Company Name: American Electric
Company Ticker: AEP US
Date: 2015-07-23
Event Description: Q2 2015 Earnings Call

Market Cap: 26,779.65
Current PX: 54.59
YTD Change($): -6.13
YTD Change(%): -10.096

Bloomberg Estimates - EPS
Current Quarter: 0.952
Current Year: 3.551
Bloomberg Estimates - Sales
Current Quarter: 4365.000
Current Year: 17200.600

Q2 2015 Earnings Call

Company Participants

- Nicholas K. Akins
- Brian X. Tierney

Other Participants

- Daniel L. Eggers
- Stephen Calder Byrd
- Steven Isaac Fleishman
- Paul T. Ridzon
- Gregg Gillander Orrill
- Jonathan Philip Arnold
- Brian J. Chin
- Anthony C. Crowdell
- Ali Agha
- Julien Dumoulin-Smith
- Paul Patterson
- Raymond Leung

MANAGEMENT DISCUSSION SECTION

Nicholas K. Akins

Q2 Highlights

Performance

- AEP once again had a strong quarter performance
- At the risk of being redundant, there are several reasons for this positive performance:
  - The strength of geographic and state jurisdictional diversity
  - The passion and culture of AEP employees to continue our journey of efficiency gains through Lean optimization activities
  - Positive regulatory outcomes through our focus on operating company performance
  - Continued expansion of our transmission business, increases in all three customer segments, Residential, Commercial and Industrial
  - And continued positive performance by the unregulated business despite lower than forecasted power prices

Operating Earnings

- These result continue to illustrate the disciplined execution of our business segments to produce consistent earnings performance for our shareholders
- That's what's expected from the next premium regulated utility, our tag line at last year's EEI Financial Conference
- Second quarter GAAP and operating earnings came in at $0.88 per share compared with second quarter 2014 GAAP and operating earnings of $0.80 per share
  - So for YTD with the positive performance of Q1 as well, AEP's earnings stands at GAAP $2.16 per share and operating earnings at $2.15 per share

Dividends, Capital Spending and EPS Growth

- As you already know, two days ago the board of AEP authorized dividends to be paid to shareholders of $0.53 per share, making this the 421st consecutive quarter of dividends being paid in the history of AEP.
- It was Plato who said there is no harm in repeating a good thing
- So in light of that, as we did last year, we are raising our guidance for 2015 from $3.40 to $3.60 per share to $3.50 to $3.65 per share and increasing our capital spend in transmission another $200mm from $4.4B to $4.6B.
- We are also reaffirming our 4% to 6% EPS growth rate based upon our original guidance

Champagne Corks and Ohio Issues

- 2015 is stacking up, so far, to be another great year for AEP, but we still have a half year to go
- So we aren't popping the champagne corks or anything like that, but we are leaving Q2 with a smile of quiet confidence as we enter H2 2015
- As we have maintained for the last two years, 2016 is a significantly challenged year because of Ohio issues of deregulation and capacity auctions, but we have, and continue to, chip away at the deficit because of actions taken to continue our expected earnings growth profile

Customer Load and Industrial Growth

- So let me address a few areas before Brian takes over with the details
- While customer load remains somewhat tenuous if you're looking quarter-to-quarter, during Q2 all three customer classes, Residential, Industrial and Commercial, increased, particularly Commercial load
- Continued Industrial growth is interesting, given it is primarily driven by the oil and gas sector
  - We usually hear of new rig counts decreasing, but that doesn't necessarily translate to the load decreases, however

Production & Load and Initiatives

- We continue to see production and load increasing in the Shale regions, primarily due to continued optimization of the oil and gas fields, including the additions of compressor load
- While overall load increases have been slightly less than forecast, the mix between customer classes continues to impact financial outcomes

  - We will continue to watch the load sectors closely as we gauge the robustness of any potential overall economic recovery
- We continue to be pleased with the progress of our continuous improvement in culture-related initiatives through Lean and our Power Up and Lead programs that enable a culture and an expectation of continuous efficiency improvements with decisions made at teams at all levels through the organization

Lean Activities

- Regarding Lean activities, we are now complete with 15 plants with one remaining and have extended into areas, such as Cook Nuclear Plant and centralized repair shops as well
- We have completed 20 of 31 distribution districts with 10 remaining for this year and one that will extend into Q1 2016
  - Three of five transmission areas across AEP have completed Lean reviews with the remaining anticipated to complete by the end of the year
- Additionally, Lean activities are in progress in other areas, such as IT, supply chain, inventory management, fleet operations, customer and distribution services and others
  - This activity has and will continue to be a very important part in engaging our employees to achieve not only our 2016 objectives, but also to redesign our business processes and supporting culture for the future

Rate Case Activities

West Virginia Rate Case

- Starting with the rate case activities, we have completed cases at APCo in West Virginia and in Kentucky
- We also initiated rate case at PSO in Oklahoma
- The West Virginia rate case outcome met our expectations of improved revenues to support the quality of service to our customers and improvement in the return expectations with investments made at APCo
  - The order authorized an increase in rates with an ROE of 9.75% with additional revenues for vegetation management, conformation of the base rate transfer of the Mitchell Plant, resolution of the consolidated tax issue, among other areas that really set a positive tone for the future

Kentucky

ROE, Costs, I&M & SWEPCO and PSO

- Regarding Kentucky, the rate case outcome there, again, was constructive for future investments
- The $45mm rate increase authorized included a 10.25% ROE for several riders regarding certain Mitchell and Big Sandy activities, and included incremental vegetation management
- Also, importantly, it allowed the recovery of NERC CIP compliance costs signaling the recognition by the commission of the importance of these types of expenditures
  - It also settled the issues related to the fuel cost recovery case that was before the court
- With these two cases completed, along with the formal base rate adjustments at I&M and SWEPCO, we have now secured the forecasted rate changes for 2015

- Additionally, we followed a base rate case at PSO to recover generation environmental-related cost and as well as other cost adjustments with the requested 10.5% ROE.
  - Rates in that case are intended to be effective in Q1 2016, so, overall, a great story regarding regulatory performance

FERC

Capacity Performance Model

- As you all know by now, FERC had approved the capacity performance model that PJM had proposed and last night threw a wrench in the plans for at least the supplemental auction being held next week
- But regardless, the upcoming base residual auction will ultimately help define the forward view of generation value
  - The supplemental auction remains important for our risk adjusted 2016 performance
  - We will be participating in all of these auctions, of course not saying how, but we are hopeful to see improvement in valuations of our generation

Baseload and Unregulated Generation

- These auctions will affect the financial outlook for unregulated generation, in particular baseload generation, and would begin to answer some of our 2016 risk adjusted assumptions
- More clarity on the subject will be provided when we give 2016 guidance at the EEI Financial Conference
- The forward view of generation will also be an important data point as it relates to our valuation process of the unregulated generation
  - The process continues with these instructive and perhaps substantial data points that we have been discussing with our board for a couple of years now
- Chuck Zebula and his team have done an outstanding job compartmentalizing the risk of this business and are positioning the business in a positive way regardless of the outcome

Public Utility Commission of Ohio

- PJM and FERC have done their jobs in at least making some progress in allowing for a potential path for improved generation value
- The only hold out is the Public Utility Commission of Ohio on the PPA question
  - We would not have presented the PPA option to the Commission if we did not think it was important
- It is important for Ohio and its energy policy, Ohio jobs, taxes, economic development, and, in fact, the future of the generation business in Ohio
- Governor Kasich once gave me some advice: don't get so buried in the financial expectations of the company that you lose sight of doing the right thing
  - If we take a look back at AEP's proud history of owning and operating generation in Ohio, we have always supported the economic engine for growth, whether it be the assets themselves, the ancillary assets, such as transmission, that supported economic development, or the development of domestic Ohio fuel to support the

generation

Incremental Loss in Capacity Revenue

- So what's happened in the last few years in Ohio? Well, for AEP, over a half a billion dollars of write-offs, the incremental loss in capacity revenue of approximately $200mm each and every year in the last three years, and a state that is left short of generation capacity to serve Ohio customers; not a good story for generation investment in this state
- Because we serve 11 state jurisdictions of almost all regulated jurisdictions as well as significant transmission across the country, we have managed the loss of Ohio revenue pretty well
  - That's the value of diversity, but this is really about the customers in the State of Ohio
- It's about volatility of electric pricing, particularly in extreme heat or extreme cold, that impacts all customers' pocket books and it's about Ohio's energy and financial future by developing its own resources, such as natural gas, and maintaining existing resources
  - Continual delays are not the answer
  - It is time for the PECO to do the right thing

EPA

Clean Power Plan

- Moving on to another subject, we continue to participate in the EPA dialogue regarding the Clean Power Plan
- We have talked at length in previous earnings calls about the challenges the proposed rule produces for the state, utilities and other stakeholders, so I won't cover that ground, again
  - I will say that I believe through conversations at the White House and the EPA that there is an understanding of the major issues involved, namely the aggressive front-end 2020 emission targets and timeline and the reliability implications
- What they ultimately do about it in the final rule, we don't know
  - We will continue to work with our states to understand the final rule implications and engage in the succeeding the liberations to achieve an ultimate result that is reasonable and rational in its impact on customers' costs and reliability of supply while maintaining to achieve environmental progress

Equalizer Graph

ROE for AEP Ohio

- So let's turn to the next page, the famous equalizer graph
- There's a couple of stark things in the equalizer graph that I'll get into here, but, from an Ohio power situation, the ROE for AEP Ohio decreased this quarter primarily due to lower earnings driven by increased PJM and property tax cost and lower margins due to seasonal rate adjustments; however, we do expect the AEP Ohio subsidiary will finish the year in line with the 12% ROE forecasted
- For APCo, you just heard about the rate case in West Virginia, the outcome there

  - So rates were implemented in June of 2015, so we expect to see higher ROEs for APCo for the balance of the year; and that will continue to improve

Regulatory Provision

- The primary drivers – and Kentucky is one of those areas, 0.6% doesn't look too good, but the primary drivers for the decrease in ROE were the $36mm regulatory provision that was recorded for the fuel cost recovery disallowance related to Mitchell plus an additional $7mm that was recorded in 2015
  - Also, off-system sales have been off slightly in Kentucky as well, but we expect the ROE will grow to approximately 5% by the end of 2015 and should be in the 9% to 10% range by the end of 2016
  - So we should see measurable progress here in the next year and a half

I&M and PSO

- I&M continues to do well
- It's on track to grow earnings and achieve its authorized ROE range
- They're in the middle of several capital investment programs, particularly in generation with Rockport SCR, solar installation, nuclear life cycle management and, as well, transmission projects
  - So we continue to see that one improve
- PSO did improve modestly as a result of, I guess, higher retail margins primarily on increased rider revenues and lower O&M expenses
  - A base rate rate case I mentioned earlier had been filed July 1, 2015, so we expect continued recovery there as well

SWEPCO

ROE

- In SWEPCO, the transmission cost recovery in Texas and a formula base rate true-up in Louisiana as well as a true-up and increase in wholesale customer rates were the primary drivers for SWEPCO's ROE improvement during Q2
  - However, the ROE continues to be under pressure because of the Arkansas portion of Turk and we continue to analyze our alternatives and timing associated with addressing the 88 megawatts of Turk that's still outstanding

CapEx

- AEP Texas, we expect the ROE there to continue to decline somewhat through 2015 as distribution has raised their CapEx and the need to infuse equity to replace tax obligations due to related deferred taxes from the securitization
- The AEP Transmission Holdco is doing well as Holdco returned 11.9%
- It's still in line with its authorized return, so it continues to do well
  - So from the equalizer standpoint the numbers are reasonable

- The overall has come up
- It will continue to come up, and Kentucky, which is the one that's showing extremely low, will make rapid progress
  - So we're in good shape there

Closing Remarks

The transformation of our industry is occurring and AEP will continue to position itself to succeed

If I could borrow from Jim Collins, the famous business author of Good to Great, Great by Choice and other books, what our investors have witnessed over each quarter over the last four years has been the beginning of AEP's version of the 20 Mile March

- With dogged determination, disciplined execution and AEP's ingenuity, we will be successful as the next premium regulated utility

Brian X. Tierney

Financial Highlights

Earnings and Regulated Businesses

- Let's begin on slide five with a review of the major drivers affecting the earnings comparison for the quarter
- This year's second quarter operating earnings were $0.88 per share, or $429mm, compared to $0.80 per share, or $390mm, last year
- This solid performance for the company was driven by our regulated businesses where we are investing for our customers, executing on our regulatory plans and spending O&M wisely
- With that overview, let's review the major earning drivers by segment

EPS for Vertically Integrated Utilities Segment

- EPS for the Vertically Integrated Utilities segment were $0.43, up $0.12 from last year
- Key drivers in the quarterly comparison include rate changes, which added $0.11 per share and are related to the recovery of incremental investment to serve our customers
  - This improvement includes the effect of annual true-ups related to FERC formula rate customers
- Warmer temperatures in 2015 and higher normalized margins each added $0.01 per share to the quarter vs. last year
- The growth in normalized sales was primarily driven by improvements in the commercial class
  - I will talk more about load and the economy in a few minutes

Vertically Integrated Segment

- The Vertically Integrated segment also benefited from lower O&M expense, adding $0.02 per share for the quarter

- Partially offsetting these favorable items is $0.03 per share decline in off-system sales margin, which was driven by much lower power prices this year

Transmission & Distribution Utilities Segment

- The Transmission & Distribution Utilities segment earned $0.16 per share for the quarter, down $0.02 from last year
- The $0.02 per share decline in normalized margin is due in part to the elimination of seasonal rates in Ohio beginning in 2015
  - This will reverse over the balance of the year
- This segment was also adversely affected by $0.01 per share from higher O&M expense primarily due to higher transmission costs in Ohio
  - These two unfavorable items were partially mitigated by earnings on incremental investment in distribution facilities to benefit customers in Ohio

Transmission Holdco Segment

- The Transmission Holdco segment continues to grow, contributing $0.13 per share for the quarter, an increase of $0.03 per share over last year
- Y-over-y, the Transco's net plant grew by approximately $1.2B, an increase of 57%

Generation & Marketing Segment

- The Generation & Marketing segment produced earnings of $0.16 per share, off $0.04 from Q2 last year
- As expected, we are beginning to see the adverse effect of lower Ohio capacity revenue
- You will remember our 2015 forecast included a capacity revenue decline of $0.35 for the year beginning in June
  - Despite this decline, the segment benefited from favorable hedging activity which helped offset the impact of weaker market prices

AEP River Operations and Corporate & Other Earnings

- AEP River Operations declined $0.01 per share q-over-q, reflecting a decline in barge revenue due to high water conditions in May and June
- Corporate & Other earnings were unchanged from last year's results

Operating Earnings

- On slide 6, we have a view of YTD operating earnings compared to last year
- Operating earnings for the period stand at $2.15 per share, or $1.1B, compared to last year's $1.95 per share, or $950mm
- Similar to the quarterly comparison, growth from our regulated businesses is driving results with the competitive businesses performing close to last year
  - Weather had no impact on the YTD comparison

EPS

Vertically Integrated Utilities Segment

- EPS for the Vertically Integrated Utilities segment were $1.03 per share this year, up $0.15 from last year
- The major drivers for this segment include the favorable effects of rate changes for $0.15 and the effect of the Virginia rate legislation adding $0.03 per share
- The remaining drivers were discussed at length during our first quarter call
  - As a reminder, these include lower normalized margins primarily due to lower residential sales in the East, the effect of lower power prices this year on both our off-system sales margin net of sharing and PJM expenses, and lower O&M this year primarily driven by a decline in employee-related expenses

Transmission & Distribution Utilities Segment

- The Transmission & Distribution Utilities segment earned $0.36 per share for the first six months, down $0.02 from 2014, consistent with Q2
  - We are on track to achieve this segment's earnings target for the year

Transmission Holdco Segment Earnings

- The Transmission Holdco segment earnings through H1 are at $0.21 per share, up $0.06 from the same period in 2014
- Similar to the quarter, increased investment is driving the YTD result

Generation & Marketing Segment and AEP River Operations

- The Generation & Marketing segment matched last year's results through H1
- As I mentioned, we are seeing the adverse effect of lower capacity revenue, but our trading and retail activities have offset this impact
- And finally, AEP River Operations remains favorable for the first six months driven by lower costs in Q1

Summary

- In summary, when you look at our performance for H1 2015, you see our regulated utilities executing on their investment and rate recovery plans while demonstrating cost discipline with day-to-day operations
- Our competitive businesses, despite being challenged by the decline in capacity revenue, have produced earnings at last year's level as the commercial and retail teams continue to take advantage of the available opportunities
  - This combination has allowed us to exceed last year results by $0.20 per share
- Strong results from H1 and a stable outlook for the balance of the year serve as the basis for raising the operating earnings guidance range to $3.50 per share to $3.65 per share

Load Performance and Customer Growth

- Now, let's take a look at slide seven to review the normalized load performance for the quarter
- Starting in the lower right corner, weather normalized load grew by 0.9% compared to last year with growth spread across all our major retail classes
  - This brings our YTD normalized growth to within 0.3% of last year's results through Q2
- In the upper left quadrant, residential sales are up 0.3% compared to Q2 2014
- The growth in residential sales is largely coming from customer growth, which is also up 0.3%
- Most of the customer growth is happening in our Western territory, especially Texas, where residential counts are up 1.2% vs. last year

Residential Sales

- YTD residential sales are down 2.2% vs. last year
- This is mostly a result of the weak normalized growth reported in Q1
- Remember that last year's first quarter normalized load was unusually impacted by the polar vortices

Commercial Sales

- Looking to the upper right corner of the slide, commercial sales were up 1.9% for the quarter
- Here we saw growth in commercial sales at every operating company, except for Kentucky Power
  - Once again, the strongest growth in the commercial sales is happening in the West where we also saw the strongest growth in non-farm employment

Industrial Sales Growth

- Finally, in the lower left quadrant, industrial sales growth moderated again from the previous two quarters, but still grew by 0.6% compared to last year
  - We continue to see robust industrial sales growth from customers in oil and gas related sectors despite the recent decline in oil prices

Oil and Gas Sectors

  - Outside of the oil and gas sectors, our industrial sales were down 3.2% compared to last year as many of our export manufacturing customers are starting to feel the impact of the strong dollar and weaker global demand

AEP's Service Territory

- With that, let's review the most recent economic data for AEP's service territory on slide 8
- Starting with GDP, you can see that the estimated 1.7% growth for AEP's service area is about 0.5% less than the estimated growth for the U.S.
  - This is not surprising given the impact of falling oil prices, especially in our Western footprint
- As you know, AEP's service territory covers five of the seven major shale areas that the EIA has noted are responsible for 95% of domestic oil production and all of natural gas production growth since 2011

- While the entire nation benefits from lower fuel prices, the regional economies supporting these shale plays experienced the direct impact of the lost oil and gas jobs in those areas
- In fact, this quarter marks the first time in over four years where AEP's Western GDP growth fell below that of the East

U.S. Employment Recovery

- In the bottom left quadrant, you can see that the job market within AEP's service area continues to improve in step with U.S. employment recovery
- Here, job growth within AEP's Western territory exceeds the Eastern service area
  - The sectors showing the strongest job growth for the quarter include construction, leisure and hospitality, and education and health services
- We should point out that the sector which saw the biggest decline this quarter is the natural resources and mining sector, which is not surprising giving the decline in oil prices and active rig counts

Domestic Shale Gas

- Now, let's turn to slide nine to update you on the domestic shale gas activity happening within AEP's footprint
- We continue to see significant industrial load increases in the parts of our service area located in and around major shale formations as illustrated in the upper left chart
  - It is remarkable that we saw 10% growth in electricity sales to oil and gas related sectors despite oil prices that are down 45% from last year, rig counts being down nearly 60% and 8,000 fewer oil and gas workers than we had at the end of 2014

Oil and Gas Loads

- In the upper right chart, oil and gas loads spread across all major shale plays within AEP's service territory with the strongest growth located around the Woodford, Eagle Ford, and Marcellus shales
- If we dissect the oil and gas growth into its components, that is upstream, midstream, and downstream activity as shown in the bottom left chart, you see that the strongest growth is coming from the midstream pipeline transportation sector, which grew by over 34% in Q2
  - This is mostly due to the expanding infrastructure being built in West Virginia, Ohio and Texas to support the Marcellus, Utica and Texas shales

Oil and Gas Extraction

- In our upstream sector, oil and gas extraction, volumes are up nearly 6% while the downstream petroleum and coal product sector grew by just under 2% this quarter
  - I should point out that we expect a number of new oil and gas related expansions to come on-line over the next 18 months

Growth

- In contrast to the growth in our oil and gas sectors, I'd like to focus your attention to the red bars on the upper left chart
  - This shows the trend in our industrial sales excluding the oil and gas related sectors
- You can see that the rest of our manufacturing sales are not growing as they were last year at this point, down 3.2% in Q2
- In fact, through June, six of our top 10 industrial sectors are down from last year's results
  - The only sectors showing growth are the three oil and gas related sectors along with transportation equipment manufacturing, which benefits from low oil prices

Global Economy

- The stronger dollar and weak global economy have developed into headwinds for many of our export manufacturing customers
- For example, sales through chemical manufacturers were down almost 9% this quarter while primary metals volumes were down 10%
  - This is something we'll continue to monitor closely as we work through the balance of the year

Capitalization

Debt to Total Capital

- On a lighter note, let's turn to slide 10 and review the company's capitalization and liquidity
- Our debt to total capital is very healthy at 54.3%
  - Our credit metrics, FFO interest coverage and FFO to debt, are solidly in the BBB and Baa1 range at 5.6 times and 21.5%, respectively

Pension Funding and OPEB Funding

- Our qualified pension funding has improved and is now fully funded at 101%
- This improvement was driven by a reduction in liability from increased interest rates which more than offset a small decline in pension assets
  - The company also made $92.5mm contribution to pension assets in June as planned, which is equal to the company's estimated annual service cost
- Since our OPEB funding stands at 122%, no funding will be needed in 2015

Liquidity

- Finally, our liquidity stands at $3.2B and is supported by our two revolving credit facilities that extend into the summers of 2017 and 2018

Treasury Group

Appalachian Power Company, Treasury Team and Team Partnered

- At this point, I would like to point out some of the opportunities our treasury group has taken advantage of during the quarter
- First, at Appalachian Power Company they redeemed a high coupon issuance and refinanced at a much lower market rate
- Secondly, the treasury team extended to April of 2017 the $500mm AEP Generation Resources term loan with a flexible lower cost facility
- And finally, the team partnered with local banks in the Indiana and Michigan service area to grow that company's local bank facility to $200mm with an expiration in May of 2018

Treasury Group and Debt Markets

- The company has worked very hard over the last several years to strengthen its balance sheet
- As you just heard, our treasury group is active in the debt markets and working with our banking partners to secure low cost capital to put to work for our customers
  - This, when combined with our strong operating results, give us the confidence to increase our capital spend by $200mm this year

Operating Commercial and Corporate Groups and Operating Earnings

- Let's see if we can wrap this up on slide 11
- Clearly, H1 2015 is off to a strong start for our customers, shareholders and employees
- Conditions have been favorable and our operating commercial and corporate groups have made the most of the opportunities available to them
- Based on our strong results to-date and our outlook for the balance of the year, we are comfortable raising our operating earnings guidance range to between $3.50 per share and $3.65 per share
- Based on our operating cash flows, our strong balance sheet and our continued access to low cost debt capital, we are confident in increasing our capital investment this year by $200mm
  - This incremental spend will be in our transmission businesses, both at the Transmission Holdco and at our utility operating companies

Ohio Deregulation and Unsettled Economy

- And finally, we are reaffirming our 4% to 6% growth range
- We have some challenges related to Ohio deregulation and an unsettled economy, but we are managing our way through with disciplined O&M spending, the continuous improvement initiatives that Nick mentioned and increased investment in our regulated businesses

QUESTION AND ANSWER SECTION

<Q - Daniel L. Eggers>: I know you can't control the governmental regulators, but certainly delays in Ohio and the FERC snafu last night to kind of push that timeline to clarity on the generation business, but can you walk through how you and the board are approaching a decision on monetization and then what data points you guys think you need to see before you get comfortable formalizing that decision?

<A - Nicholas K. Akins>: Clearly we were looking at the capacity auctions to look at the long-term value of that generation. The supplemental auctions are, by and large, some of the risk-adjusted items and filler-in for 2016 and 2017 during those years, but in particular 2016. If those supplemental auctions continue to occur certainly before – in the September-October timeframe, even then we'll have a good handle on what 2016 looks like. But the base residual auction is clearly the important win in terms of long-term valuation of generation and we continue to expect those valuations to improve.

So our board has been along with us all along the way; matter fact, we just had a board meeting with them this week and went over the issues involved, and the primary issue was the upcoming auctions that would be a large part of presenting to us our options relative to the strategic valuation of generation. So that's the key component.

Now as far as the PPA is concerned, that's going to continue on; but it's really hard to tell when the PECO is going to focus on that. And I would say that we continue to push for the PPA, obviously, but the main determinant right now with the board is that capacity auction. So once we get that, we'll have a major data point for the board and we can continue our process of that strategic evaluation.

<Q - Daniel L. Eggers>: And I guess just on guidance – and I know we're just going into the summer, but if you look at generation now above your full year guidance and transmission at a run rate that's equal to your full year guidance, what are some of the things we're seeing that's hampering H2 results to stay within even this elevated band given how far ahead you are in some of these segments?

<A - Nicholas K. Akins>: I think you have O&M spend. Obviously, there's timing issues with O&M. And as far as the remaining, we have – there could storm related activities, many things that we sort of hedge on. I know that sounds – makes us sound like sandbaggers to a certain point, but it's not that. It's really we're trying to risk-adjust some of these issues that can occur. Brian, you got something else?

<A - Brian X. Tierney>: Another big driver is the PJM, the capacity revenue decline. It's $0.35 and almost all of that is in the back half of the year; $0.05 of that was in second quarter, but the remaining $0.30 is back half of the year.

<Q - Daniel L. Eggers>: I guess, maybe probing it the other way, how much O&M do you think you can incrementally pull forward from 2016 into 2015 just to give you a little more breathing room for next year, given some of the other kind of built-in challenges there already?

<A - Nicholas K. Akins>: We've pulled some already that's incremental beyond what we did last year. It's around $14mm. It's getting harder and harder to do that. Obviously, you can pull some in, but you can't pull everything in. So I'm seeing that as more limited right now.

<Q - Stephen Calder Byrd>: I wanted to touch on transmission. You're making great progress in terms of incremental spend and I just wondered if there were further opportunities that you saw. If you could just maybe give us a little more color on the outlook there to create additional opportunities, what sort of – what are the drivers here as we should think about your ability to grow transmission even further?

<A - Nicholas K. Akins>: There is lot of color here. We have a lot of incremental spending that we can do in transmission. And right now, I mean, transmission – you think about it. We have over 2,000 projects going on right now – and those are small projects, larger projects, and all that kind of thing, but it shows the bandwidth of what transmission is doing. And we look at the investment profile for transmission, particularly for AEP. It continues to be – it's just a huge footprint that we are able to invest in from a Transco perspective and from an individual operating company perspective. And we mentioned this last time, I mean, just the rehabilitation of the existing grid, we're challenged to keep up with that, let alone put in additional enhancements. And we really want to do that because it improves the quality of service, ultimately, to our customers. And so, we have a lot of runway left relative to transmission; no question about it.

<Q - Stephen Calder Byrd>: And switching back to Clean Power Plan, after we see the final rule from EPA, could you just talk about sort of the process overall. I know you have a bunch of states, a bunch of things to think through, but how should we think about how you might respond over time in terms of what that will mean for your overall spending plan, how the grid will look, make the power plant, et cetera? Can you just talk a little bit at a high level as to how we should see that unfold for you?

<A - Nicholas K. Akins>: Obviously, it depends upon what that final rule looks like. If you look at the categories – I mean, if you're having to adjust natural gas dispatch vs. coal dispatch, for example, that's one thing. That ultimately impacts the fuel cost to customers as a result, when you do that kind of switching. But in terms of infrastructure, we made the point – our initial approach to this is going to be: we get the final rule, and if the EPA is fully aware of the issues involved from a reliability standpoint, but also from a implementation standpoint, and if they wind up being respectful to the states, of the resource process that they go through, and allow time for that to occur, and targets are more rational instead of – 11 states have over 75% of their requirement in 2020 and in several – many states there's over 50% of their requirement in 2020.

That has to change. It's too early and it's too aggressive in emission reduction targets. So if they come off of that and have a rational plan to allow technology to continue to improve, and we can actually wind up at a better place at the end of the day in 2030, that'd be a good outcome. And in that case, we could be able to work with the states because they obviously care about what we think in terms of reliability standpoint and the infrastructure to be put in place and how quickly we can do it and that kind of thing.

But it is the state's plans and the states have to have time to review those plans, and then we start taking actions based upon where our individual states want us to go. So it really – in my mind, it depends upon, certainly, the President, because the President is driving the bus on this thing. And the EPA, obviously, is looking at all the issues involved. And if there's moderation associated with the targeted implementation and being respectful of the state processes that need to occur and the infrastructure, the timing of infrastructure, and having reliability provisions that make sense, then we can get about the process of investing.

From an AEP perspective, we're in the middle of a transformation, anyway. The industry is in the middle of a transformation. We've already reduced our carbon emissions by 15% since 2005. So – and that process is continuing with the advent of natural gas, shale gas activity, the advent of renewables. We're putting in solar. We're doing wind farms, but energy efficiency and battery technologies are coming into play as well. So there's real opportunities for us to invest in the right things for the future and actually balance out our energy portfolio, which is a good thing for this company and the country, as a matter of fact.

<Q - Stephen Calder Byrd>: And assuming that, again, the EPA rule does give you a realistic path, as you pointed out, instead of a path that's really – you surely couldn't achieve, if it is realistic, should we be thinking about sort of resource plans that could be filed and overall plans over time that you would submit that would lay out how you see the best path forward and what that would involve in terms of spend and asset mix?

<A - Nicholas K. Akins>: We'd be working with the states to file the resource plans, and then we'd start the actions associated with it. And this is a little different than the Mercury Rule. The Mercury Rule is point specific, plant specific, so you knew exactly what you need to do. This has got tentacles in many aspects of the electricity utility business itself and it will take some dialogue – some serious dialogue and contemplation of how to address these types of issues from a state jurisdictional perspective; and we'll be a part of that process. We will file our resource plans and we'll go from there, just like we always have.

<Q - Steven Isaac Fleishman>: You referred a couple times to the 2016 risk adjusted assumptions. Could you just kind of clarify exactly what you mean by that?

<A - Nicholas K. Akins>: When you go into forecasting a year, you're looking at what load's doing; and obviously load's moving around on us. The customer mix is moving around on us. Capacity auctions were contemplated, whether PPAs would occur during that period of time, and then, of course, looking at any transmission investment and those kinds of things that we need to evaluate. Those are important pieces, but I think probably – and the only thing we can do is sort of come up with a plan and a budget that risk-adjusts many of these items; and some of them are externally driven, significant external driven, like the capacity auctions and the PPA approach in Ohio.

So, as we go forward in the year, we obviously like to get more information that we can really make a quality forecast of what 2016 looks like. I think we made a lot of progress because we know what we've done relative to the continuous improvement enhancements that have occurred, that have crescendoed over time, and we expect that to inure to our benefit during 2016. But these external items are more difficult to tell, and really what happened last night is just another indication of how things can get adjusted at the last minute. So it's difficult to tell, but I think in the next two months to three months we're going to probably see a lot of clarity.

<A - Brian X. Tierney>: And even with all those factors that Nick mentioned, Steve, we are still, as we look at 2016, inside the operating earnings guidance range that we'd given for that previously of $3.45 to $3.85 per share.

<Q - Steven Isaac Fleishman>: And is this – part of this kind of trying to judge how much you need to manage cost and move stuff around depending on how these play out? Is that also kind of what you're referring to?

<A - Nicholas K. Akins>: I mean, we've been moving costs from 2016 into 2015 and 2014, and now we're reaching sort of the point of conclusion where we understand those cost components going into the year. It really is about load forecast and, certainly, these external issues that we're dealing with, but those will play themselves out here in the next couple of months.

<Q - Steven Isaac Fleishman>: And then, just – maybe this is a bit of a commentary and a question, but just – I know you continue to focus very much on the auction outcomes and, to maybe a lesser extent, PPAs in Ohio for the decision on generation, but there are like a lot of other things that affect the value of the portfolio: commodity prices, stock market, financing conditions, all those kind of things.

<Q - Steven Isaac Fleishman>: I just – how much do you just need – how are you weighing kind of answers to that – some of these questions vs. just there can be periods of time where it's just hard to get transactions done?

<A - Nicholas K. Akins>: Obviously, the interest rate environment we continue to deal with, and certainly what Janet Yellen is trying to do with interest rates in the future might have an impact. But as far as the sector itself and our performance within that sector, we feel very good about the path that we're taking; and that is to take risk out of our business and to make sure that we are able to invest in those things that provide quality returns to our shareholders. And, I mean, that's what we control. And we have to be very disciplined at it and there may be external things that occur around the world or nationally that could impact it, but typically, though – even if you look at commodity prices, I think where we're at right now is, like I said earlier, somewhat of a tenuous economy because we see residential, commercial, industrial moving back and forth all during the year and it's like you're in a waiting stage.

Now, who knows what's going to happen here, but you could have an energy economy take off or you can have an energy economy that stagnates but that's based on public policy, whether we do exporting, whether we do other things that would have an impact on the commodities themselves. And I think it's important for us to be knowledgeable about those kinds of issues so that we can manage our business around no regrets investment that are meaningful to our shareholders that provide consistent returns. And that's what we're doing.

<Q - Steven Isaac Fleishman>: Last question, just the page with the credit metrics, particularly the FFO to debt or the EBITDA metrics, clearly shows you're way stronger than your targets. Can you maybe give some thought on kind of what's the ultimate goal? I'm assuming your goal is not to stay dramatically above the targets?

<A - Brian X. Tierney>: It's to be within those targets, Steve, and part of that rationale is why we increased the CapEx for the balance of the year. And, of course, we'll be looking at what we expect those metrics to be in 2016 and adjusting our CapEx forecast, accordingly.

<A - Nicholas K. Akins>: A lot of this is about making sure that the business is on firm and sound financial footing so that we can make continual judgments about where we put our capital. And we have this huge hedge out there, called Transmission, that we are able to essentially do acquisitions all the time and it's a good place to be. But at the same time, we improve our currency value; we improve our position from a risk tolerance perspective. And it is an opportunity for us to reposition this company for the future. And we just retired 5,500 megawatts of coal-fired generation. So you're starting to see a rebalancing of the portfolio to address what customers truly want in terms of resources. We believe a balanced set of resources is important, including coal, but we've got to get through the process of ensuring that we're advancing from the other technologies and addressing customers' concerns relative to the quality of service; and that's what we're doing.

<Q - Paul T. Ridzon>: Can you – the $200mm of incremental transmission capital, how is that going to be divided between Holdco and the other utilities?

<A - Brian X. Tierney>: About $80mm of that is going to go to the Transco and the remainder is going to go to the Integrated Utility operating companies.

<Q - Paul T. Ridzon>: Can you just give a little more flavor as to what went better than planned to allow you to raise guidance at this point in the year?

<A - Brian X. Tierney>: I think we covered that during the meat of the call, to a large degree. Rate increases and weather were stronger than what we had forecasted. The regulated businesses are doing very well and the competitive businesses are doing about as well as last year. Cash flow is ahead of expectations. And you put all those things together and that gives us the confidence to raise the operating earnings guidance and raise the CapEx that we talked about.

<A - Nicholas K. Akins>: And the continuous improvement activities that are starting to culminate across the board. So it's cost control. It's certainly – the underlying fundamentals of the business are very positive and it gives us the confidence to raise the earnings [ph] fees (50:10).

<Q - Gregg Gillander Orrill>: Can you talk about the scale of the open position at AEP Generation Resources as you look out over the next few years, or how to think about that as a sensitivity?

<A - Brian X. Tierney>: They're trying to stay in a hedged position of about 60% to 70%, and I think they've done that to pretty good effect, really, since early last year when the business started. And that allows them to do a couple of things. It allows them to hedge in what some of the earnings are going to be at prices that they find attractive, and they do that through both retail, the wholesale auctions that they have to serve SSO load, and their normal trading activity. But then it also leaves them with an open position to take advantage of what could be higher prices like they had during the polar vortices of last year. We were able to take advantage of that and to cover things like unit outages or price – or load spikes or price spikes that can happen in the short-term period. So they don't want to be sold out, fully committed. They want to have a significant portion hedged and a portion to cover some unexpected short-term opportunities.

<A - Nicholas K. Akins>: Chuck and his team continually evaluate that, but the 60% to 70% has been pretty much a target for – well, actually for a very long time now. And, it's for that reason – I mean, we're just sort of risk averse from that standpoint, because that business is really focused on making sure that it continues to be an airtight business that has – like I said earlier, he's done a great job of compartmentalizing the risk and that's a part of that ability for them to do that.

<A - Brian X. Tierney>: The assets that Chuck has in that business are great assets and the risk management they have applied to that business has been phenomenal through some really pretty volatile circumstances over the last year and half. So we're really proud of the way they're managing that business and they've done it to very, very good effect financially.

<A - Nicholas K. Akins>: Really, when we look at it, it's not internally what the issues are, because we can control what happens relative to how our generation operates from an operational excellence perspective and how we manage risk within that envelope. The real issue is what happens outside, with the regulatory commissions, FERC, Ohio and elsewhere. But, certainly, yesterday was another indication. I mean, the market is moving toward a certain set of conditions for the auction and it gets changed at the eleventh hour. And that's a concern, because you never know what the rules of the game are and they can change at the last minute or change afterwards; and that's troubling. So I think consistency – we have consistency internally; it's consistently externally that we need.

<Q - Gregg Gillander Orrill>: Is it presumptuous to say that you're bullish about power prices?

<A - Nicholas K. Akins>: I wouldn't say that's presumptuous. I mean, I really believe we've taken a substantial amount of capacity that's been retired and we believe that capacity process will improve.

<Q - Jonathan Philip Arnold>: Any update on the River Ops transaction that you talked about last quarter?

<A - Nicholas K. Akins>: The process we're going through in terms of valuation continues, and that's really all that we can report at this point.

<Q>: I guess I just wanted to sort of follow up on the PECO decision yesterday to give further consideration at some point in the future of your re-hearing request in the OVEC proceeding?

<A - Brian X. Tierney>: It just looks like it's some continued delay, really. We don't seem to be getting answers, schedules or the things that we need to be able to get the answers that we're looking for. And they seem to be punting some of these decisions farther out into the future and, as Nick said, we need some clarity and we don't seem to be getting it.

<A - Nicholas K. Akins>: I don't know how far you can delay these things. I mean, it's an issue where there needs to be an answer and I'm just concerned that we're either waiting until after the capacity auctions or whatever. But Ohio needs to be concerned about – and just yesterday was another indication of, if you're going to depend upon – from the federal side to address the market issues, that changes will occur that you may not anticipate. And I think, from a generation perspective, we've got to make sure that Ohio continues to develop and, certainly with the natural gas out there, that nothing is going to happen until there is some resolution. So you're sort of in a hold pattern. We're not going to make any investments in central station generation in Ohio, and I haven't seen many others step up to the plate. I know there is maybe one or two units that are being built out there, but keep in mind you've retired thousands and thousands of megawatts and you're short in Ohio. And so, the delays need to come to an end.

<Q - Brian J. Chin>: Just a brief one on your earlier balance sheet comments. Clearly, the metrics are looking a little better. Debt to cap numbers have started to turn around; even the pension funding numbers look really solid. Given all of that, does it make sense on the margin to reconsider capital deployment towards maybe looking at the dividend policy as opposed to purely looking at transmission CapEx; any sort of like marginal changes there to think about?

<A - Nicholas K. Akins>: The real question is: what happens to the dividend? Is that…

<Q - Brian J. Chin>: In so many words, yes.

<A - Nicholas K. Akins>: Usually we review the dividend policy in the October timeframe, and our board certainly will be considering the dividend policy. And we still maintain our 60% to 70% range that we stated earlier, and that dividends will be commensurate with what the earnings profile looks like. So we stand by that. There's no reasons to see it will change, but obviously we look at the baseline of the business and what the forward long-term view of it looks like; and the board will reevaluate, and do that in the October timeframe.

<Q - Anthony C. Crowdell>: I guess this is a real softball question, but do you think Governor Kasich's entry into the race slows decisions down in Ohio? It looks like we've really being punting. I don't know what the end game is or where they're looking to punt to, but do you think this slows things down or speeds things up or has no impact?

<A - Nicholas K. Akins>: My bet would be no impact, because Governor Kasich obviously has confidence in the Commission and certainly Andre Porter, as Chairman, has taken over there and my belief is that he is going to leave it to the Commission to decide what this Ohio policy looks like. So I don't see his running for office of the President to slow things down. But I guess the real question is will the PECO actually speed up? And that's something that they need to address.

<Q - Anthony C. Crowdell>: Do you think they're waiting for like – Brian had used a football metaphor: they keep punting. I mean, are they punting to a certain calendar date or a certain time, whether its PJM is all resolved or something? Is that their target, or it's not really sure?

<A - Nicholas K. Akins>: Only they can answer that, and I think to have – it's one thing to have one delay, but to have delays of several cases occurring, that's really not a good message. And to set energy policy in this state, you've got to have the courage to step up and make decisions.

<A - Brian X. Tierney>: We'd love to see them score a touchdown or a field goal rather than punt again.

<Q - Ali Agha>: I just wanted to make sure I heard your original commentary correctly with regards to your thinking on the generation business. So this, as you say, with Ohio PPA decision have been punted, most likely now we are looking at that maybe in 2016. But if I am hearing you right, should we still expect your final decision on the merchant business this year – in the remaining months of this year, or is that also going to be dependent on when this PPA rider stuff now comes out?

<A - Nicholas K. Akins>: You know, I think, certainly, the capacity performance and the base residual auctions are a significant piece of that discussion. We're going to have to see – I mean, we're going to have to see what the lay of land is, you know, after that's concluded to, obviously, visit with our board and determine what the next steps are, but, you know, that doesn't stop us from pushing ahead with the PPA proposals regardless of the outcome; but certainly I think Ohio can send a great message by approving those PPAs, but it remains to be seen whether we are going to actually wait, because this can't go on, you know, for a long time.

We're after certainty for our investors, and from a shareholder perspective we can't have this overhang because it really not only confuses us on how to invest in the unregulated generation or lack of investment, but it also – it's so convoluted that it's difficult to understand exactly what it is you have in terms of valuation of that generation. And so, you know, the steps being taken, particularly with the Clean Power Plan and other things that are occurring, I think those units are going to survive the Clean Power Plan because they're absolutely needed. They're great units and they're two-thirds coal, one-third gas, and a lot of fuel switching occurs between coal and gas. So they're valuable units, but they just need to be reflected that way. And I just think it's something we've got to get a handle on.

Now, as far as timing is concerned, we want to make that decision because – as quickly as we possibly can. But we have to do what's right for the shareholders, and we have to do an analysis based upon what we can determine the best we can what the value of that generation on a forward basis is going to be. And so, if you get a great capacity performance number, then that may diminish the need for a PPA. But I still think a PPA is needed because it's an important part of the hedging for customers in Ohio and it's an important part of that generation being maintained in Ohio with the jobs, taxes and everything else I talked about.

So we're not going to – we have not and will not give up on the PPA approach with the Commission. They need to answer that question. It'd be great if they answered it relatively quickly so we could get on with the business at hand, but you know, certainly, the – those two items are still outstanding and we're hopeful that at least one of them will get resolved here very quickly so that we can start filling in the blanks.

<Q - Ali Agha>: And from a logistics point of view, Nick, there would be no constraint for you to exit the merchant business while this PPA rider application was still outstanding?

<A - Nicholas K. Akins>: We don't believe there is a constraint, because the real value of the PPA is, again, to maintain that generation in Ohio and make sure that economically they're still there, and – regardless of the outcome of the disposition of that business.

<Q - Ali Agha>: And last question, is it fair to assume that – and, you know, previously you had looked at sale and spin-off as two trajectories. Is sale now looking like a more likely outcome than spin-off? Is that fair to say?

<A - Nicholas K. Akins>: We don't know that, yet. I mean, we've obviously got to look at things like the tax efficiency and other parameters before you can really make a decision on sale vs. spin or, for that matter, keep. But, certainly, sale and spin, which you mentioned, those are areas where we just have to look at the economics, and it depends on what, you know – I mean, you've got to be offered a sale price that overcomes the tax efficiency of a spin, and there's other things involved with it from a business perspective as well. So, I would say both are still part of the decision process.

<Q - Julien Dumoulin-Smith>: A quick question, if you will. I wanted to get some clarity here around transmission spending. PJM's been evaluating a reduction in their load forecast, but from what I understand you all are investing below the RTEP level as in its basic transmission investments at a lower kV. How do you think about the impact of potential reduction in the PJM load forecast relative to your investment plans near term and long-term, especially in the context of having more proceeds from any prospective sale of the River Ops or Genco, et cetera?

<A - Nicholas K. Akins>: I don't know if anybody knows what the load forecast is at this point, and certainly don't know the level of investment needed from a transmission perspective because we are in the process of redefining this electric grid. And we have retirements that have occurred. A lot of the transmission has been built because of the retirements, but also there continues to be optimization across the grid as a result. And there will be more optimization after the Clean Power Plan gets resolved. But the changes occurring within PJM now are more about generation and, certainly, reliability and less so about load. And so, I would – actually, I wouldn't put much context in terms of a forward-looking transmission plan. And we've seen over and over how transmission plans change with varying degrees and sometimes we get irritated by that because we plan transmission and – like path, and things happen. So, it's – but if you look at the underlying fundamentals of transmission, the grid's changing dramatically. The flows on the grid are going to change dramatically. So when you look at the bulk power transmission system, you can be bullish about that. And then, the underlying, which you mentioned, the lower kV levels, the sub transmission and those levels, there is a massive amount of rehab work and follow up work to the bulk power transmission that needs to be done. So – and we happen to have the largest transmission system in the country, so that bodes well for the investment potential for AEP.

<Q - Julien Dumoulin-Smith>: Perhaps just to clarify, if you will, in the increase in transmission spend of late and just thinking about the sensitivity if there were to be a shift in the RTEP, it seems that you guys have historically had some element of comfort around your projections given that they don't primarily seem to flow out of the RTEP process.

<Q - Julien Dumoulin-Smith>: If you could elaborate on that a little bit, just getting some sense of how hedged are you, presumably, to changes either way in the RTEP?

<A - Nicholas K. Akins>: We have a bunch of big buckets and a lot of those big buckets are not RTO dependent.

<A - Brian X. Tierney>: Our transmission spend and forecast is not dependent on an RTEP load forecast.

<A - Nicholas K. Akins>: I wouldn't put a lot of stock in an RTEP load forecast anyway, so…

<Q - Paul Patterson>: Just a quick couple ones. First of all, with the transition auctions have you guys heard from PJM or do you guys have any idea when the new schedule might be or when we might get more information on that?

<A - Nicholas K. Akins>: We'll know soon. I think, certainly, PJM will have to speak about the ins and outs of that, but we suspect – I mean, it will be maybe a month – three weeks or a month delay, something like that, because it's not – I don't think it's a substantial thing. They still have to observe the same performance criteria when they bid in, so I think it shouldn't be a large delay.

<Q - Paul Patterson>: Do you think it might be before the BRA?

<A - Nicholas K. Akins>: I don't know about that.

<A - Nicholas K. Akins>: I mean, they're going to have to answer that, obviously, but I don't think we're talking about moving into fourth quarter or anything.

<Q - Paul Patterson>: Let's hope not.

<Q - Paul Patterson>: Famous last words. Anyway, going on, just another quick one for you. In terms of the potential asset sale or spin, would you guys be open to the idea of accepting another entity's currency, like a stock deal? I mean, I would assume you guys would prefer cash if you were to sell the Genco, but would you guys be open to the idea of maybe taking the equity of a whatever, one of the players out there that's been acquiring these things?

<A - Brian X. Tierney>: As this point as we're evaluating this, I think everything would be on the table. We wouldn't say no to that if we felt that was the highest value for our shareholders.

<A - Nicholas K. Akins>: I think we haven't closed off on any of these parameters that we keep talking about because, frankly, we don't have the full answers yet, right? So...

<Q - Paul Patterson>: And then, just on the delays that have been happening in Ohio, et cetera, do you sense any change in tone or issues that have come up that – you know, just any flavor as to sort of the environment there with respect to this, or is it sort of kind of regulatory – sort of just the regular regulatory stuff that happens in a lot of sort of major proceedings that are not exactly run of the mill?

<A - Nicholas K. Akins>: I mean, obviously the PECO will have to speak for itself on that issue, but it is – I mean, it is a major issue. You can't get around that. So I'm sure, you know, there is a lot of deliberations occurring over in their camp and, you know, it's just part of the regulatory process. But many times I think it's important for policy makers to understand the business disruptions that occur relative to either waiting for decisions or not making decisions, let alone the wrong decisions, but we really do need some consistency and delivering on the orders and the rulings on a timely basis. I think it's particularly important to the industry and particularly important to the electric utilities in Ohio.

<Q - Paul Patterson>: But there – but you haven't noticed any significant shift, I guess, or any change in what's going on there other than the sort of normal back and forth and what have you, or have you?

<A - Nicholas K. Akins>: I don't think there's been a significant shift or anything. I think there's a lot of dialogue going on. I know we had dialogue going on these issues in the Ohio Business Roundtable and the Columbus Partnership and, of course, at the Commission as well. And it is an important issue, but I haven't sensed a change. I think it's just a very deliberative approach.

<Q - Raymond Leung>: I think we touched a lot on PJM and PPA, so – but maybe if I could switch over to transmission back again, can you talk about what you guys are thinking, any update on potential alternative structures? I know last time you talked about the REIT structure doesn't make sense for you guys. Any updated thought process on that?

And then a second non-related question, can you talk a little bit about what you're – I know demand looked pretty good on a normalized basis. Any additional more insight maybe, you know, with respect to usage patterns, what you guys are seeing there, what sort of – aside from just the general economy improving that it is driving the growth or demand improvement there?

<A - Nicholas K. Akins>: I'll just let Brian cover the economy piece of it, but as far as transmission is concerned we haven't changed our approach to the transmission business. We're still heavily investing in it and we still want to make sure that we continue to do it in a positive way from a state perspective. So we haven't changed our approach from that perspective. Brian?

<A - Brian X. Tierney>: I think the other thing...

<Q - Raymond Leung>: There is no consideration of REIT structure? Sorry.

<A - Nicholas K. Akins>: Not at this point.

<A - Brian X. Tierney>: I think on the customer usage side a large part of what's driving residential, in particular, is customer accounts. We're seeing average customer usage hanging in there. We're not seeing it decrease to the degree some others are, but its customer accounts that are really driving that. Yeah, I've been in this job for five and half years, maybe a little bit more, and I've been talking about 5.3mm customers that whole time. I'm finally thrilled to be able to say that with rounding its 5.4mm customers. So customer accounts, particularly in the West, helping us out and it's largely driven by – I guess you asked not to talk about macro factors, but a lot of its shale gas and where the economies are doing well we're seeing increased usage. In places like Kentucky Power that's being particularly hard hit by mining shutdowns and the like we're seeing customer counts decrease and usage go down. So it's a – it really does, unfortunately, follow the macroeconomic factors that we're seeing, and we're blessed to have the shale gas plays in our service areas and that's really driven a lot of the load increases that we've seen.