

Q1 2017 Earnings Call

Company Participants

- Bette Jo Rozsa, Managing Director-Investor Relations
- Brian X. Tierney, Chief Financial Officer & Executive Vice President
- Nicholas K. Akins, Chairman, President & Chief Executive Officer

Other Participants

- Ali Agha, Analyst, SunTrust Robinson Humphrey, Inc.
- Anthony C. Crowdell, Analyst, Jefferies LLC
- Jonathan Philip Arnold, Analyst, Deutsche Bank Securities, Inc.
- Julien Dumoulin-Smith, Analyst, UBS Securities LLC
- Michael Lapedes, Analyst, Goldman Sachs & Co.
- Paul Patterson, Analyst, Glenrock Associates LLC
- Paul T. Ridzon, Analyst, KeyBanc Capital Markets, Inc.
- Praful Mehta, Analyst, Citigroup Global Markets, Inc.
- Shahriar Pourreza, Analyst, Guggenheim Securities LLC
- Stephen Calder Byrd, Analyst, Morgan Stanley & Co. LLC
- Steven I. Fleishman, Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the American Electric Power First Quarter 2017 Earnings Conference Call. At this point, all the participant lines are in a listen-only mode. There will be an opportunity for your questions and instructions will be given at that time. As a reminder, today's call is being recorded.

I'll turn the conference now over to Ms. Bette Jo Rozsa. Please go ahead.

Bette Jo Rozsa {BIO 16484334 <GO>}

Thank you, John. Good morning, everyone, and welcome to the first quarter 2017 earnings call for American Electric Power. Thank you for taking the time to join us today. Our earnings release, presentation slides, and related financial information are available on our website at aep.com.

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

filings for a discussion of these factors. Our presentation also includes references to non-GAAP financial information. Please refer to the reconciliation of the applicable GAAP measures provided in the appendix of today's presentation.

Joining me this morning for opening remarks are Nick Akins, our Chairman, 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.

Nicholas K. Akins {BIO 15090780 <GO>}

Thanks, Bette Jo. Good morning, everyone, and thank you for joining AEP's first quarter 2017 earnings call. This quarter, AEP released earnings that are on track for the year despite mild winter weather and an earlier completion during the quarter of the merchant generation sale. So overall, we are very pleased with the outcome for the quarter and sets the tone for confirmation of our existing 2017 operating guidance range of \$3.55 to \$3.75 per share.

We reported GAAP and operating earnings for first quarter 2017 coming in at \$1.20 per share and \$0.96 per share, respectively. This compares with first quarter 2016 GAAP and operating earnings of \$1.02 per share. The difference in GAAP and operating earnings for the quarter was largely driven by the merchant generation sale in which AEP reported a \$127 million gain.

The story of the first quarter was a mild winter that had an impact of about \$0.08 per share and the early sale of the merchant generation that also impacted us in the quarter by another \$0.06 per share, but we still made it up - that negative impact by the great performance from continued strategic investments in our regulated businesses and transmission.

A little later, Brian will talk more about load numbers and this being the third warmest winter in over 40 years in our service territory. But suffice it to say, we are pleased with the quarter given these prevailing headwinds. Even though our normalized load was down from first quarter 2016, looking deeper at the fundamentals, there are indications for optimism, particularly in the energy sector in areas such as oil and gas, mining, primary metals and others, which we really haven't seen in quite a while.

Additionally, our employees continue to be focused on O&M spending and prioritization to match not only delivering on our shareholders and customer expectations, but positioning this company for the future.

So, let's get to some of the areas you may have questions about. I thought I would take a moment and talk about the Ohio legislation. There seems to be some level of confusion about what AEP is trying to achieve with this proposed legislation. This legislation is limited in its scope, and it's incremental through our current investment thesis.

First, we are looking for permanent support of the PPA that provides OVEC generation to AEP Ohio customers. The PUCO has previously approved our recovery of these costs, but we need to fortify this through legislation. The second area of focus provides clarity for regulated recovery of the building of new generation by an electric distribution utility, such as AEP Ohio, if the PUCO determines a need. We are actively engaged with a variety of stakeholders and

legislators to market participants to deliver – to develop specific language that can gain broad support. We might see this effort get bifurcated to move OVEC first and then the broader EDU question, but we'll still see both moving this year, perhaps, third quarter and fourth quarter, respectively.

What this is not is the total re-regulation of the Ohio generation. That went out the door when we sold generation and took the write-downs last year. This legislation from AEP's perspective is entirely forward-looking that provides investment potential in Ohio generation that would be positive through our current investment plans.

How are we doing in transmission? We reported this quarter that net plant invested is up 32% year-on-year with an increase of \$0.05 per share, so our transmission investments are doing well. We did receive our FERC 205 case approval to put in place forward-looking transmission rates with an effective date of January 1. If ultimately upheld, this will be positive for further investments in transmission for the benefit of our customers with a more attractive recovery mechanism. We are currently in the process of settlement hearings and discovery on the FERC 205 case.

The FERC 206 case is still awaiting rulemaking, so this is still ongoing. But we still believe our rates fall within the reasonableness framework that FERC has shown in reviewing transmission rate structures.

As you all know, our investment plans center on infrastructure development focused on our regulated businesses enhanced by our ability to invest in the largest transmission system in the U.S.

Also as icing on the cake, we have been additionally focused on renewables, and also contracted renewables. And that business continues to progress well in a very selective and disciplined way. Our competitive renewables business continues to be on track that we described to you last fall with a plan to invest \$1 billion in contracted renewables over the next three years.

Over the past several months we have explored the opportunity to invest in and own nearly 100 projects, both wind and solar, in AEP Renewables. Our balanced and disciplined approach, taking into account risk and return, has led us to successfully invest in only two of those projects, both solar, one in Utah and one in Nevada, backed by PPAs from credit worthy utilities. To date, we have invested about \$145 million in these two projects.

In addition, in AEP Onsite Partners, which is our customer solutions business, we successfully invested about \$50 million in 18 projects operating in eight different states. We also have a number of projects under construction with an expected cost of another \$50 million to be in service in the second quarter.

Collectively, between AEP Renewables and AEP Onsite Partners, we are on pace to have about \$300 million to \$350 million of capital invested this year, about a third of the way of \$1 billion, and are excited about the opportunities in the marketplace and our capabilities and discipline in operating and investing in these types of projects.

We also want to reiterate that these contracted renewable investments are in addition to our continued pipeline of renewable investments in our regulated utilities. We will continue to adjust and prioritize our overall capital program based upon the ebbs and flows of the various needs of our different lines of business.

In regards to the merchant generation, as you know, we completed the sale of the four merchant generation facilities in Ohio early in the first quarter. The proceeds from the transaction have been redeployed in the regulated business and transmission as well as other renewables-related projects. Our progress has been consistent with our message of using a disciplined approach to methodically reducing risk of merchant generation and augmenting investment in earnings from contracted renewables.

Regarding the remaining merchant generation assets, AEP Generation Resources continues the strategic transformation of the competitive generation business in Ohio with the recent announcement of our sale of our share of the Zimmer station, 330 megawatts, to Dynegy, while at the same time purchasing Dynegy's share of the Conesville Unit 4 capacity, which is about 312 megawatts. This transaction is awaiting FERC approval to move forward. Further, AEP has given its formal consent to DP&L, Dayton Power & Light, to retire our share of Stuart Units 1 through 4, 603 megawatts, by June 1, 2018.

Basically, after these two events, our competitive generation consists of our ownership in the Conesville station, 1,461 megawatts, and Cardinal Unit 1, 595 megawatts. So it really amounts to a little over 2,000 megawatts.

We continue to explore our strategic alternatives with these two stations and in the case of Cardinal, continued discussions with Buckeye Power, our partner for the past 50 years in a joint operating agreement, seeking ways to enable a more modern and efficient relationship at the facility, as we explore our strategic alternatives in parallel. We would expect further details to be discussed later this year on these issues.

Okay. Now turning to the equalizer graph. Our overall ROE continues to be good at 10.4%. While some jurisdictions are doing very well, there are some that remain challenged. And we'll talk about those.

So starting with Ohio power, the ROE for AEP Ohio at the end of the first quarter 2017 was 14.5%. This is a 12-month rolling average, reflecting rate relief associated with our distribution investment program; shared savings attributed to our energy efficiency program; the annual transmission formula rate true-up; and lowering financing cost. So from an Ohio perspective, we continue to do well. Although the 14.5% does include some of the legacy settlement items that would not be included in a SEET review, so we need to be careful with that.

APCo, the ROE for APCo at the end of the first quarter 2017 was 9.6%. So this change is driven by lower customer usage. And base rates still remain frozen in Virginia. So they've held in there pretty well from an ROE perspective with the rate freeze in Virginia as well.

Kentucky, the ROE for Kentucky Power at the end of the first quarter 2017 was 6.3%. The company plans to address this shortfall with a base rate application to be filed at the end of

May with new rates effective beginning in December 2017. So Kentucky we expect to continue to improve.

I&M achieved an ROE of 11.3% at the end of the first quarter 2017. I&M continues to benefit from strong regulatory frameworks in place for major capital programs, which we've discussed in previous quarters, across all of its business units and also closely managing expenses.

PSO, the ROE for PSO at the end of the first quarter 2017 was 7.5%. The declining ROE is primarily because of regulatory lag and the outcome from the Oklahoma Commission's last rate case order in December 2016. PSO is preparing - as we mentioned earlier, preparing for its next base rate case filing, which is planned for the end of June of 2017. So we're going back in for additional recovery there to start that process.

As far as SWEPCO is concerned, somewhat the same story there. The ROE for SWEPCO at the end of the first quarter 2017 was 7.2%. In April, the Louisiana Public Service Commission unanimously approved an increase to SWEPCO's formula base rate, increasing annual revenues by \$36 million with rates to be effective May 1. So, we'll continue to see that come back in. SWEPCO filed in December of 2016 to update its Texas base rate. So, that's one rate case we're watching very closely in Texas.

Earlier this year, the company successfully executed transmission and distribution revenue recovery factor filings in Texas for a total of \$13.2 million in annualized revenues. So, offsetting these positive outcomes, however, continues to be the portion of Turk - the Arkansas portion of Turk that's not currently retail rates. So, they'll continue to be a little bit challenged, but we expect it to continue to come up based on these other cases that are being filed.

AEP Texas, the ROE for AEP Texas at the end of the first quarter was 10.7%, which was primarily due to increased equity balances which include an equity infusion from AEP Corporation to support a substantial amount of capital expenditures that are occurring there and lower kilowatt hour sales in the first quarter of 2017 that's weather-related.

AEP Transmission Holdco, the ROE for AEP Transmission Holdco at the end of the first quarter was 12.6%. The improved ROE is driven by a decrease in regulatory lag compared to prior years, primarily due to the implementation of the fully forward-looking rates in the PJM region. The PJM 205 filing is approved pending hearing or settlement. So, at this point, it's showing very good returns from that perspective.

So, that pretty well wraps up the quarter from an ROE perspective at 10.4%. You know we have three jurisdictions there that we're watching very closely, which we normally do, and we'll be taking steps to ensure that the ROEs continue to improve in those jurisdictions.

So, with that, with the completion of our merchant generation asset sale in the first quarter 2017 and our positioning as a fully regulated energy company of the future, I'm happy not to be talking about merchant fleets, capacity markets and auctions, and Ohio deregulation as significant overhanging issues. While AEP has been working hard to establish a firm financial foundation and strategic direction for the company, all of these issues continue to cloud the AEP story.

The past few years and the issues we've been dealing with reminds me of how I felt at this year's Rock and Roll Hall of Fame Induction Ceremony in New York City. The ceremony was outstanding, as usual, much like AEP's performance in recent years, but there was still an overhang for me because, as a Journey fan, Steve Perry spoke, but didn't sing with the band at the ceremony.

I can tell you today that we feel at AEP very good about where we stand as a company today with no real overhanging issues to cloud our view of where this company is going. It's as if Steve Perry, in fact, did sing once again with Journey; don't stop believing in AEP. Brian?

Brian X. Tierney {BIO 15917272 <GO>}

Thank you, Nick, and good morning, everyone. I'll take us through the financial results for the quarter, provide some insight on load and the economy, and finish with a look at our balance sheet and liquidity. Let's begin on slide 6, which shows that operating earnings for the first quarter were \$0.96 per share, or \$474 million, compared to \$1.02 per share, or \$501 million, in 2016. This decline can primarily be attributed to less favorable weather this year than last.

Let's look at the earnings drivers by segment. Earnings for the Vertically Integrated Utilities segment were \$0.45 per share, down \$0.12 with the single largest driver being weather, which negatively impacted earnings for this segment by \$0.08. While last year's weather was milder than normal, 2017 was even warmer. Other unfavorable drivers for this segment include a higher effective tax rate due to positive adjustments in 2016 that did not repeat this year and lower normalized retail margins primarily due to 2016 being a leap year with an extra day in the quarter. In terms of retail load and the economy, we are beginning to see some positive signs that I will cover in a few minutes. Partially offsetting these items were recovery of incremental investment across multiple jurisdictions and lower O&M.

The Transmission & Distribution Utilities segment earned \$0.24 per share for the quarter, up \$0.02 from last year. In January, we told you about the global regulatory settlement that we had filed in Ohio which allowed us to resolve several issues related to historical cases. We are pleased that the Public Utility (sic) [Utilities] (17:01) Commission of Ohio issued a final order in February approving the settlement, which allows us to focus our attention on capital investment to improve reliability and better serve our customers. Favorable drivers in this segment include rate changes and higher ERCOT transmission revenue. Partially offsetting these favorable items is lower normalized margins due, in part, to the extra day included in last year's results.

Our AEP Transmission Holdco segment continues to grow, contributing \$0.14 per share for the quarter, an improvement of \$0.05 over last year. Net plant less deferred taxes grew by over \$1 billion, an increase of 32% since last March.

The Generation and Marketing segment produced earnings of \$0.14 per share, flat to last year. This segment realized lower earnings as a result of the January sale of the competitive assets as well as the lower trading and marketing margins from exception gains. These decreases were offset by an improvement in the retail business, positive ITC impacts from solar projects going into service and lower overall costs.

Corporate and Other was down \$0.01 per share from last year due to increased O&M and interest expense. Overall, despite the drag from weather, we experienced a strong quarter. We are working to offset the downward pressure from the mild winter and are confident in reaffirming our full-year guidance range.

Now, let's take a look at slide 7 to review the normalized load performance. We have traditionally presented this slide as billed and accrued load. This quarter, we are representing billed-only load, which we believe represents a more accurate view of load trends. For your reference, we have included billed and accrued in the presentation in the appendix over Bette Jo's strong objections.

Starting with the lower-right chart, our normalized retail sales declined by eight-tenths of a percent this quarter. Sales were flat in the commercial class, but down in both residential and industrial. Again, last year was a leap year, which is influencing the comparison.

In the upper-left chart, normalized residential sales were down 1.7% for the quarter. We saw a slight increase in residential sales in our I&M territory, but it wasn't enough to offset declines elsewhere. Customer counts for the system were up four-tenths of a percent this quarter, which was nearly double the pace we saw in 2016.

In the upper-right chart, commercial sales for the quarter matched last year's results. The strongest growth occurred in Oklahoma and Texas where we saw a pickup in oil and gas activity.

Finally, in the bottom-left, industrial sales decreased by three-tenths of a percent. While still negative for the quarter, you can see an improving trend in the industrial class over the past 12 months. The primary reason for this is the recovery of energy prices.

Let's review the relationship between load and energy prices in more detail on slide 8. The top chart shows the growth in AEP's oil and gas extraction sales. Upstream producers have responded to the higher oil prices during the quarter. Compared to last year, oil and gas extraction sales are up over 16%. The increase in oil prices and drilling activity, especially in Texas, Louisiana and Oklahoma, has helped lead our Western territory out of recession.

The bottom chart has a similar layout, but is showing the relationship between our mining load and the price of natural gas. When natural gas prices are low, electricity markets tend to select more gas generation over coal units. Mining production is closely tied to demand from the electric utility sector, so it is not surprising that sales to the mining sector have been declining over the past several years. However, natural gas prices have increased by over 60% in 2017, which is responsible for the improvement in this sector's sales for the quarter. We will continue to closely monitor energy pricing throughout the year, as it clearly impacts our energy-related industries.

Turning to slide 9, let's review the status of our regional economies. As you may recall from our last earnings call, most of the energy-producing regions within our service territory experienced recession in 2016, especially in the West. With the recent increase in energy prices and the subsequent pick up in oil and gas activity, our service territory has now come out of recession

and is currently in recovery. As shown in the upper-left chart, our Eastern territory grew by 1.6% this quarter, which is only 0.5% behind the estimated growth for the U.S. Our Western territory grew by two-tenths of a percent, which is a notable improvement from 2016.

Looking at the top-right chart, the growth in our East Vertically Integrated Utility segment was led by the Indiana, Michigan service territory, which benefited from growth in the automotive sector. Appalachian Power's territory came out of recession this quarter and Kentucky Power is expected to emerge during the second quarter as the mining sector improves.

The bottom chart shows that PSO's recession moderated in the first quarter and is expected to emerge from recession this quarter, given the improved energy pricing.

Finally, on the bottom right chart, we see that both of our Transmission & Distribution Utilities continue to improve in the first quarter, with growth in Ohio nearly a percent above that in Texas. Ohio's service territory is more diversified than others, with growth coming from many sectors such as professional business services, education and health care, and government. Overall, we are encouraged by the direction of the economies in our service territories. It is consistent with the improvement we had forecast for 2017.

Now, let's move on to slide 10 and review the company's capitalization and liquidity. Our debt to total capital ratio improved by 1.9% during the quarter to 54%, bolstered by the retirement of the AGR and AEG debt following the sale of the merchant generation. Our FFO to debt ratio is solidly in the BBB+ and Baa1 range at 19.5%.

Our qualified pension funding improved by approximately 2 percentage points to 98%. Plan assets increased during the quarter due to strong returns, while plan liabilities were essentially flat due to relatively stable interest rates. Our OPEB funding improved a percentage point from year-end to 108% with investment gains outpacing plan benefit and expense payments.

We have recently completed an asset liability study in our OPEB plans and, given its well-funded status, we are in the process of de-risking the assets by increasing the fixed income allocation. The estimated after-tax O&M expense for both plans in 2017 is expected to be unchanged from last year at about \$15 million.

Finally, our net liquidity stands at about \$2.7 billion. You will remember that in June of last year, we placed - we put in place two credit facilities: a \$3 billion facility that matures in June of 2022 and a \$500 million revolver that matures in June of 2018. The larger facility was intended to support all of our activities and the smaller one was designed to support our competitive generation and related commercial activity, which was under strategic review at the time. With the recent sale of much of that competitive business and with the smaller facility going current, the \$3 billion revolver is the right size for the businesses we have today. Since we no longer need the smaller revolver, we will terminate it in May.

Let's see if we can't wrap this up quickly on slide 11. We are pleased with our first quarter earnings results, which were achieved despite some very mild winter weather. We were able to do this by investing capital to better serve our customers and by focusing on continuous improvement initiatives that allow us to keep O&M expenses essentially flat.

As Nick mentioned earlier, with the closing of the competitive generation asset sale in the first quarter, we are successfully executing against the strategic transformation of American Electric Power into the industry's premier regulated energy company.

Finally, our performance in the first quarter and the stability of our regulated business model give us the confidence to reaffirm our full year operating earnings guidance of between \$3.55 per share to \$3.75 per share.

With that I will turn the call over to the operator for your questions.

Q&A

Operator

And first go to the line of Jonathan Arnold with Deutsche Bank. Please go ahead.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Good morning, guys. Hello?

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

Hello? Can you hear me?

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Yeah, I can hear you.

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

Okay. Good morning, Jonathan. How are you?

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Morning. Good. Thank you. Just a quick question on transmission. Can you guys disclose whether you've taken some kind of reserve in the numbers for the section 206 pending case?

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

Yes, we have.

A - Brian X. Tierney {BIO 15917272 <GO>}

Jonathan, we have. We've just not indicated what that amount is, for obvious reasons.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

No. I didn't. I just was curious if you've taken one. That was - thank you. And then on the generation business, it just seems to be tracking kind of pretty well relative to the guidance you'd given for the year, which from memory was like \$0.09 from ongoing and \$0.09 from assets to be sold, but some of those were sold earlier than you expected.

A - Brian X. Tierney {BIO 15917272 <GO>}

Right.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

So can you just talk about how we should be thinking about the contribution from that business in the context of full-year guidance and what you've said before?

A - Brian X. Tierney {BIO 15917272 <GO>}

Yeah. So we have filled in - so obviously, we sold the business sooner than we thought. So we had the \$0.09 in for the competitive assets that we sold. We sold them early. So we think there's about a \$0.06 hit to our full-year for that. But Chuck and his team are working hard to fill that in, to the degree that they can, with what they're able to do in the retail business and wholesale trading and marketing, in addition to what they're able to do in the renewable business. So while it has been a hit, they're working hard to fill that in. And again we don't have - for the remaining part of that business it's about \$0.09 or \$0.10 as well, so it's not a big swing one way or the other.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

But you were at \$0.14 in the first quarter was kind of more my question, Brian.

A - Brian X. Tierney {BIO 15917272 <GO>}

Like how the strong the first quarter was?

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Right. And is that going to - are we going to see some give back on the rest of the year or at some one quarter or another? Or is this just structurally going to be a higher number?

A - Brian X. Tierney {BIO 15917272 <GO>}

I think for the balance of the year we don't anticipate giving any back, so we've gotten ahead versus where we thought we'd be. But I wouldn't anticipate a big drag one way or the other in that business.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

And so an ongoing earnings power out of this business would still be in that sort of the dime (27:52) type of number?

A - Brian X. Tierney {BIO 15917272 <GO>}

\$0.10 to \$0.15. Think about it.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay. And then could I - just one small thing. It sounded like you've not adjusted in your sales numbers for the leap day. And so therefore, they'd have been slightly less negative.

A - Brian X. Tierney {BIO 15917272 <GO>}

Jonathan, and that's where we get a little crosswise, even with ourselves internally. We had adjusted for it in the budget, but when you look at the comparison to the prior year, it's going to show a negative.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay.

A - Brian X. Tierney {BIO 15917272 <GO>}

And that also will largely eliminate as we work our way through the year. It's a larger percentage of the quarter. It's a very small percentage of the full year.

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

So just to clarify that, obviously it showed a reduction, but because of the leap year, we still looked at it year-on-year. So if you adjust for that, load was pretty flat.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Fine. Okay.

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

That's overall. Yeah.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

And I guess while we're on the topic, we've noticed the change in the basis of presenting the sales. And it looked like you chose the presentation that looks a little less negative. But can you

give us the sort of explanation of why - again I may have missed this on the call, but why you think this is more appropriate?

A - Brian X. Tierney {BIO 15917272 <GO>}

So billed, we can measure exactly. When you look at accrued, there's a fairly detailed calculation that gets you to the accrued calculation - gets you to the accrued number. So when we present billed and accrued, there is fairly more volatility in how we present the numbers than if we just show what we billed. Remember on a year...

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

Previous period adjustments and things like that, that's the issue.

A - Brian X. Tierney {BIO 15917272 <GO>}

Right. So on a year-over-year basis, these things flatten out. When you look at the incremental periods, there's less volatility in just showing the billed. And we wanted to present both of them, Jonathan, because we want to make sure that we're not hiding anything.

And like I said, Bette Jo strongly objected to us showing the billed and accrued in the appendix. That's kind of a joke actually. But we felt that both presentation allows you to figure it out. But we felt that billed-only reflects more accurately the trend.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay. Thank you for that, and I'll let someone else go. Sorry.

A - Brian X. Tierney {BIO 15917272 <GO>}

Thanks, Jonathan.

Operator

Our next question is from Julien Dumoulin-Smith with UBS. Please go ahead.

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

Morning, Julien.

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

Hey, good morning, everyone, appreciate it.

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

Yes.

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

So perhaps just to follow up a little bit on your renewable commentary from the call. Can you elaborate a little bit on what exactly the opportunities are on the regulated side? Perhaps just articulate the eligible regulated jurisdictions. And also just talk about how you see that expanding over time. Maybe what is the opportunity and the cadence of that opportunity in terms of capital and megawatts?

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

Yeah. So we have several RFPs that have been out in various jurisdictions. But we also have the 900 megawatts in Ohio that we're moving forward with. And half of that at least will be AEP Ohio. And then the other jurisdictions, we have solar in Virginia, West Virginia, wind RFP in APCo. They're currently negotiating terms on the purchase of a 225-megawatt project. And then SWEPCO has a wind RFP where they'll purchase up to 100 megawatts of capacity that will also be owned.

So you have several areas that are now emerging from an operating company perspective, where we're piecemealing in the renewable side of things from a build standpoint. We still have a couple of them that are outstanding from a purchase – power purchase arrangement. West Virginia and Virginia have a 120-megawatt PPA there, but most of these going in now are more build options.

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

Got it. And what's the timeline to getting some of these initial bids back and finalized?

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

Yeah, so as far as the wind RFP, that's probably toward the tail-end of the year, because it gets filed and then going through that process of negotiation and getting the approvals to get it done. As far as the Ohio PPAs, sort of the same type of schedule on those. We've got to go back to the Commission and get – we've already done the bidding and we've got to go back to the Commission and start reeling all those in.

And by the way, the legislation makes it more prescriptive as far as new generation, but it won't stop us in terms of investing in the renewables in Ohio, in particular. So, Ohio, West Virginia, SWEPCO, those are moving ahead.

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

Excellent. And then, turning back to the transmission side, obviously, we've gotten a court case. How, if at all, does the latest court case impact any of your 205 or 206 filings? I imagine that might even impact the settlement discussions themselves. I'd just be curious.

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

Yeah. I think that's probably more long-term, but it really referred back or remanded back to the FERC to really focus on how to come up with the result that they did. So, as we look at it, I don't think it's going to have much impact in the discussions that we have. It could delay a decision, because they may want to get through that process, but we still feel like, as far as 206, it's in that reasonableness framework and FERC still - at least, the previous FERC. We have new FERC Commissioners coming on, I guess, pretty soon, but their driver will still be on the investment in transmission. And so, we expect them to fortify the results that they came up with and it should be fine.

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

But to be clear, the court order doesn't necessarily change your expectation of the (34:49) requirement on the...

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

No.

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

Okay. Great.

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

No. It doesn't.

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

Got it. All right. Excellent. Well, thank you all very much.

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

Sure thing.

Operator

Next, we'll go to Ali Agha with SunTrust. Please go ahead.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

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

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Good morning.

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

Good morning.

Q - Ali Agha {BIO 1509168 <GO>}

Good morning. Nick, to the extent that you are successful in tweaking the Ohio legislation that you're looking at, could that potentially lead to incremental CapEx opportunities – rate-based CapEx opportunities beyond the \$17.3 billion that you've laid out over the next three years?

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

It could. As a matter of fact, the 900 megawatts is not included in our present forecast on the renewable – our financial forecast, so you have that. And what we're really trying to get with that second part of it, which you mentioned, is the ability to go back to the Commission in a very prescriptive manner to get the approval for whatever kind of resources we want to have done.

So, those would all be incremental to that effort. And we really believe – in Ohio, if Ohio wants to take on its own resource portfolio, then there has to be a mechanism for that type of investment and we want to be there to make those investments. So, it would be incremental.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And then, I guess, Brian, how much headroom do you have – when you look at that CapEx budget, \$17.3 billion, how much headroom do you have that you could potentially increase that without having to go to the equity markets?

A - Brian X. Tierney {BIO 15917272 <GO>}

We have some room in our balance sheet to be able to that, and we continuously look at that as we're trying to measure how much CapEx we put into growth, how much dividend we pay out to our shareholders and what the strength of our balance sheet is. But if we were to get some of those incremental projects, either renewable or transmission, we believe we could fund those without having to access the equity markets.

Q - Ali Agha {BIO 1509168 <GO>}

Good, good. And last question, just to clarify, again, Brian. So, as you mention, the early sale of the merchant portfolio kind of created a bit of a gap in terms of the earnings that you'd budgeted for the year, but given the results through the first quarter, I just want to be clear, are we still trying to fill the gap or is the gap now largely filled? How should I be thinking about that \$0.06 gap?

A - Brian X. Tierney {BIO 15917272 <GO>}

So, I think we were looking at about \$0.09 from the competitive generation assets and \$0.09 or \$0.10 from that business – the go-forward business that we were going to keep; so, all together, about \$0.20. We're at about \$0.14, now. We still think we'll be in that \$0.20 to \$0.25 range for the combined businesses for the full-year.

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

Ali, just to go over one point, though, when – and I mentioned that our employees have been working really hard to look at O&M and those kinds of issues. When the quarter started out – the first quarter started out, we knew we were going to close this transaction. I think it was at the end of January, we closed it. So, we were \$0.06 short. January and February, as you recall, were very, very warm winters and we knew we were getting behind from that perspective. So, we started the process of going through our organization to determine what we could do from an O&M perspective to bring all of this back into line – to alignment, and that's what we do. We do that on a regular basis and those plans are there, and we'll continue to manage that through the year. So, when you think about a \$0.06 gap or anything like that, just remember, we know there's a \$0.06 gap, too, and we're working through that.

And our employees are used to this. I mean, it's amazing to me. I think – from a cultural perspective, over the last five years, we have certainly gotten to the point where our employees are fully engaged in what we're trying to achieve and demonstrate to our shareholders and to our customers. And I'm very proud when we have things like that occur, that we adjust to it, and we'll continue to adjust to it.

Q - Ali Agha {BIO 1509168 <GO>}

Got it. Thank you.

Operator

Our next question's from Praful Mehta with Citigroup. Please go ahead.

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

Good morning.

Q - Praful Mehta {BIO 19410175 <GO>}

Hi. Thanks, guys. The first question was on the remaining generation assets. I know it's a small fleet left now – or small set of assets left now, but when do you think you have a decision on what you want to do with them in terms of the strategic review? Is that sale process – if it were to go down the sale process part, do you think that's something that you can get done or at least announce this year? And is part of that the retail business? If you do exit all the generation, do you intend to then hold on to retail or is retail something that you would also look to exit from?

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

Well, first of all, on the rest of the competitive business, that strategic process is in place. It's been going on. Negotiations are going on and we expect a result on that before the end of the year. And remember, we've already written those assets down. So, from a financial standpoint we're practically out of it, but nevertheless, we're going through that process to ensure that we wind up with arrangements that we can live with relative to those assets. So, that will continue.

As far as the retail is concerned, I know this discussion goes back and forth based upon the exposure relative to retail. From day one of the retail effort, we have been very, very disciplined in our approach. It's relatively small, about 450,000 customers. And we manage and hedge that very well regardless of whether we have generation or don't have generation.

Now, it'd be preferable to have generation. Obviously, we're looking at that from a strategic standpoint. But nevertheless, we feel very good about where we sit from that perspective. The other side of it is strategic. I really believe that the retail customers we have, we have a relationship with those customers. And if you look at the future and what it holds relative to our business, that relationship is going to be critical, not only in terms of providing their energy needs, but in terms of the channel growth associated with additional earnings associated with serving those customers.

So, at this point, I'd say as long as we can manage it and be very disciplined about it and it provides a strategic hedge for us, particularly if jurisdictions decide to go deregulated or whatever, we have the foundation to make sure we're successful. So, at this point, that's the way we look at retail.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. But if there was an IPP looking to match their generation with retail, are you open to opportunities at this point or the intention is to keep it at this point in terms of the strategic review?

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

No. We're open to those opportunities because, obviously, having generation attached to it in some fashion not only provides a hedge, but also it could provide further benefits in terms of growth to that part of the business. But it has to be done in a very disciplined way.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. And then, just moving to the renewables side, the contracted renewables, then, is the deregulated side. It looks like, off that \$1 billion investment, there seems to be good progress this year in terms of the investments in that business. Just wanted to understand from an end-game perspective, once you do have the three-year \$1 billion investments and you've completed that cycle, is the intention, then, to kind of continue to re-up and reinvest or allocate capital towards further building out that platform or, at that point, would you go through a strategic review? Just wanted to understand what happens post the three years.

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

Yeah, I think the way we look at it is, obviously, it's a continuing part of our business, but our business is really about the capital allocation. And it's about the issues that we have ongoing with our lines of businesses. So, if there's additional transmission capability out there, we're going to take advantage of it. If there's additional opportunities from a regulated infrastructure standpoint, we're going to take advantage of it. If there continue to be opportunities with a high threshold that Chuck maintain - Chuck Zebula maintains for his business, we're going to take advantage of that as well. But it'll all be within the context of ensuring that we get the most stable earnings capability that we can get and, as well, provide that consistency to the market and invest in the right things.

That's clearly where we stand. So, it's hard to say what will happen in three years. And if you look at some of the things that we see, there's additional opportunities that we may or may not be able to take advantage of, that we have a pipeline of needs for capacity and for capital. And we're going to take advantage of it in the best way we can. So, it really is all about capital allocation, not about growing a contracted renewable business.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. And then, if tax reform were to actually pass and you did have the tax rate going from like to whatever, 15%, does that impact or would that impact your decision in any way around this business?

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

Certainly, the tax effects are a critical part of this business. So, we'll make that determination when we know what the - any investment tax credits or whatever does relative to that.

So, the key component around tax reform, you got to remember, though, and we want to maintain that position, is that we have less debt at the parent and, because we have debt at the operating companies, we have the flexibility to work with our jurisdictions on whatever the result is from a tax reform perspective. So, that in itself is a risk mitigation effort for us. So, we're not going to go longer in terms of risk relative to contracted renewables or anything else.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Much appreciated. Thank you, guys.

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

Yes.

Operator

Our next question is from Steve Fleishman with Wolfe Research. Please go ahead.

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

Morning, Steve.

Q - Steven I. Fleishman {BIO 1512318 <GO>}

Hey. Good morning. My question was actually answered. Thank you.

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

Good.

Operator

And we'll go to Paul Patterson, Glenrock Associates. Please go ahead.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning. How are you?

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

Morning, Paul. How are you?

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Just on the – I know that you guys are very much less in the merchant business. But there are some proposals that PJM is entertaining with respect to state subsidy impacts on the wholesale market. They've got several initiatives. And I'm not asking you go over all of them. But just in general what do you think about the potential of those to potentially coming about? And how they might influence the policies in Ohio?

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

Well, I guess the real question is, any proposal out of PJM, is it going to be timely enough for anything? Because it takes so long to get through any kind of process.

So when they talk about market reform to adjust for what the states are trying to do because of a lack of ability to cover base load generation in PJM's competitive market, I think it's going to take time for them to do. I mean you put it in a stakeholder process and who knows when it makes it out. And then you go from there.

So I guess and maybe my – our past history of dealing with the organized markets from a merchant standpoint is clouding my judgment. But I wouldn't bet on a lot of major changes there that would be particularly timely, particularly for nuclear and certainly for coal as well.

And from a state perspective I support the state stepping up where the organized markets don't cover what needs to be covered to ensure that there is a balanced portfolio. And if FERC doesn't do it, then the states should. And the FERC should let the states do it, because unless you do, really focus on these organized market reforms that enable a balanced portfolio to continue to exist. It's a risk management question, not a literal market, lowest cost type of question. So until that's resolved, I support the states.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then - thanks for that. Then in terms of the solar tax credit amortization that impacted I guess tax rates for the Generation & Marketing. I apologize if I missed this, but what - could you just elaborate a little bit more on what that is? And how we should see that going forward?

A - Brian X. Tierney {BIO 15917272 <GO>}

Yeah. We do the longer realization measurement, rather than realizing it all at once.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And that's...

A - Brian X. Tierney {BIO 15917272 <GO>}

The one that's much more consistent with the regulated utility model.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And why did that drive down tax rates this quarter versus last quarter?

A - Brian X. Tierney {BIO 15917272 <GO>}

So we had a solar project where we had the investment tax credit where it's realized contemporaneously, so that's what drove it down. So we had the investment tax credit on a solar project where we realized it in the beginning period.

Q - Paul Patterson {BIO 1821718 <GO>}

In this first quarter?

A - Brian X. Tierney {BIO 15917272 <GO>}

Yes.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And how will that - and so that just sort of - that's kind of a one shot in the arm kind of thing?

A - Brian X. Tierney {BIO 15917272 <GO>}

Correct.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Okay. And then just finally, and I apologize for missing this. But you did mention quickly on the call that there was a SEET impact that would change the ROE. That we should be careful in looking at that equalizer chart with respect to the impact on SEET. And I just was wondering, what would the SEET number be? Or roughly speaking, if it was adjusted for that?

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

Yeah. We haven't discussed that. All really we can say is that the 14.5%, there are some legacy issues in there. So when a SEET test actually occurs, which I guess was filed second quarter of 2017 for 2016, that that would be excluded. So you look at it on its face value, 14.5% looks pretty robust. But you got to consider that there - whenever a SEET test is done, issues get excluded, which would bring that ROE down. But we haven't said what that is.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. So the ROE would be lower. Okay. Just wanted to make sure. Okay.

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

Yeah. Yeah.

Q - Paul Patterson {BIO 1821718 <GO>}

Thanks so much.

Operator

Our next question is from Anthony Crowdell with Jefferies. Please go ahead.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Hey, good morning.

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

Morning, Anthony.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Nick, I wanted to jump on something you maybe - and I may have misheard it. To Praful's question, when you were talking about the retail business, did you say you would strategically look at merchant generation to add to the retail portfolio if it made sense?

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

No, didn't say that. No, didn't - no, I think what we're saying - we're saying is that, if there's opportunities to match generation in some fashion with the retail play, that that wouldn't - that could make sense. But it doesn't mean we're going to go acquire or buy or have more merchant generation to back it up. That's not the case.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Okay. And my real question was on Ohio. Just I want to understand what's happening in Ohio. You're saying that you're going to try to I guess separate the bill, where you're going to request I guess approval of the OVEC plan first. And then, second, go in for I guess the - I don't know if it's restructuring, the word restructuring.

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

Yeah.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Is that the process in - is it a fair read-through, you think, for investors, if you receive approval for OVEC, that's a good litmus test for the restructuring?

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

Yeah. So both are in; both are in right now. There are some legislators who have indicated because OVEC is probably a cleaner issue to drive through pretty quickly, because there's some reasons to get OVEC clarified that sort of - it's a much easier proposition to get done from a legislative standpoint.

The broader question of this ability to invest on behalf of the electric distribution utility is a broader question that brings in probably more issues to be discussed. So, the question is, do you try to do it all together or do you just drive out the easy part first, and then deal with the one that has just the broader issues associated with it. So, that's what I was talking about. So, that's why - one may get solved - the OVEC thing may get solved third quarter, and then the other gets solved fourth quarter. And so, that way we can have a dialogue of all the parties and get a more robust solution on the second part of it.

(53:41)

Sorry. Go ahead.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

I was just - my question - would the OVEC part of the original filing - and I apologize the year, so like 2014 or something, that was the original filing you made in Ohio?

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

Yeah, it was. We wanted more prescriptive language in there that allowed for - to ensure that OVEC can continue on from here on out till it gets that recovery from the AEP Ohio side because we never - that PPA has always been with AEP Ohio and stayed with AEP Ohio even with deregulation. So, we want to make sure that it continues to be attached to the AEP Ohio distribution company.

Q - Anthony C. Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my questions.

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

Yes.

Operator

Next, we'll go to Stephen Byrd with Morgan Stanley. Please go ahead.

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

Good morning, Stephen.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

Hi, good morning.

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

How are you doing?

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

Most of my questions have been addressed. I just want to follow up on Ali's question on the balance sheet. Brian, the FFO to debt stats look very, very good compared to the target range. Should we assume that there is some ability to move downward within that range? I guess, I'm thinking generally in the middle of that range rather than be at the high end of the range to the extent that you find more investment opportunities?

A - Brian X. Tierney {BIO 15917272 <GO>}

There is, Stephen. Part of what we're trying to balance is - I joked that a little over a year ago, the U.S. Congress dropped \$3.5 billion on our Treasurer's lap and said, hey, can you use this in

terms of bonus depreciation. And then, we had proceeds from a sale of about \$2.2 billion again this year.

And what I think we've shown is an ability to put that excess capital that we found to work in growing our business organically. The benefits of those things start to wane a little bit as we get to the end of the decade and those credit metrics get back in to the middle part of the range, how do I say it, naturally as some of the benefits that we're working through have been reinvested in the business, one, and expire in terms of the tax benefits, two.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

That's great. That's a good point. That's all I had. Thank you.

A - Brian X. Tierney {BIO 15917272 <GO>}

Thank you, Stephen.

Operator

And we'll go to Paul Ridzon with KeyBanc. Please go ahead.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Good morning.

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

Hey, Paul. How are you?

Q - Paul T. Ridzon {BIO 1984100 <GO>}

I'm well, thanks.

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

Good.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

I hate to bring it up, again, but would you keep some of the Ohio generation as a backstop to retail, is that what you were driving at?

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

No. No. What we're saying is if there was a hedging relationship that could be done through contract with a generation provider – just like we do in our normal hedging practice. Instead of hedge against the market, hedge against some generation. We're open to that. We're not open

to owning generation. Been there, done that, not doing it again. So, as far as maintaining generation in Ohio to support the retail effort? No. That's not in the cards, either.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Thank you for that clarification.

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

Yes.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

And then, Lisa's business did pretty well this quarter. Was there anything unusual in this, and then what's the outlook for this for the rest of the year?

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

I think it continues to be robust according to the plan. And certainly, as additional other opportunities arrives, we'll take advantage of it just like we have in the past. And Lisa continues to review her transmission projects and Transource's transmission projects as well, and will continue to do that. So, she - her business has performed very well, and we continue to see that progressing.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Was there anything - any large projects or anything came on this quarter or year-over-year that kind of drove that nickel uptick?

A - Brian X. Tierney {BIO 15917272 <GO>}

Are you talking about transmission?

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Yes.

A - Brian X. Tierney {BIO 15917272 <GO>}

Okay. So, a component of that was the 205 filing being retroactive to January 1. Does that make sense?

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Yes.

A - Brian X. Tierney {BIO 15917272 <GO>}

So, we got an administrative order from FERC that allowed us to go back and put our 205 filing in effect January 1, and that allowed us to pick up \$0.04 or \$0.05.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Got it. Okay. Thank you very much.

A - Brian X. Tierney {BIO 15917272 <GO>}

Thank you.

Operator

And we'll go to Michael Lapidés with Goldman Sachs. Please go ahead.

Q - Michael Lapidés {BIO 6317499 <GO>}

Hey, guys. Thanks for taking my question.

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

Good morning, Michael.

Q - Michael Lapidés {BIO 6317499 <GO>}

Good morning, Nick. You guys have done, and many other utilities as well, a lot of work around getting - improving regulation in some of the states, like Arkansas with the new formula rate legislation, in Louisiana with its formula rate plans. Just curious, how do you think about making similar type of changes in a place like Oklahoma, where not just your company there, PSO, but others deal with significant amounts of regulatory lag, where the rate of recovery versus request tend to come in very different than what you see in a lot of other regions? How do you think about, from either a legislative or a regulatory process, whether to fix that and what are your alternatives if you can't?

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

Yeah, so, wherever we can do it, certainly, we'd love to pursue formula base rates in the various jurisdictions because, obviously, it brings more concurrent recovery of invested capital. And you continue to do that. I mean, certainly, you mentioned Arkansas, I think in Indiana, Michigan there's some form of formula rate. So - there's riders associated with that, a lot of riders, but certainly from a formula-based rate perspective, we'd like to see that progress because these states that have large regulatory lags - and Oklahoma was a perfect example where you file a case and it takes a long time to get recovery and approval of the rates. And then, there's a haircut associated with it, but still drives the utility at subpar ROEs. I mean, here's, what, 7.6% or

whatever it was in Oklahoma with an authorized return that's higher than that and you never catch up.

We're having to file another rate case to make the point that, hey, we're not getting the returns from the investments that we're making in this state. So, for those states that have - I mean, it's fine to have - if you don't have formula-based rates, at least have a rate case mechanism that's timely and even some forward-looking aspects of it to ensure that we can invest the capital that's needed and required for the benefit of our customers.

So, Michael, we're working on that across the board. It's really been in the context of riders, but where we can get it, we're focused on getting these formula-based rates in place.

Q - Michael Lapidès {BIO 6317499 <GO>}

Do you need legislative change in Oklahoma to improve the regulatory rate-making process or can that be done directly between the utilities and the OCC?

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

Yeah. It's a constitutional issue in Oklahoma. So, yeah, we would certainly - that'd be a lot more support, I guess, than just legislative. But Oklahoma can fix the situation though, by - actually, in Oklahoma, we have had some pretty progressive riders in place and they've done a decent job of that, but the rate case aspects is just taking too long and getting results that are subpar and you're always behind the eight ball.

So, we really need Oklahoma to step up the game a little bit in terms of our ability to make the investments that Oklahoma requires. I mean, Oklahoma is in a situation where they have a massive set of potential around generation to reduce customers' cost, and also these other mechanisms, investments to be made that really benefit. We did the tree trimming cycle in Oklahoma through a rider and it worked great from a outage recovery perspective.

So, there's a lot of benefits out there that are being impeded by the progress to get these cases through. So, hopefully we'll make some progress from that perspective.

Q - Michael Lapidès {BIO 6317499 <GO>}

Got it. Thanks, Nick.

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

Yes.

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

Operator, we have time for one more question.

Operator

And we'll go to Shahriar Pourreza of Guggenheim Partners. Please go ahead.

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

Hi, Shahriar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, guys. Actually, my questions were answered. Congrats. Thanks.

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

Okay. Thank you.

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

Okay. Well, thank you, everyone, for joining us on today's call. As always, the IR team will be available to answer any additional questions you may have. John, would you please give the replay information.

Operator

Certainly. And, ladies and gentlemen, this conference is available for replay. It starts today at 11:15 AM Eastern Time; will last until May 4 at midnight. You can access the replay at any time by dialing 800-475-6701 or 320-365-3844. The access code is 421901. Those numbers, again: 800-475-6701 or 320-365-3844, access code 421901. That does conclude your conference for today. Thank you for your participation. You may now disconnect.

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