I would point out, number one, we're always going to work to mitigate any potential unforeseen risk, right. So plan do check adjust as we move through the dynamic year, and the other thing that you may recall making a statement about specifically in my opening comments here, that application that we made at for PSO in Oklahoma specifically called about the fact that we were looking for regulatory asset with a mechanism that included a whack. And so that's incredibly important to us as well. I know Nick made the comment several times through his opening comments regarding making sure that our balance sheet metrics are intact, having a whack helps us do that. Because we need to be able to preserve the financial integrity of the operating companies as well as the entire enterprise. So those are the things that we'll be looking at.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Understood. Thanks. And then just one quick follow-up on the Ohio -- Ohio settlement discussions on the rate case there the March 4th, is that the drop-dead date or can that be extended?

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

Yes, it can take can be extended. But, obviously it runs through geared toward March 4th, but it could be extended.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay, thanks guys. Much appreciate the update.

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

Okay.

Operator

Thank you. Our next question comes from the line of Julien Dumoulin Smith from Bank of America. And your line is open.

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

Good morning, Julien.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Thanks. Hi, good morning. Thank you team. Thank you, Nick. So, Nick maybe just to start here, you seem passionate about it, and I'm quite curious and you guys have a footprint that stretches our TOs here, how you think about what reforms in weatherization looks like here and how that could impact your capital budget. I hear your comments about reserve margins et cetera. I'm just curious if you can elaborate little bit further. What are your lessons learned from 2014 and 1984 here as you see them being applied, perhaps in Texas holistically and especially as you see your specific dialogs kicking off weather in Texas frankly the other adjacent states as well?

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

Yes. So in 2014, I really testify over three issues. One was capacity markets and understanding the value of capacity and certainly 24/7 base load generation. But also the second part of it was the -- at that point in 2014 it was the dash the gas it was gas and renewables if we're going to depend upon natural gas for substantial part supply this country than we really we really have to reinforce the ability for natural gas to perform during these types of events. And that means someone's going to have to be able to pay for it and markets will have to compensate generators for those kinds of investments. And then for the utility system itself, it really is around infrastructure to support resiliency and hardening of the system.

And also one of the other areas I talked about in 2014 was how quickly we retire units and what the replacements of those are. And how we're changing the nature of the generation mix and those have different factors associated with the planning and operation of the grid. So those are critical areas where I think for really, if I were to opine on Texas it be more around market reform to support weatherization market reform around communications that exist during crisis times, because it's important for operators to know and even T&D operators to know where the generation is coming from to make adjustments from a transmission and distribution standpoint.

And so when you think about some of these opportunities that exist for us, it seems projects on the seams of the RTOs is particularly important to have interchange capability now for Texas. It may be more DC ties. It could be well obviously could be more transmission in general, but

Texas will have to decide that, but I think there's opportunities for more levels of interchange, more ability to put infrastructure in place to support weatherization and then market changes to support the ability for capacity to be valued the way it should be based upon its contribution to the total grid. So those are key points that continue and really we sort of see -- let me -- with California you sort of see the same thing. I mean, they're depending on heavy level of imports from out of state. If out of state has issues then they have issues internal within the state. So when you think about all those things, I think the planning and the optimization of what occurs is going to really carry the day in terms of our ability to better take care of these types of situations.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Got it, excellent. And if I could just quickly clarify your earlier comments here, so -- you I think you use the expression the time for half-measures and talk is over. Can you elaborate a little bit on the timing there just as you think about it and obviously you're ready moving is probably a question for Brian horse (inaudible) but what's the timing of this just to make sure we're on the same page here, whatever they --

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

I think you have to see that those decisions start this year because when you think about -- I think what's crystallized for us is really the path that we're taking, we're moving to a clean energy future. We need to be able to move from a regulatory standpoint and sure that we're achieving the balance sheet capacity to do the things that need to be done for the transition and the optimization of the grid and I think it's really important for us to be able to manage internally not only from an O&M perspective, but also our assets what generally what the assets are that contribute to not only an improved return for investors, but also in terms of optimization of the business itself, so that will be part of the path because you have to -- you really have to maybe three forcing functions, but one of those is a movement to a clean energy economy, the other is the capital structure and balance sheet of the company, and then the third is really focused on those two objectives, but ensuring that we're moving forward with infrastructure development and grid development to support resiliency and reliability of the grid. Those things together along with electrification or I think are really going to be tailwinds for this industry going forward, but in particular AEP is the largest transmission provider. We have a large distribution footprint and we have significant amount. As I said in the last earnings call, we were on the precipice of clean energy transformation. So, a lot of opportunity for AEP. We just need to make sure we manage all those throttles to ensure that were consistently driving forward.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Got it. Thank you, guys. Best of luck.

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

Yes.

Operator

Thank you. Next we will go to line of James Thalacker with BMO Capital markets. And your line is open.

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

Good morning.

Q - James Thalacker {BIO 1794957 <GO>}

Thanks so much. Good morning. How are you, guys?

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

Just fine.

Q - James Thalacker {BIO 1794957 <GO>}

Great. Welcome back Julie. Great to hear your voice.

A - Julie Sloat {BIO 6462741 <GO>}

Thanks, James.

Q - James Thalacker {BIO 1794957 <GO>}

Julie addressed some of the asset rotation to mitigate your financing needs. But Nick, it's been a while since you've kind of I guess, updated how you're thinking about how you prioritize growth via the different channels that are in front of you. I mean, obviously Chuck working on the non-regulated side on renewables and you've got plenty of opportunities of regulated growth on the renewable side transmission. I'm just wondering like, how are you thinking about inorganic growth, may be on the regulated side or how are you prioritizing sort of all those different opportunities in front of you?

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

Yes, so obviously our priorities are around transmission, distribution, infrastructure. Certainly on the regulated transformation of the resources, they're ongoing. Chuck's business is really with AEP energy and so forth. They've done a great job of managing risk around that business, but they've also done a great job in terms of their allocation of capital and being able to imagine not only within their own part of the business, but also in total of the entire enterprise, so Chuck is more than willing to turn capital over if it's a better use anywhere else in the corporation and vice versa. We would like for that business to be less than 10% of the overall business. So and it continues to track that and it gives us the ability to not only further optimize that business, and you're seeing continued really continued opportunities on that part of business with AEP on-site partners on special relationships with customers around resources, that really drive tremendous benefit for us because we can also approach that on the regulated side as well.

So I think there's an opportunity there, but certainly our focus is ensuring that we're able to move forward with this clean energy transformation and all the optimization around the grid and the grid resiliency and the issues there and do it in a very pragmatic way. That means we're going to have to make sure that whoever is progressing better from that perspective. That's where the equity is going to go and we need to ensure that we're managing that portfolio in that fashion so we can now look at this business like it's a fully regulated business and we can make decisions based upon their -- there are obviously are things that we look at like, what's the quality of the service territory? What's the quality of the regulatory environment? What's the ongoing view of valuation of any particular entity for us for someone else and what that means in terms of rotation of capital in terms of optimization, so we are continuing that approach and I would say that that we said in the past, that if we -- for all of our utilities if we see the ability to continue sustainable growth and quality growth in those jurisdictions. They make a lot of sense to us. And then of course, we have to look at also those that are challenged and understand what those challenges are. Can we erase those challenges? Are they are they systemic challenges? Those are the kinds of things we have to look at and we'll continue to do that and that's what Brian is doing.

Q - James Thalacker {BIO 1794957 <GO>}

Okay, great. And just I guess just one last follow up on that because I know we're running up on time here. But I mean when you look at like all the opportunities like you just rolled out another 2400 megawatts of renewable transmissions always been something you've had plenty of opportunities to, like these still look at those opportunities like where you can put earning assets in it like 1x rate base as your best opportunities, or do you see do you see, as you look across the landscape like inorganic, maybe M&A or regulated properties or something that makes sense or is it just better to kind of stick to your point in the jurisdictions where you see the growth is visible and you've got a good regulatory sort of opportunity to achieve as well?

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

Yes, I think our primary focus is do it at one time. And with the organic growth that's occurred and that's really why the previous question about, whether we want to own the renewable assets or not. The question is, if we own those renewable assets and that gives us more capacity to be able to invest and we can take full advantage of tax benefits and other things that enable us to continue to organically grow. And as I said earlier, we have a very high threshold for M&A because we do feel like that we have plenty of opportunities. We just have to manage the portfolio in a way that optimizes that going forward. And so that's the way we sort of think about it and then from an M&A perspective, it has to be it has to be strategic has to be accretive for shareholders it has to be something that really produces strategic benefit for us in some fashion of what we're trying to do. But again, that's a high threshold.

Q - James Thalacker {BIO 1794957 <GO>}

Great. Thank you so much for all that.

Operator

Thank you. Our next question comes from the line of Andrew Vlasov [ph] with Scotiabank. And your line is open.

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

Good morning, Andrew.

Q - Analyst

Hey, good morning. Thanks for all the good detail on renewable. I just want to dig into one or two relative to your CapEx outlook, you mentioned the, incremental capacity at SWEPCO and then you mentioned that you'll do an AEP wide regulated renewable plan in the coming months, would a lot of that the incremental to the $37 billion? I know a lot of the spending will probably come after 2025, but do you think of that is upside to the plan?

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

Yes, we would -- it's early to tell, but we would like it to be incremental. So, we'll be working to help support that. And obviously as you said, some of us 2025, some of us 2028. So as we progress, we want to make sure okay, if cash flow increases, load continues to improve, optimization of capital deployed makes lot of -- has a lot of benefits associated with that. Then there's a lot of parts in the puzzle sort of like when we did North-Central, we didn't know what the financing plan for that was and we continue to focus on that one and then we'll also continue to focus on trying to make sure that they are seen as incremental, that's our focus. So whether we have to obviate some of that with redeployment of capital or not remains to be seen, but the target is for it to be incremental.

Q - Analyst

Okay, great. Then on the RFP at SWEPCO you mentioned that you'd prefer to own those assets? Do you plan to bid in from the contracted renewables business as well as from the regulated utility?

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

Well, then the contracted renewables business, our contracted renewables business or maybe rules associated with that. But, we just talked with North Central we did sort of a turnkey top thing that really and allows us to Tom [ph] the recovery with the investment itself. That's always sort of a preferred opportunity for us because it's really is handled well from a financial standpoint and also handled well from a risk standpoint relative to the construction and customers. The risk to customers as well. So I think we've probably stick with something like that.

And whether our contracted businesses is on the back end or not is another question. I mean obviously, we don't really care if it's our contracted business or someone else's as long as at the end of the day we wind up owning it.

Q - Analyst

Yes. Got it, that makes sense. Then one last one just to clarify. I think you'd said you still want that contracted renewables to be capped about 10% of the company. Did I hear you right? And giving the, overall growing demand for renewables across the country and support out of DC. Does that mean that you'll be more selective in your projects or look for higher returns or lower risk? How do you think about that dynamic?

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

That's exactly right. We've always managed that business around higher returns. We want to be commensurate on a levered basis with our regulated businesses. And we will continue (inaudible) we turned away a lot more projects than what we actually move forward with and as you probably have seen, I guess it seems to get more aggressive all the time about what the return levels are and is really the difference is really, what people say at the end of a contract what that terminal value is, and we really don't want to get into that kind of war. We really focus on those relationships with customers and developers that help us move forward with very positive projects. And that's the way we'll continue to look at that business.

And then OnSite partners and others with specific, customer related issues like for example here in Columbus, we have several businesses that have signed up for a joint renewables project that we continue to focus on and we do aggregation of customers in Columbus, which was approved by referendum vote that AEP Energy would be doing. So if those kinds of things that we can mix and match and tailor the relationship that the customer is looking for. I think that's what we're after.

A - Julie Sloat {BIO 6462741 <GO>}

Just to circle back real quickly too if I could. The financial comment as it relates to that threshold in terms of business mix there are couple reasons why that 10% makes sense for us. Number one, to a credit profile risk management perspective that's very important for us. So that's something we'll keep top of mind and the other is really on tax shield associated with debt. So we've got a couple things that were sensitive to and just continue to high-grade the earnings opportunities from our unregulated contracted renewables business. But that gives you probably a little bit more perspective if that wasn't already top of mind for you because it surely is for us.

Q - Analyst

Yes. Okay, very helpful. And just want to echo the congrats to Julie and congrats to the team on another strong year.

A - Julie Sloat {BIO 6462741 <GO>}

Thank you.

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

Thank you.

Operator

Thank you. Our final question will come from the line of Paul Patterson with Glenrock Associates. And your line is open.

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

Good morning.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning. How are you guys?

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

Just fine.

Q - Paul Patterson {BIO 1821718 <GO>}

Good to hear your voice, Julie.

A - Julie Sloat {BIO 6462741 <GO>}

Hey, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Just some quick follow-up just on the Oklahoma filing. I haven't had a chance to look at it, the -- how long do you guys expect to my understanding if I heard you correctly that you're asking for a weighted average cost of capital. I was wondering how long do you expect to have the -- how long will it take to amortize the asset? I guess. And what's your filings?

A - Julie Sloat {BIO 6462741 <GO>}

Yes. Well, actually we haven't been in prescriptive in our filing so we've got a little flexibility there. And so that's another reason why I kind of mentioned was taken about any potential financing in the interim and how that would map to any potential outcome there. I do know that one of our peer companies out in Oklahoma made a similar filing and I believe that it was ten years on theirs as well as a whack to give you a kind of perspective, but we want to be sensitive to customer bills as well as. I'm sure you can imagine.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay, sure. And when do you think we'll get some sort of feedback from the commission?

A - Julie Sloat {BIO 6462741 <GO>}

Probably a couple of months.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay.

A - Julie Sloat {BIO 6462741 <GO>}

I don't have a timeline yet.

Q - Paul Patterson {BIO 1821718 <GO>}

Sure. It's all early.

A - Julie Sloat {BIO 6462741 <GO>}

Yes.

Q - Paul Patterson {BIO 1821718 <GO>}

And then just on, a really quick one on APCo As I recall, you guys were granted rehearing in the yes, the case and you guys are also currently filing an appeal and I was just, if you could elaborate a little bit more on that, because I thought there wasn't it.

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

Yes, that's right.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay.

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

Yes, we did file for rehearing and it was granted and the parties are filing briefs and that it stands with the commission. But also, we filed in the Virginia Supreme Court. So Because we're not wasting any time.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay, so, so just to sort of understand a procedurally do you expect to get something from the Supreme Court before the commission or the commission? I would think normally before The Supreme Court?

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

Yes, so normally the commission before The Supreme Court, but obviously we felt like a such an important issue and focus on what we believe state law says that it's important for the Supreme Court resolve that issue in case the commission doesn't.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And do know when would be the commission might come out or any is their schedule on that or is it just whenever they want to?

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

Yes, I think it's whenever they want.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Awesome. Thank you so much.

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

Okay. Thank you.

Operator

Thank you, and speakers do you have any closing comments?

A - Julie Sloat {BIO 6462741 <GO>}

We do thank you for joining us on today's call as always IR team will be available to answer any additional questions, you may have. Cynthia, would you please give the replay information?

Operator

Certainly, and ladies and gentlemen, today's conference call will be available for replay after 6:30 p.m. Today until 5 a.m. March 4th. You may access the AT&T teleconference replay system by dialing 866-207-1041 and entering the access code of 9187414, international participants may dial 402-970-0847. Those numbers once again 866-207-1041 or 402-970-0847 and enter the access code of 9187414. That does conclude your conference call for today. Thank you for your participation and for using AT&T, Executive Teleconference Service. You may now disconnect.