Q2 2022 Earnings Call

Company Participants

- Darcy Reese, Vice President, Investor Relations
- Julie Sloat, Chief Financial Officer
- Nick Akins, Chairman, President and Chief Executive Officer
- Unidentified Speaker

Other Participants

- Andrew Vlasov, Scotiabank
- Durgesh Chopra, Evercore ISI
- Jeremy Tonet, Analyst, JP Morgan
- Julien Dumoulin-Smith, Analyst, Bank of America
- Michael Lapides, Goldman Sachs
- Nick Campanella, Credit Suisse
- Shar Pourreza, Analyst, Guggenheim Partners
- Sophie Karp, Keybanc
- Steve Fleishman, Analyst, Wolfe Research
- Unidentified Participant

Presentation

Operator

(Technical difficulty) Good morning ladies and gentlemen and welcome to the Second quarter 2022 Earnings Conference Call. (Operator Instructions) I'll now turn the conference call over to your host, Vice President of Investor Relations Darcy Reese. Go ahead.

Darcy Reese {BIO 20391516 <GO>}

Thank you, Alan. Good morning everyone and welcome to the Second Quarter 2022 Earnings Call for American Electric Power. We appreciate you taking the time to join us today. Our earnings release, presentation slides and related financial information are available on our website at aep.com.

Today we will be making forward-looking statements during the call, there are many factors that may cause future results to differ materially from these statements. Please refer to our SEC filings for a discussion on these factors. Joining me this morning for opening remarks are Nick Akins, our Chairman, President and Chief Executive Officer and Julie Sloat, our Chief Financial Officer.

We will take your questions following their remarks, I will now turn the call over to Nick.

Nick Akins {BIO 15090780 <GO>}

Okay, thanks Darcy. Welcome everyone to American Electric Power's Second Quarter 2022 earnings call. AEP continues to make progress on the strategic initiatives we announced earlier this year with strong execution against our plan, resulting in another solid quarter. Later in the call Julie will walk you through our second quarter performance drivers including the strong load increases we're experiencing our territory as well as provide additional details surrounding our financial position.

But I'll start with the key financial highlights for the quarter. We'll then move to an update on our Kentucky operations sale process and timeline. I will also spend time discussing the progress we are making in our transition to a clean energy future as we simplify and de risk our business profile by divesting and regulated renewable assets while maintaining focus on our responsible generation fleet transformation and regulated renewables execution. I will close by providing some additional insights into our ongoing regulatory activities including our transmission business.

We are very pleased with our positive momentum this quarter, delivering operating earnings of $1.20 per share or $618 million. We are moving full speed ahead towards the increased operating earnings guidance range and long-term earnings growth rate we provided during our fourth quarter 2021 earnings call and we are reaffirming both financial targets of this quarter.

As a reminder, we are guiding to an operating earnings guidance range of $4.87 to $5.07 per share for 2022 with a 497 midpoint and a long-term earnings growth rate of 6% to 7%. We are also continuing to ensure we are best positioned for value creation as we navigate the macro trends impacting our industry and the broader economy. We are working with states to drive expansion in our service territory while considering global economic uncertainty, inflationary pressures and of course customer bills. We're also diversifying our mix of suppliers to minimize supply chain disruptions for our customers and business while also lessening the impact on our capital investment plan.

We know that timing of the closing of the sale of Kentucky Power and AEP Kentucky Transco to Liberty is top of line and we have been working with Liberty to obtain the approvals necessary for closing this summer. A regulatory timeline of the sale can be found on slide 7 of today's presentation.

We are pleased to report that Kentucky Commission approved the key milestone in the transaction with an order approving the sales transfer in early May. As we have discussed previously a pre-requisite in our contract of Liberty for closing the sale is approving the approval of new Mitchell operating agreements by both the Kentucky Public Service Commission and the West Virginia Public Service Commission.

While we received the related Mitchell orders from the Kentucky Commission on May 3 in the West Virginia Commission on July 1, the two states approve the operating agreement with different formats and some divergent post 2028 plan provisions. However, through the two proceedings both commissions have indicated an ability to use the existing agreement as a basis to operate the plant going forward and accomplish their differing expectations for investment in operations.

For that reason on July 11, we made a compliance filing in West Virginia and filed an update with Kentucky providing an alternative way to move forward with Mitchell operations in the near term. We informed both commissions that we will operate under the existing agreement and manage the new operational focus of the two commissions through the operating committee.

In the absence of any new agreements, the existing Mitchell operating agreement is still in effect and we believe no additional regulatory approvals should be required. Since regulatory approval of a new Mitchell operating agreements is a prerequisite in our contract to Liberty for the closing in the absence of such proposal we are working with Liberty on a commercial solution for Mitchell related operations and both parties remain optimistic about reaching a resolution in closing the transaction.

At this time the only regulatory matter currently pending is the two or three application at FERC related to the sales transfer which FERC is currently considering. We are in the final stages of the Kentucky operations sale process and expect to close this summer.

Moving to our unregulated renewable portfolio in May, we closed on the sale of five unregulated development sites located in South and the Southwest Power Pool area marking the successful divestiture of the majority of our wind and solar development assets. As we mentioned last quarter, we have also signed the agreement to sell a solar development site in Ohio, with that transition close expected also in the third quarter.

In addition, we are in discussions with an interested party for the sale of our Flat Ridge II Wind Farm ownership, consisting of 235 Megawatts simplifying the resulting portfolio for our upcoming auction. These milestones demonstrate our commitment to continued execution.

As we announced during our fourth quarter earnings call in February, we are selling our unregulated contracted renewables portfolio in order to simplify and de risk the company and facilitate investment in our regulated businesses. We are in the final stages of preparation of the marketing materials for the auction and expect an official launch of the process no later than early September.

After the removal of Flat Ridge II, the portfolio consists of 1365 Megawatts of contracted renewable assets, consisting of 1200 Megawatts of wind and 165 Megawatts of solar geographically diversified throughout the U.S. There has been robust inbound interest in the portfolio and we expect the process to proceed quickly.

As a reminder, utilization of contracted renewables sale proceeds is not yet reflected in our multi-year financing plan. We remain focused on maximizing transition transaction proceeds and directing additional capital to our regulated businesses where we have meaningful pipeline of investment opportunities to better serve our customers as we push toward a clean energy future and enhance transmission infrastructure.

As always we are open-minded and we'll evaluate all value-additive potential activities as we focus on our regulated businesses where we see meaningful long-term opportunities for growth. AEP continues to make significant progress in our transition to clean-energy resources through our regulated renewables execution.

Details regarding the specific actions we are taking can be found on slides 8 and 9 in today's presentation. We are also firmly grounded in our principles of resiliency, reliability and affordability while recognizing the increasing value of our diverse resource portfolio against the backdrop of energy related volatility.

SWEPCO just taking steps to secure renewable resources making regulatory filings in May in Arkansas, Louisiana and Texas to own three renewable turnkey projects totaling 999 Megawatts. This $2.2 billion investment is currently reflected in our five-year $38 billion capital plan.

SWEPCO expects to issue another RFP in the near term consistent with its RFP for energy and capacity needs. APCo's 409 Megawatts of owned solar and wind resources were approved by West Virginia and Virginia marking an $841 million capital investment that is also included in our current capital plan. Request for a proposal are in process in APCo, I&M and PSO with expected in service dates in the year-end 2024 and 2025 timeframe. We also expect to make regulatory filings to acquire additional renewable resources prior to year-end 2022.

Finally, the U.S. Supreme Court ruling at the end of June, related to the federal EPA's regulation of greenhouse gas emissions will not require any changes to AEP's current generation and compliance planning.

Our generation fleet transformation plans are well on track. We remain fully committed to our target of an 80% carbon reduction emission reduction rate by 2030 and net zero by 2050 and we are proud of the work well underway to AP to help us achieve this goal. Reaching these targets is foundational to our long-term strategy and we believe we are on the right path toward prioritizing regulated investment opportunities in transitioning our generation fleet.

Turning now to a brief update on our regulatory activity, our regulated ROE as of the end of June 2022 is 9.2%. We continue to work through regulatory cases and maintain our focus on reducing our authorized versus actual ROE spreads.

Additional regulatory activity in the quarter includes a commission order received in May on SWEPCO Arkansas rate case, including a 9.5% ROE marking a net revenue increase of $28 million in the capital structure of 55% debt to 45% equity. We are also expecting a decision on SWEPCO's Louisiana rate case in the third quarter. Oral arguments related to APCo's 2020 Virginia base case were held in March 2022 at the Virginia Supreme Court with an anticipated final decision later this year.

FERC recently initiated several rulemaking proceedings related transmission planning, cost allocation, generation interconnection to the transmission grid and extreme weather preparedness. We support the commission in these actions and are in full support, full agreement that reform is needed to build the infrastructure necessary to transition our generation fleet in the most efficient and cost-effective way possible while also helping achieve our carbon reduction goals. These proposed rules aligned with AEP's objectives of developing a more robust, reliable and flexible grid of the future that ultimately reduces cost to customers and strengthens economic development in our communities.

Before I turn it over to Julie, I want to take a moment to thank our team for the incredible work that they are doing as we execute against our strategic objectives and deliver for our stakeholders. Now, what's going on today at AEP is a perfect blend of the execution of Bachman Turner Overdrive is taking care of business with the edge of for instance, let's go crazy in the good sense, of course.

We have an incredible market position, a bold mission and the foundation in place to achieve our goals and deliver on our vision of further modernizing our energy grid in order to supply reliable, cleaner, low cost resources for all the communities we serve. As we think about the future in the next chapter of AEP, we're excited this year more about our plans at AEP's upcoming Analyst Day, on October 4 in New York City.

We will provide additional details soon and look forward to seeing you there. Julie, over to you.

Julie Sloat {BIO 6462741 <GO>}

Thanks, Nick. Thanks Darcy. It's good to be with everyone this morning. Good morning and thanks for dialing in. I'm going to walk us through our second quarter and year-to-date results, share some updates on our service territory load and finish with commentary on our credit metrics and liquidity, as well as some thoughts on our guidance, financial targets and then recap our current portfolio management activities underway.

So let's go to Slide 10, which shows the comparison of GAAP to operating earnings. GAAP earnings for the second quarter were $1.02 per share compared to $1.16 per share in 2021. GAAP earnings through June were $2.43 per share compared to $2.31 per share in 2021. There is a detailed reconciliation of GAAP to operating earnings on pages 18 and 19 of the presentation today. But I'd like to call out three of the reconciling items that do not affect operating earnings but relate to our asset optimization activities underway, specifically we will see that we made an adjustment to arrive at our operating earnings for the quarter and year-to-date periods consisting of Kentucky sale cost and the write-off of one of the unregulated universal scale wind projects that's included in the portfolio. We're in the process of preparing for its sale.

The Kentucky sale charge reflects an anticipated reduction in the sales price as we work with Liberty to accommodate adjustments for costs that have been identified through the regulatory approvals that we've received.

Turning to the renewable investment write off the Flat Ridge two project specifically has continued to see deteriorating performance due to equipment issues and transmission congestion. To avoid an otherwise necessary repowering investment to address the performance issues and complicate our portfolio sales process, we elected to write off the equity investment or in discussions with an interested party for the sale of ownership interest in Flat Ridge two. Consequently, this will remove the Flat Ridge two project from the portfolio.

We're preparing for auction, which should help improve the valuation opportunity as investors engage in the sales process, which is scheduled to launch no later than early September.

Lastly, I'll mention that we monetize some mineral rights, which give rise to a benefit to GAAP but not operating earnings, which helps to offset the charges I just mentioned. So while I would typically not spend time walking through the GAAP to operating earnings reconciliation, I thought it was appropriate this time, given the milestones we're clearing on the asset optimization front and while these charges and gains are things that we need to recognize, they are entirely driven by our effort to de risk, simplify and bring cash in the door to support our continued investment in the regulated business.

So with that let's go to on slide number 11 and walk through our quarterly operating earnings performance. Operating earnings for the second quarter totaled $1.20 per share or $618 million compared to $1.18 per share or $590 million in 2021. Operating earnings for Vertically Integrated Utilities were $0.59 per share, up $0.14, favorable drivers included rate changes across multiple jurisdictions, positive weather primarily in our Western jurisdictions, increased transmission revenue and normalized retail load and income taxes. These items were somewhat offset by increased depreciation in O&M and lower off-system sales.

This is a reminder on the O&M and depreciation front, as I mentioned on the first quarter call and included in our 2022 guidance details because of a change in accounting related to the Rockport Unit II lease at I&M, we are seeing approximately a $0.05 of favorable O&M consequence offset by $0.05 of unfavorable depreciation in each quarter of 2022, but no consequential earnings impact.

And so I have a little more to share on load performance and get that to that in a minute here, so just hang with me. The Transmission and Distribution Utilities segment earned $0.32 per share, up a penny compared to last year. Favorable drivers in this segment included rate changes, load, positive weather in Texas and Ohio and increased transmission revenue. Offsetting these favorable items were unfavorable O&M and depreciation. The AEP Transmission Holdco segment contributed $0.27 per share, down $0.07 compared to last year.

Favorable investment growth of $0.03 was more than offset by an unfavorable true-up of $0.07. As I mentioned last quarter, this is consistent with our guidance. Our 2022 guidance had this segment down by $0.08 year-over-year as a result of the $0.12 of investment growth being more than offset by the annual true up that occurred this quarter and some favorable uncomparisons on the tax and financing of side.

This segment continues to be an important part of our 6% to 7% EPS growth as you well know. Generation and marketing produced $0.18 per share, up $0.09 from last year. The positive variance is primarily due to the sale of renewable development sites as well as increased generation margins and land sales.

Finally, Corporate and Other was down $0.15 per share, driven by lower investment gains, increased income taxes and unfavorable interest. The lower investment gains are largely related to charge point gains that we had in the second quarter of 2021 that have reversed this year.

The increased income taxes are related to the reduction of a consolidating tax adjustment at the parent.

Let's turn to Slide 12 and our year-to-date operating earnings performance. Year-to-date operating earnings totaled $2.42 per share or $1.234 billion compared to $2.33 per share or $1.160 billion in 2021. Operating earnings for the Vertically Integrated Utilities were $1.18 per share, up $0.18, similar to the quarter favorable drivers included rate changes across multiple jurisdictions, positive weather mainly in our Western jurisdictions, increased transmission revenue, normalized retail load and income taxes.

These items were somewhat offset by increased depreciation and lower off-system sales. Once again, the change in accounting around the Rockport Unit II lease results in $0.11 of favorable O&M, offset by a $0.11 of unfavorable depreciation.

The Transmission and Distribution Utilities segment earned $0.62 per share, up $0.08 compared to last year.

Favorable drivers in this segment included rate changes in Texas and Ohio and an increased normalized retail loan and transmission revenue. Offsetting these favorable items were unfavorable O&M and depreciation. The AEP Transmission Holdco segment contributed $0.62 per share, down $0.06 compared to last year.

Favorable investment growth of $0.05 was more than offset by unfavorable true-up of $0.07 and increased property taxes. The Generation and Marketing segment produced $0.21 per share, up $0.05 from last year. The positive variance is primarily due to the sale of renewable development site and increased wholesale margins offset by lower retail margins.

Finally, Corporate and Other was down $0.16 per share, driven by lower investment gains, unfavorable interest and increased O&M. The lower investment gains again are largely related to charge point gains that we had in 2021 that have reversed this year.

Turning to slide 13. I'm going to provide an update on our normalized load and performance for the quarter. In a general sense the AEP service territory has made significant momentum despite the well publicized headwinds in practicing the macroeconomy. Starting in the upper left corner, normalized residential sales increased by 1.2% in the second quarter and were up 1% year-to-date compared to 2021.

This growth was comprised of growth in both customer count and weather normalized usage for both comparisons. While the results were mixed by operating company, the strongest residential growth was in the AEP Texas service territory, which consistently has the strongest customer growth across the AEP System due to favorable demographics.

Moving to the right, weather normalized commercial sales were up 4.1% compared to last year for both the quarter and year-to-date comparison. This consistent growth in 2022 is spread throughout the service territory. The growth in the commercial sales segment was spread across every operating company and nine of our 10 commercial sectors. The only top commercial sector that is down versus last year's hospitals, which makes sense given that hospitalizations have dropped since early in the pandemic. On the flip side, the fastest growing commercial sector is data centers were load up 32% compared to last year.

Finally, focusing on the lower left corner, you see that industrial sales posted another strong quarter of 5% for the quarter and up 5.3% year-to-date compared to last year. Industrial sales were up at every operating company in most of our largest sectors, we experienced double-digit growth in a number of key industries this quarter, including chemicals, manufacturing and oil and gas extraction. We also saw robust growth in primary metals manufacturing, paper manufacturing, petroleum products and coal mining.

To summarize, we'd experienced broad-based growth throughout the service territory. On top of a recovery year every operating company has increased its sales in 2022 compared to last year. Growth is also consistent across every major retail class and most of the top commercial and industrial sectors served by AEP.

We know the headlines are on full of messages about a pending recession, but our sales statistics through the first half of the year show our service territory is still firmly in the expansion phase of the business cycle. We're mindful of the difficult monetary policy decisions being contemplated by the Federal Reserve to address inflationary pressures in the economy and recognize some of these decisions could impact our customers' growth opportunities going forward. But so far we're seeing little evidence that has dampened the economic activity within our footprint through the first two quarters of this year.

Moving to Slide 14. I want to provide additional context to the load we've experienced so far in 2022 and how it compares to our pre-pandemic sales levels. Starting with the chart on the left, the bar show how the second-quarter sales compared to the pre-pandemic baseline in the second quarter 2019, you'll notice that the total retail sales are 3.6% above pre-pandemic levels.

Furthermore, every class is showing higher sales than before the pandemic began. This means that every class has fully recovered and is in the expansion phase of the business cycle. The chart on the right shows the same comparisons for the year-to-date period. You'll notice that while the numbers are slightly different, the message is the same. Through June, AEP's normalized sales are two percent above the pre-pandemic levels and just like the quarter, every class has exceeded pre-pandemic levels on a year-to-date basis.

Last year's strong growth numbers were expected considering it was a recovery year from the pandemic shutdowns. This year's growth is perhaps even more impressive considering the growth as compared to a strong recovery year. We'll continue to monitor the economy and its impact on our load over the summer months and will provide the results of our updated load forecast this fall.

So let's move on to slide 15 to discuss the company's capitalization and liquidity position. On a GAAP basis, our debt to capital ratio decreased 0.1% from the prior quarter to 61.4%.

Taking a look at the upper right quadrant on this page, you'll see that our FFO to debt metric stands at 13.4% on a Moody's basis and 13.3% on a GAAP basis, which is a decrease of 0.3% and

0.4% respectively from the prior quarter. The slight decrease can be attributed to an increase in deferred fuel balances as well as a slight increase in balance sheet debt.

As we stated on our last earnings call, we anticipate trending toward our targeted FFO to debt range of 14% to 15% as the year progresses. You can see our liquidity summary on the lower right of the slide. Our five year $4 billion bank revolver and our two-year, $1 billion revolving credit facility, support our liquidity position, which remained strong at $4.7 billion.

On qualified pension front while our funding status decreased to 0.8% during the quarter, it remains comfortably strong at a 105.6%. Negative returns on risk seeking and fixed-income assets during the quarter were the primary drivers of the funded status decrease, however rising interest rates caused plan liabilities to decrease, which provided a favorable offset to the negative asset returns.

So let's go to slide 16 for a quick recap of today's message. The second quarter has provided the solid foundation for the rest of 2022 and we are reaffirming our operating earnings guidance range of $4.87 to $5.07. We continue to be committed to our long-term growth rate of six percent to seven percent

We continue to work through the Kentucky Power sale to Liberty and are on track for a closing later this summer and we'll be launching the auction process for our unregulated contracted renewables business, no later than early September.

So before I hand this over to the operator, I'd like to mention one thing, we had previously announced that we would be having an Investor Conference this year and we've set a date for that. As Nick mentioned, we'll be hosting our Investor Conference in New York City on October 4. So we really do appreciate your time and attention today.

With that I'm going to ask the operator to open the call, so we can hear what's on your mind and take any questions that you have.

Questions And Answers

Operator

(Operator Instructions) We will first go to the line of Jeremy Tonet with JPMorgan. Go ahead.

A - Nick Akins {BIO 15090780 <GO>}

Good morning, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just wanted to start off at load growth trends. If I could just on, just want to confirm here. The full year load growth estimates have not been updated for year-to-date actuals or is there any reason to expect a fall-off in the back half of the year?

A - Julie Sloat {BIO 6462741 <GO>}

That is correct. We have not updated anything yet. We are cautiously optimistic, will give you an updated view as we get closer to our Analyst Day at our Analyst Day on October 4 so standby for that. As far as what you can expect for the second half if I look at, for example, the residential load obviously talk of recession and how inflation is outpacing wage growth could potentially have residential customers shift in their behavior, a little bit, we'll see.

So we're, again we're cautiously optimistic there. But we do expect that there could be a little bit tempered on this particular customer segment by inflation, energy cost, mortgage rates, the lack of no new stimulus, those things that everybody knows about. So no surprise there, but just general trend. So we're going to continue to keep a close eye on that particular segment.

On the commercial segment, I mentioned earlier that we had great performance in nine of the top sectors, of our 10 top sectors with hospitals being the only one that was down. Again we're keeping an eye on things like inflation, labor shortages, supply chain and borrowing costs. But again, at this point, we don't have a reason to shift away and things continued to click along there and similar on the industrial side, we see a lot of large customer expansions that are expected to come online throughout the rest of the year, which should support the momentum, but again we're cautiously optimistic because we know that the Federal Reserve has a big job in front of it. In-house and tap the brakes.

So, we'll see how that ultimately impacts all of these, but so far, we're in a really good place, a really good place so hang tight and we'll be able to give you a little more granular view in terms of our expectations when we come to you this fall.

A - Nick Akins {BIO 15090780 <GO>}

We told you I guess as probably a quarter or two ago about reinforcing our service territory, particularly as it relates to energy, as it relates to onshoring and our certainly our territory has been very strong in terms of both of those categories and manufacturing as well and that's clearly become a benefit for us.

So and really when you think about what's going on the world today associated with security aspects that's really going to drive more toward the ability for onshoring to occur and...and certainly for energy security. So, it bodes well for our territory.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's great to hear there and just want to pick up with, I guess we'll hear more details at the Analyst Day on these points with load growth but also wanted to see what else we might expect to hear at the Analyst Day, I suspect, both the sales processes, we'll get some more color there.

But is there anything else we should be looking for at the Analyst Day?

A - Nick Akins {BIO 15090780 <GO>}

Yeah, there is actually you have the sales process obviously everyone know about Kentucky, but also the unregulated contracted renewables there'll be new data points on that as well. And then of course '22 Earnings Guidance Update, 2023 guidance range will be introduced and also will probably roll forward, the five-year capital and financing plans through 2027.

And then there could be other things too. So, we'll hold that till October 4.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. We'll wait for that. And just the last one if I could. Any thoughts on the renewable sale? Whether it makes more sense to do as an entire package or in pieces? I realize it's very early stages here, but just wondering if you had any thoughts to share on that.

A - Nick Akins {BIO 15090780 <GO>}

Yeah. The team is looking at that and certainly I think the base case would be to sell all at one time but if there are opportunities exist to stage that out with the capital needs, that would be great. So we're still going through that process and we will go through, as we talked earlier, will be going out to the market here in the September time frame.

So we'll know a lot more at that point in time. So more to come in October.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Great, thank you for that.

A - Nick Akins {BIO 15090780 <GO>}

Yeah.

Operator

We'll go next to the line of Julien Dumoulin-Smith, go ahead.

A - Nick Akins {BIO 15090780 <GO>}

Good morning, Julien.

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

Hey, Nick good morning to you for the opportunity. Appreciate it. So maybe just a follow-update in brief on this operating arrangement and the two states here. I mean, just what do you need to see from Liberty to be able to move forward here at this point in time. I just want to make sure I understand exactly, is this just about them as we are seeing to sort of the updated position from the two states or do you really need to resolve say a specific transfer value etcetera here?

A - Nick Akins {BIO 15090780 <GO>}

Yeah, Julien. Certainly Liberty has been great partners through this entire process and...and we certainly want to be fair to them because they were obviously looking for certain things out of the transaction we were looking for certain things and I think it's going to be just a matter of going through the process and defining risk going forward.

So it's not...obviously it's not gotten saying it's going to be the existing agreements and tough luck, we'll move on. It's really an issue where there is an opportunity for us to get together with them and define that future because we're going to be partners in that...in Mitchell going forward.

So we [ph]must all get comfortable with that relationship, 100%.

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

Yeah, I noticed in the comment...in the various comments you made in the prepared remarks on inflation, can you elaborate a little bit more into as to how that ties into both near and longer term. Again, I get that you guys are providing an update in a couple of months here, but just elaborate a bit on the pressure points that you are seeing of late. Just if you can define that and how that cascading through, maybe speak a little bit to the cadence of labor arrangements, for instance, et cetera.

A - Nick Akins {BIO 15090780 <GO>}

Yeah. I missed the first part.

A - Julie Sloat {BIO 6462741 <GO>}

Yeah. So, Julien. I'll let Nick talk a little bit about supply and labor. But we're also watching is in addition to our own costs and working with our individual parties around making sure we have material supplies, equipment and folks to actually do the work. We're also paying attention to what's going on with our customers.

Because as we talked earlier today load is a big piece of our driver for earnings year-to-date in this quarter so far and we hope to see that continue. But as we know, as the Fed needs to take some action and tap on the brakes, that could have some dampening effects as it relates to actually all three of our individual customer segments.

Now as I mentioned earlier, industrial segment looks reasonably healthy based on the customer expansions that we see in the pipeline, et cetera, but I don't think everyone can entirely escape the consequences. So even from a commercial standpoint, if you look at the real estate segment, in particular interest rates have a direct impact on that piece of that sector in that business.

And then of course on the residential side that choose into the wallet because if you know years it's sitting in a situation where your wage isn't growing as quickly as your costs are, you may tend to want to tap the brakes there, not to mention mortgage costs go up as well. So keeping an eye on it from a customer perspective, managing through it as it relates to our particular P&L but I know, Nick, if you wanted to say anything about supply chain and labor....

A - Nick Akins {BIO 15090780 <GO>}

Yeah, Julien sorry, I missed the first part of your question. So Julie filled them for me. Supply chain has certainly been an area of focus for the company, and they've done a great job. the supply chain organizations on a great job of getting out ahead of that understanding the delays that are occurring relative to delivery of transformers and those kinds of things.

And then also size of inventories and other things come in the question, but in our case, you know, we're a large electric utility with a lot of requirements, largest transmission system in the country, distribution, obviously widespread. So we have some of what we have abilities to really focus on the supply chain aspects in a positive way by expanding suppliers and certainly exerting the leverage we have associated with the large buying that we do.

So, we're in good shape from that perspective. Now that being said, you know the entire industry and AEP are watching storm activity and those types of things and what implications that could have on the inventory levels and supply chain. So, we're watching that very closely, but we have time for the economy to really pick up and catch up from that perspective.

Labor is an issue for everyone and certainly, we continue to focus on that particularly in our front-line employees to ensure that we're meeting the customers' requirements going forward. We're very tuned in to wage rates and those types of things that are changing dramatically and certainly from a resource perspective, we also have those relationships with not only attracting our own employees, but also, contractors and so forth that they were able to pull from for various reasons. So, all in all we're hanging in there and the capital plan still remains secure in terms of the ability to move these projects forward and we believe that AEP is in a great position to continue that process.

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

A super quick clarification on SPP, they're tweaked to the reserve margin. Does that impact your procurement efforts at all. I know you guys you'll see things in play. Just to clarify.

A - Nick Akins {BIO 15090780 <GO>}

No, it doesn't. We're going through. We're going through regular as you've seen, regular integrated resource planning processes with all of the Southwest Power Pool states and those processes will continue. I guess the good thing is that the things that we're putting in, obviously we already talked about transmission distribution in terms of supply chain activities. But in terms of resources, we're already putting integrated resource plans in for renewables and the timing of those renewables are such that we have time for the supply chain to catch up relative to solar and wind component. So, we're in good shape from that perspective.

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

Great, thank you guys.

Operator

We'll go next to the line of Shar Pourreza with Guggenheim Partners. Go ahead.

Q - Shar Pourreza

Good morning, guys. How are you doing?

A - Nick Akins {BIO 15090780 <GO>}

Fine, how are you?

Q - Shar Pourreza

Good. Nick, just on the contracted renewable sales, we're kind of thinking about the process for the sale. There's obviously some conflicting data points out there. Right rates have ticked up materially, there seems to be a few peers in the market selling as well. But on the other hand just given supply chain issues steel in the ground is certainly more valuable.

I guess, can you elaborate a bit more on the process when do you plan on opening up the data rooms? And it's a tight timeframe with the Analyst Day. So what data points can we get between September when you kicked the process off in the Analyst Day which is only a few weeks of process. Right? So, I guess what's giving you a sense?

A - Nick Akins {BIO 15090780 <GO>}

Yeah. So these are well known resources and they're already there and open up a data room, can be done pretty quickly and also review will be done quickly. I would say that the interest has been very robust, and will continue to be robust because and you said it, they have steel in the ground, but also the ability to continue all of these projects in a very positive sense.

We took out Flat Ridge two so that makes the portfolio even better and certainly from that perspective, we expect the process to move very quickly and when we bought the resources, some of these resources from Sempra, we visited sites and the data room was open and we moved very quickly and for these types of assets, even though there may be others that are selling the assets, there is a robust focus by the market on a certainly attracting these types of assets. So we feel very confident we can move forward quickly and have certainly more information this year by the time we get to the Analyst Day.

A - Julie Sloat {BIO 6462741 <GO>}

Shar, this is Julie. As an anecdote when we initially made this announcement, I can tell you that even now I'm receiving calls, Nick was receiving calls, Chuck Zebula and his team is running the process, was receiving calls, a lot of inbound calls coming in. And as far as what you can anticipate, I get it. It's a shorter timeline, assuming we launch at the very latest in early September.

We should be able to come back to you by October 4 with color on how that process is going, and you're right, I mean there are other folks in the market as well. That's why I think we need to get out there as soon as we can and get business taking care of. So that is absolutely the objective and stay tuned, we'll have more color to share with you.

Q - Shar Pourreza

Do you think you could actually announce a deal on the fourth with the redeployment of the proceeds or (inaudible) type.

A - Nick Akins {BIO 15090780 <GO>}

No. Yeah, that'll be (inaudible) for that obviously, and they've been, they'll depend on what we get back to you in terms of one-time versus staged in, all those types of things that have to be considered and certainly we'll have more information. But, we won't have finalization of the deal. That'll be probably by the end of the year.

Q - Shar Pourreza

Got it, thanks. And just one last one on, I mean obviously you're load growth in the backdrop in general has continued to show the ongoing strength, do you highlight the fact that its pre-pandemic levels. I guess how are you sort of thinking about '22 in general and where you're within sort of that EPS range, especially given that we're kind of into the key months of the summer with Q3.

I would think there is, obviously this is a very strong tailwind for you, especially as we're thinking about '22 even though you guys are kind of hedging yourselves a little bit on some of the uncertainties out there.

A - Nick Akins {BIO 15090780 <GO>}

It's always good to be ahead a little bit anytime of the year you go in the latter part of the year because summer is always good and then you get in the fourth quarter with you don't know where storm activity is going to go and that kind of thing, but we feel really good about the position that we have right now.

And certainly, if you look at the fundamentals of what's going on, I mean you take charge point out of it, there is a very positive quarter and certainly one in which we continue to grow and see it. I mean your load guys pretty optimistic. So and if you know our load guy, you know, he is...it takes a long way for him to get there.

But we feel really good about the position that we have and I think as we see more towards the end of the year, then we'll have more to say when it comes to by the time Analyst Day comes around.

Q - Shar Pourreza

Okay, terrific. Thank you, guys. Appreciate the color.

A - Nick Akins {BIO 15090780 <GO>}

Yeah.

Operator

We'll go next to Steve Fleishman with Wolfe Research. Go ahead. please.

A - Nick Akins {BIO 15090780 <GO>}

Good morning Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey, good morning. Thanks, Nick. So just a question. I think Julie mentioned the...on the Kentucky sale, the write-off you took, $0.15 is that, should we read that as effectively reflecting your expectation of what kind of price change needs to be renegotiated. For this Mitchell issue. so kind of reflecting that or that's.

A - Nick Akins {BIO 15090780 <GO>}

No it was really focused on when Liberty and AEP got together to focus on the Kentucky transaction order itself and they were requirements associated with that. So and we certainly we're focused on making sure that we completed that order and this requirements. So that's what that is.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. So I guess maybe then just on the difference between Kentucky and West Virginia and how Mitchell's created. Could you just give a little more color on those differences and so we can get you kind of what you think about the value difference between the two?

A - Nick Akins {BIO 15090780 <GO>}

Yeah, so, and I think it's pretty obvious that Kentucky head of view of valuation in 2028 and West Virginia has this view evaluation in 2028 and the two are in very different positions and has probably not something you're going to resolve today. So, really it becomes an issue of, okay, how do we get together and think about our continued Operating Partnership, which could be done through the Operating Committee of the existing operating agreements.

And then certainly focused on a later date to consider the risk issues associated with that. So, and I think that for us. I think it's sort of a realization that there will be no doubt that Kentucky Power will continue to be a partner in Mitchell. And then when the time comes before 2028, they will have to be some reconciliation between what Kentucky wants and what the West Virginia Commission want.

And then we just want to make sure those risk parameters are taken care of on the front end.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. But I guess what matters in terms of closing is really the arrangement between you and I guess Liberty in terms of...

A - Nick Akins {BIO 15090780 <GO>}

Yes, right.

Q - Steve Fleishman {BIO 1512318 <GO>}

Closing...that there would be some kind of just ability to negotiate a some kind of certainty on that.

A - Nick Akins {BIO 15090780 <GO>}

Because we have now we have a outside party involved with third-party from AEP's perspective with Mitchell going forward. So that sort of drives a different view and when everything was already owned by AEP company. So you have to go through that process and determine, okay. What's the right approach for Liberty to have that ownership and for AEP to have ownership and at arm's length?

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. But it sounds like you're confident this will be resolved with the buyer.

A - Nick Akins {BIO 15090780 <GO>}

Oh yeah, Property, yeah.

Q - Steve Fleishman {BIO 1512318 <GO>}

Relatively soon.

A - Nick Akins {BIO 15090780 <GO>}

Certainly, our people have been in constant contact on this issue. They're working very well together. I talked to [ph]Arun as late as yesterday. So, it's really both of us are very optimistic about this transaction.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. that's good.Yeah I'm sure he will when it is his chance for to do a call.

A - Nick Akins {BIO 15090780 <GO>}

Yeah.

Q - Steve Fleishman {BIO 1512318 <GO>}

And then just on the on transmission, just anything that you kind of expect from FERC in the second half of the year to better identify both kind of their interest in getting a lot more transmission built, but at the same time still a little bit of kind of pressure on the ROEs. And just what are you watching there?

A - Nick Akins {BIO 15090780 <GO>}

Yeah, you know obviously reliability and resiliency is of central focus not only to FERC, but to the [ph]Congress as well and I really believe they'll continue the process of all the areas of focus right now with the [ph]nopers, they got several nopers out actually and they just put initiated one around Weatherization and making sure that we're as resilient as possible and certainly from transmission planning, which was already done that noper along with they started the state process in terms of discussions relative to cost allocation those types of issues. So they're moving along and when they issue that original noper under transmission they made it clear that it wasn't going to be sequential.

It's a multi tasking opportunity for us to look at all these provisions and then of course the cues associated with the new resources and RTO, those are all being focused on and I think FERC is doing a very credible job of marching through this and making sure that we are able to invest in transmission in a way that secures this country in so many ways.

So, I think that process will continue. Who knows what goes on with the ROEs in the 50 basis point adder and that kind of thing that, I mean that could take years to resolve. But nevertheless, will continue moving forward with our investments and we'll continue to look forward to the rules, processes and procedures to be put in place where we as significant stakeholders in this process are allowed to make the investments that we need to make in a timely basis.

There is no question that as we look at all the resources that are needed, the changes in the transmission system, cyber type issues that I'm sure that there'll be interested in as well and a regional activities associated with planning ensuring that we're able to invest the way that we shared on a timely basis with as little risk as possible.

And that's really important because there are so many changes occurring and for now you're seeing, you really are seeing applications relative to resiliency and reliability and I think everyone needs to sort of take a pause and ensure that we're looking at that with our eyes wide open.

And that we're doing the right things at the right time and that process continues, I think FERC is doing a great job.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great, thank you very much.

A - Nick Akins {BIO 15090780 <GO>}

Yeah. By the way most of those nopers are pretty consistent with AEP's positions. So we feel really good about our role in enabling the policy to move forward.

Operator

We'll go next to the line of Durgesh Chopra with Evercore. Go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Yeah, good morning. Team.

A - Nick Akins {BIO 15090780 <GO>}

Yeah.

Q - Durgesh Chopra {BIO 20053859 <GO>}

A quick clarification on the Kentucky sale process is my first question. Just, just to be clear the your discussions with Liberty on the Michelle operating agreement and then sort of the FERC approval, the two sort of independent processes. Right? So you don't have to go back to FERC with asking for a revised approval or something like that once you sort of settle with Liberty on as it relates to Michelle.

A - Nick Akins {BIO 15090780 <GO>}

Yeah, certainly we believe with the original agreements and the ability to operate under the Operating Committee under that agreement, we can really focus on the status quo and ensuring that we're able to move forward as it with a partner that's a third party. So the provisions of the agreement already provide for the ability to make those kinds of adjustments.

So, as our belief that we do not need to go back to FERC for additional approvals.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it, okay. And then just maybe wanted to get your sort of thoughts on valuation for your renewable assets. Maybe just how have they evolved since the first quarter call. It has been a volatile day, interest rates have been up so, just any color you can share with us there as you sort of kickstart this process in September.

A - Nick Akins {BIO 15090780 <GO>}

Well, we obviously we know that the headwinds of inflation and those types of things are areas of a conflict with an increased valuation but at the same time, you've got a lot of robust interest in these assets and the fact that they continue to produce energy in a market that provides additional benefits for whoever winds up owning these assets.

So, it's hard to tell what the valuations are going to look like right now but I don't, I mean certainly we're not concerned about all the macro issues that are involved, because these assets down pretty well over the sales and you have the positives, the negatives, But now that now and that's why we obviously took the adjustment on the Flat Ridge II because we really wanted that out of the portfolio.

So, that you wouldn't be [ph]argued with bidders about what that valuation was and what the risk were of that particular project. The rest of them are excellent projects that should bode well in the marketplace. So, like, I can't tell you, any thoughts on what we see valuation to be, I think the market will tell us.

A - Julie Sloat {BIO 6462741 <GO>}

Just to provide is a little more color, if you're trying to model aside from given your market price points, we didn't include in the presentation today on Slide number 44 the breakdown of all of the projects that are included in the portfolio. You'll see that we've essentially removed Flat Ridge two as we talked about today as it relates to asset value in that type of thing that's on our balance sheet.

If you look at our balance sheet today our asset value associated with the portfolio as it stands is about $2.1 billion. The equity position is about $1.4 billion. We do have some project debt and tax equity that total about $272 million, can plug that into your model as well and then we do get the question around how much did this contribute to earnings. So for 2022 for the Generation and Marketing segment, which is $0.31 total for our guidance and that's kind of that mid-point about $0.13 to $0.17 relate specifically to this portfolio. So you can kind of begin to back into whatever valuation you want to assign to it, there is a very low tax basis associated with it.

But we do have some capacity to absorb a tax gain because we've got some credit sitting on the bench, that we can use to offset that. So don't view that as problematic or a seriously gating item for us because it's not. We will be able to hurdle over that.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Excellent thank you both. Appreciate the color.

A - Unidentified Speaker

Sure that (Multiple speakers).

Operator

We'll go next to the line of Nick Campanella with Credit Suisse. Go ahead.

Q - Nick Campanella {BIO 20250003 <GO>}

Alright Nick. Hey, Good morning. Thanks for taking the questions. Just really quick follow-up on the Kentucky sale reduction. I just...I noticed you have 1400 of proceeds in the funding slide still. So just can you just reaffirm of everything going on in the past quarter that cash proceeds when you close or to be unchanged.

A - Julie Sloat {BIO 6462741 <GO>}

We're good, you're good, now no worries there. So no change in that modeling are those assumptions for good.

Q - Nick Campanella {BIO 20250003 <GO>}

Okay, great. And then I guess just question on strategy and through the Analyst Day. It had some and simplifying the business profile (Technical difficulty) sale the underwrite sales are on the horizon. Obviously as we kind of think about funding this long-term CapEx plan, are you interested in pursuing further, (Technical difficulty) sales, unregulated sales, are we kind of in the later innings of this portfolio rotation strategy?

A - Nick Akins {BIO 15090780 <GO>}

Yeah, I'll say, you know, obviously we have a lot of capital defined and we have a great plan to do it. I would probably look at the ownership levels of the new renewables projects and that's going to provide the additional opportunity for us, resiliency and reliability certainly distributed energy resources.

All these types of things in our plans are really providing us the opportunity to fine tune our portfolio to match what the growth expectations we have around those areas. So, no, we're not done, we will continue to evaluate opportunities to add value, from a shareholder perspective, but also to ensure that our customers are seeing the capital deployment that provides a better experience.

And that's something that we're very focused on. So, this is going...you're only seeing really the beginning of the part of our business that is going to endure going forward as we transition this company and that process will certainly continue. That's why I sort of said, it's a, let's say, but continue to execution around and I use taking care of business.

But adding in a dash of let's go crazy and that sort of says, we're going to be thinking on the edge about what can be done to make sure that we fund these real opportunities we have ahead of us.

Q - Nick Campanella {BIO 20250003 <GO>}

All right, thank you very much. We'll see in October. Thanks, Nick.

Operator

And our next question we'll go to the line of Stephen Byrd with Morgan Stanley.

A - Nick Akins {BIO 15090780 <GO>}

Morning, Stephen.

Q - Unidentified Participant

Hi, it's [ph]Steve Ricardo on for Stephen, thanks so much for taking.

A - Nick Akins {BIO 15090780 <GO>}

Okay.

Q - Unidentified Participant

I'm wondering...hey how you doing? I'm wondering if you could give your latest expectations around federal climate policy here. Do you expect renewable tax credits to be in an extenders bill potentially towards the end of the year and just generally anything you would expect in terms of federal climate legislation this year.

A - Nick Akins {BIO 15090780 <GO>}

Yeah, I think it certainly is going to be a challenge, and I think I've said that last quarter, it is going to be a challenge. And the way it appears to be coming together is that there were some discussions going on, there may still be discussions going on, but right now, they're so focused on the healthcare pharmaceutical activities that may be bifurcated.

And then certainly the chips act now we're obviously for the chips Act because the NTL is located within our territory with that two fabs up to eight fabs and that's a huge positive. So you have things like that that are going on now, not only that, but obviously the mid terms are providing some overhang to getting even a smaller package done.

Although there has been discussions of working on that and trying to get something done by September 30, but even that is going to be really a hard thing to do. So again, I would say, post-election year probably dealing with either some form of a smaller package or extenders which that's a typical thing that happens when toward the end of the year when ITC's PTC's start to roll off again, you'll see extenders or the IRS in terms of supply chain activities being able to extend it for some period of time.

So, you probably see some mandate solutions until you see a solid solution going forward. So I just think the environment is certainly very volatile right now and it will take time to work itself out and maybe even post-election, again you maybe have some sense of calmness to be able to focus in on some of these things that are important because our industry and by the way, our 16,000 Megawatts does not include any extension of ITC's PTC's but we are definitely for those extensions and expansions to a nuclear and as well to the storage, those are clear opportunities for us to redefine the resource plans going forward.

Direct pay is also very important to us. But we that...would may at least at this point to sell maybe later on we can convince everybody that truly is a benefit to our customers. So, anything we get from that perspective will ultimately be a benefit to our customers from an economic standpoint and that will be good for not only our movement to a clean energy economy but the options that we have available to us, namely storage nuclear hydrogen hubs, those kinds of things need to continue to be looked at to make sure we're resilient and reliable going forward. So that's where we stand right now, I think.

Q - Unidentified Participant

Got it, thanks. That's helpful color. Maybe just one just small follow-up. I was just wondering if Flat Ridge, if the issues that you found there is that just a exclusive to that project, it didn't have any other or none of the other assets in the portfolio had similar issues is.

A - Nick Akins {BIO 15090780 <GO>}

That's driving on it.

Q - Unidentified Participant

Flat Ridge and that was the only one you plan to extract.

A - Nick Akins {BIO 15090780 <GO>}

That's right. That's why we separated that one. Yup, the others are good.

Q - Unidentified Participant

Understood. Okay, great, thanks so much.

A - Nick Akins {BIO 15090780 <GO>}

Okay.

Operator

And we will go next to the line of Andrew Vlasov with Scotiabank. Go ahead please,

A - Nick Akins {BIO 15090780 <GO>}

Good morning Andrew.

Q - Andrew Vlasov

Thanks. Good morning, everyone. Just one for me, about coal. So, between reliability concerns and the Supreme Court ruling that you mentioned, do you see any potential some coal plants online beyond their current schedule dates beyond Michelle, which is a bit of a unique situation. But would you consider extending them and if so, would they be potential backup as (Technical difficulty) or keep some of either intermediate or baseload resources.

A - Nick Akins {BIO 15090780 <GO>}

Well, I think that's exactly why certainly, we said a rational and reasonable approach to move the board from a resource perspective, we have to be able to maintain reliability, resiliency and economics for the grid and to our customers and certainly for our units. We continue to progress along the path that we've already placed in line and actually you have to do that to be able to define the future, and we're very, very focused on the just transitional aspects of our communities as we make any transition.

So, you touched on a point is particularly important for resiliency and reliability reasons, the capacity provided by these units is extremely important and whether the capacity factors move down as you bring in and layer in more renewable energy and clean energy, that's fine as long as you have the resource adequacy to be able to meet the demands and then eventually we have to find a path that ensures the communities continue to thrive from a tax standpoint, fire protection, police protection, school boards, all that kind of stuff. We have to be able to look at that, we can just shut down these communities and then decides something else, so in areas like West Virginia with the coal-fired generation, we have to define what that path is it.

May be small modular reactors, if we can define what that risk is and...and limited from a shareholder perspective, certainly DOE is very interested in that and it just so happens the jobs of small modular reactor is the same as a coal plant and paying the same taxes and those types of things that's an opportunity to take a look at, or there is hydrogen hubs or storage or other activities. So we got to be able to rationalize that but but coal has provided an important benefit, the coal generation, particularly during these summer months and obviously during the winter months as well and we've got to be mindful of how that process continues, so that's why we have to say, it has to be rational reasonable and with the time frame that makes sense.

Q - Andrew Vlasov

Thanks. It's very helpful.

Operator

We'll go next, the line of Michael Lapides with Goldman Sachs. Go ahead.

Q - Michael Lapides {BIO 6317499 <GO>}

Hi Nick, I know you're excited about the Analyst Day and you're probably equally as excited as having Brian Kelley down in Baton Rouge, I'm looking at the earned ROE versus authorized exhibit. Just have a couple of questions about a few of the subs, how are you thinking about what structural changes in rate making your team is going to seek in the next couple of years in a few of the jurisdictions that are earning a good bit below that, you are thinking PSO where honestly you've bought under earning for a number of years, but also thinking a little bit on APCo a little bit on SWEPCO.

A - Nick Akins {BIO 15090780 <GO>}

Yeah, so obviously there's been substantial opportunities there and those regions of the country because actually we put in renewables, the renewables is helping from an ROE perspective and obviously from as it reduces rates to customers from a fuel standpoint and overall in the savings provided gives us an opportunity to deploy capital investment in those areas. Sometimes, obviously we'll spend capital to make sure that we're doing those things to ensure resiliency, reliability and all those activities, but particularly from an ROE perspective, rate making standpoint, equity layer has certainly been a big push of ours and certainly from a concurrent recovery standpoint with formula based rates.

We have forward looking rates in Indiana, Michigan, we like to see that in other jurisdictions, particularly with...with the massive amounts of capital that we're deploying and then typically the renewables are tracked as part of the investment until we get it in rate base and that's worked out great for us and I think, you're also seeing opportunities for us to really get out ahead with the commissions on what we're trying to achieve in terms of not only benefits to our customers, but also the ability for our customers to use our product.

I look at on the customer side with distributed energy resources with the analytics and all the equipment that could be put in place to enable customers to make wise judgments, will be highly beneficial not just for the operations of the grid, but also to mitigate their own fuel cost and bills during periods of time and you obviate the need for the securitization or other things that we have to do in huge storm-related environments. So, I think there is a lot of good things going on and then the trackers, I think it's 85% of our recovery is tracker base.

So, we like to improve on that as well. I think there has to be a recognition that cash coming into the utility is particularly important and we always talk about FFO to debt and the utilities with all the massive investments that are necessary, we need to be able to see the cash coming in the door, so that we can continue to make those kinds of investments. So, that's going to be a key message for our regulators going forward as well, but we're doing good things and as long as we're doing good things and spending on the right things, we believe we're a lot aligned with our commissions and our customers on the right path forward, and we feel very good about the path that we're on.

A - Julie Sloat {BIO 6462741 <GO>}

Little more help there too on PSO in particular, we've got securitization that we'll be completing here next month, so in August for the (inaudible) costs, so that should help to alleviate some of this pressure as well, and we'll be filing another base case, so stay tuned for that as well and as Nick mentioned, just some refinement around utilization of different rate adjustment clauses, et cetera, not only in West Virginia, but then also as we take a look at SWEPCO we still have the outstanding Turk component that's not included in rates. So we've got different ways to get after it and you'll see us talk more about that as we come out here on October 4, so stay tuned.

Q - Michael Lapides {BIO 6317499 <GO>}

That's great. And one quickie final up just Cardinal on the G&M segment had a big benefit during the quarter, just given where power prices were versus your delivered cost of coal, can you remind us how you're thinking about the future for Cardinal going forward?

A - Nick Akins {BIO 15090780 <GO>}

Yeah, Cardinal, so we plan on completing a transaction with Buckeye related to that particular plant so they would take ownership of the plant and we would take a BPA back for a certain period and that means we will not have any generation to speak of left in Ohio on the regulated side. So and that's, it's a long way from...from where we were in Ohio but I think it's also there is a message for Ohio in terms of, in terms of generation that needs to be place in this state. So that's probably another issue I can get into but...but I'll stop there, but I think, well, that's all in the plans already.

Yeah, Michael so that PPA with Cardinal goes, I think through 2028 give you point out that as well.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you, guys. Thanks, Nick. Thanks Julie. Much appreciated.

Operator

We'll go to the line of Sophie Karp with KeyBanc. Go ahead.

A - Nick Akins {BIO 15090780 <GO>}

Morning, Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

Hey, good morning and thank you for squeezing me in, lots has been discussed already, but if I may just ask a couple of questions. Western transmission. So you made a point of saying that transmission Transco remains at one of your I guess key growth engines. So I don't want to misquote, but and also at the same time you talking about not been done with the rest of curious of something. It's a non-core business, can you maybe help us frame how you think about transmission is it, are you making these comments because you getting questions about potential transmission sale and how are you thinking about that or should we not read too much of it?

A - Nick Akins {BIO 15090780 <GO>}

No. Don't read too much into it because transmission is a key component for our not only for our investment in the company, but also in terms of what we see, relative to the transition of the future transmission is a key component for resiliency, reliability and optimization as we move to a clean energy environment.

So no, we're from a transmission standpoint, we feel very good about our role relative to transmission and actually I see distribution, continuing to grow and and certainly the renewables transformation itself, so no, don't read anything into that.

Q - Sophie Karp {BIO 19699392 <GO>}

All right, thank you for clarifying that. And then my second question was a little bit of a housekeeping question, I guess on the looking at the regulated renewables opportunity exhibit that the slide 40 and it seems like for APCo to win the opportunity has been reduced a little bit and solar increased a little bit in the 2022 sort of time frame.

And I am just going to be wondering if that's just some project to the alignment or should we be how should we be thinking about it?

A - Nick Akins {BIO 15090780 <GO>}

Yeah, so, and the April integrated resource plan certainly showed what was needed from an APCo perspective so and I think there is probably more to come on that, but it's actually pretty immaterial at this point.

Q - Sophie Karp {BIO 19699392 <GO>}

All right. Thank you Nick.

Operator

And speakers. We have no further lines in queue at this time.

A - Darcy Reese {BIO 20391516 <GO>}

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

Operator

Yes, I will. Ladies and gentlemen, this conference will be made available for replay beginning today, this is the July 27 and that starts at 5:30 PM. You can access the AT&T replay service by dialing toll free 866-207-1041, international participants may dial area code 402-970-0847. The access code is 9751677.

That replay will be available until August 4, 2022 at midnight. Those numbers again are toll free 1-866-207-1041 internationally, area code 402-970-0847. The access code is 9751677. That will conclude your conference call for today. Thank you for your participation and for using AT&T Event Teleconferencing. You may now disconnect.