Q4 2022 Earnings Call

Company Participants

- Ann Kelly, Executive Vice President and Chief Financial Officer
- Darcy Reese, Vice President Investor Relations
- Julie Sloat, President and Chief Executive Officer

Other Participants

- Chopra, Analyst, Evercore
- Jeremy Tonet, Analyst, JPMorgan
- Nick Campanella, Analyst, Credit Suisse
- Paul Fremont, Analyst, Ladenburg
- Shar Pourreza, Analyst, Guggenheim Partners
- Steve Fleishman, Analyst, Wolfe Research
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the American Electric Power Fourth-Quarter 2022 Earnings Call. At this time all parties are in listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions) And as a reminder, this conference is being recorded.

I'd now like to turn the call over to our host, Ms. Darcy Reese. Please go ahead.

Darcy Reese {BIO 20391516 <GO>}

Thank you, Brad. Good morning, everyone and welcome to the fourth-quarter 2022 earnings call for American Electric Power. We appreciate you taking time today to join us. 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 Julie Sloat, our President and Chief Executive Officer, and Ann Kelly, our Chief Financial Officer. We will take your questions following their remarks.

I will now turn the call over to Julie.

Julie Sloat {BIO 6462741 <GO>}

Thanks, Darcy. Welcome everyone to American Electric Power's fourth-quarter 2022 earnings call. I'm happy to be here with all of you this morning. And I'm pleased to be joined by our recently appointed CFO Ann Kelly who joined our team in late November. So here we go. We're making great progress and love to share with you today, starting with the financial performance of our fourth quarter and year. I'll provide updates on our Kentucky operations sales, unregulated renewable sales, and retail business strategic review. I'll also provide insight into our progress on the regulatory and legislative front, as we work to implement important new initiatives to ensure our customers and communities needs which are met in turn and drives our high-quality investment proposition.

Finally, I will include an update or conclude with an update on our generation fleet transformation as we continue to invest in regulated renewables and our energy delivery infrastructure, and summary of 2022 highlights and our focus for 2023 can be found on Slides 6 and 7 of today's presentation.

As you know, we have a long history of consistently delivering and exceeding our earnings guidance and 2022 is no exception. I'm very proud of the dedication and accomplishments of the entire AEP team over the past year. While we finished the year strong, I can promise you, we're just getting started. Our robust financial planning continues to yield results. We delivered strong fourth-quarter 2022 operating earnings of $1.5 per share, bringing our full-year 2022 operating earnings to $5.09 per share. We've also increased our quarterly dividend from $0.78 to $0.83 per share, which we announced back in October.

AEP's teamwork-driven performance in 2022 established a strong foundation from which we can reaffirm our 2023 full-year operating earnings guidance range of 519 to 539, all while mitigating inflationary cost pressures, supply-chain pressures, and higher interest rates as well as constructively navigating regulatory and legislative frameworks.

Formula rates in several of our state jurisdictions and our high-growth Transmission business help us to manage increased interest expense and higher cost. Importantly, as we keep customer affordability topline. We are actively working with our states on the economic development front to drive expansion in our service territory. And we are incorporating efficiencies and expense containment into our rate recovery filings to continue to help offset the impact of increased cost pressures.

As a matter of fact, the economic development efforts over the past several years are proving to be appreciably beneficial and we'll talk about normalized load in a few minutes, but to illustrate my point I can tell you that normalized industrial sales were up 4.5%, largely as a result of those efforts. Not to mention the added benefit of attracting jobs, residents, and other cascading upside to our communities, all of which helps to manage customer rates given the bigger denominator. We value our stakeholder relationships and we made steady progress on the regulatory front over the past year, including achieving constructive base rate outcomes in Arkansas and Arkansas SWEPCO Texas and a favorable Supreme Court appeal related to Virginia's last rate case and the securitization of Winter Storm Uri caused in Oklahoma. Our resulting earned regulated ROE as of December 31, was 9.1%, which suggests we still have work to do on this front and I'll talk about our regulatory activities that we have underway to address this. So, hang with me for a few minutes and I will get there.

AEP is leading the transition to a clean energy economy as we engage in one of the largest generation fleet transformations in our industry. In 2022, our 1.5 gigawatt North Central Wind portfolio became fully operational With the completion of the first wind farm project, which marked the beginning of our clean energy link transition. We will continue to execute on our fleet transformation strategy with the opportunity to add approximately 17 gigawatts of new generation resources between 2022 -- 2023 and 2032, while mitigating fuel cost volatility and creating a more diverse resource portfolio to benefit our customers. This will significantly contribute to AEP's reduced carbon emissions profile and put us on a path to achieve our upgraded net zero goal by 2045. Importantly, the recent passage of the inflation Reduction Act provides support for our clean energy goals and this will extend our investment runway as we continue to address the needs of our generation fleet.

Since assuming the role of President and now CEO, I prioritize, simplifying and derisking our business profile, which has become a core standard by which we evaluate our business activity by actively managing our portfolio and demonstrating a clear commitment to the successful execution of initiatives and transactions. We continue to deliver significant benefits to our stakeholders. As you are very much aware, we are working diligently to complete the sale of our Kentucky operations to Liberty. You can find the related regulatory timeline on Slide 8 in the presentation today. As an update, AEP and Liberty followed the blueprint, provided by the FERC order and filed a new for two or three application on February 14th of this year, requesting a Shortened Comment Period and expedited approval to meet the contractual April 26, 2023 transaction close date. Immediately after the filing was made, FERC issued a notice, incorporating a Shortened 45-day Comment deadline related to the application.

The Shortened Comment Period is a good sign, signaling the commission is open to considering our application on an accelerated basis. AEP and Algonquin are in regular communication discussing various aspects of the transaction, the path forward and our partnership. We're mindful of the April 26 date and the stock purchase agreement and are cognizant of the tight timeframe given the March 31 Comment Period deadline. The objective of both AEP and Algonquin remains clear, and that's to close the transaction in both periods are firmly committed to moving forward and bringing forth the benefits of this transaction to customers.

Related to our unregulated contract renewables portfolio after strong buyer interest, we're pleased with their announcement made yesterday with the sale of our 1,365 Mega Watts portfolio to IRG Acquisition Holdings, which is a partnership owned by Invenergy, CDPQ and funds managed by Blackstone Infrastructure. The summary of the sale can be seen on Slide 9 of the presentation today. We're currently targeting a second-quarter 2023 close, the utilization of the proceeds from the sale is now reflected in our updated multi-year financing plan on Slide 39, and the transaction proceeds will be directed to support our regulated businesses as we enhance the energy delivery infrastructure and transform our generation fleet.

Our near-term focus remains closing on our two pending sale transactions, Kentucky and our unregulated renewables. Once both of these transactions are complete, we plan to revisit the equity needs in our current multi-year financing plans. As we've been clear in the past, we will use the asset sales to responsibly eliminate equity while maintaining a balance -- a strong balance sheet, no change in messaging on this. So that's important that I reiterate that no change in the messaging.

Finally, in October 2022, we announced the strategic review of our retail business. We're looking at this business to determine how or if it fits with the current AEP portfolio and we'll keep you updated on our progress. We're expecting to complete the strategic review in the first half of 2023.

Let me touch on our regulatory and legislative initiatives that we have underway. We remain focused on reducing our authorized versus actual ROE gap. As I mentioned earlier, our 2022 earned regulated ROE was 9.1%. Our 2023 earnings guidance range assumes a. 9.4% earned ROE, and we are already making progress in that direction.

In January, we reached a settlement and commission approval for our Louisiana base case, which allows us to reestablish a formula rate plan as we advance through the year, the team will be active in completing our current base case in Oklahoma and rider recovery of the 88 Mega Watt of the Turk Plant, which is not currently in Arkansas rates. We also filed an electric security plan in Ohio, which will take us into 2024.

Let me shift gears and provide you with an update on our deferred fuel recovery efforts that are currently underway. As we've previously shared with you over the past several months, we have made adjustments to our traditional cost recovery methods and a number of our states to allow for recovery, whilst spreading the cost out for our customers to make them more affordable.

In West Virginia, we continue to pursue approval of the passthrough of fuel costs under the fuel clause. We also intend to propose an alternative path to recovery of these costs under proposed legislation; if approved, that would allow us to securitize these costs and minimize customer impact. The West Virginia Commission recently instructed its staff to finish its prudence review of the 2021 and 2022 fuel costs. The state legislature continues to move the securitization legislation forward with the Commission share recently testifying in support before the lawmakers.

I'll conclude my remarks with an update on our regulated renewables strategy and execution. Our capacity needs continue to drive us forward on the regulated renewables front and we continue to work with our regulators, policymakers, and other key stakeholders to ensure a durable and sustainable transition to a clean energy economy in our vertically integrated states. The recently enacted Inflation Reduction Act will help us advance our goals in this area and will provide additional value to our customers as we seek to acquire resources consistent with our plan.

We've made considerable progress on SWEPCO's 999 Mega Watt renewables application which represents a $2.2 billion investment for AEP. Parties filed the unanimous settlement in Arkansas on January 27th for our portfolio of owned, wind and solar resources, and a hearing was held in Texas in January, and we continue to have constructive settlement dialogue with parties in Louisiana and the hearing date has been formally extended to March 21 to accommodate this.

We look forward to receiving the commission's orders which are expected in the second quarter of 2023 for Arkansas and Louisiana, the third quarter of 2023 for Texas. In November of 2022, PSO made a regulatory filing in Oklahoma to own 995.5 Megawatts of solar and wind projects, representing a $2.5 billion estimate. A procedural schedule was issued last month, which includes the hearing date in April and expected commission order in the third quarter of this year.

Separately, we are also seeking to acquire the 154 Megawatt Rock Falls wind facility in Oklahoma from EDF to prove this acquisition on February 16th and we're pursuing rate recovery of this investment through the ongoing PSO base rate case. The Rock Falls project is already in-service and will provide immediate capacity for PSO's customers.

Our regulated renewables goals are aligned and supported by our integrated resources plan in accordance with those plans we issued request for proposal in 2022 for wind, solar and other resources that APCo, I&M, and once again with SWEPCo. We anticipate making the related regulatory filings to acquire additional resources under these RFPs throughout 2023.

We continue to see rapid changes in our industry and increasing need and demand from customers and communities across the United States. At the end of 2022, as I prepare to resume my new position at AEP, the team and I dedicated a considerable amount of time and energy to determining how AEP will continue to deliver safe, clean, affordable, and reliable energy and how we can deliver this energy faster and more efficiently to our customers, while generating enhanced value to our stakeholders.

Our long-term earnings growth rate of 6% to 7% is underpinned by a robust $40 billion capital investment plan for 2023 to 2027, which includes $15 billion in transmission and $9 billion in regulated renewables investments. As evidenced by our fourth quarter and full-year 2022 performance, AEP has a longstanding track record of consistently delivering on our strategic objectives.

Our transformation strategy is working and the investments we're making continued to support our positive earnings growth and results. Please join me in welcoming Ann's first AEP earnings call. I'll leave you in a very capable hands as she provides insight and perspective into our performance drivers for 2022 and the details, supporting our financial targets. Ann?

Ann Kelly {BIO 20554957 <GO>}

Thank you, Julie and Darcy, it's great to be with you all this morning, and thanks for dialing in. I'll walk us through our fourth quarter and full-year results, share some updates on our service territory load and our outlook for 2023, and finish with commentary on credit metrics and liquidity as well as some thoughts on our guidance, financial targets, and portfolio management. So let's go to Slide 10, which shows the comparison of GAAP to operating earnings for the quarter and year-to-date periods. As Julie mentioned, we had a strong operating results in both the fourth quarter and for the full year. GAAP earnings for the fourth quarter were $0.75 per share compared to $1.7 [ph] per share in 2021. GAAP earnings for the year were $4.51 per share compared to $4.97 per share in 2021.

For the quarter, I mentioned that we have reflected additional charges related to the expected sale of Kentucky Power and Kentucky Transco as non-operating costs. This is largely a result of the delay in the closing from the need to file a new tool three application in the FERC. There are detailed reconciliations of GAAP to operating earnings on Pages 18 and 19, from the presentation today.

Today, I'm going to focus more on our full-year results. But I did want to provide a few highlights on the fourth quarter, as we show on Slide 11. Operating earnings for the fourth quarter totaled $1.05 per share compared to $0.98 per share in 2021, this is a $0.07 or 7% increase year-over-year. Well, we had a lot of puts and takes are vertically integrated and T&D utility segments continued to perform well resulting from rate changes, transmission revenue, and some favorable weather. We did see a $0.03 [ph] decline in our normalized retail margins, but that was due to a change in sales mix as well as favorable for the quarter.

I'll discuss load in more detail in a couple of minutes. We were also able to support an increase in our O&M expenses as a result of the strong earnings that we were seeing. Transmission Holdco was favorable by $0.03 even after factoring in the loss the Ohio RTO adder, as we continue to see the benefits of our investments. Generation and marketing produced $0.16 per share of $0.10 from last year, driven by increased retail energy margins and favorable generation performance primarily driven by fewer average days year-over-year. And finally, Corporate and Other was down $0.05 per share, driven by increased interest expense and investment losses, partially offset by favorable income taxes.

Now let's have a look at our year-to-date results on Slide 12. Operating earnings for 2022 totaled $5.09 per share compared to $4.74 per share in 2021, this was an increase $0.35 per share or 7%. Looking at the drivers by segment operating earnings for Vertically Integrated Utilities were $2.56 per share of $0.30, due to rate changes across various operating companies, favorable weather, increased transmission revenue, and also increase normalized load.

Offsetting these favorable variances were higher O&M increased depreciation expense in increased interest expense. Once again, the change in accounting around the Rockport Unit two lease results in $0.23 of favorable O&M, offset by $0.23 of unfavorable depreciation.

In the transmission distribution utility segment, $1.16 per share, up $0.06 from last year. Favorable drivers in this segment included rate changes in Texas and Ohio, favorable weather, and increased normalized retail load and transmission revenue. Offsetting these favorable items were unfavorable O&M and depreciation. With the favorable weather and other items that we experienced in 2022, we were able to responsibly deploy additional O&M in both utility segments to spend on items like increased vegetation management to improve system reliability.

The AEP Transmission Holdco segment contributed $1.32 per share, down $0.03 from last year. Favorable investment growth and $0.12 was more than offset by an unfavorable true-up of (Inaudible) so as of the RTO adder in Ohio, and increase income taxes. Remember, our 2022 guidance at this segment, down by $0.08 year-over-year, as a result of the investment growth being more than offset by the annual true-up and some unfavorable comparisons for taxes and insurance.

Generation and marketing produced $0.30 [ph] per share of $0.24 from last year. The positive variance here is primarily due to the sale of renewable development site. Improved generation performance in land sales in the generation business improved retail margins and increased wholesale margins, stemming from favorable market conditions.

And finally, Corporate and Other was down $0.22 per share driven by investment losses, unfavorable interest and increased O&M, partially offset by lower income taxes. The investment losses continued to be impacted by the year-over-year comparisons for our charge point investment that we exited in the third quarter.

As we mentioned earlier, we are reaffirming our guidance range for 2023. For convenience, we have included an updated waterfall on our actual 2022 results to the midpoint of our guidance for 2023 on Slide 36. While the various has changed due to the 2022 actual results, there is no change to our 2023 segment or overall guidance. We are confident that our regulatory actions to provide timely returns on our distribution and renewable investments, continued investment in transmission assets, the impact of economic development efforts, and prudent O&M management will offset headwinds such as rising interest rates and inflationary pressures.

Now turning to Slide 13, I'll provide an update on our normalized load performance. Overall, 2022 was a remarkable year for normalized load growth across the AEP service territory. Despite the Federal Reserve intentional actions to slow down the economy, AEP experienced its strongest weather-normalized load growth in over 15 years of 2.8% annual growth. The most impressive part is that, this is experienced on top of a recovery year. As a reminder, 2021 was the strongest year for AEP's normalized growth in over a decade, until 2022. The growth in 2022 was spread across nearly every operating company in every major retail class. Starting in the lower right corner of the slide, normalized retail sales increased by 1.9% in the fourth quarter and ended the year up 2.8% compared to last year.

For the quarter, the growth in commercial and industrial sales were more than offset the modest decline in residential sales. Going forward, you will see that we are expecting growth at 7% (Inaudible) percent in 2023. Story is changing somewhat further we move away from the pandemic.

In 2022, the boost from fiscal policy overwhelmed the Federal Reserve's efforts to constrain the economy through monetary policy. In 2023, we expect the fiscal moves to fade given the Congressional changes after the election. While the Fed's efforts, the team inflation will remain in place. We expect this to result in a slight moderation of economic growth for the balance of this year.

Moving to the upper left corner, normalized residential sales decreased by (Inaudible) percent in the fourth quarter but finished the year slightly above 2021. For the quarter, residential customer accounts increased by (Inaudible) percent. This was offset by a 1.2% decline in weather-normalized usage. This is not surprising when you consider the impact that higher inflation, energy costs and interest rates have on customers' disposable income to end the year.

You will notice that we now expect residential sales to decrease by 0.5% in 2023 for the same reason.

Moving right, weather normalized commercial sales increased by 5.4% for the quarter and ended the year up 4.2% compared to 2021. The growth in commercial sales was spread across nearly every operating company. The fastest growing commercial sectors, professional scientific and tech services that includes data centers, which -- where load was up nearly 30% compared to last year for both the quarter and the year-to-date comparison. The outlook for 2023 is showing a modest six-tenth of percent growth, while we did see momentum in this class, driven by economic development, the sustained impact of the labor shortage, inflation, high-interest rates and energy costs, will act as a headwind in 2023.

Finally, focusing on the lower left corner, we see the industrial sales growth moderated in the fourth quarter, up 1.5%, while the year ended 4.5% above 2021. Industrial sales increased in most operating companies in many of our electric sectors. We continue to experience robust growth in the oil and gas sectors, which were up 6% compared to the fourth quarter of 2021. Outside of oil and gas which tense countercyclical to the rest of the economy. We did notice software industrial sales growth consistent with many of the economic indicators.

As you know the ISM Manufacturing Index fell below 50 in the fourth quarter, which is a sign of an industrial contraction. The combination of sustain inflation and supply chain disruptions, increasing our borrowing costs, a strong dollar and elevated energy costs have significant challenges for domestic manufacturing.

Fortunately, AEP's past economic development activities are providing an offset and are keeping AEP industrial sales growth in positive territory. You see that the outlook is showing industrial sales growth of 2.1% in 2023, which is largely attributable to the consistent economic development activities from the past. I'll provide additional detail on the impact of these efforts from the next slide.

To summarize, the AEP service territory experienced a remarkable year for load growth in 2022, despite the inflationary pressures on wages and energy. The Federal reserve that was intentionally trying to slow down the economy. We are finally seeing evidence that these measures are starting to have an impact, which will result in slower growth in 2023.

Fortunately, AEP disciplined commitment to economic development should keep our load growth in the black moving forward. For example, absent economic development, our load growth would have been essentially flat in the fourth quarter and up 1.1% for the year.

Turning to Slide 14, I want to highlight how our commitment to economic development is helping to sustain load growth even in the face of challenging economic conditions. The chart on this slide illustrates why the strategy is so important to us. The blue bars on this chart show the growth gross regional product for the AEP service territory over the past year.

You can see that it has been slowing over the period. And in fact, for the fourth quarter, growth in AEP GRP was slightly negative compared to the fourth quarter of 2021; however, the green bars here show our industrial sales growth over the same period, you'll notice, they have been resilient throughout 2022 without any help from GRP.

A lot of the growth in industrial load that we're seeing today is a consequence of economic development projects from previous year. And our focus on economic development is not just about the additional load that we report to you on a quarterly basis. They are also focused on attracting employers to the service territory.

We know that adding new loading customers our key strategy to provide value to all customers. This allows us to continue to prioritize investments that will improve the customer experience while mitigating the rate impact on our customer base. By making this a key component of our strategy, AEP is helping to mitigate the impact of the economic downturn on our customers, communities, and shareholders. And AEP's economic development team has a proven track record of helping to bring new customers to our service territory, with an emphasis on jobs and load.

In fact, the AEP service territory has added over 141,000 jobs in 2022.

Let's move onto Slide 15 to discuss the company's capitalization and liquidity position. Taking a look at the upper-left quadrant on this page, you see our FFO-to-debt metrics stands at 13.2%, which is a decrease of 1.3% from the prior quarter. The primary reason for this increase in the impact on both FFO and short-term debt from a decrease in our mark-to-market collateral positions associated with the decline in natural gas and power prices as well as the continued increase in our deferred fuel balances.

We remain committed to our targeted FFO-to-debt range of 14% to 15% and we plan to trend back into that range, near the end of 2023 as we continue to work through the regulatory recovery process of our deferred fuel balances which can drive some volatility in the metrics.

You can see our liquidity summary on the lower-left quadrant of this slide. Our five-year $4 billion bank revolver and two-year $1 billion revolving credit facility to support our liquidity position, which remains strong at $2.6 billion. The $1.1 billion change from last quarter is mainly due to an increase in commercial paper outstanding for the reasons I mentioned earlier.

On a GAAP basis, our debt-to-capital ratio increased from the prior quarter by 1.5%, to 62.9%. On the qualified pension fund, our funding status remains strong ending the quarter at 102.4% while assets performed as expected during the quarter, the primary driver for the funded status decrease was due to an increase in the liability caused by changes in actuarial assumptions, influenced by the rising interest-rate environment in 2022.

Turning to Slide 16, I'll give a quick recap of today's message. First, we are focused on execution. The Kentucky transaction is back in front of FERC and Liberty and AEP are committed to moving forward with this transaction. We just announced the agreement to sell our unregulated contract renewable portfolio and are working through the strategic review of the retail business.

Each of these actions will help us to simplify and de-risk our business. Even as we worked on these initiatives, we didn't take our eye off the ball, managing the business. We finished 2022 with solid earnings and made significant investments to support our customers, even with the backdrop of supply-chain challenges and inflationary pressure.

We continue to be committed to our long-term growth rate of 6% to 7% continued dividend growth and a strong balance sheet while derisking the company focusing on the customer and actively managing the portfolio. We really appreciate your time and attention today.

I'm going to ask Brad to open up the call. So that we can answer any questions that you may have.

Questions And Answers

Operator

(Operator Instructions)

First, we will go to Shar Pourreza with Guggenheim Partners. Please go ahead.

Q - Shar Pourreza

Hey, good morning guys.

A - Julie Sloat {BIO 6462741 <GO>}

Good morning.

Q - Shar Pourreza

So, couple of quick ones to share. Looking at just the West Virginia fuel cost recovery. Hearings will obviously held in 4Q and there was discussion about moving to quarterly time periods as well as securitization. I guess, can you give us maybe an update on how you're looking at the situation where we might be headed from here?

There's a lot of moving pieces. I guess, so how is the dialogue going, and sort of any sense of bill impact ranges, especially with the recent gas price collapse?

A - Julie Sloat {BIO 6462741 <GO>}

Yeah, so appreciate the question because it assures, I'm sure you can imagine, absolutely top-of-mind for us and as Ann mentioned in her comments top-of-mind from a CFO perspective, most definitely. As you know, we did get an order, the staff is going through its paces. As we got to work through the prudency review and in the background, what's playing is, legislation that could potentially accommodate securitization of the dollars we have outstanding are deferred fuel balance in West Virginia is $520 million. So it's not insignificant and it's extremely important to be able to digest this in a way that can accommodate customer rates.

So we're hoping that we'll be able to be in a position, we'll be able to utilize the securitization legislation if approved, to be able to smooth this out and take care of customer needs in terms of the bill impact. Ann (Technical Difficulty) do you have any other thoughts on that and how we might do that?

A - Ann Kelly {BIO 20554957 <GO>}

Yeah, no, it's absolutely right, easily utilizing the securitization allows us to spread it out over time and minimize actually keep our customer rates relatively flat, which is really the intention.

Q - Shar Pourreza

Got it.

A - Ann Kelly {BIO 20554957 <GO>}

Now this will take some time. It will be effective in June and we need a commission order. So we would expect the securitization to take place in the first half of 2024.

Q - Shar Pourreza

Got it, okay, perfect. And then just lastly on the financing needs. Obviously, we've noticed that you now include both the $1.2 billion expected cash proceeds from Kentucky as well as I think for the first time we expected $1.2 billion from the contracted renewable sale. I guess looking at the sources and uses why wait to update your funding needs on the equity side, especially if you're including the proceeds already is joining, we should be thinking about here.

A - Julie Sloat {BIO 6462741 <GO>}

No hidden message there all Shar. We want to make sure that we get both of these transactions in the bag, get them taken care of, and then we'll recalibrate. As you know, our objective is twofold. We want to make sure we have a strong balance sheet, because we don't want anybody worried about any dilutive otherwise actions that we would have to take. So that's first and foremost, so top-of-mind for us is, is making sure that balance sheet is in check.

And as you know, we put out a target goal for FFO-to-debt of 14% to 15%. That being said, to the extent that we will then be able to eliminate future equity needs. We don't have a significant amount of equity financing. When you look out over the horizon, but if we're able to kind of call that back a little bit and still hit the objective on the strong balance sheet will absolutely do that.

So no hidden message obviously both of these are moving along contracted renewables, new for us. We know that that will close-in in the second quarter. We believe that's the plan to close-in in the second quarter. And as you know, Kentucky, it's pending with -- it's two or three applications. So stay tuned.

We just want to make sure that we got this completely right for you all and that you're not concerned.

Q - Shar Pourreza

Fantastic. Guys, congrats on the execution. Appreciate it.

A - Julie Sloat {BIO 6462741 <GO>}

Thank you.

Operator

And next, we'll go to Jeremy Tonet with JPMorgan. Please go ahead.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Julie Sloat {BIO 6462741 <GO>}

Hey Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just wanted to pivot towards the retail business a little bit. And if you could just go back, I guess a little bit how that process stands at this point. Just wondering any thoughts there would be considered here of why that would remain in the portfolio or might prevent you from selling it? And just wondering if you might be able to provide a little bit more color of what's in that business, EBITDA, earnings or anything else to wrap our heads around there?

A - Julie Sloat {BIO 6462741 <GO>}

Yeah, absolutely. And I love the question because that's exactly what we're doing in our house right now. We're going through the places to determine exactly does it fit -- if there's anything that does fit, what does that look like. So stay tuned. That will be a first-half story for AEP. So expect us to be coming to you probably in the second quarter with a little more granular detail because we're literally going through that analysis now and working with the troops to make sure we have that finely tuned, so we can get back out to you. As far as quantifying how big is this business and what does it mean currently to AEP, the net asset position or I guess equity position, if you strip out the liabilities. We're talking about $193 million, the vast majority of that is working capital to the tune of about $150 million of 193 and the rest is largely IT software and then we have a little smidge of goodwill in there of about $15 million. To give you some parameters.

And then I would think about what does that mean from an EPS perspective. In 2022, this retail business contributed $0.05 of EPS. And in 2023, we have $0.04 embedded in our guidance.

Thinking of that goalpost, hopefully that helps.

Q - Jeremy Tonet {BIO 15946844 <GO>}

That's very helpful. And just going back to the renewables sale here. Was there an EBITDA number that you might be able to share with us or have shared on that?

A - Julie Sloat {BIO 6462741 <GO>}

We haven't disclosed an EBITDA number, I can tell you that in our guidance for 2023, we're looking at a penny that renewable business contributed. I think it was $0.08, does that sound right, Ann? Yeah, $0.08 in 2022 to give you those parameters.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. And just one last one if I could, touching on what Shar was talking about fuel balances. What have you and I guess different moving pieces here. Getting back to what the agencies are looking at, how should we think about the cadence of fuel balanced normalizing any other items as we get to the 14% to 15% FFO to debt target range by year-end '23 I think?

A - Julie Sloat {BIO 6462741 <GO>}

That's right. We expect to get our up to the -- to get the ball between the upgrades in the last part of the year, we do expect to have a little bit of pressure in the front end. As we continue to work through some of the fuel balances. As I mentioned, when you look at West Virginia standalone, it's about $520 million. That sounds right, Ann?

A - Ann Kelly {BIO 20554957 <GO>}

Yeah, $520 million. And as I mentioned, the securitization of that will take some time. So likely won't be done by the end of this year. But in terms of our other fuel balances in other jurisdictions, we have positive mechanisms to recover that. And also natural gas and power prices are declining, so that will help them.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it, very helpful. I'll leave it there. Thanks.

A - Julie Sloat {BIO 6462741 <GO>}

Okay, thank you.

Operator

And next, we'll go to Steve Fleishman with Wolfe Research. Please go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah, hi, good morning. Thanks. So just a similar question on the deferred fuel. If you just looked at the year-end number on FFO to debt. How much do you think deferred fuel represents in terms of that impact that's lowering that number? Given like FFO to debt.

A - Julie Sloat {BIO 6462741 <GO>}

Yeah. So we're at 13.2% as of year end. And so if we get above that 14% ish range by year-end of 2023, I don't know that looks about -- I don't say entirely 100 basis points, but it's pretty significant. (Multiple Speakers)

A - Ann Kelly {BIO 20554957 <GO>}

Yeah. I think it might be a little bit from 100 basis (Multiple Speakers) when you think about it, we had $1.7 billion deferred through our full year.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, that's very helpful. Thank you.

A - Julie Sloat {BIO 6462741 <GO>}

You bet.

Q - Steve Fleishman {BIO 1512318 <GO>}

And then. Just on the ROE improvement. So the 9.4 in this year's guidance, is it --there any states that are really driving a lot of that and are there any states that still kind of the most room to go after '23?

A - Julie Sloat {BIO 6462741 <GO>}

Yeah. So here's what I'll draw your attention to and I know we have the little equalizer chart here in the slide deck somewhere. I think it's on page number 41. And so you can get a sense of kind of where we are hanging out on each of the respective operating Company entities. But what we do have in play right now is it it PSO's Oklahoma. We have a base case underway. So that should help us to begin to heal the ROE -- the earned ROE at PSO, so stay tuned for that. So base case in-play there.

And then as I mentioned in my opening remarks, we recently were able to finalize our Louisiana base case and then reactivate this formula rate plan. So that will get underway to again to help move SWEPCo's ROE back up closer to its authorized levels. Kentucky, obviously, you know what we're doing with Kentucky and APCo. I think, APCo -- that's why the legislation, Virginia become so important to us because we're in an under-earning position right now. We got the outcome of the Virginia triennial case which should be beneficial to us in 2023, but I would still expect APCo's ROE to be under pressure until we get hopefully some resolution around

Virginia legislation that -- to the extent that we're able to modify the regulatory recovery methods that are being employed in that particular state. We'll begin to see some healing on that particular ROE to sell our triennial versus biennial AEP is going to lean more toward a biennial or an annual type look versus -- that triennial can push anything us in an under-earning position. So stay tuned, we'll see how the Virginia legislation process moved along.

Our team is absolutely at the table with all the other stakeholders. So that sounds constructive. So we're hopeful and we'll see this developing situation through and then we would expect something to be in the improvement territory for APCo.

Q - Steve Fleishman {BIO 1512318 <GO>}

Just for clarity on that last point. In Virginia, why there is -- what are the things that would help you in Virginia laws, will it go into the biannual? so I don't want to go so far between cases or something else?

A - Julie Sloat {BIO 6462741 <GO>}

Anything shorter. Steve is going to be better for us. So that will move us in a more productive situation or direction for APCo in particular. I mean in annual rate will be fine too. But again, you can see the direction, so that'll be important for us as we worked through the different solutions that are being contemplated now because. I know we have -- I think bills that are being evaluated or shopped in Virginia. But as I mentioned AEP is absolutely at the table and we'll see how this ultimately shakes out. Obviously, the benefit needs to go to the customers, but then also our investors as we work to improve the ROE.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great, thank you.

A - Julie Sloat {BIO 6462741 <GO>}

Thanks, Steve.

Operator

And next, we can go to Nick Campanella with Credit Suisse. Please go ahead.

Q - Nick Campanella {BIO 20250003 <GO>}

Hey team. Thanks a lot for taking my question. I guess just very clear from the filings that have been made so far on the Kentucky transaction that the parties are committed here and you're working towards closing what is somewhat of a tight deadline. Can you just kind of give us a sense, how that changes if your funding strategy changes at all at this deal wanted to go through and how overall kind of change your strategy if it went there? Thank you.

A - Julie Sloat {BIO 6462741 <GO>}

Yeah. Nick, I still appreciate the question and I'll let Ann jump in here in a second on what our thoughts are on funding, but I have before -- I do that I have to say, we're committed to the transaction. I know you point that out. And I know we do have a tight timeline that's precisely why I think that out there in my opening comments, the objective is to, I'll say, push for the take because I know we've got that April 26th, but importantly. I mean you guys have this takeaway, both the AEP and Algonquin team members continue to have a regular dialogue and work closely together, so we're all-in and we'll continue to push to try to do this as expeditiously as possible, but I think we're also in a good position from a financing perspective. Ann, can you talk a little bit (Multiple Speakers)?

A - Ann Kelly {BIO 20554957 <GO>}

Yeah, absolutely. So, I mean, should Kentucky not well -- as we would expect to keep our equity needs the same, so no new equity if that happened. We'll just be managing our FFO-to-debt as tightly as possible and don't expect any changes.

Q - Nick Campanella {BIO 20250003 <GO>}

Okay, that's helpful. I appreciate that and then I guess, just I know we've talked a lot about deferred fuel but we noticed that the CFO is slightly depressed in '23 versus kind of what you outlined at the Analyst Day, and I think you're making up for that in the back part of the plan, but is that purely just deferred fuel impacts or is there something else fundamental there? That would be helpful.

A - Ann Kelly {BIO 20554957 <GO>}

There's really two main drivers just deferred fuel is the biggest piece, but the other piece is, we've had some return of collateral from a mark-to-market, due to the reduction in natural gas and power prices impacted that as well.

Q - Nick Campanella {BIO 20250003 <GO>}

I appreciate the time today and thanks.

A - Julie Sloat {BIO 6462741 <GO>}

Thanks for the question.

Operator

And next, we will go to (Inaudible) with UBS. Please go ahead.

A - Julie Sloat {BIO 6462741 <GO>}

Hey, Bill.

Q - Unidentified Participant

Hi, good morning. Just going back to the Kentucky sale. I know you said that the -- providing for a 45-day comment period. So that was -- look like it was going to be supportive of maybe an expedited rolling, but will we get further indications from FERC, if they will rule an expedited manner or we have to wait-and-see?

A - Julie Sloat {BIO 6462741 <GO>}

Yes, so the next stating item for us is March 31, that ends the commentary period and we'll just proceed from there. We know the other backdrop for us -- backstop for us, as I mentioned in my comments in the April 26th date, so that's top-of-mind for us as well. But here's where.

I continue to go in my mind, none of the benefits yet to the customer until we close the transaction, you don't start them in advance, so that's incredibly important and I think we've got everyone's attention.

And the other thing that we were particularly sensitive to and I know Darcy pressure this with you if you called in the interim here, but we really made an effort to take this blueprint to make sure that we were accommodating or addressing the concerns that FERC voiced as it relates to taking care of customers and making sure there's no harm.

And as a matter of fact, if you look at the application, I think we're going pre through the neutral three application and pretty granular form. I think it's Pages four, five and six clearly I've run this a few times, take a look at that if you want to get a better sense of what the parties have come up with to be able to take care of the customers in the State of Kentucky and specifically Kentucky Powers footprint.

So I think everybody is going to be working on an expedited basis and schedule, and clearly, we very much appreciated the Shortened Comment Period, because I do think it's indicative. So we'll continue to work through it and rest assured that both the AEP and Algonquin team members will continue to be in regular contact with one another. Because at this point, we're partners and all this.

Q - Unidentified Participant

Okay now, that's very helpful and then I guess what happens if we get to the April 26th date and we don't have a decision to work -- it will be extended or...

A - Julie Sloat {BIO 6462741 <GO>}

Excellent question here how I can answer that I mentioned that the teams are in constant contact and regular contact. I would expect that as we get closer to that date, the teams, I'm talking specifically about this, so stay tuned.

Q - Unidentified Participant

Okay, great, thanks very much.

A - Julie Sloat {BIO 6462741 <GO>}

Yeah, you bet. Thanks for being on today.

Operator

And excuse me. Next, we'll go to (Inaudible) with Evercore. Please go ahead.

Q - Unidentified Participant

Good morning, team. Thanks for giving me time. Just first quick clarification the -- I think you mentioned $0.08 for the renewables business EPS. That's just half year, right?. So that's what's embedded in the guidance in the full-year earnings are double that to $0.16, right?

A - Ann Kelly {BIO 20554957 <GO>}

No, $0.08 is last year, so the 2022 EPS from renewables, as we mentioned for 2023, we expect that to be one.

Q - Unidentified Participant

Got it So that's a full-year contribution for 2022.

A - Julie Sloat {BIO 6462741 <GO>}

That's correct. Yeah, $0.08 for 2022 and one cent for 2023. And so the way I would characterize it, and I think that's how we had in the press release, neutral to maybe slightly dilutive to the tune of penny. So, I'm from my chair, I'm not worried about it.

Q - Chopra {BIO 20053859 <GO>}

Got it, okay. And then just again. I want to go back to the sort of the financing slide. Can you just updated thoughts on use of proceeds here clearly the renewable sale is on-track and you get $1.2 billion in cash. So how should we think about the use of proceeds? Should that at least eliminate equity for 2024?

A - Julie Sloat {BIO 6462741 <GO>}

(Multiple Speakers) if you want to take that.

A - Ann Kelly {BIO 20554957 <GO>}

I have a little bit of a cold. No, right now we are not going to reduce any equity in the outer years. But as Julie mentioned, once we close the Kentucky transaction, the Railroad's transaction, we're going to re-evaluate and see whether or not we can responsibly take out equity in the future, while keeping in mind and having a strong balance sheet.

Q - Unidentified Participant

I understood. I appreciate that guys, thanks for the time and look-forward to working with you.

A - Ann Kelly {BIO 20554957 <GO>}

Thanks so much.

Operator

And next, we can go to Paul Fremont with Ladenburg. Please go ahead.

Q - Paul Fremont {BIO 1745706 <GO>}

Great. So I guess the first question. Right now, the sales proceeds from the two transactions actually are in excess of the equity that you had identified last year. So we should assume though that the sales proceeds don't eliminate your equity needs, they just reduce it, is that -- is that a fair characterization?

A - Julie Sloat {BIO 6462741 <GO>}

I think that's a fair characterization. And just as a reminder, because Ann wasn't here when we made these announcements last year. But Paul, you may remember, we took out of the 2022 plan, $1.4 billion of equity, because we assume that the Kentucky transaction would have closed, we never put that equity back in.

And so right now, we're just kind of waiting to have that particular transaction close. And then we introduced the contracted renewables transaction on top of that, so what you see today is versus what we originally had planned, we had already stripped out $1.4 billion of equity. So, that's already assumed in this plan versus what we originally had when we announced Kentucky.

And so as Ann mentioned what you should anticipate is, we've already assumed all the proceeds from these, but both of these transactions are assumed in the multiyear forecast, you have on page 39, and that once we close on both of them. We like cash we like cash coming in the door. So once we close on those, we'll be able to recalibrate to make sure we're doing hitting two objectives. Number one, make sure that we're getting to that 14% to 15% FFO-to-debt and then being able to tweak meaning otherwise translation reduce any of those equity needs in those future period.

So I don't anticipate us just wiping all of that out, because we've already assumed the Kentucky utilization was in there, but we may have some wiggle room here to take some additional dollars out in terms of equity once we close on the transactions. And so no hidden message there, we're just waiting until we have dollars and we'll be right back to yet to be able to take some of those equity needs out, assuming we can get the metrics that we need to hit from a FFO-to-debt perspective and I think we can do it.

Q - Paul Fremont {BIO 1745706 <GO>}

Great. And then moving to Virginia. You guys where there is a bill. I think that's under consideration SB 1075. Would you expect that to survive come out a conference and ultimately be adopted or I guess, what's your thought process on what will happen in Virginia?

A - Julie Sloat {BIO 6462741 <GO>}

Yeah. So here's what I have. I have that SB 1075 was amended in the house. And then when it was transitioned to a biennial and then we're continuing to work with our legislators and governors to reach some consensus on the language. And if this does pass, what you should anticipate is that AEP or APCo would file its last triennial in 2023 and that would cover the periods, 2020 through 2022, so we'll see if we can get this across the goal line.

I know we've got some other competing bills or legislation that is being proposed as well. Also looks like a biannual situation.

Q - Paul Fremont {BIO 1745706 <GO>}

Great. And can you break-out for 2022 just contribution from generation.

A - Julie Sloat {BIO 6462741 <GO>}

From all of our generating assets, the generation (Multiple Speakers)

Q - Paul Fremont {BIO 1745706 <GO>}

(Multiple Speakers) the merchant. In other words, the merchant generation contribution in 2022.

A - Julie Sloat {BIO 6462741 <GO>}

Yeah, I can give you the renewable part that was $0.08. I have that off the top of my head I can give you the retail -- so I'm going to work a little bit backwards. I can give you the retail piece of the business and that's not the generation component, so that was $0.05, so then you've got, what $0.13 [ph] there of the total earned.

We can circle back with you, Paul and get you that number (Multiple Speakers)

Q - Paul Fremont {BIO 1745706 <GO>}

That would be great. And maybe the last question from me. The income tax changes and other in -- Corporate and Other, can you maybe give a little flavor as to what drove those?

A - Julie Sloat {BIO 6462741 <GO>}

One second they don't have that (Inaudible) me.

A - Ann Kelly {BIO 20554957 <GO>}

Yeah, so the income tax, there is a little bit of geography here with respect to the parent company loss. That's driving that impact and then. The other is just a lot of very small items that I wanted together.

Q - Paul Fremont {BIO 1745706 <GO>}

Okay. Thank you very much.

A - Julie Sloat {BIO 6462741 <GO>}

Thanks, Paul.

Operator

And with no further questions in queue, I'd I'll hand the call-back over to Darcy Reese.

A - Darcy Reese {BIO 20391516 <GO>}

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

Operator

Certainly. Thank you. Ladies and gentlemen, this conference will be available for replay after 11:30 Eastern today and running through March 3rd, at midnight. You can access the AT&T replay system at any time by dialing 1-866-207-1041 and entering the access code 3625886. International parties may dial 402-970-0847. Those numbers, again 1-866-207-1041 and international parties 402-970-0847 with the access code 3625886, that does conclude our call for today. Thanks for your participation and for using AT&T Teleconference. You may now disconnect.