Company Name: American Electric
Company Ticker: AEP US
Date: 2016-01-28
Event Description: Q4 2015 Earnings Call

Market Cap: 29,179.09
Current PX: 59.45
YTD Change($): +1.18
YTD Change(%): +2.025

Bloomberg Estimates - EPS
Current Quarter: 1.133
Current Year: 3.709
Bloomberg Estimates - Sales
Current Quarter: 4553.800
Current Year: 17152.412

Q4 2015 Earnings Call

Company Participants

- Nicholas K. Akins
- Brian X. Tierney

Other Participants

- Greg Gordon
- Michael Weinstein
- Praful Mehta
- Christopher J. Turnure
- Anthony C. Crowdell
- Gregg Gillander Orrill
- Paul T. Ridzon
- Paul Patterson
- Ali Agha
- Shahriar Pourreza

MANAGEMENT DISCUSSION SECTION

Nicholas K. Akins

Overview

2015 will be remembered as a year of significant transition that culminated a four-year process of focusing on the fundamentals of our business to drive consistency, execution and discipline while driving towards a strategic vision of what the next premium regulated utility should look like

The balance sheet of AEP is strong, and we continue to deliver for our shareholders, quarter after quarter, from a dividend and earnings growth perspective, despite various headwinds that have occurred along the way

This quarter and the year, 2015, are no exceptions

Q4 Results

GAAP and Operating Earnings

- First, let’s talk about Q4
- Fourth quarter 2015 GAAP and operating earnings came in at $0.96 per share and $0.48 per share respectively, compared with fourth quarter 2014 GAAP and operating earnings of $0.39 per share and $0.48 per share respectively
- The difference in fourth quarter 2015 GAAP and operating earnings has been mainly driven by the sale of AEP River Operations
- Fourth quarter was unusual in the sense that winter, particularly in December, never occurred

  - It was more like an April
- Even so, operating earnings were consistent fourth quarter last year, even though we gave back approximately $0.11 per share of cold weather related load margins, finishing the year solidly within our revised guidance range of $3.69 per share, operating
- The year finished at $4.17 per share on a GAAP basis, as well compared with 2014 results of $3.34 per share and $3.43 per share GAAP and operating earnings respectively

Dividend Payout

- As can be seen on the graph on the right of page three of the presentation, AEP has consistently performed better than the utility index for the one, three and five-year periods, and as well outperformed the S&P 500 Index over the last three and five-year periods and lagged the index over the last year given interest rate and other sensitivities in the electric and utilities sector in general
- Overall, AEP continues to perform very well as the story of the stock continues to become more clear and resonate in the market
- Operating earnings growth year-on-year was 7.6% and we achieved our expected regulated ROE of 9.6% for the year, which increased from the 9% experienced in 2014
- During 2015, we also increased the dividend by 5.7% on an annualized basis consistent with our earnings growth and within our stated dividend payout range of 60% to 70%
  - I mentioned AEP is in transition earlier

Sale of River Operations

- There were a couple of important milestones that we achieved during the year, particularly Q4
- Namely, AEP completed the sale of River Operations that we discussed during Q3 2015 earnings call, and we reached a settlement with several parties regarding the AEP Ohio PPA case
- AEP sale of River Operations occurred during Q4 and transaction occurred according to plan
- The cash proceeds were redeployed in advance of the sale by raising our capital forecast for Transmission, and then by raising our overall capital plan to $5B for 2016 at the November EEI Financial Conference, focused on additional regulated operating company and Transmission activities
- So we have successfully converted that portion of volatile earnings to a more consistent regulated earnings profile

Ohio PPA Case

- Regarding the AEP Ohio PPA case, we made significant progress by completing a settlement among the parties, including the staff of the PUCO along with the industrials, Sierra Club, retail providers and others that defines the PPA relationship from the unregulated generation to AEP Ohio customers
- The agreement answers the question of, how long is long-term? Eight years with a cost of – with a cost based agreement with a return and an adjustment mechanism that works much like a fuel cost pass-through provision
- AEP does guarantee up to $100mm credit to customers at the end of the agreement if, in the unexpected event, the anticipated savings do not materialize

- This deal is a great deal for AEP, our customers, and the state of Ohio, to ensure capacity is maintained for the benefit of customers during a transition period where markets do not have a long-term capacity product, and during the movement toward the clean energy future contemplated by the Clean Power Plan

Renewable Solar and Wind Generation

- AEP also expects to repower, retire, or refuel generation as part of this transition and build up to 900 megawatts of renewable solar and wind generation to achieve a balanced generation portfolio for Ohio's future
- This arrangement, when approved by the Ohio Commission, will be a model that could be used nationally that sets the tone for parties with substantially different positions about generation resources and the pace of change to come together focusing on the clean energy future and the mitigation of transition cost increases that our customers and the public expect
- AEP and the utilities in the U.S. are the ones that can bring the parties together to work with the states to define this clean energy future and deploy advanced technologies to improve our customers' experience while ensuring that the benefits are universal to all customers
- As with any agreement, AEP and the other parties didn't get everything they wanted, but this overall is a good deal that provides clarity and will ultimately benefit our customers and should be approved by the PUCO as quickly as possible
- We expect a record to be concluded by February 8, and an order from the commission shortly thereafter
- Assuming that's the case, the spotlight will move to the remaining unregulated generation, which we expect the ongoing strategic process to rapidly move to completion
  - This will set the stage for the next phase of AEP development with a firm financial foundation and position the company for the future

FY2016 Outlook

- Moving to expectations for 2016, we reaffirm our guidance range of $3.60 to $3.80 per share, and will continue our focus on disciplined capital allocation, emphasizing investments in our regulated companies and Transmission, with CapEx budget of $5B for 2016
- AEP continues to project long-term earnings growth of 4% to 6%
- Additionally, as a result of the available bonus depreciation as a result of the 2015 tax bill from Congress and our ability to invest as a result of the incremental cash, we are raising our capital budgets for the succeeding years to $5B in 2017 and $5B in 2018
- This will enable us to put money to work on behalf of our customers for needed infrastructure, including Transmission needs, basically interest-free while maintaining rate base levels that support earnings growth

Economic Recovery

- Brian will be covering the subject of customer load in a few minutes, but I'd like to say since the economic recovery began post-2008, we have seen quarter after quarter of inconsistent results, indicating the economy, while generally getting better, is still challenged in several sectors
- Also, we have moved from one extreme to another from a weather perspective

- From the polar vortex in 2014 to the warmest fourth quarter in the last 30 years in 2015, so it's difficult to evaluate sustaining trends at this point
- We continue to believe load will increase overall during 2016, albeit at a slightly slower pace than originally forecasted, but not enough for AEP to adjust guidance
- During 2016, we will focus on obtaining approval for the Ohio PPA settlement, continue our strategic review of competitive generation, and continue to work with our states on ways to comply with the Clean Power Plan, all with the continued focus of driving efficiencies through LEAN initiatives, capital allocation discipline, operational excellence and continual focus on cultural initiatives that I believe are the prerequisite to remain agile and innovative for the future

Earned Regulated ROE

- Now I'll move over to the equalizer graph, which we go over every quarter, and this sort of rolls out for the year
- The 2015 earned regulated ROE on the left side of the page, and then what we anticipate for the 2016 pro forma regulated ROE on the right side of the page
- So let's talk about Ohio Power
- For the Ohio area, AEP Ohio is in line with expectations and we expect to finish the year in line with the 12% ROE that's forecasted
- As far as APCo is concerned, the West Virginia rate case that we got, achieved in 2015, addressed the weak returns in West Virginia, so it helped the ROEs in APCo as well
  - Rates were implemented in June of 2015, so we expect to see that the rate case will also help improve the ROE in 2016 for APCo

Kentucky

- Kentucky, it's good to see it coming up
- We're seeing the expected improvement at year-end
- The commission authorized the $45mm rate increase in July with a 10.25% ROE to be used in weighted average cost of capital for riders and AFUDC
  - So we continue to see an increase from that perspective, which last quarter, as you recall, it was woefully short
- I&M achieved an ROE of 10.2%
  - This was the result of positive regulatory outcomes associated with long-term capital investment programs in generation
- Rockport, SCR, solar, nuclear with a Cook Life Cycle Management and Transmission projects as well
- So I&M is well-positioned for another positive year in 2016
- PSO's ROE is generally in line with expectations

Oklahoma

- The economy in Oklahoma has experienced a slowdown, due in part to lower oil prices and the reduced oil and gas activity in the state
- In December, though, the Oklahoma Corporation Commission heard the rate case, and PSO implemented interim rates of $75mm at the first of the year
  - So a final commission order is expected during Q2 this year
- SWEPCO continues to be somewhat of a challenge
- The operations are strong, but it's challenged in the oil and gassy area, natural gas price area
- And as well, the continued issue with Arkansas, a portion of the Turk Plant, which we continue to analyze alternatives for that
- Hopefully, a retail rate case in Arkansas at some point would be helpful from that perspective

AEP Texas

- AEP Texas, the ongoing distribution capital investment in TCC to serve higher levels of electric load and to maintain the reliability of the grid has gradually lowered the regulated ROE over time
- AEP Texas continues to monitor the earnings levels and the jurisdiction, and they basically have three avenues available to them
- One is the Transmission key costs, Transmission capital cases that they've been involved with currently
- And then also, whether it's a traditional rate case filing or under the legislated approach of the distributed, distribution cost recovery factor, that's another opportunity for them, as well
  - So taking a look at earnings, and we'll focus on those alternatives
- As far as the AEP Transmission HoldCo, Transmission was at 11.1%
  - It should drop to 10.2% during the year, but obviously, we're spending a huge amount of capital in the Transmission area, so you do have some lag there
- So with that said, overall, the regulated ROEs are moving from 9.6% to an expected 10.1% for the year
- So overall we should have a good year from a regulatory standpoint

Concluding Comments

Now that we are in 2016, and before I turn it over to Brian, I'll end by saying I was recently struck by an article I was reading on the 2016 commemoration of 50 years of Star Trek

While it all started with the original series in 1966 with a five-year mission, it has, over the last 50 years, consistently reinvented itself to remain relevant

AEP after 110 years is doing the same thing

This team started out in 2012 after a rough period in Ohio on a five-year mission of our own that set a course toward a firm foundation around execution and discipline, to advance operationally, financially and culturally

AEP has performed well since then despite some significant headwinds and as we move into 2016, our focus remains the same: to complete our mission to position AEP as the next premium regulated utility

This will provide AEP the firm foundation to reinvent itself by focusing on the customer experience, resources and technologies of the future, and disciplined capital allocation to become the model utility of the future

Brian X. Tierney

Financial Results

I will be taking us through the financial results for both the quarter and the year, with most of our focus on the annual results

Let's begin on slide six with Q4 comparison, where operating earnings in both years were $0.48 per share

Despite extremely mild temperatures, which adversely affected the quarter by $0.11 per share, as well as lower earnings from our competitive businesses, total company earnings were unchanged from last year

- These unfavorable drivers were effectively offset by favorable rate proceedings, the absence of unfavorable regulatory provisions from 2014, and the decline in the effective tax rate, each of which added $0.09 to Q4 2015

Turning to slide seven, you will see that Q4's earnings, when added to the results through September, pushed our annual operating earnings to $3.69 per share, compared to $3.43 per share in 2014, an increase of 7.6%

Vertically Integrated Utilities

- The increase in earnings for our largest segment, Vertically Integrated Utilities, was the primary factor contributing to the overall increase in earnings
- The major drivers for this segment include the favorable effects of rate changes, regulatory provisions, and lower O&M and income tax expenses, partially offset by reduced margins from retail and wholesale energy sales
- Rate changes were recognized across many of our jurisdictions, adding $0.31 per share to the year
- This favorable effect on earnings is related to incremental investment to serve our customers, as well as the successful transfer of the Mitchell plant to Wheeling Power
- The effect of regulatory provisions bolstered earnings by $0.12 per share due to a Virginia legislative change and the unfavorable Kentucky fuel order in 2014
  - Lower O&M expense for this segment favorable affected the comparison by $0.06 per share, primarily driven by lower employee related costs

Effective Tax Rate

- Similar to the quarterly comparison, the annual effective tax rate for this segment was lower in 2015 due to the impact of annual tax rate adjustments and the effect of accounting for tax items on a flow-through basis
- Partially offsetting these favorable items were declines in normalized margins in off-system sales, net of PJM charges
- The lower normalized margins, which reduced earnings by $0.09 per share, were driven by lower usage across most of our operating regions
  - I will talk more about load in the economy in a few minutes
- The $0.17 per share decline in off-system sales reflects the significant margins realized during the Polar Vortex events in early 2014 and the soft power price in 2015

Transmission and Distribution Utilities Segment

- The Transmission and Distribution Utilities segment earned $0.72 per share for the year, matching the results for 2014
- The major drivers for this segment include the favorable effect of rate changes and regulatory provisions, offset by lower off-system sales margins and higher O&M expenses
- Rate changes added $0.04 per share to earnings, primarily related to the recovery of distribution investment in Ohio
- Unfavorable Ohio regulatory provisions in 2014 that did not repeat created a favorable variance, adding $0.04 per share
  - The decline of $0.04 per share in earnings related to off-system sales margins was related to the Ohio Commission's order on OVEC
- O&M expense was higher than last year, which lowered results for this segment by $0.05 per share
- This was due in part to intentional incremental spending with the remaining change related to regulatory commitments in Ohio

Transmission HoldCo Segment

- The Transmission HoldCo segment continues to grow, contributing $0.39 per share for the year, an improvement of $0.08, or 26%, reflecting our continued significant investment in this area
- In the past 12 months, this segment's net plant, less deferred taxes, grew by approximately $1B, an increase of 49%

Generation and Marketing Segment

- The Generation and Marketing segment produced earnings of $0.75 per share, down $0.09
- However, this segment exceeded expectations in several areas
- The lower capacity revenues in Ohio, beginning in June, contributed to Generation resources' decline in earnings of $0.11 per share
- This was partially offset by the favorable effect of lower fuel costs and favorable hedging activity, helping to add energy margins in a period of soft power prices
  - In addition, expenses were lower due to unit retirements and the sale of properties, which allowed for the reversal of certain ARO liabilities
- Our Trading and Marketing organization also performed well, exceeding last year's results by $0.03

Retail Business

- Our Retail business exceeded 2014 results by $0.04
- AEP River Operations, which was sold in mid-November, contributed $0.06 per share to this year's results, $0.04 lower than 2014
- We have been deploying the proceeds from this transaction into our regulated businesses
- Corporate and other produced a loss of $0.06 per share, down $0.07 for the year

  - The decline was driven by higher O&M expenses, franchise taxes and other costs
- Our performance throughout the year resulted in our raising guidance twice, with the final results solidly in the latest range
- Despite the headwinds associated with lower capacity revenue in Ohio, 2015 was a successful year for AEP both financially and operationally

Load Performance

Now let's take a look at slide eight to review normalized load performance for the quarter

Before we go into the particulars by class, I'd like to provide some context around the load as depicted on this slide

If you just look at the bars, you will notice that they are volatile from one quarter to the next

It's important to remember that these comparisons are not to the prior quarter, but to the prior year

So this year's fourth quarter is being compared to Q4 2014, which as you can see was particularly strong across all classes

Load Contraction

- With that context let's now plow into the detail for Q4 2015
- Starting in the lower right, you see that our load decreased by 3.7% compared to the strong fourth quarter results of 2014
- This brings the annual normalized load contraction to 0.08%
- The upper left quadrant shows that our residential sales were down 4% for the quarter and 1.8% for the year
- While we are starting to see the impact of lower energy prices on our regional economy, most of the decrease is a result of the unusually strong 2014

Residential Sales

- If you compare our normalized residential sales in 2015 to 2013, volumes were down only by an average of 0.04% per year
- In the upper right corner, commercial sales were down 3.9% for the quarter compared to 2014
- Both commercial and residential sales were stronger in our eastern than western territories, which is consistent with the economic indicators I'll share with you on the next slide
- For the year, commercial sales were down 0.02%
- The strongest growth in commercial sales happened in Ohio Power and at I&M where a majority of our auto-related jobs are located
- As you know, 2015 was a banner year for domestic auto sales
  - This was certainly one of the bright spots in our regional economy

Industrial Sales

- Finally, the lower left quadrant shows that our industrial sales were down 3.3% for the quarter and 0.02% for the year
- We saw the biggest decline in our largest sector, primary metals, which was down 21% this quarter
- The weak global demand, strong dollar and over-supply of Chinese steel has created a challenging market for our metals customers and export manufacturers
- Fortunately we continue to see robust growth from our customers in oil and gas-related sectors to help offset the declining manufacturing load
  - I'll provide more detail on this later in the presentation

AEP Service Territory

Now let's review the most recent economic data for AEP's service territory on slide nine

Let's start on the left-hand side of the page, where we compare the economy of the U.S. to that of AEP service territory

For both GDP growth and employment growth, AEP service territory trails the U.S.

- But both indicators for AEP have been relatively stable for the last several quarters

The interesting detail is on the right side of the slide, where we compare the U.S. indicators to AEP East and AEP West separately

What this shows is U.S. and AEP West GDP unemployment growth are slowing while rates are improving for AEP East

The deceleration in AEP's western service area is associated with energy sector job losses

The acceleration in AEP's eastern territory is associated with auto, healthcare and professional service sectors

US Auto Sales

- U.S. auto sales in 2015 were at their highest levels since 2000
- We're also seeing exceptional growth in recreational vehicle shipments, which have tripled over the last five years
- This has been an important boost for places like Elkhart, Indiana whose economy is largely dependent on transportation manufacturing
- And finally, the relatively low business costs along with higher educated work force in places like Columbus, Ohio, have created an attractive business environment, resulting in over 11,000 new healthcare and professional service jobs in 2015

Domestic Shale Gas Activity

Turning to slide 10, I will provide an update on the domestic shale gas activity within AEP's footprint

Given the impact low energy prices are having on our regional economy, one might expect our electricity sales to the oil and gas related sectors to be down

However, as you can see in the upper left chart, we are still seeing over 10% growth in our sales to oil and gas sectors this quarter, despite oil prices being down 40% from last year, rig counts being down by nearly two thirds, and the fact that there are significantly fewer oil and gas workers today than we had at the end of 2014

- In fact the bottom left chart shows that our sales to oil and gas sectors are at all-time highs

Oil and Gas Loads

- The upper right chart shows that growth in oil and gas loads was spread across all major shale plays within AEP's service territory, with the strongest growth coming from the Permian, Woodford and Eagle Ford shales
- If we dissect the oil and gas growth into its components as shown on the bottom left chart, we continue to see the strongest growth from the pipeline transportation sector, which grew by over 33% in 2015
  - This was mostly due to the expanding infrastructure in West Virginia, Ohio and Texas to support the Marcellus, Utica and Texas shales

Oil and Gas Extraction Volumes

- Our oil and gas extraction volumes were up nearly 7% while petroleum and coal product sales grew by approximately 1% in 2015
- We still have a number of oil and gas-related expansions expected to come online over the next 18 months that should drive our industrial sales growth through 2016
- Obviously we are monitoring the situation closely given current oil prices and will update you on these segments throughout the year
- In contrast to the oil and gas sectors, the red bars in the upper left chart show that sales to the remaining industrial sectors are not growing as they were last year at this point, down 5.3% for the quarter

Capitalization and Liquidity

Now let's turn to slide 11 and review the company's capitalization and liquidity

Our debt-to-total capital improved by 0.2% this quarter, and is now at a healthy 53.2%

Our credit metrics, FFO interest coverage, and FFO-to-debt are solidly in the BBB and BAA1 range at 5.5 times and 20.8%, respectively

Our qualified pension funding held firm this quarter at 97%

During the quarter, a slight decrease in asset returns was offset by a slight increase in the discount rate

Our pension assets are now weighted at 60% in duration matching fixed income securities, with the balance being held in global equity and alternative investments

- We adopted this more conservative investment stance in 2014 to better align the investment portfolio with the pension obligation

Our OPEB obligations remain fully funded, but decreased from 112% to 109% during the quarter

Although plan investment returns were positive, they were more than offset by an increase in higher healthcare costs

Finally, our net liquidity stands at $3.5B, and is supported by our two revolving credit facilities that extend into the summers of 2017 and 2018

Q4 Recap

Let's see if we can't wrap this up on slide 12, and then quickly get to your questions

The employees of American Electric Power have a proven track record

Over the last several years, they have delivered operating earnings growth within our targeted 4% to 6% range, and we have grown the dividend in line with earnings

With the current dividend at the midpoint of annual operating earnings guidance, we anticipate paying out 61% of total earnings and 68% of regulated earnings in 2016

Our employees have executed continuous improvement initiatives, LEAN activities, and have begun the cultural transformation that has allowed us to keep expenses in a very tight range of $2.8B to $3.1B net of the earnings offsets since 2011

We forecast expenses, net of offsets this year to be in the $2.8B range

- In addition, our employees have been thoughtful about every dollar of investment in our system

We have allocated more dollars to the wire side of our business, and designed our Transco business to allow for the efficient deployment of low-cost capital for the benefit of our customers

Bonus Depreciation

- At this point, let me say a word about bonus depreciation
- This cash saving vehicle is not new to us
- For several years now, AEP has elected bonus depreciation
- During this time, the company has consistently grown rate base and earnings
- Earlier, you heard Nick announce that we will increase our capital spending by $1B in both 2017 and 2018
- Our customers will realize improved service at a savings due to the rate-reducing impacts of the regulatory flow-back of accumulated deferred income taxes and AEP will be able to grow earnings
- In this way, our communities benefit through increased economic activity, our customers benefit through rate savings, and our debt and equity holders benefit through the maintenance of our cash flow metrics as we grow our net plant in service
    - The ability to make incremental investment in our own system for the benefit of our customers differentiates AEP

Earnings Guidance

Looking ahead to 2016, we are reaffirming our operating earnings guidance of between $3.60 to $3.80 per share

We are keeping our CapEx plans for 2016 at $5B while increasing our CapEx forecast in 2017 and 2018 to $5B per year

And finally, as Nick said, we anticipate getting clarity on the Ohio PPA and the strategic review of our competitive businesses

We experienced a successful 2015 and are poised for success in 2016 and beyond

QUESTION AND ANSWER SECTION

<Q - Greg Gordon>: My first question goes to your last point. When I look at slide 31 of the handout, one of the hallmarks of the company under your management has been a very, very focus on balance sheet integrity. And what I see here is that from 2016 to 2018, even with the increase in capital spending, because there's such a significant increase in cash from operations, your 2016 to 2018 excess capital required is down by $1.1B and thus your debt capital market needs are also down by $1.1B. Doesn't that basically flow to retained earnings and further potentially strengthen the balance sheet from here?

<A - Brian X. Tierney>: The issue is part of what we talked about here is increasing the CapEx some but as we get the increase in retained earnings, that also increases our ability to access debt capital markets and we'll be reviewing that as we evaluate our plans as we enter into a period where we'll be spending in order to get ready for the Clean Power Plan and other opportunities like that later this decade.

<Q - Greg Gordon>: But it's fair, just eyeballing this, to say that exiting 2018, the balance sheet should be in an even stronger position than it is today, unless you decide to spend further capital over the period?

<A - Brian X. Tierney>: Yeah. We have not consumed all of the excess cash that the bonus depreciation extension has created for us.

<Q - Greg Gordon>: Great. That was my key question. Thanks. I'll let somebody else ask and go to the back if I have more.

<A - Nicholas K. Akins>: Yeah. It is interesting, Greg, though this time around, Congress, instead of waiting until the end of the year to give you, the existing year, they did the five years. So it really helped in terms of the cash and capital planning. And you're right, we didn't, we haven't utilized all of the capital available to us. But nevertheless, we'll continue to focus on additional opportunities for us, particularly as it relates to infrastructure spending.

<Q - Michael Weinstein>: Hi. Hello. Just to follow up on Greg's question: Does that mean that you could in theory lever up more on certain subsidiaries, such as Transmission, going forward? Is that one of the possibilities?

<A - Brian X. Tierney>: Yeah. So debt avoidance is one of the possibilities that we're looking at. Obviously, the closest thing that we've done is spending incremental CapEx. But debt avoidance and/or levering up are opportunities that the incremental cash makes available to us.

<Q - Michael Weinstein>: Yeah. I'm just thinking with a stronger balance sheet, you could also lever, increase the leverage on that subsidiary if allowed.

<A - Brian X. Tierney>: We could, Michael.

<Q - Michael Weinstein>: And also I was wondering if you could go into a little more detail as to why you think sales forecasts for the shale plays will continue to be in the 0.9% or continue to grow going forward? That you don't see any potential problems, I guess, in the next two years, considering the low prices?

<A - Nicholas K. Akins>: It is interesting because we continue to see more and more opportunities for the electric load to continue to pick up. Additional compressor loads, optimization within the fields of sales, improved production of the existing wells. That continues. And of course we're also looking very closely at new opportunities that are coming on line that have been identified, and gauging the progress of them coming in in 2016 as well. So we continue to, and we are in very close touch with our customers out there, particularly ones who have discussed expansion or addition of new facilities, and keeping in touch with them about timing of projects and the additional load associated with that. So we're keeping our ear close to the ground on all of that activity.

<Q - Praful Mehta>: Hi. My question was firstly on the EPS and cash flow guidance that you have for 2016, and obviously, the cash flow guidance you have going out as well. What is embedded in that in terms of both the PPA and also the outcome of the strategic review?

<A - Nicholas K. Akins>: Yeah. We don't have anything in there for that forecast at this point, and what we'll do – obviously, we want to get the PPA done and evaluate fully where we're at in terms of not only the incremental, any incremental earnings associated with PPA, but obviously, we have other factors we're looking at in terms of load and other issues to look at. So we'll deal with that when that time comes.

<Q - Praful Mehta>: I've got you. So just to be clear, if there is a PPA, outcome as positive, then that obviously is an incremental upside to the guidance you have right now? Is that fair?

<A - Nicholas K. Akins>: So we have to work through that process and fully understand it first. So I don't want to get out on a limb and tell you that would be the case, but obviously, getting the PPA in place would be very good for the company. But we're also looking at, like I said, other things that may – because I think after first quarter, we'll probably have a better handle on what load looks like, and then see that, some relative degree of consistency to make a good, really, a good forecast in terms of guidance and that kind of thing.

<A - Brian X. Tierney>: Praful, I think if we were to get new data sets around a PPA and/or disposition of a business, I think it would be incumbent on us to provide an update to guidance, and we would do that.

<Q - Praful Mehta>: Fair enough. That's very helpful. And then secondly, I've heard there is rumblings around a legal challenge associated with the PPA. Who knows where that goes, but just trying to understand, if that legal challenge comes up, how does that impact strategic review of the non-PPA assets? Because I'm assuming the outcome of that legal challenge would have an impact on the buyer's view about the value of the assets.

<A - Nicholas K. Akins>: Well, okay, so let's just keep in mind, there's really two sets of assets here. One is the ones that are covered under the PPA, and yeah, there are probably rumblings and probably more than rumblings at this point. There's filings that have been made, apparently. And you have the PPA piece of it that's really about 3,000 megawatts of generation nominally. Then you have the other 6,000 megawatts out there nominally that would be associated with the remaining unregulated. So if there's a case out there, I think anyone that would look at it, if it's on the unregulated part of the generation they're going to – there will be people who are buying unregulated assets and fully understand the risk associated with that. As far as the PPA is concerned, we'll continue the progress associated with the PPA. Those cases will work themselves through. We feel like we're in very good shape from a legal perspective. There's a lot of dust being kicked up, but that's what happens when you try to do progressive things, particularly things that have the state support itself as opposed to waiting on a federal outcome for a long-term capacity market for example. So I think that any perspective buyer in a transaction on unregulated generation, they'd fully understand what the issues are and the risk involved.

<Q - Christopher J. Turnure>: I have more kind of CapEx and balance sheet questions here to kind of follow-on some of the previous questions as well. First on the incremental CapEx of $2B over two years, kind of what's embedded in that? It looks like it's mostly Transmission related but is there any incremental renewables in there that stem from the PPA settlement? And then also on your ability to finance that capital, kind of how do you think about the moving parts there, especially in 2017 and 2018 given the fact that you're not assuming any kind of asset sale proceeds, any PPA incremental cash? And I think my understanding of your tax situation was that even though bonus depreciation is certainly adding to your potential in outer years, you probably wouldn't have been a cash taxpayer in 2017 and 2018 anyway. So how does the bonus depreciation kind of help your cash in those years to finance some of this incremental capital?

<A - Nicholas K. Akins>: Yeah. So let me touch the point on what's covered under the $2B that's included. Yeah, you're right. A majority of it is Transmission. And then there's some on the rest of the regulated activity, but there's also a piece in there associated with, as you mentioned, renewable projects, but it's not related to the PPA. It's really – not to the Ohio PPA, it's related to other arrangements, there are other PPA arrangements that we have for long-term PPAs with solar projects, universities and that kind of thing. So it very much supports what we're trying to achieve from a customer side of things. We go out and we participate in arrangements with long-term PPAs with credit-worthy counterparties to ensure that we can put those kinds of facilities in place. And you see the category there I think that's competitive parts where that competitive part is really around our on-site partners opportunities associated with projects that they're doing with – they're supported by long-term PPAs.

<A - Brian X. Tierney>: So then let me address, Christopher, the last part of your question. We – without the extension of bonus depreciation, we were going to be significant taxpayers beginning in 2016 and in 2017 and going forward. So this does significantly change our cash position. And as Nick just said in his response, we have not committed dollars yet for the renewables associated with the PPA. If that gets passed that will be an opportunity for incremental investment that's currently not in our CapEx plans. And if there were any proceeds from sale of any assets or businesses that we have, that would be incremental to our balance sheet and cash flow position as well.

<Q - Christopher J. Turnure>: Okay. Great. That's very clear. And then just another kind of follow-up on the load side here, you mentioned that you do kind of expect somewhat of a continuance in the E&P and energy-related sectors there in growth or at least stability there. Kind of what else are you thinking in terms of growth by customer class that underlies your 80BPS of growth overall for next year?

<A - Nicholas K. Akins>: Well, certainly auto manufacturing, travel and leisure, those categories continue to grow. Brian, you may have others.

<A - Brian X. Tierney>: Healthcare and business services are other areas that we're seeing growth, particularly in places like Ohio and I&M. We mentioned RV sales, and I remember when President Obama was running for office in 2008, one of the places that he was going as a sign of a downturned economy was Elkhart, Indiana. And if you look at Elkhart, Indiana now it's just absolutely booming with RV sales being up as much as they are. So that's another sector where we're seeing significant improvement.

<Q - Anthony C. Crowdell>: I appreciate the Star Trek reference and last quarter the Back to the Future. Just a couple questions, first easy one on your favorite equalizer slide, Transmission ROE is coming down in 2016. You said there's some lag there. Do you think that returns back in 2017?

<A - Nicholas K. Akins>: I don't have those numbers, but I would expect us, as we continue to accelerate Transmission, I think it'll probably stay pretty steady would be my guess. But we obviously have to look at the investment cycle there and – but obviously Transmission continues to be a near-term investment recovery perspective. And as long as we can accelerate it and bring those earnings in, which we started to do obviously last year, then we can mitigate the impact of the ROE drop. And then you also have a couple of other things that are occurring in there as well. ETT's ROE is also forecasted to decrease from 11.7% down to 10.4%. So that's sort of embedded in there as well. And obviously you'll have interim T cost filings that need to be made. So I fully expect it to stay relatively consistent with that.

<Q - Anthony C. Crowdell>: Also staying with the equalizer slide, if I look at Kentucky Power, that's the smallest ball here. I guess it's the smallest contributor for earnings. With the market and people paying exorbitant premiums for some of these smaller utilities, any thought of monetizing that? That doesn't really seem instrumental into the AEP story and it's also lagging your ROEs there.

<A - Nicholas K. Akins>: Yeah, I get that question quite often. Kentucky, on the one hand, it certainly is a regulated jurisdiction so we're still in the process of becoming more fully regulated. And I sort of measure that from that approach. Number one, it's a regulated entity. Number two, it's been one that – it was one of the first to do a rider for cyber. It was one of the first to allow the transfer of Mitchell. So while it may be small, there's some positive things about that jurisdiction that we obviously have to take a look at. But what you're saying obviously is we see that going on in the market as well but at this point we're focused on being a premium regulated utility and that means we need to deal with the issues that everyone's asking us about, and that is our strategic discussion around the unregulated generation. So that's really where our primary focus is. If we did something with a regulated entity at this point, we'd become more unregulated and that's not the direction that we're going.

<Q - Gregg Gillander Orrill>: Two quick questions. First, if you have any update around timing of merchant sale, how you're thinking about that? I know you said you expect an Ohio PPA order soon after the briefs are done. And then second on the O&M slide, the $2.8B for 2016 ex-riders and trackers, maybe is it a fair assumption to kind of back into what that is from 2015 and assume that continues? Or maybe you could provide some guidance around what that is for riders and trackers?

<A - Nicholas K. Akins>: Yeah. So I'll let Brian cover the second one. On the first one on the merchant sale piece that you talked about, I think the timing is still, as I said earlier – we need – it's sequential in terms of outcomes but not sequential in terms of the activity that's going on. We're already in a strategic process around the unregulated generation. The question is, what's in and what's out? So we will get through the PPA approach with Ohio. Hopefully they'll make a decision here, and they should be after over two years being a decent decision to make a decision quickly. And then we know and understand what we're dealing with, with the rest of the fleet. And so that process we would expect would move very quickly and I would expect us to be in a good position to get that done as quickly as possible as well. And that is a focus to make sure we complete that activity in 2016.

<A - Brian X. Tierney>: A little bit over $1B in offsets that we're talking about in terms of trackers. And in terms of how we get there from 2015 to 2016 in O&M, it's employee-related expense; it's one-time reductions that we'll be doing. And we've been planning for the reduction in capacity revenues in Ohio now for the last three years. So we've had, as a management team, our focus on the fact that they go away fully in 2016. So whether it's LEAN initiatives, procurement initiatives, one-timers that we're doing, some of the benefit that we got in 2015 where we're able to move expenses out of 2016 into 2015, we've really been very, very focused on maintaining that O&M discipline for the first full year of no capacity revenues in Ohio. And it's all those initiatives together that are allowing us to get to that $2.8B level.

<Q - Paul T. Ridzon>: Just wondering what you're seeing as far as buyer interest out there? Are you still talking to private equity? This would be for the non-PPA assets.

<A - Nicholas K. Akins>: Well, I have to be really careful with that, obviously. We do have an ongoing process and I would not be surprised if private equity is involved with that, because they're interested in that kind of business. But I probably should stop there because, obviously, that's an ongoing process.

<Q - Paul Patterson>: I'm sorry. Okay. I wanted to touch base with you on two things. Just first, on the non-PPA merchant plants, I apologize if I'm a little slow on this. What is exactly the decision process on them?

<A - Nicholas K. Akins>: So once we get past the PPA part of the approach, then on the rest of those assets, it really is centered around, number one, valuation. Because these, we feel like are really competitive units and ones that position well in the marketplace. So there's an opportunity to understand what the valuation of that is. And obviously there's ensuring that there are parties involved that are interested in those assets. And so we will go through that process very quickly, and there's, certainly, there's an opportunity there. But we obviously want to understand what the economics look like for that kind of transaction and what it means to our business going forward. And this is not a sheriff sale, so we're going to be very mindful about what it means to our shareholders in terms of, not only in terms of any potential dilution, if it exists. Or what we do with the proceeds is just as important as the question of what you do with the assets themselves. There's a multitude of different things that we have to think about in that process. As you know, we're in a pretty good cash position, capital position, right now. And to go through that process, there could be more cash associated with that. So we have to really think about just as much on the use of proceeds and obviously what it does to shareholders as well. So we'll go through that process and really that's the nature of it. It's a relatively simple process for that set of units.

<Q - Paul Patterson>: Okay. And then with the EPSA, [indiscernible] (51:10) NRG what have you, challenge that was made at FERC regarding the waiver. They want the waiver rescinded regarding the affiliate PPA. What – do you guys have any comments on that?

<A - Nicholas K. Akins>: Oh, yeah. We feel pretty strongly about our position. And yet obviously they perceive that maybe they didn't think we would even get this close to getting a PPA done. And we have PPAs now. We've got PPAs for solar in Ohio. We have OVEC generation that's under a PPA. We've got – and other regulated jurisdictions, and there's no difference between those activities and what we're doing here. And really it centers on the notion of whether there's customer choice or not. And in fact FERC has said before that customer choice does exist in Ohio, leaves it up to Ohio to determine the mechanism under which that now proceeds, and there's precedence for that. So we feel pretty strongly about our position. I think as far as FERC is concerned it's asked and answered. And I think when you look at the case that's been filed, I would presume they perceive of trying to address it there. And when they maybe have difficulty addressing Ohio when we haven't had a case for two years where they could have been involved with that. And our settlement is – now keep in mind, we have a settlement with a lot of significant parties in this case. So yeah, there's some on the outside looking in and they're going to do what they need to do, but the settlement of the parties exists. It's a good settlement. And certainly it's one that addresses the Ohio issues, and that's what we're about. Now I don't know, they have their own motivations about what they want to achieve, but we're wanting to achieve consistency from a pricing perspective for consumers, protection for consumers for a sliver of their energy needs, but customers still have the ability to choose in Ohio. They can choose any supplier. So – and that has not changed. So I think we feel good about it.

<Q - Ali Agha>: Nick, I wanted to clarify a point you'd made earlier. So as you're looking at the sale of the non-PPA merchant assets, you know we're looking at a market where commodity prices are down. The valuation on public equity merchant power stocks are down significantly. So how big of a concern is that? And I mean is that a scenario where if the price is not right, you stay back and you keep this? Or strategically, as you've emphasized to us many times, you want this to be a 100% regulated business? Just wanted to understand your thought process in terms of how this plays out.

<A - Nicholas K. Akins>: As we look at this, yeah, you could look at the present energy market, present natural gas prices, and a lot of people get hung up on if prices are high, then the world's changed and there's assumptions about what valuations ought to be. And when the world's low, there's again 180 degrees different assumptions about how the world ought to be. These decisions are made on long-term decisions and mainly driven by capacity markets. And for buyers of these assets, they're looking at long-term capacity markets and long-term energy prices, and they're making bets based upon where they think those energy prices are going to go. So it's the same discussion that we would have before. But again, these are a great set of assets and for anyone, even on a low energy market, you've got to look at margins. And margins are what's driving the valuations so and incremental capacity markets the same thing. So I think there's just so many – if you look at them on the long term, there's so many issues involved here that it is going to come down to any valuation would be around what someone else perceives the forward curve to be for capacity and for energy, and then our version of it. And we'll see where it goes. But if somebody comes in and tries to lowball us, then we feel pretty good about these assets. They sit really good in the market. But our presumption going in is that we will determine the outcome of what we do with these assets.

<Q - Ali Agha>: So just to clarify, Nick, on the one hand, is there a strategic decision made at AEP that, look, these assets are going and one way or another we are 100% regulated? Or will the decision be more sensitive to valuation, as you're suggesting?

<A - Nicholas K. Akins>: There is, and going in, we plan on being the next premium regulated utility. That is the strategic driver. Now, valuation, obviously we have to look at and make a determination. Well, is the valuation consideration enough for us to move ahead from that perspective? Because keep in mind, you're looking at things like currency value improvement, PE multiple improvement, multiple expansion, what you do with the proceeds, all those types of things that are also part of the evaluation. Because with River Ops, you know we changed from a volatile earnings stream to one that, by re-investing that cash, we were able to focus on a continual, consistent earnings growth stream and that's how we're looking at this as well. I mean, it's a volatile – you know, it may be great, it may be positive, but it's still volatile, and so we have to look at that and determine the balance of that kind of determination vs. what we can do with the proceeds, and ensure shareholder value on a consistent basis going forward. That's the way we look at it. So unless somebody – I mean – I don't think we're going to get any lowballs in this thing. I really don't believe that because it's a great set of assets.

<Q - Ali Agha>: Understood. Last question, unrelated. Just to be clear on the bonus depreciation, so the CapEx goes up in 2017/2018 obviously has positive earnings implications, but more near-term in 2016, any earnings headwinds from bonus depreciation we should be factoring into our thinking for this year?

<A - Brian X. Tierney>: No.

<A - Nicholas K. Akins>: Nope. We're one of the utilities that has a ready, willing and able – you remember the Transmission graph, we always have the green and the blue on top, that we were looking for capital. We found capital.

<Q - Shahriar Pourreza>: I'm sorry if this question was asked; I hopped on late. But just on the higher CapEx profile that you released this morning, just want to confirm, is there still levers to increase that budget under the assumption that you sell the five gigawatts, so can you re-deploy it avoid some sort of dilution? Or you know, were we thinking a little bit more buy-backs now that you've already raised your CapEx?

<A - Brian X. Tierney>: Shar, yeah. So the plan that we've laid out does not assume anything around proceeds of sale from non-PPA assets. So the plan that you have is a business-as-usual CapEx plan, and if things were to change, I anticipate that Nick and I will come out with revised guidance and use of proceeds.

<Q - Shahriar Pourreza>: Okay, good. So you could re-accelerate further CapEx additions above what you've done today?

<A - Brian X. Tierney>: All the things that are available for people to do with proceeds are things that would be available to us. We obviously look first to reinvest in our organic businesses, and with the incremental cash that we got associated with bonus depreciation, that was our first and best use of those dollars. So there's obviously a spade of other things that are available to us, but you'd anticipate Nick and I would come out and tell you what those things would be at that time.

<Q - Shahriar Pourreza>: Got it. Excellent. And just one last question on the strategic review of the five gigawatts, obviously there's obviously potential buyers here. Is there some optionality in this transaction where you can layer in the other three gigawatts if you don't get the PPA approved? Is that, is there that – is there sort of that optionality?

<A - Nicholas K. Akins>: Yeah, if the PPA is not approved then all of the assets will be in that strategic evaluation.