Q3 2013 Earnings Call

Company Participants

- Bette Jo Rozsa, IR
- Brian Tierney, CFO
- Nick Akins, President & CEO

Other Participants

- Ali Agha, Analyst, SunTrust Robinson Humphrey
- Anthony Crowdell, Analyst, Jefferies & Co.
- Dan Eggers, Analyst, Credit Suisse
- Greg Gordon, Analyst, ISI Group
- Jonathan Arnold, Analyst, Deutsche Bank
- Kit Konolige, Analyst, BGC Partners
- Michael Lapides, Analyst, Goldman Sachs
- Paul Patterson, Analyst, Glenrock Associates
- Paul Ridzon, Analyst, KeyBanc Capital Markets
- Stephen Byrd, Analyst, Morgan Stanley
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the American Electric Power Third Quarter 2013 earnings conference call.

(Operator Instructions)

As a reminder, today's conference is being recorded. And I would now like to turn the conference over to your host, Ms. Bette Jo Rozsa. Please go ahead.

Bette Jo Rozsa {BIO 16484334 <GO>}

Thank you, Brad. Good morning, everyone, and welcome to the Third Quarter 2013 earnings webcast of American Electric Power. Our earnings release, presentation slides and related financial information are available on our website at AEP.com.

Today we will be making forward-looking statements during the call. There are many factors that may cause future results to differ materially from these statements. Please refer to our SEC filings for a discussion of these factors.

Joining me this morning for opening remarks are Nick Akins, our President and Chief Executive Officer; and Brian Tierney, our Chief Financial Officer. We will take your questions following their remarks. I will now turn the call over to Nick.

Nick Akins {BIO 15090780 <GO>}

Thanks, Bette Jo. So today I'm happy to report that AEP had a good Third Quarter. With our performance in this quarter, we have decided to modify our guidance range for 2013 to the upper end of the guidance range. Originally it was $3.05 to $3.25 range, we had previously reported. We are changing that to $3.15 to $3.25, with a $3.20 midpoint.

Despite the continued overall stagnation of the economy, the continuous improvement in cost savings initiatives that our employees continue to focus on have provided the Company's ability to fully react to the current environment. These sustainable initiatives and others to follow will continue to provide benefits to our customers and our shareholders.

Coupled with our previous announcement by our Board to increase the dividend payable by $0.01 a share to $0.50 a share, these actions have been consistent with our plan to ensure continued positive performance for our shareholders. We have increased our dividend by 3.72% on the annualized basis, with a 61% payout ratio, which is within our 60% to 70% targeted range.

The Third Quarter came in at $0.89 per share on a GAAP basis, and $1.10 per share on an operating earnings basis. The difference this quarter is mainly attributable to the surprising decision by the PUCT to include -- the Public Utility Commission of Texas -- to include AFUDC and the cost capital related to the Turk Power Plant at SWEPCO. And a smaller impairment related to the Big Sandy scrubber project cost that was disallowed as part of the order in Kentucky approving 50% of the metro plant to be transferred to Kentucky Power rate base. I will discuss these cases in more detail a little bit later.

But so far this year, we stand at $2.33 a share on a GAAP basis, and $2.63 per share on an operating basis. With the differences attributable to the impairments that I just mentioned, along with other impairments and benefits from previous quarters that we reported. Despite the impairments of last quarter, we performed well from an operating earnings perspective. And I'm proud of our employees' efforts to control costs as an outcome of our repositioning efforts and continuous improvements. Also, solid regulatory recovery benefits and continued positive transmission performance have contributed, as well.

We are pleased to see increases in the commercial load, primarily in Texas and Ohio, for the Third Quarter. But our residential and industrial load continues to be challenged. The make-up of the top of the load, though, combined with the margins in each class, has resulted in a small year-to-date financial impact.

However, the oscillating nature of the quarter-to-quarter load cycles, as we have looked at previous quarters that we have reported, indicate a still tenuous economy. I call it a whack-amole economy because the growth in each sector has not been well-synchronized to indicate true overall economic growth. Industrial growth continues to lag across many sectors, including primary metals and mining, partially offset though in our service territory by the shale gas activity in Texas and Ohio.

Moving to the major regulatory activities during the quarter, we were pleased overall with the Kentucky asset transfer order. We received permission to transfer 50% of the metro plant to Kentucky Power, and put in place a $44 million surcharge, while freezing base rates for a period of time. We also keep the office and sales margins and the capacity payments. So that turned out to be a good order. The Kentucky Commission did disallow, as I mentioned earlier, certain scrubber project-related expenses that we had earlier.

The West Virginia case continues. We continue to wait for a commissioned order, which we expect relatively soon. But based on the outcome that we saw in the FE -- First Energy -- transfer order, we expect to have a reasonable outcome there as well.

Regarding the Texas rate case order involving the Turk Power Plant-related costs, we were pleased that the plant was found to be prudent. And the imposition -- obviously the retroactive rates that we had mentioned earlier, to almost to the beginning of the year. But we were disappointed that the Texas Commission surprisingly included AFUDC and the cost cap related to the Turk construction costs. We will be filing a rehearing request with the Commission to show that the case history and record does not support such an outcome.

To not allow equip recovery that we had requested, and then also to not allow AFUDC recovery beyond what was clearly a cap on the construction cost to build the unit, would send, I believe, a bad policy message on a prudent-incurred generation investment. We are indeed hopeful that after reviewing the record, the PUCT will reconsider its decision, particularly for a state that desperately needs to incent new generation capacity.

We continue to be committed to delivering 4% to 6% earnings growth off of our original 2013 guidance. AEP believes that the cultural transformation efforts, along with the ingenuity of our employees to achieve cost savings through our continuous improvement efforts, will ultimately mitigate the headwinds of a lack of load growth.

We believe our industry is no longer about just generation transmission and distribution. But is focused on infrastructure investment, particularly in the transmission area, and distribution, and the customer and employee experiences that include technological changes. And of course, optimization of our portfolio of assets. So our Company is transforming from that perspective.

In November at EEI, we will be discussing specific cost savings expectations in the areas such as lean generation, lean wires, procurement, lean IT, corporate services from a lean perspective. The unregulated generation cost reduction initiatives that Chuck Zebula and his team are working on. As well as other growth-related initiative areas, such as transmission expansion and more effective cost allocation per capital -- capital allocation, excuse me. This detail will demonstrate our plan to achieve our 4% to 6% earnings growth rate plans for the future, so stay tuned for that.

Now, as I turn to the equalizer chart -- I call it my equalizer chart -- on page four of the presentation, I would go through state by state, jurisdiction by jurisdiction, where we stand. The Ohio Power is showing up at 12.3%. Keep in mind that 12.3% does not include off-system sales, if you're thinking about it from a seed perspective. If you exclude the office of sales from the 12.3%, that brings you down below the 12% seed cap. So I know people have questions about that. But it also -- from an Ohio perspective, it doesn't include the $435 million of plant write-downs that we have taken this year. So when you look at Ohio, you have to think about that from a consideration perspective.

For West Virginia, we continue to see improvement in West Virginia. We expect -- as I said earlier, the order is expected pretty soon. So we would expect that to continue to increase.

And then on Kentucky, it is a sort of -- it is one of our smaller jurisdictions. And we had a Big Sandy 2 outage during the Third Quarter that had some O&M expense associated with that. So it is slightly lower than it was. But it continues in its positive trajectory as well, particularly with the Kentucky order now in place.

And at I&M, that continues to improve. You're seeing -- because it is a 12-month rolling average, the recent rate case activity will continue to enable that to improve. PSO is pretty steady. It has decreased a little bit, but that is because obviously PSO is doing what it needs to do to continue to invest in its distribution territory.

And then SWEPCO, we expect that to continue to improve because it is not fully reflected in terms of rates, the recent rate case development. It will continue to improve as well. And then AEP Texas is doing well. And then from a transmission operation standpoint, we continue to have heavy investments in transmission. So that return has come down slightly. But that is because of the heavy investment that is occurring and the via wag [ph] associated with that.

So overall, I would say the equalizer chart across the area is looking good. Now, just a slight change from the previous quarter. But overall, it is a 10.3% overall regulated operations ROE, which I think is pretty favorable in this environment.

So we have had a good strong quarter, and we certainly are looking for continued activity in November at the EEI meeting. And certainly Brian will talk a little bit more about the detail that we will be providing there. So at this point I will turn it over to Brian.

Brian Tierney {BIO 15917272 <GO>}

Thank you, Nick. And good morning, everyone. We are going to try a new format today for discussing comparative year-on-year results. In an effort to avoid repetition and tedium, I will handle both quarterly and year-to-date reconciliations on the same slide, focusing primarily on the quarterly results. But adding color to the year-to-date results as needed.

If we find that this new method is not helpful, then we will revert to the old format next time. In any event, the traditional slides that you are used to are in the appendix to the presentation. So here we go.

On slide 5, you will see that operating earnings for the Third Quarter were $533 million, or $1.10 per share. Compared to $496 million, or $1.02 per share, recorded last year, an $0.08 per share improvement. For the year-to-date period, our operating earnings were $1.277 billion, or $2.63 per share. Versus last year's results of $1.255 billion, or $2.59 share, an improvement of $0.04 per share.

Stepping through the detail from the top to bottom, you can see that the quarter was adversely affected by a combination of certain Ohio transition items that were unfavorable $0.03 per share versus last year. This effect on earnings was driven by an increase in customer switching, net of the capacity deferrals, and lower capacity payments from competitive retail energy suppliers. On a year-to-date basis, this item represented a significant drag to earnings, for an unfavorable comparison of $0.24 per share.

As expected in our guidance, the effective income tax rate was unfavorable $0.04 per share for the quarter, due to unfavorable year-on-year tax-to-book differences accounted for on a flow-through basis. As well as positive adjustments to state income tax returns that were recorded in 2012. For the year to date, this item is now unfavorable $0.09 per share for the same reasons as for the quarter. Allowance for funds used during construction, or AFUDC, was off $0.02 for the Third Quarter, and $0.07 for the year to date, due primarily to the start-up of the Turk Plant in December of 2012.

Off-system sales margins net of sharing were down $0.02 per share for the quarter. This decline was largely driven by prior-period true-ups of PJM-related expenses that more than offset the effect of increased volumes and prices this year. For the year to date, off-system sales compared unfavorably to last year by $0.04 per share. The decline for this period was driven by lower RPM capacity revenues that hurt results by $0.03 per share, as well as the PJM expense items mentioned for the quarter.

As you can see, both AEP river operations and our regulated retail load were unchanged and not drivers for the quarterly results. The September year-to-date decline for river operations reflects the lingering impact of drought conditions from the back half of last year into the first half of this year.

The year-to-date decline in regulated retail load is driven by the lower industrial demand across much of our service territories. As will become clear later in the presentation, the decrease in retail margins is not as large as a decrease in retail load. I will further discuss the economy and our retail sales data in the upcoming slides.

Weather played an unfavorable role in our earnings comparison for the quarter. Temperatures were milder than last summer, adversely affecting results by $0.08 per share. This result for the quarter was more than offset by the favorable cushion that we have built up through June. Weather for the year-to-date period is now $0.02 per share favorable versus normal.

O&M expense net of offset items was favorable $0.06 per share for the quarter. And that brings our year-to-date results almost even to last year. The lower O&M expense for the quarter was driven by lower storm- and employee-related expenses, partially offset by higher transmission service expenses. Transmission operations added $0.01 per share for the quarter and $0.05 per share for the year-to-date period, reflecting our continued significant investment in this area.

Other items for the quarterly comparison were favorable by $0.05 per share, and for the year-to-date period, positive $0.09 per share. The improvement for both periods was driven by lower long-term interest expense, lower depreciation expenses, and an increase in third-party transmission revenues.

Finally, rate changes were favorable by $0.15 per share for the Third Quarter. This result pushes our favorable year-to-date comparison to $0.36 per share. The improvement in earnings in both periods reflects successful regulatory outcomes in multiple jurisdictions.

As you can see, we continue to overcome the challenges created by Ohio. In spite of these challenges, we have executed on our plan to invest in our regulated operations, grow our transmission business, and control expenses. Our year-to-date results and expectations for the Fourth Quarter allow us to narrow our operating earnings guidance for the year to the upper half of the previously stated range of $3.05 per share, to $3.25 per share. We are narrowing guidance for 2013 to $3.15 to $3.25 per share, as Nick stated earlier.

Also, as I mentioned earlier, I want to spend some time looking at our regulated load so far this year. Turning to slide 6, you can see in the lower right quadrant that weather-normalized load was down 1.5% for the quarter, and 1.9% for the year. This marks the fifth consecutive quarter of declining retail sales. You have probably already noticed from looking at the bottom half of the slide that the decline in retail sales is primarily driven by industrial sales.

Residential sales, shown in the upper left quadrant, were down 1.8% for the quarter, which offset the strong First Quarter results, bringing the year-to-date growth essentially flat. We continue to see modest customer growth of 0.7% in our western service territories, but none to speak of in the east. Average uses per customer has declined, as more customers are utilizing efficient appliances in their homes and taking advantage of various energy efficiency programs.

In the upper right quadrant, you can see that commercial sales were up 1.3% for the quarter, which offset the weak Second Quarter results, making the year-to-date growth essentially flat. Commercial growth in the Third Quarter was evenly spread across the AEP service territory. In total, year-to-date commercial sales are down compared to last year. However, in Texas and Ohio, where we have seen stronger employment growth, we are seeing commercial sales gains compared to last year.

Finally, in the lower left quadrant, you can see the declines I mentioned earlier, where the industrial class is down 3.9% for the quarter, and 5.1% for the year. If you exclude the effect of our largest customer, which had been operating at reduced levels, the declines would have been 1.3% and 2.7% for the quarter and year-to-date periods, respectively. While not minimizing the importance of these declines, it is important to note that the effect on gross margin associated with industrial declines is less than in other customer classes. The average realization from industrial customers is less than half that for residential.

As I have done previously, let me stop here and share an update on the economy within AEP's footprint. AEP service territory continues to experience economic growth, although the growth has slowed somewhat recently, as we are starting to see the impact of the federal fiscal austerity measures. This is particularly true in our western footprint, where there are a number of military bases and a higher percentage of federal government employees than in our eastern territory.

As you know, a large part of the sequestration cuts were targeted around defense spending. Therefore, it is not surprising that for the quarter, GDP growth in AEP's western footprint was a mere 0.1% compared to a 0.8% in our eastern territory, and an estimated 1.4% for the US.

Fortunately, the employment statistics, which are a better indicator of electricity sales and GDP, are not as weak. Job growth in AEP's western footprint is up 1.6%, and is in step with the US, which is at 1.7%. While growth in the east has moderated recently to 0.6%.

Even though our employment growth had been consistently stronger than the US over the past several years, the economy in AEP service territory has not fully recovered from the recession. Most of the employment growth over the last year has been in the service sector, which is consistent with our commercial sales class growth, and has been the strongest in Texas and Ohio, as we mentioned earlier. Manufacturing employment, however, remains weak.

With that segue, let's turn to slide 7, where you will see the quarterly results from our five largest industrial sectors. Our largest sector, primary metals, was down 18% from last year's Third Quarter. Earlier I mentioned the curtailed production of our largest customer. And excluding that effect, this sector would have been down closer to 8%. That customer has now fully ceased operations, and so we expect to see this impact through the Third Quarter of next year. We are seeing other metals customers curtailing operations until market conditions improve, and some are taking advantage of the situation to retool their operations.

Chemical manufacturing is up 1.4% for the quarter, despite the year-to-date decline of 1.9%. If the global markets for chemicals recover while natural gas prices remain low, this export industry is in position to experience recovery.

Petroleum and coal products are down 2.1% for the quarter versus the same period last year. This is due to a couple of specific refineries that were down for maintenance in the Third Quarter. Excluding these two customers, sales to this sector were flat for the quarter, and would have been up 2.3% for the year.

The mining sector, excluding oil and gas, was down 2% for the quarter. This continuing decline reflects the impact of recent mild winters, low natural gas prices, and weak demand from utilities and metals producers. Approximately 90% of the AEP mining load is located in our eastern footprint.

Paper manufacturing was up 2.8% for the quarter, driven by higher demand in Ohio, which more than offset lower demand in the west. Although not in our top five sectors, we continue to see growing sales in the oil and gas extraction and pipeline transportation sectors, driven by continued gains related to shale gas activity.

Turning to slide eight will give us an opportunity to review the financial health of the Company. Our debt-to-total capitalization continues to improve, and now stands at 54.4%. Our credit metrics, FFO interest coverage and FFO-to-total debt are solidly BBB and Baa2, at 4.6 times and 19.7%, respectively.

On the bottom left-hand side of the graph, you will see that our qualified pension liability funding has increased to 98%. The Company has aggressively funded this liability over the last three years to the benefit of our employees, retirees, shareholders and bond holders. In addition to the funding, the Company has been working hard to match the duration of the assets to the liabilities, and to de-risk the plan as it approaches full funding.

In addition to the pension results, our other post employment benefit liability is now more than fully funded at 104.3%. This is due to some changes that were made last year in our post-retirement medical plans.

Finally, let me give you some updates on some recent financing activity. Last week, AEP Transmission Company LLC priced commitments for $400 million of senior unsecured notes in maturities ranging from 5 to 30 years. This Company is the holding Company for the Transco's that are in our existing service territories, and seek to add incremental transmission investment for the benefit of our customers at federally regulated rates.

The offering was a fantastic success, with spreads comparable to our larger-rated utility companies, and in some cases, even lower than current indications, demonstrating the strong appetite of investors for transmission-specific debt. More than half of the $400 million offering was for 30-year maturities, including some delayed draws. Many thanks to our investors, and to those who believed that this business format would attract significant amounts of well-priced capital. It is working out just as we said it would.

Lastly, on September 20, we received a financing order from the West Virginia Public Service Commission authorizing the securitization of the ENEC balance of $376 million, plus financing costs. We anticipate securitizing this balance in the next few weeks, as we work to finalize the offering.

It should be clear from the improving metrics on this page that management is committed to a strong balance sheet and to our investment-grade credit rating. We will continue to demonstrate spending discipline, careful capital allocation, and thoughtful access to the debt capital markets.

Finally, let me preview some of the detail that we will be sharing next month at the EEI Fall Financial Conference. We will provide support for the Company's 4% to 6% operating earnings growth rate off of original 2013 guidance. We will show how the growth comes from putting capital to work for the benefit of our customers, and then doing the hard work of getting the increased investment appropriately reflected in rates.

We will provide detail on the continuous improvement plans that the Company has embarked on. We will share the initiatives we have committed to for 2013, and describe the level of success we have had with those initiatives. We will also discuss the plans we have for 2014, and what we think the magnitude of those opportunities are. This should provide some insight into how we plan to fill the earnings gap presented by the low RPM auction results.

We have found a framework for continuous improvement that has worked well for us for over a year now. We evaluate the size of the opportunity, and then look to our employees to generate and analyze the ideas to capture the value. The employees who do the work of this Company have the experience and skill to show us how to provide better service and how to do it more efficiently.

We will provide more detail on the range of investment opportunity available to our Transco's and transmission JVs. In the recent past, we have only shown the investment opportunity of approved projects or those that do not need additional approvals. In November, we will provide more detail about those projects, as well as an upside case which includes currently identified opportunities. This should give investors transparency into the growth potential of our transmission Transco's and JVs.

We will also provide more detail into the cost structure and earnings opportunity of AEP Generation Resources, our competitive generation affiliate. This will be a relatively small portion of our business going forward, but one that has generated a lot of interest by investors.

Finally, we will provide some insights into the growth opportunity created by investment on behalf of our customers in our regulated wires and integrated utility companies. These regulated businesses will be the lion's share of AEP's business going forward. And we will show how putting capital to work to benefit our customers will allow us to grow earnings over time.

In November, we will be providing a lot of information designed to provide insight transparency and credibility to our investment and growth goals. At this time, we do not have plans to make any strategic announcements at the fall EEI conference, but rather details on how we plan to grow the Company over time. With that, I will turn the call over to the operator for your questions.

Questions And Answers

Operator

(Operator Instructions)

Our first question today comes from the line of Greg Gordon with ISI Group. Please go ahead.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. A couple of questions. Thanks for so much detail on your perspective on sales growth. When you look at -- for planning purposes, when you look out over the next 12 to 24 months, when you normalize for a lot of the idiosyncrasies of what is going on in your service territory, what are the range of expectations for best case/worst case/base case sales growth going forward?

A - Nick Akins {BIO 15090780 <GO>}

Well, Greg, good to hear from you. We have been assuming that load growth would be relatively flat. And that is what we're assuming in our modeling because you can't ignore what is going on with the economy.

And really, it is hard to tell what impact it would have in the future. Everybody is expecting -- you talk to economists, and every quarter it seems like the next quarter we are going to see an economic recovery. Well, that has been going on for years. So we are being deliberately conservative on that. And we will continue to be that way.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay, Nick, that's great. Good to hear from you, too. So your plans to drive the 4% to 6% earnings growth aspiration are anchored in the assumption that you are going to have to plow through the relatively flat sales growth picture.

A - Nick Akins {BIO 15090780 <GO>}

Yes, I would say it really is flat load growth. It is certainly cost containment through the efficiency efforts that we have ongoing. And capital allocations, those areas where we can get more concurrent growth and better ROEs.

Q - Greg Gordon {BIO 1506687 <GO>}

And Nick, on the earnings growth aspiration, is there a specific end-date to that? Or is your goal at EEI going to be to show people that you don't just have the ability to grow at that rate through 2015, but that you have the ability to offset post-2015 headwinds and continue to grow at that rate?

A - Nick Akins {BIO 15090780 <GO>}

Yes, you got it. We will show that, based upon that original 2013 guidance range that we gave -- and if you look at that, the bottom line 4%, the top line 6% -- we will be in that range.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. A final question. The pension funding looks amazing. We have got a tax and accounting team here that has done some analysis here at ISI on the impact of higher discount rates on all of the companies in the S&P 500. And utilities in particular, given their large pensions, seem to be particularly large beneficiaries of that going into 2014.

As you look at your planning, should it be our expectation that your pension, GAAP pension expenses, should decline dramatically next year? Or are you going to do things like take down the expected return because you are now so well-funded, which would mitigate the impact of that decline?

A - Brian Tierney {BIO 15917272 <GO>}

Greg, it is Brian. So we have over time been de-risking our pension portfolio, shifting more of the assets into fixed income and away from equities, as we have become more fully funded. We are anticipating that in a step-down basis, our pension costs will start to approach our annual draw on the pension, which will be close to about $100 million. So next year, we anticipate it will be close to $125 million. And then we expect the expense over time will approximate that $100 million-per-year level.

Q - Greg Gordon {BIO 1506687 <GO>}

And what was your pension expense budgeted for this year?

A - Brian Tierney {BIO 15917272 <GO>}

We are anticipating it to be closer to $200 million, about $175 million, $180 million.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks very much. Take care.

A - Nick Akins {BIO 15090780 <GO>}

Thanks, Greg.

Operator

We have a question from the line of Dan Eggers with Credit Suisse. Please go ahead.

A - Nick Akins {BIO 15090780 <GO>}

Good morning. How are you?

Q - Dan Eggers {BIO 3764121 <GO>}

Great. Just on the load growth questions Greg was asking. If we were to draw it out and you think about the breakdown in customer growth on a more durable basis, do you think the commercial side continues to show momentum, and the laggards are going to be industrial residential? Or how do you think within a flat load-growth profile do you see the customer classes behavior?

A - Nick Akins {BIO 15090780 <GO>}

Yes, that is a great question. We see all three classes continuing to oscillate. And there is a large discussion whether you are, just in general nature of the American economy, moving to an industrial manufacturing, to more of a service economy. That would bode well for the commercial side of things.

On the other hand, you want some fundamental base of industrial and manufacturing to enable the sustaining nature of commercial, and ultimately, residential growth. But to us, I think the beauty of AEP is that we are in so many areas of the country. And as Brian talked about, different parts of the country are experiencing different types of growth.

And based on that diversity, and the diversity of the margins related to the components of the classes of customers, I think we are probably in pretty good stead to remain, at least from the overall perspective, being relatively flat, going forward. It would -- when you look at the components of the economy, though, in our service territory, with the shale gas activity, with the energy-related economy that we have in place. If we really start to see consumption pick up by a vibrant economy and there is more focus on the energy infrastructure and the energy resources of this country, it is going to bode well for our service territory.

So you could see those kinds of measures pick up. But like I said earlier, that is all conjecture on all of our parts at this point in time. I think it is going to take more of a federal and state policy and regulatory policy that supports that kind of thing. And also, with the tax issues and things that need to be worked out by the federal government, you are not -- you won't see much growth until we see some clarity around how to invest in this country. And when you see that, I think you will see a different makeup of what we are dealing with from a load cycle perspective.

But like I said, we have been very conservative about it. We will continue to be conservative until we see indications otherwise. But when you look at the shale gas offsets, the chemical manufacturing picking up a little bit, that is an early indication that maybe something is happening here. But it's hard to tell.

Q - Dan Eggers {BIO 3764121 <GO>}

Nick, just on the shale gas-related activity. How much of your industrial load is that today? And can you just give some color on how much that has been growing as an underlying class, since it doesn't get broken out?

A - Nick Akins {BIO 15090780 <GO>}

Yes. Brian's got the detail on that.

A - Brian Tierney {BIO 15917272 <GO>}

I do. Let me get to the proper page here. And I'm having trouble finding it. So the pipeline and oil and gas extraction are smaller percentages. It is in the 3% to 5% of our total industrial load.

But the pipeline transportation, in particular, grew at 26% for the quarter. And then well in the double digits for the year-to-date period. So although it is smaller portions of our industrial load, the growth in those areas has been spectacular.

A - Nick Akins {BIO 15090780 <GO>}

When you look at the Eagle Ford shale area, for example, there is a whole list of industrial manufacturing facilities that are coming online in Texas. Now, some of them have been delayed in terms of their start-up. But you can see that kind of activity when you have a vibrant and a shale gas play in operation.

And you are now seeing Cline, and there is another shale gas operation now in west Texas that is picking up as well. Oil and gas activity is definitely not in the positive for the territory. And I think that is why you are seeing some of the commercial activity in Ohio pick up as well. Although the Utica shale is not as far along as the Eagle Ford shale yet.

A - Brian Tierney {BIO 15917272 <GO>}

Let me give you more detail on that, Dan. Oil and gas extraction is 3.8% of total industrial load. Pipeline transportation, our 10th largest sector, is 3.8% of industrial. And oil and gas extraction is up almost 27% relative to the pre-recession peak. And the pipeline transportation is up 16% relative to the pre-recession peak. So some pretty significant gains there over the last couple of years.

Q - Dan Eggers {BIO 3764121 <GO>}

Great. Thank you, guys.

Operator

And we do have a question from the line of Kit Konolige with BGC. Please go ahead.

Q - Kit Konolige {BIO 1507691 <GO>}

Good morning, guys.

A - Nick Akins {BIO 15090780 <GO>}

Good morning.

A - Brian Tierney {BIO 15917272 <GO>}

Good morning, Kit.

Q - Kit Konolige {BIO 1507691 <GO>}

On the dividend increase, obviously two increases within three quarters here. And I get a cumulative total of about 6.4% increase. What can we take away from this in terms of likely future growth in the dividend? And when should we expect dividend change announcements in the future?

A - Nick Akins {BIO 15090780 <GO>}

Well, probably can't comment on the dividend changes in the future. But I can say this is consistent with what the Board has laid out for us in terms of the expected range, the payout ratio, the 60% to 70%. And they have also said that our dividend payout will be commensurate with the earnings capability of the Company. So those things, as long as it continues to play the way it is, then we should be in good shape.

Q - Kit Konolige {BIO 1507691 <GO>}

And how about -- so Nick, you can't tell us anything about -- should we expect dividend increases in the First Quarter, as previously, going back to that pattern? Or will it just be uncertain for a period of time?

A - Nick Akins {BIO 15090780 <GO>}

Well, typically, we evaluate dividends in October. But like I said, we will have to look at the situation at the time with our Board, and make that determination. But typically, it is October.

Q - Kit Konolige {BIO 1507691 <GO>}

Right, fair enough. And one other area to touch on. Previously you have had a slide where you show 2014 EPS range of $3.15 to $3.45. But I didn't see that in here. Are we just in a quiet period for 2014 at this stage? Or should we continue to think about 4% to 6% growth in 2014 off of the previous range for 2013?

A - Nick Akins {BIO 15090780 <GO>}

Yes, we haven't changed 2014. That guidance is still good.

Q - Kit Konolige {BIO 1507691 <GO>}

All right, terrific. Thank you, very much.

Operator

We do have a question from the line of Stephen Byrd with Morgan Stanley. Please go ahead.

Q - Stephen Byrd {BIO 15172739 <GO>}

Good morning.

A - Nick Akins {BIO 15090780 <GO>}

Good morning, Stephen.

Q - Stephen Byrd {BIO 15172739 <GO>}

I wanted to follow up on low growth. Apologies for the low-growth questions, but --

A - Nick Akins {BIO 15090780 <GO>}

That's okay.

Q - Stephen Byrd {BIO 15172739 <GO>}

But you had mentioned that in your long-term guidance, you are assuming flat, low growth. We have seen some challenging quarters here in terms of low growth. If low growth were to continue to trend negative as it has been, how much of a headwind is that to your overall growth aspirations?

A - Nick Akins {BIO 15090780 <GO>}

It just depends on the components of what the load decreases are. Because we have a lot more margin in not only commercial, but residential as well. So it will depend on the components of it. But I can tell you that if we continue to see load deterioration, then we believe we have the process in place to respond to that.

I keep saying, this business is about optimization now. And you've got to remember, too, that I don't think load growth gives you the entire picture of the earnings capability of the Company. Because we are having to reinvest in the grid, we are having to invest not only from the distribution perspective, but also the transmission enhancements associated with it. And keep in mind, too, that we are producing earnings on the retail side beyond our own service territory.

So typically, we have always looked at load because it was all like one integrated utility. And we only had the load increases, and really it is pretty measurable in terms of what the investment capability was. But we are in a different picture now, where there will be more contributions from different areas. But as that load changes, we will obviously be watching the make-up of that load, the financial impact of the margin capability of that load, and making adjustments accordingly.

A - Brian Tierney {BIO 15917272 <GO>}

So to Nick's point, Stephen, some of the challenges that we have seen in industrial so far, we know we are going to see at least through the Third Quarter of next year because of what has happened at that large primary metals customer. And to some degree, that will be offset by what we are seeing in chemicals, pipeline transportation, oil and gas extraction.

But in this year, we have seen that we are down overall load 1.7% year to date, but it has only impacted earnings by $0.02 so far. So Nick's point that the combination of where we have load increases or declines makes a huge difference as to what our results will be.

A - Nick Akins {BIO 15090780 <GO>}

Yes, and the large customer that shut down, even looking at that contract -- and it was a special contract obviously. When you look at that kind of financial impact, it was still negligible, and we continued with the earnings guidance that we provided. So I think you have to look at it really on a customer-by-customer basis, and what type of customer they are.

Q - Stephen Byrd {BIO 15172739 <GO>}

Fair point. And a lot of your growth is in areas like transmission that really aren't as dependent on low growth outlook.

A - Nick Akins {BIO 15090780 <GO>}

That's right.

Q - Stephen Byrd {BIO 15172739 <GO>}

Just shifting over to the merchant side of the world, we have seen a more challenging gas environment. Gas basis has been trending negative. As you think about the long-term merchant earnings outlook and think about the future, how does that factor in? Is that in your current thinking in terms of -- it's moving so quickly -- but just curious how you look at the headwinds in terms of the local gas price and the impact on power prices.

A - Nick Akins {BIO 15090780 <GO>}

Yes, it absolutely is in our thinking. Gas prices remain relatively low for a long period of time. And I still believe they are going to remain low for the foreseeable future. And it is something that we have to adjust to from an unregulated standpoint. Chuck Zebula, who has taken over the generation, the unregulated generation side of the group with the retail piece of it, he is very focused on bringing down his cost structure to enable his business to continue to operate in a positive fashion.

And I mean, there's several things you have to look at. One is certainly the natural gas picture. The other is the capacity markets themselves, and the inability for those markets to actually pay long-term investors in an appropriate fashion. And that is something that we are working on as well.

And then also the impact of distribution. Although it is pretty minimal in our territory, you think about those things, they're forcing functions for us to reform our business so that we can succeed in that kind of environment. And that's what we are focused on. And our Board is very focused on that as well.

Q - Stephen Byrd {BIO 15172739 <GO>}

Great, thank you very much.

Operator

And we do have a question from the line of Jonathan Arnold with Deutsche Bank. Please go ahead.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Hi, guys. It's Jonathan Arnold.

A - Nick Akins {BIO 15090780 <GO>}

Hi, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Hi there. A couple of the things we are already on concert [ph]. But I just wanted to -- on Greg's question about how long your -- whether there is a definitive end point to your 4% to 6% growth aspiration, I wasn't sure you really addressed that piece of the question.

A - Nick Akins {BIO 15090780 <GO>}

No, that is our long-term growth forecast. And it is as far as we can see at this point.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Great. And then secondly, just as you look at it, assuming your load forecast of around zero is the scenario you're dealing with. Roughly how much of the 4% to 6% is coming from costs and continuous improvement and investment? Can you give us a little preview of some of these EEI build-ups? Is it half from cost savings, half from growth investments, or some other mix?

A - Nick Akins {BIO 15090780 <GO>}

Well, we will certainly have more detail on that in November. But we obviously are making pretty good headway from a continuous improvement and cost reduction perspective. But you have to also think about rates that have been put into effect, the transmission investment, and all kinds of things together. So I wouldn't look at one single area to determine what we are doing. But we will certainly have more detail on that in November.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay, thank you, Nick.

A - Nick Akins {BIO 15090780 <GO>}

Yes.

Operator

And we do have a question from the line of Paul Ridzon with KeyBanc.

Q - Paul Ridzon {BIO 1984100 <GO>}

Good morning, congratulations.

A - Nick Akins {BIO 15090780 <GO>}

Good morning, Paul.

Q - Paul Ridzon {BIO 1984100 <GO>}

When did Ormat quit taking power, and what is the strategy with Ohio as to potentially mitigate that?

A - Nick Akins {BIO 15090780 <GO>}

Well, they shut down completely just probably two, three weeks ago. And right now, there is no plan. I mean, obviously from an Ohio perspective that was taken before the Ohio Commission. The Ohio Commission dealt with it in the best way that they could.

I think it was a situation where the world markets had a tremendous impact on all of the primary metals suppliers. And that is really -- I think that is going to be the primary driver as to what could happen in the future, relative to those particular types of businesses.

So at this point, we are continuing on as business as usual. Although it is unfortunate that you line up in a situation where so many jobs are impacted. But we have a lot of customers that have that kind of experience. And certainly we did everything we could possibly do from a special contract perspective, and from other areas and working with the commission to enable them to stay in business as long as possible.

So I think we did everything we could do. The commission, in our belief, did everything that they could do. And I think it is a matter of the business case itself, supporting that kind of business in the future.

Q - Paul Ridzon {BIO 1984100 <GO>}

And can you just -- I don't know if you have already shut the door on this next question, but which LA [ph] is thinking about Ohio generation strategically?

A - Nick Akins {BIO 15090780 <GO>}

Yes. We get that question a lot. From an Ohio generation perspective, we are still on path to -- our first course of action, obviously, is to complete corporate separation, to get that done. And then secondly, Chuck is busily working on what his cost structure is going to look like in the future, to succeed, and even a $59 per megawatt day environment. We need to fully understand what that means.

And also, we are pursuing changes within the PJM market construct to enable long-term investment decisions to be made. Those are prerequisites for us to determine what the nature of that business is, and does it fit within our portfolio of companies? And I can't say at this point the timing of that. But certainly, I can tell you that our management, just like our investors, are fully engaged in trying to determine that result. And our Board obviously is very focused on those types of issues as well.

So it is not that we are sitting and waiting for a corporate separation to complete before we start thinking about it. I can assure you that a lot of thought is being given, not only in terms of what milestones need to occur, but also in terms of the information we need to make that kind of decision for the future.

Q - Paul Ridzon {BIO 1984100 <GO>}

Okay, thank you.

A - Nick Akins {BIO 15090780 <GO>}

Yes.

Operator

And we do have a question from the line of Steve Fleishman with Wolfe Research. Please go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes, hi, good morning, guys.

A - Nick Akins {BIO 15090780 <GO>}

Good morning.

Q - Steve Fleishman {BIO 1512318 <GO>}

Just on the topic of corporate separation. Could you just clarify what are the remaining steps to get that done?

A - Nick Akins {BIO 15090780 <GO>}

Yes, so we have the West Virginia case that we ultimately want to complete. And then there's three FERC-related cases that we intend on getting completed by the end of the year as well. And Brian, you know the details on those? There is --

A - Brian Tierney {BIO 15917272 <GO>}

I don't. We got half -- we filed for six. There are three more that are left to be done. And we don't have significant opposition in those. So we anticipate getting those shortly after we would be able to get what we need from West Virginia.

A - Nick Akins {BIO 15090780 <GO>}

Yes, one is a pool agreement. The other is -- the operating agreement is in place. And then there is an interim agreement that would be put in place as well. If you need more detail, Rich Munczinski is here and he can describe those for you.

Q - Steve Fleishman {BIO 1512318 <GO>}

No, that's good.

A - Nick Akins {BIO 15090780 <GO>}

Okay.

Q - Steve Fleishman {BIO 1512318 <GO>}

But right now, it looks like those should all potentially be done by year end.

A - Nick Akins {BIO 15090780 <GO>}

Yes. Three of them are already done, and three to go in FERC. And then the corporate separation.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay.

A - Nick Akins {BIO 15090780 <GO>}

And then you've also got the other side of the financing and everything that is going on. There is a lot of work going on associated with that activity as well.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Just a clarification from follow-up on the dividend. So you increased it another 2%. You had increased it 4% beginning of the year, the indicated rate. So that would be over 6%. But then you're saying that this is a 4% increase for the year. I assume that's the dividends paid?

A - Nick Akins {BIO 15090780 <GO>}

Yes, that's right.

Q - Steve Fleishman {BIO 1512318 <GO>}

For this calendar year, up 4%?

A - Nick Akins {BIO 15090780 <GO>}

That's right.

Q - Steve Fleishman {BIO 1512318 <GO>}

When we look forward to think about growth in the dividend, is it off this dividends paid in 2013, or the indicated rate? It is just a different way of looking at dividend growth than we normally look at it, I think. So I'm just curious.

A - Brian Tierney {BIO 15917272 <GO>}

It is just math, Steve, as you know. So what we are trying to do is, as the Board adjusted their stated dividend payout ratio to that 60% to 70%, we are trying to stay in that range. And I think you will see us grow earnings with regulated earnings over time.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Great. Thank you, very much.

A - Nick Akins {BIO 15090780 <GO>}

Sure.

Operator

We do have a question from the line of Anthony Crowdell with Jefferies. Please go ahead.

A - Nick Akins {BIO 15090780 <GO>}

Hi, Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hi, good morning. Just hopefully two quick questions. One is, I think you call it the equalizer slide, slide 4. And you give GAAP ROEs. Is there any way of getting a regulated ROE here? Because I think there is maybe some distortion, where Texas may include some securitizations. Or I think you state all systems sales in Ohio Power.

And the second question is related to the aluminum sector or primary metal manufacturing, where Brian said some of the manufacturers are using this opportunity to retool their plants.

With the retooling, do you think that makes them competitive in the current environment? And we get back to a pre-recession load, or where do we settle back in it?

A - Brian Tierney {BIO 15917272 <GO>}

Let me start with the second question first, Anthony. So for instance, some of the things that we have seen some people do in terms of retooling -- we have one customer who is taking down three boilers that they had, and are replacing it with a single more efficient boiler. So in that case, they are becoming more efficient and we don't expect the load to come back to the pre-recession load.

In other instances, people are saying -- hey, prices aren't high enough here for us to continue operating at the levels that we were. We are going to take the plant down. We are going to do preventative maintenance and get the plant back on line at a time when aluminum prices recover.

So it is really a combination of both of those things. Some of it is efficiency and the load will be reduced when it comes back. And another is just taking opportunistic outages.

A - Nick Akins {BIO 15090780 <GO>}

The interesting thing is we are seeing is, with the customers that are obviously still connected to the system that haven't gone out of business, those are still the demand charges. The demand ratchet that is in place for the industrial customers has not diminished. So that is a positive in terms of an indication of where they are at this point in time. Oh --

A - Brian Tierney {BIO 15917272 <GO>}

And then the equalizer graph.

A - Nick Akins {BIO 15090780 <GO>}

Yes, the equalizer graph.

A - Brian Tierney {BIO 15917272 <GO>}

Anthony, we can definitely get for you the GAAP ROEs that are represented there. But you are correct. In a place like Texas, we are having the effects of the securitization. And absent that, the regulated wires return in Texas is much closer to 10%.

So we can get you the detail on those for each of these, a GAAP return, rather than the pro forma-earned ROEs that we have listed on the slide. And as Nick was saying about Ohio, if we had reflected the impact of the write-offs that we had, that 12.3% return that you see there in Ohio would be significantly lower than what we are showing there, much closer to 6%.

Q - Anthony Crowdell {BIO 6659246 <GO>}

So other than Ohio and Texas, the GAAP and regulated ROE are within the same ballpark. It is just those two outliers? Just because, if you think about the Company can keeping manages costs, but one gets to where it is -- hey, you can't really manage costs in Ohio or AP Texas, because you're already at 12%. Whereas maybe the middle ground on this slide -- I guess the exception of Oklahoma -- you could manage costs. But I guess if there is a big difference between GAAP and regulated, there is some nice opportunity there.

A - Brian Tierney {BIO 15917272 <GO>}

Yes, you got it. Those states in particular that you mentioned, Texas and Ohio, are outliers, for the reasons that we discussed.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thank you.

A - Nick Akins {BIO 15090780 <GO>}

Yes.

Operator

And we do have a question from Ali Agha from SunTrust. Please go ahead.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you, good morning.

A - Nick Akins {BIO 15090780 <GO>}

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Two quick questions. One, in the past, you guys had used to lay out for us, as it related to rate increases, how much of next year's rate increases were already in hand. So if we did the same for 2014, looking at the stuff that has already happened, how much of the planned rate increases for next year would you say are already in hand right now?

A - Brian Tierney {BIO 15917272 <GO>}

We will provide you more detail on that at EEI, Ali. For this year, for what we had anticipated getting, we have most of those increases in hand at this point.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. Also --

A - Nick Akins {BIO 15090780 <GO>}

And the magnitude is smaller, too, than it used to be. It used to be huge.

Q - Ali Agha {BIO 1509168 <GO>}

And then the -- on the Ohio customers, Nick, you can remind us at the end of the September quarter, what the switching level was?

A - Nick Akins {BIO 15090780 <GO>}

Yes, we are at about 58% switched.

Q - Ali Agha {BIO 1509168 <GO>}

Sorry, Nick --

A - Nick Akins {BIO 15090780 <GO>}

58%. Which is about in line with our targets.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And then on the growth rate, just to be clear. I don't want to be lengthy here, but the 4% to 6%, as you mentioned a couple of times, off your original 2013 guidance. The fact that your original 2013 guidance has now gone up, if you just focus on the midpoint. So when 2013 is an actual number, presumably higher than what it was previously thought to be, would you stick to the guidance of the actual 2013 number? Or would you keep coming back to the original guidance?

A - Nick Akins {BIO 15090780 <GO>}

We are going to keep coming back to the original guidance.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. So the implication would be, Nick that if 2013 ends up higher, mathematically, the growth rate slightly becomes lower than that. Is that the way to think about it?

A - Nick Akins {BIO 15090780 <GO>}

Well, actually, it is 4% to 6% from the original 2013 guidance. And there is a bandwidth there, and we will be operating within that bandwidth.

Q - Ali Agha {BIO 1509168 <GO>}

Okay, fair enough. Thank you.

A - Nick Akins {BIO 15090780 <GO>}

Yes.

Operator

We do have a question from the line of Paul Patterson with Glenrock Associates. Please go ahead.

A - Nick Akins {BIO 15090780 <GO>}

Hi, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Hi. How are -- can you hear me?

A - Nick Akins {BIO 15090780 <GO>}

Yes. Oh, yes.

Q - Paul Patterson {BIO 1821718 <GO>}

I want to ask you about the Texas case and the write-off that we got there. Is that -- it sound to me that you guys were hoping to have that revised somewhat in your favor. Does the write-off reflect any change in that, or can you just elaborate a little bit on that?

A - Nick Akins {BIO 15090780 <GO>}

Yes, well, we got a little bit surprised. Because the commission -- during the entire case, we had a cap put in place that was originally our estimate of the cost of construction that did not include AFUDC. And during the whole pendency of that case, there was never an indication that the cost of financing or AFUDC would be included in that cap.

And the commission -- at the previous commission hearing, they indicated that AFUDC was included in that. And that surprised us, surprised everyone, I think. And then they issued an order saying that it was included. So the write-off is commensurate with the obviously, the recognition that if the cap is truly inclusive of that AFUDC cost, then that precipitates a write-off from our perspective. So we did that.

We are going to ask -- we are going to file for re-hearing and show, I think, a pretty credible case that it never was discussed. And something that, through the entire case, there is no record of our ability to respond to that kind of component being included in the cost cap.

So I think it is a pretty serious issue for the Texas Commission to take up. Particularly when you have a power plant that is the first of its kind, it is probably, out of the large projects that have occurred, it is been definitely the closest to budget. It has been lower than what we anticipated from an efficiency standpoint, which inures [ph] to the benefit of customers on a fuel cost perspective.

And it has won two power plant awards. And we won the Edison Electric Award for that plant as well. So to have that kind of positive investment that is made, and it is found to be prudent, and to have a substantial amount of the costs of the plant essentially be disallowed, is not a good message for those who are thinking about building capacity in the State of Texas. So --

Q - Paul Patterson {BIO 1821718 <GO>}

Sure. I hear you on all of that. And it all makes sense. But what I'm wondering is, the write-off, though, doesn't reflect any benefit from reconsideration? Or does it?

A - Brian Tierney {BIO 15917272 <GO>}

It does not.

A - Nick Akins {BIO 15090780 <GO>}

No, it assumes --

A - Brian Tierney {BIO 15917272 <GO>}

We have an order from the commission that does not allow for the recovery of the AFUDC now. And we will go for a re-hearing. If we get a positive outcome from re-hearing, then we will adjust accordingly. But right now we can't assume anything for (multiple speakers) purposes.

A - Nick Akins {BIO 15090780 <GO>}

That's right. There is just no basis for that recognition.

Q - Paul Patterson {BIO 1821718 <GO>}

And then for depreciation, the benefit that you guys got from that in the last couple of quarters, can you remind me what that was?

A - Brian Tierney {BIO 15917272 <GO>}

The benefit from --

Q - Paul Patterson {BIO 1821718 <GO>}

From lower depreciation. What is causing that, what is driving that?

A - Brian Tierney {BIO 15917272 <GO>}

Oh. It is the Ohio write-offs that we discussed earlier.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay, thanks so much.

A - Nick Akins {BIO 15090780 <GO>}

Yes.

A - Brian Tierney {BIO 15917272 <GO>}

And we have a question? Okay. After this, I think we have time for one more question.

Operator

And we do have a question from the line of Michael Lapides with Goldman Sachs. Please go ahead.

Q - Michael Lapides {BIO 6317499 <GO>}

Hi, guys, congrats on a great quarter.

A - Nick Akins {BIO 15090780 <GO>}

Thanks.

Q - Michael Lapides {BIO 6317499 <GO>}

Brian, I want to make sure I understood your commentary about pension costs for the income statement purposes. If I interpreted it correctly -- and I may have totally missed it -- you are basically implying that it is a $100 million tailwind for 2014, versus what you had expected for 2013?

A - Brian Tierney {BIO 15917272 <GO>}

Pension costs, pension expense will be about -- between 70 -- it will be about a $50 million improvement 2013 to 2014.

Q - Michael Lapides {BIO 6317499 <GO>}

Okay. Meaning a reduction in the O&M expense that, that pension drives.

A - Brian Tierney {BIO 15917272 <GO>}

Yes, now let me be clear. That is total pension costs. That doesn't include the amount that is allocated for CapEx versus O&M.

Q - Michael Lapides {BIO 6317499 <GO>}

Understood. Completely understood. Also, I want to make sure we think about it on the asset transfer dockets, both the Kentucky approval and West Virginia. Can you talk a little bit about the bottom line, what drops to the bottom line? I know you got the $44 million surcharge. But I'm just trying to think about what the cost offsets to that would be, and trying to do the same thing on the West Virginia side.

A - Brian Tierney {BIO 15917272 <GO>}

Well, in West Virginia, we don't have an answer yet.

A - Nick Akins {BIO 15090780 <GO>}

Yes. But off-system sales, obviously, because that is not included, so that off-system sale impact. And I guess --

A - Brian Tierney {BIO 15917272 <GO>}

And then the capacity settlement we get to keep, as we had previously. So the capacity payments that were in rates that Kentucky used to make to Ohio Power remain in effect during the period of the freeze. So it is the plus $44 million, keep the capacity payments, and you keep the upside of off-system sales until we go back in for the next rate case.

Q - Michael Lapides {BIO 6317499 <GO>}

And how much is the capacity payment in Kentucky?

A - Brian Tierney {BIO 15917272 <GO>}

About $20 million.

Q - Michael Lapides {BIO 6317499 <GO>}

Okay. And then when I think about the West Virginia request -- just the request, I know you don't have an answer. Can you give similar details about the bottom line impact on there the items which are a bottom line impact there?

A - Brian Tierney {BIO 15917272 <GO>}

It is a little complicated at this point because of the Mitchell component that is up in the air. But we would not anticipate a significant difference versus where we are today. But that will the significant component of what the settlements are. Particularly in regards to how we handle the Mitchell assets in regard to the Wheeling merger into APCo.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. I will follow up offline on this one. Thanks, guys.

A - Brian Tierney {BIO 15917272 <GO>}

Thanks, Michael.

A - Bette Jo Rozsa {BIO 16484334 <GO>}

Thank you for joining us today on today's call. And as always, the IR team will be available to answer any additional questions you may have. So Brad, you can please give the replay information?

Operator

Of course. Ladies and gentlemen, today's conference will be available for replay after 11 AM today through October 30. You can access the AT&T teleconference replay system at any time by dialing 1-800-475-6701, entering the access code 304411. International participants may dial 320-365-3844. And those numbers again are 1-800-475-6701. And 320-365-3844. Again, entering the access code 304411. That does conclude your conference for today. Thank you for your participation, and for using the AT&T Executive Teleconference service. You may now disconnect.