Company Name: American Electric
Company Ticker: AEP US
Date: 2016-04-28
Event Description: Q1 2016 Earnings Call

Market Cap: 30,982.22
Current PX: 63.06
YTD Change($): +4.79
YTD Change(%): +8.220

Bloomberg Estimates - EPS
Current Quarter: 0.875
Current Year: 3.693
Bloomberg Estimates - Sales
Current Quarter: 3975.333
Current Year: 16888.154

Q1 2016 Earnings Call

Company Participants

- Nicholas K. Akins
- Brian X. Tierney

Other Participants

- Jonathan Philip Arnold
- Michael Weinstein
- Paul Patterson
- Anthony C. Crowdell
- Ali Agha
- Paul T. Ridzon
- Michael Lapides
- Praful Mehta
- Shahriar Pourreza
- James von Riesemann
- Michael Simon Worms

MANAGEMENT DISCUSSION SECTION

Nicholas K. Akins

Q1 Review

Q1 Highlights

- Financially, 2016 is off to a steady start that delivered earnings consistent with our plan for the year, so all is in good shape there
- It was not without challenges though, we overcame the winter that never happened, and of course, the anticipated changes from 2015 such as loss of capacity revenues related to the Ohio transition order that ended in May 2015, and the loss of AEP River Operations revenue due to the sale that occurred late last year
- Positive rate changes, continued benefits of managing expenses and disciplined market hedging activities enabled GAAP and operating earnings to come in at $1.02 per share
    - This compares with $1.29 and $1.28 per share of GAAP and operating earnings respectively for 2015
- The impact of weather was significant for the quarter
- Brian will cover this in detail a little bit later, but we had the sixth warmest winter in the last 30 years in 2016
- And remember, we're comparing against the second coldest winter in 2015
- So considering this difference, I would say we had a great quarter from an earnings perspective that showed the resiliency of our plan for the year and the strength of our foundation for continued growth

  - We are reaffirming our guidance range of $3.60 per share to $3.80 per share and our 4% to 6% growth rate to further signal our confidence in how the year is likely to shape up for AEP

FERC Order

- I'm sure many of you have questions concerning last night's FERC order
- So let me put some perspective on that
- Obviously, we are disappointed with the FERC decision to review our PPA arrangement under the EDGAR rules based upon the presence of non-bypassable charges, but that being said, we embarked on the best mechanism within the existing Ohio legislation that we felt could withstand legal scrutiny that would allow the Ohio Commission to have a say regarding the long-term viability of resources and the development of new resources within the state
  - And the positive note regarding Ohio activities during Q1 is that the PUCO did the right thing
- They approved the PPA and not only sent a message regarding investment resources located within the state, but also focused on moving toward a balanced set of resources that included renewable development that would have advanced any potential clean power plant objectives
  - But FERC has spoken
- And unless we have the patience for what could be a lengthy review process by FERC, this option could be off the table
  - So here is what I want to be absolutely clear about

Premium Regulated Utility

- AEP is moving toward being a premium regulated utility, one that is advancing toward being the next generation energy provider that has a vibrant energy grid with not only a balanced set of generation resources but the technology deployment of tomorrow to enable a clean reliable and affordable energy product to our customers
- We have no interest in getting involved in a protracted FERC state jurisdictional dispute
- So we will move as expeditiously on Plan B as possible to resolve any uncertainty regarding our being the next premium regulated utility
  - So this is a two-prong approach that will be pursued in parallel

PPA Assets

- So we can still meet our objectives as quickly as possible
- Number one, we already have a strategic review that I will update you later regarding the non-PPA assets
  - We will begin a strategic process for the PPA assets as well
- Number two, we'll push for re-regulation in the Ohio legislature to repeal and replace SB 221 or enable the transfer of and cost recovery for certain resources in AEP Ohio, thereby eliminating the need for a PPA
  - This will secure Ohio's role in determining its own resource mix with a structure that enables long-term and short-term deployment of generation related resources in the state

- These two prongs will progress in parallel, and whichever results in AEP becoming fully regulated earliest will be completed
- All of these state related issues are occurring out of frustration with organized markets such as PJM that have an inherent inability to allow states to make decisions regarding their own resources

Ohio Supreme Court Decisions

- Ohio needs to decide expeditiously, does it want to control its own development of resources within the state, or leave it to PJM in the federal government who have conflicting multi-state interest
- Regarding the Ohio Supreme Court decisions, we believe that these two remanded cases should be taken up together at the PUCO because they clearly are interrelated
- The first order concerning the capacity charge and the energy credit set by the PUCO, the court said clearly that the AEP should recover our generation capacity cost and that the PUCO erred in its use of the energy credit instead of listen to AEP's concerns
- The second order concerning the rate stabilization recovery mechanism said that it was permissible to have deferred capacity cost recovered in the RSR, but not the component of the RSR that reflected transition or financial integrity revenue
- All of these together say that the remand to the PUCO requires the recovery of all of AEP's capacity cost
    - Therefore, once the debt settles on which buckets costs are attributed to, AEP expects the result to be neutral or positive to earnings
- The last topic to review is an update of our strategic process, so that you will know where we are at
- We have opened a confidential data room
    - There is considerable interest by several parties and the process is moving according to schedule with final bids in Q3 and aggressively completing a transaction by the end of the year

State Regulatory Activities

- Now, at this point I'll move to the equalizer chart on the next page to talk about some of the state regulatory activities
- So overall, we're seeing a 9.4% in return
- As you recall from the last quarter, it was 9.6%, but we expected it to come down during H1 and then move back up towards that approximately 10% that we had discussed earlier
    - So everything is still on plan for that

Ohio Power

- Looking to the Ohio Power, the ROE for AEP Ohio is in line with our expectations and we expect to finish this year in line with the 11.9% ROE forecasted
- For APCo, the decrease in ROE from December to March is primarily due to unfavorable weather this winter, 2015 reversal of previous regulatory provisions as well as the performance of the merchant portion of the Mitchell Plant

- The 2015 West Virginia base rate case included a delayed billing of $25mm of the annual base rate increase to residential customers until July 2016
  - So we'll see that start to kick-in
  - And as they phase in, the company's ROE is expected to trend at or near the 2016 forecasted ROE

Kentucky Power

- For Kentucky Power, we're seeing the expected continual improvement at quarter end
- The commission authorized $45mm rate increase that was effective in July 2015
  - And this rate case will continue to improve the ROE during 2016 as the year goes on
- For I&M, it achieved an ROE of 10.2%
- I&M continues to benefit from good regulatory frameworks in place for the major capital investment programs it has going at our Rockport, SCR, solar, the nuclear lifecycle management at Cook and Transmission PJM related projects
- So I&M is well positioned for another positive year in 2016

PSO's ROE

- PSO's ROE is generally in line with expectations
- In December, as you would recall, the Oklahoma Corporation Commission heard the rate case and PSO implemented an interim base rate increase of $75mm that's subject to refund on January 15, so that's kicked in and we should expect that ROE to continue to improve
- SWEPCO, we expect to see some improvement in ROEs from some recent filings, but they continue to be challenged by some of the wholesale revenue that's rolling off there
  - But also the positive indications are that they're filing an application in Arkansas that went into effect March 24 to recover our retrofit investments in Welsh and Flint Creek Power Plants and then in Texas, we filed Transmission & Distribution riders there as well

AEP Texas

- In AEP Texas, the ongoing distribution capital investment in TCC to serve higher levels of electric loads and to maintain the reliability of the grid has gradually lowered the regulated ROE over time
  - So on April 6, TCC and TNC filed distribution cost recovery factor filings seeking recovery of distribution investment from July 2006 through December 2015 with rates expected to go into effect September 1

AEP Transmission Holdco

- AEP Transmission Holdco, the transmission side of things, its return is 10.9%, which is in line with expectation. 2016 forecast is 10.2% because of the heavy investments being made there as well
- So all in all, it's been a great quarter
- I think that the fundamentals are showing through the company, and certainly we have several opportunities and we'll continue to work on those, but it has been eventful, but our employees' discipline and execution toward a

common strategic objective is becoming more evident every day

- No doubt our progress will continue toward being that next premium regulated utility
- And we can't help but saying, because I just got back from the Rock 'n' Roll Hall of Fame Induction Ceremony, I'll end with a quote from a famous Rock n' Roll Hall of Fame inductee and it says, you will always tell when the groove is working or not
- That was from 2004 inductee Prince
  - At American Electric Power, I can tell you the groove is working

Brian X. Tierney

Financial Performance

Operating Earnings

- I will take us through the financial results for Q1, provide our latest insight on load and the economy and finish with a review of our balance sheet strength and liquidity position
- Turning to slide five, operating earnings for Q1 were $1.02 per share or $501mm, compared to $625mm or $1.28 per share in 2015
- At the highest level, the decline in earnings this year was driven by unfavorable weather conditions and the expected decline in earnings in the Generation and Marketing segment due to the reduction in Ohio capacity revenues
  - These unfavorable drivers were partially offset by rate changes, growth in normalized margins and our regulated businesses, and higher earnings in our AEP Transmission Holdco segment

Vertically Integrated Utilities Segment

- With that as an overview, let's look at the drivers by segment
- Earnings for the Vertically Integrated Utilities segment were $0.57 per share, down $0.04, with the single largest driver being winter weather, which negatively impacted earnings for this segment by $0.11 per share
- As Nick said earlier, 2016 was the sixth-warmest winter, and 2015 was the second coldest winter for AEP in the last 30 years
- Other major drivers for this segment include the reversal of a 2015 regulatory provision in APCo produced a drag on earnings of $0.03 per share
  - Off-system sales declined by $0.02 per share due to substantially lower power prices
- Higher O&M expense unfavorably affected this segment by $0.04 per share, primarily driven by higher employee-related costs
- Partially offsetting these unfavorable items were rate changes, which were recognized across many of our jurisdictions, adding $0.06 per share to the quarter, and higher margins on retail sales, mostly related to the timing of mix of sales, which added $0.04 per share
- We will look in detail at load and the economy in the next three slides

  - Finally, this quarter was bolstered by $0.04 per share from a lower effective income tax rate due to prior-year tax adjustments and tax vs. book timing differences accounted for on a flow-through basis

Transmission & Distribution Utilities Segment

- The Transmission & Distribution Utilities segment earned $0.22 per share for the quarter, up $0.02 from last year
  - This segment's major drivers include rate changes, higher transmission revenues in the Texas companies, and lower O&M expense, each of which added $0.01 per share for the segment
- The O&M reduction was due in large part to a contribution to the Ohio Growth Fund made in 2015 that was not repeated this year
- Partially offsetting these favorable items is a decline of $0.01 per share related to milder weather in Texas compared to last year
- Our AEP Transmission Holdco segment continues to grow, contributing $0.09 per share for the quarter, an improvement of $0.02
- Net plant less deferred taxes grew by approximately $910mm, an increase of 39% since last March

Generation and Marketing Segment

- The Generation and Marketing segment produced earnings of $0.14 per share down $0.24 from last year
- Capacity revenues were lower by $0.12 per share due to plant retirements and the transition of Ohio's standard service offer to full market pricing
- Energy margins were lower by $0.07 per share due to power prices liquidating 32% lower than last year
- While the trading and marketing organization performed well, it was not able to replicate last year's exceptional results and was off $0.03 per share
- Corporate and Other was down $0.02 per share from last year, primarily the result of having no earnings from AEP River Operations due to its sale in late 2015
- Despite mild weather, softness in residential sales and power prices, our performance for the quarter was solid
  - We have been planning for a couple of years to be ready for the capacity revenue challenges in 2016, and our actions and planning leave us well-positioned to achieve our earnings targets for the year

Normalized Load Performance

- Now let's take a look at slide six to review normalized load performance
- Starting in the lower-right chart, our normalized retail sales were essentially flat for the quarter
  - However, the other charts on this slide show that the growth in commercial and industrial sales has been offset by the decline in residential sales
- Normalized residential sales were down 1.6% for the quarter, although we experienced modest growth in our residential customer counts compared to last year

Customer Count Growth

- Most of the customer count growth was concentrated in Texas, where favorable demographics support new household formation
  - This was partially offset by fewer customers in our eastern territory, specifically around the Appalachian Coal Basin
- On the positive side, commercial sales grew by 0.7%
  - This growth was spread across most of our operating companies, which is consistent with the growth in the service sector employment that we experienced across AEP's service territory

Industrial Sales

- Finally, industrial sales grew by 0.9% this quarter
- The majority of this growth came from the oil and gas sectors, which I will discuss in more detail later
- The growth in these sectors helped offset the drag from the primary metals and mining sectors
  - The weak global demand, oversupply of Asian steel and strong dollar combined to create challenging markets for export manufacturers within our footprint

Economic Data

- Now let's turn to slide seven to look at the most recent economic data for AEP's service territory
- Starting at the top with GDP, you see that the estimated 1.8% growth for AEP's service area is now only 0.3% behind the U.S.
- For the first time since 2014, our eastern territory is now growing faster than the U.S.
  - This was not the case for our western territory where there's greater exposure to lower oil and gas prices
- While the nation benefited from lower fuel prices, AEP's regional economies supporting these shale plays are experiencing the negative impact of lost jobs

Employment Growth

- The charts at the bottom show the employment growth within AEP's service area is holding steady, but still lags behind the U.S. by 0.6%
  - It is no surprise that job growth in AEP's eastern territory exceeds the western service area by 0.5% given what we just discussed
- The sector is showing the strongest job growth for the quarter, include construction, leisure and hospitality and education and health services
- These gains were somewhat offset by the decline in natural resources and mining jobs
- Today, there are 16,000 fewer natural resources and mining employees working in our service territory than last year
  - Approximately 12,000 of those jobs were located in our western footprint

Industrial Sales Trends

- Now let's turn to slide eight to review our industrial sales trends by region
- As we briefly mentioned earlier, we continue to see the strongest growth in our industrial sales to the oil and gas sectors
- The chart in the upper left shows our industrial sales in shale counties were up over 9% vs. last year
  - This is in spite of the fact that oil prices, rig counts and employment in the oil and gas extraction segment were down significantly from last year

Oil and Gas Sectors

- The bottom left chart shows that growth in oil and gas sectors was spread across all major shale plays within AEP service territory with the strongest growth coming from the Eagle Ford, Permian and Marcellus regions
- The map on the right now includes our coal counties shown in blue
- I want to highlight these counties since we are seeing some significant erosion in our industrial sales as well as customer counts in this area
- In the upper left chart, our industrial sales in the coal counties were down over 17% this quarter

Natural Gas Prices

- Low natural gas prices and environmental regulations combined with the drop in metals production and corresponding demand for metallurgical coal have created a perfect storm for Appalachian coal producers
- You are likely familiar with the number of bankruptcies and mine closures that have been announced over the past year, citing these exact reasons
- Outside of our shale and coal counties, the rest of AEP's industrials were up nearly 1% for the quarter
  - Some examples of industries that are still seeing modest growth this year include transportation manufacturing and plastics and rubber manufacturing, both of which are tied to auto sales where production benefited from lower fuel prices

Capitalization and Liquidity

- Now let's turn to slide nine to review the company's capitalization and liquidity
- Our debt to total capital rose by 0.5% this quarter and remains healthy at 53.7%
- Our credit metrics, FFO interest coverage and FFO to debt are solidly in the BBB and BAA1 range at 5.45 times and 20% respectively
- Our qualified pension funding decreased 3% this quarter to 94%, although plant assets increased by 1.2%, plant liabilities increased by 4.5% due to the discount rate coming in lower than the assumed rate of 4.3%
- We plan on funding our pension with about $93mm in Q2 equal to the estimated service cost for the year
- Our OPEB funding now stands at 104%
- Plant assets decreased by 1% and plant liabilities increased 4% for the same reasons as the pension plan
  - The estimated O&M to service both plants this year is expected to be about $20mm

Net Liquidity

- Finally, our net liquidity stands at about $3.2B and is supported by our two revolving credit facilities that extend into the summers of 2017 and 2018
- During Q2 this year, we plan to refinance these facilities with an anticipated tenure expected to extend in the June of 2021
  - Altogether, AEP's balance sheet, liquidity and credit metrics are strong and will allow us to fund our utility operations, growth and dividends under all reasonably foreseeable conditions

Summary

And finally, so we can quickly get to your questions, let's turn to slide 10

I want to reiterate that Q1's results were in line with our expectations

In spite of last night's late breaking news, we remain on track to earn within our previously announced operating earnings guidance range of $3.60 to $3.80 per share for 2016

As Nick said earlier, our previously announced strategic review of our competitive generation business will continue according to schedule and we will share the results of that process as soon as we can

- We expect that to be in Q3

QUESTION AND ANSWER SECTION

<Q - Jonathan Philip Arnold>: I think it's good morning, but thank you for such crisp comments on short notice. One question I had is that you talked about the plan with the PPA assets to engage in a parallel path strategic review or re-regulation. Is it possible that that strategic review could somehow be folded into the ongoing process around the non-PPA assets, or do you see these as definitely sort of separate track?

<A - Nicholas K. Akins>: Yeah. We're going to start the process obviously with the PPA assets. We don't want to slow down the other assets. So we're still looking at that to see what can be done to address it, but we don't want to slow down the existing process that's going on. We're going to stay on schedule and we're going to continue cranking away and then we'll initiate the process and actually initiating a process on the PPA assets is relatively easy to do because we've already done it for the non-PPA assets. So it can move along relatively quickly as well. The question is you know I mean to all of a sudden roll it in to the existing process, it may be challenging. We'll just have to take a look at that.

<Q - Jonathan Philip Arnold>: Okay. And then just to clarify on timing, I think Nick in your remarks you said you'd hope to have a sort of process fully wrapped up for the non-PPA assets by the end of the year. And I think maybe I heard Brian say, you'd update us on Q3. So is there a possibility that year-end is the outside date and things happen quicker?

<A - Nicholas K. Akins>: Yeah. I think, obviously, we would want an announcement in Q3. And then we'd want to close as quickly as we can and we've been able to close transactions relatively quickly before and it's a known set of assets. So we feel like it may be aggressive, but we want to close by the end of the year.

<Q - Jonathan Philip Arnold>: Can you share when bids are due or anything like that?

<A - Nicholas K. Akins>: Well, we have initial bids in a cycle that, I think, occurs during Q2 and then Q3 will be final bids.

<Q - Jonathan Philip Arnold>: Okay, great. And then can I just [indiscernible] (24:38) sort of the other part of the parallel path? Where are you on this re-regulation proposal?

<A - Nicholas K. Akins>: Yeah.

<Q - Jonathan Philip Arnold>: Is it kind of standing start or is there some momentum kind of in the background? We've obviously just have the Chairman of the PUC step off the desk or about to.

<A - Nicholas K. Akins>: Yeah.

<Q - Jonathan Philip Arnold>: And can you just kind of update us on how you see that and how likely it is that something could really materialize faster than a strategic review?

<A - Nicholas K. Akins>: Yeah. I just probably make a distinction because even before we started the PPA, I said the State of Ohio needs to decide, but I'd also said that the Commission needs to decide and because we were trying to do something within the purview of the existing legislation and it being left out to the difference of the Commission to decide. In this case, we're not talking about the Commission. Now obviously we'd love for the Commission to be part of that process. They need to be part of the process but this is a legislative issue. And our concern is, and I think there has to be a broader concern about the state of Ohio and that's represented by the legislature, what do we do to enable Ohio to take a firm hold of the capacity and energy situation within the state, the development of new resources, the jobs, taxes and all those things that we talked about earlier.

And it's not like you're starting at ground zero to do this. I think the issues in Ohio are well-known from an energy policy perspective. Matter of fact, we just got through the review, through the Ohio business round table, the Columbus partnership's been involved. There is definitely already steps being taken. It's a question of, okay, what steps? And there you're talking about, okay, is there a stopgap measure to basically allow the transfer of certain assets within the state of Ohio to AEP Ohio directly and avoid any kind of affiliate transaction, which probably, I would say is probably a better chance of accomplishing something like that and a full re-regulation, but I wouldn't take that off the table either. I mean because I think there's broader issues that are involved here like, for instance, if Ohio wants to move forward with renewables and renewable implementation and balance out the portfolio and focus on natural gas, those are clearly areas that can fall within some form of re-regulation.

<Q - Jonathan Philip Arnold>: Would a transfer like you suggest require FERC approval?

<A - Nicholas K. Akins>: Yeah, but that kind of approval, they've already done before. We already did it for net book transfers from our Ohio, what was our Ohio fleet to other jurisdictions, and they were approved without a hitch. So I think there is probably plenty of precedence on that one.

<Q - Michael Weinstein>: In the case of let's say total re-regulation, is the Ohio fleet enough to serve returning load, let's say? I mean I'm thinking about the over, I think, a much larger implication that that might entail for the utility, or do you have to build additional generation under that kind of a scenario?

<A - Nicholas K. Akins>: So the first answer is, no there's not enough. Secondly, we'd have to deal with the capacity deficiency either through the market or building new capacity. And I think it's a perfect opportunity for the state of Ohio to look at natural gas and renewables to fill out that approach. And as long as Ohio has control in doing that kind of thing, then we're ready willing and able to move that direction.

<Q - Michael Weinstein>: Have you already been in touch with members of the legislature to begin the process at this point, or basically this is initial reaction off last night's news?

<A - Nicholas K. Akins>: I'm not going to address that. I think certainly people are aware of the issues with energy policy in Ohio, and there have been discussions relative to the PPA with legislators, and they're fully aware of what the issues are, and it's not a huge stretch for them to ask the question, well, why don't you just re-regulate?

<Q - Michael Weinstein>: And would it be more accurate to say, this is more like a three-track process where you would go – re-regulation is track one, and track two might be transferring plants into rate base, and I guess instead of a – and third is to sell the plants, right, through another process, right?

<A - Nicholas K. Akins>: Yeah. I think we have to look at, and probably do have to have discussions about what is the most expedient process, because I mean there's several options here that we can talk about and some of them maybe stopgaps, some of them maybe longer term. And certainly I think that others in the state will agree that we need to respond quickly to enable us to continue to do what Ohio wants us to do with that generation.

And so I'd say we're obviously discussing several options internally among ourselves, but we haven't gone out with specific policy objectives, at least detailed objectives, on how we want to approach it because obviously we want to do what's the most expeditious way to do it. Because in my book, the race is on. The race is on between our option of the strategic evaluation vs. our option to have some form of re-regulation coverage. And it maybe a misnomer to call it re-regulation, but we'll have to see what that means. I think AEP has reached the point where it's time to get this resolved once and for all.

<Q - Paul Patterson>: So just to understand this. If you were to be able to transfer stuff into rate base, that would require legislation, is that not correct?

<A - Nicholas K. Akins>: Yeah. We'd need approval from a legislative standpoint to transfer back into AEP Ohio.

<Q - Paul Patterson>: Okay. How long do you think that might take legislatively? I mean how should we think about that as analysts? How quickly do you think that they might be practically able to address something like this?

<A - Nicholas K. Akins>: Yeah. That's probably what we're going to find out, but as far as your timeline, you really ought to be going by our other option of the strategic evaluation. And if we do something earlier, that's great.

<Q - Paul Patterson>: Okay, I got you. So you're not going to wait for – you want resolution one way or the other pretty quickly, it sounds like?

<A - Nicholas K. Akins>: Yeah, we're not waiting.

<Q - Paul Patterson>: And here's just an idea that – and if this is crazy, let me know, but what about the idea of – since this is an affiliate issue at least the FERC order that came out, just simply AEP is assigning the PPA to FE and FE is assigning the PPA to AEP. I've realized that there'd have to probably be some changes, but since PUCO doesn't seem to have that big an issue with it, I mean I'm just wondering is that something that could realistically address the issue, or you follow what I'm saying?

<A - Nicholas K. Akins>: Yeah. I follow what you're saying. I think probably FERC would follow what you're saying too. So I think that would probably wind up being an issue because you know FERC, they hinged their order. I mean it wasn't just an order saying, come in, let's take a look at it. It was basically saying we don't like the non-bypassables and...

<Q - Paul Patterson>: In the context of an affiliate transaction now. I mean this wouldn't be an affiliate transaction then. I mean I realize it's sort of legalistic, but I mean you guys want to be affiliates at that point?

<A - Nicholas K. Akins>: Yeah. We will certainly look at that option but…

<Q - Paul Patterson>: Okay. I just thought...

<A - Nicholas K. Akins>: I just don't want to introduce any novel issues that would drive our schedule to be even longer, and I think anything to do relative to FERC at this point most likely would be a longer schedule. So we'll have to look at it and see. I mean obviously we'll hold those kinds of options open, but I'm just trying to say our primary options are number one and number two that I had talked about earlier.

<Q - Anthony C. Crowdell>: Is it reasonable then, and maybe you don't want to answer this, whether the re-regulation scenario or some type of cost of service return on these assets is like a two-year event, or no clarity on that at all?

<A - Nicholas K. Akins>: No. It's not a two-year event. I don't think it's a two-year event. I mean, these issues are well-known, and really, I mean what we asked for Senate Bill 221 if you scrap that and kept – and it goes back to the previous legislation, then there's opportunities there, or it could be specific issues that are dealt with within a smaller legislation that's sort of a stopgap measure to allow the transfer. And so I think that's a relatively simple thing to think about.

<Q - Anthony C. Crowdell>: All right, great. And just a quick follow-up. Are there any other instances at all that AEP uses an affiliate waiver that may also be contested?

<A - Nicholas K. Akins>: No, I don't think we have anything else there.

<Q - Ali Agha>: Nick, just to clarify your overall thinking on your merchant exposure. I think you said for the non-PPA assets announce something Q3, get it all done by year-end. Is the plan for the PPA assets, whatever it happens to be done by year-end as well, or could this spill into 2017?

<A - Nicholas K. Akins>: I think realistically the PPA assets could likely fall into 2017, but I wouldn't think far into 2017 because obviously we have to get a confidential data room with all the analysis and all of the things around those units done, but the parties that are interested in capacity and PJM, they're pretty well-known now. So I think there's probably things you can do to shorten the schedule, but I think to get the non-PPA assets done by year-end is an aggressive posture, but doable but I think probably the PPA assets could fall into first quarter, second quarter next year.

<Q - Ali Agha>: Also you said in the past, the PPA assets are the most competitively flattened higher cost coal assets. I mean is one scenario to just throw in the towel and say, you know what, the market isn't giving us the right signal, we don't have any other avenues, we may just shut down this capacity?

<A - Nicholas K. Akins>: Well, I think we need more data before we can make that kind of decision. So I think you've got to test the market and who knows, I mean, you could have a strong summer and the whole world changes. So I wouldn't have any conjecture on that at this point.

<Q - Ali Agha>: Okay. And just on the timing perspective, can you just remind us, when does the legislature meet? I mean, what's their schedule. So if it doesn't happen in this current one, when is the next time they meet, just if that is the option that we're going to be also focused on?

<A - Nicholas K. Akins>: Yeah, they can meet anytime.

<Q - Ali Agha>: I see.

<A - Nicholas K. Akins>: Yeah. They're in session now, but obviously with the presidential election and all that kind of stuff could slow things down, but that doesn't stop you from doing all the education and everything until after the presidential activities are over.

<Q - Ali Agha>: I see. And fair to say that the FERC coming in that's not done, you're not getting involved in Ohio vs. FERC that kind of thing?

<A - Nicholas K. Akins>: I'm sorry. I missed that question.

<Q - Ali Agha>: With the FERC jumping in and stopping the waiver, I think, did I hear your comments right that you don't see any avenue there that that's just going to be take too long and that's not a realistic path for that whole process to play itself out?

<A - Nicholas K. Akins>: Yeah, that's fallen back to the third option and really we'll have to take a closer look from a legal perspective, can the FERC process be short changed at all and any provisions that could occur there, but I think FERC is pretty well spoken. We could perhaps ultimately prevail, but it's a long circuitous route to get there unless we can find a way to get a more, a clear and concise and quick response from FERC. So I think that's probably a longer hurdle at this point.

<Q - Ali Agha>: Got it. Last question. Nick, when you look at your company, the premier utility company assuming these merchant assets are ultimately gone. Does 4% to 6% still look like the realistic growth target or could you look at a perhaps even higher target given the growth that your Transmission business is showing for the next several years?

<A - Nicholas K. Akins>: Yeah. So I think we'll probably give you some more insight on that in November at EEI, but it's clear that we are reaffirming the 4% to 6% for now, and then and you see the utility growth that's occurring. I mean we show those numbers too. So once we're fully regulated, we'll give a view of what that looks like going forward as well.

<Q - Paul T. Ridzon>: Is there any potential if you get expeditious re-regulation that there might be better value in putting some of non-PPA assets into rate base? Are those – ?

<A - Nicholas K. Akins>: Yeah. I don't know really. We don't know the answer to that at this point, because the assets that were in the non-PPA side of things, they were natural gas assets primarily, and the market has certainly valued those assets. So we'll have to look at the numbers and responses. We'll know that pretty soon. And then we'll be able to tell you. But at this point, I think it's just conjecture to assume that but we'll be looking at all the options, don't worry about that.

<Q - Paul T. Ridzon>: And who is the data room, is it private equity, is it strategics?

<A - Nicholas K. Akins>: Yeah. There's plenty of parties that are in the data room. I just wouldn't want to go any further than that at this point. They'll become known pretty soon.

<Q - Paul T. Ridzon>: Okay. If we can move out of Ohio and go a little further south. Louisiana is going to talk today about their tax items. Any insight would you expect to come out of that?

<A - Nicholas K. Akins>: Yeah. So from a Louisiana perspective, I think, it's really taking a step out there to start to deal with the phantom tax issue. Texas has dealt with it before and that obviously was taken care of. West Virginia the same thing. So, unless Louisiana wants to be unique from every other jurisdictions, but that if they do choose to do something like that, then they're going a very different route. And obviously there's no ex parte communications in Louisiana. So we'll obviously be having discussions about all that with our commissioners.

<Q - Paul T. Ridzon>: You have not had a discussion…

<A - Nicholas K. Akins>: Brian, anything you want to add?

<A - Brian X. Tierney>: No.

<Q - Michael Lapides>: Want to focus on the core business actually and looking at slide four, are you seeing degradation? If I were to look at the same slide for the last year or so, are you seeing some degradation, I mean I'll use a handful of examples. PSO, AEP Texas, SWEPCO, pretty big subsidiaries, numbers appear potentially heading the wrong direction or have headed the wrong direction there. Can you give a little more detail about the dollar rate increase request at SWEPCO and AEP Texas? When you expect those to go in and what kind of impact you expect that to have on regulated returns in both markets?

<A - Brian X. Tierney>: Yeah. Let me start with Texas first. TCC and TNC, we've recently filed the distribution and cost recovery factors there. And those requests are TCC about $54mm, TNC about $16mm in terms of when we expect them to come in place, to propose effective date for both of those is September 1st of this year. And so the effect of those increases will come in, in this chart over the course of the following 12 months in that regard.

In SWEPCO, we also have a Texas TCRF that's in and we've requested an increase of about $4.9mm, a very small average customer increase. In addition, we've had a SWEPCO distribution cost recovery factor, where we've requested another about $9.2mm. So very much trying to take advantage of the relatively quick recovery mechanisms that they have with the cost recovery filings that are short of a full rate case in the Texas and trying to get those increases reflected as quickly as possible to help get some of those Texas and SWEPCO ROEs moving in the right direction.

In PSO, we've implemented a rate increase, effective January 1 of this year, subject to refund and are expecting an order out of the Oklahoma Commission sometime this quarter. And again that should have that PSO ROE moving in the right direction, up closer to the upper 9%s, closer to 10% range.

<**A - Nicholas K. Akins**>: And keep in mind, Michael, some of this is deliberate too. I mean, like transmission for example, I mean we're spending a lot of money there and obviously it is a great recovery mechanism, but we're still chasing the recovery mechanism because we're investing so much. And in the other jurisdictions, you know we are following rate cases to catch up in certain areas. But all-in-all I mean we look at it like; we're managing these across the board. So some may be you're seeing drop a little bit but there may be specific reasons for that that we're investing in or that we expect rate making aspects to come around at some point, but we're making very deliberate choices. And even during Q1, I mean we didn't cut back on our planned O&M or any of those activities because it's Q1.

Generally you'd have to say that, yeah probably if you looked at it two years ago, you know we were probably at 10.3% that we estimated for the year but you're still in that 10% area. And that's where we try to manage this thing to ensure that we're meeting that threshold across the board. So you know I wouldn't be looking at SWEPCO, for example, I'm saying. Well that's the general trend for everyone. We've talked about the specific issue at SWEPCO and it's that Turk piece, the 88 megawatts of Arkansas that we really need to resolve, but timing is going to be an issue there.

<**A - Brian X. Tierney**>: You know the equalizer chart that you referred to on slide four Michael is very much a heads-up display for us. And when we see those lower ROEs, we are either taking action or have taken action to try and get those improved. And you see that across the board whenever you see those bubbles or balls there whatever you want call them, getting in the lower end of the range.

<**Q - Michael Lapides**>: Got it. Okay. And I want to follow-up and I know it's a small subsidiary for you, but if I look at Kentucky earning 5.5%, you've got nine months of the rate increase already in effect right now. So you've only got one more quarter of the rate hike coming in. Just curious, what do you do structurally or process-wise to get that closer to a normal earned to return level?

<**A - Nicholas K. Akins**>: Yeah. So in Kentucky, we're likely to be making another filing. So when that occurs you'll continue to see that improvement as well. So I sort of look at Kentucky like the little engine that could, because we get some progressive things out of Kentucky like the cyber rider that we had, and obviously it was our first jurisdiction we were able to do a transfer to. So, there are some benefits of being in the Kentucky jurisdiction, but you have to look at this thing in the overall context, it is a small bubble but it's one that's on the uptick from an ROE perspective and we'll continue progressing that way.

<**Q - Michael Lapides**>: Got it. Last question. What is the, at the regulated subs, especially T&D and the Vertically Integrated Utilities. What's in guidance for O&M growth y-over-y?

<**A - Brian X. Tierney**>: It's either flat to down, Michael. It's that trend that we've had going back to 2011 to have it be between that 2.6% and 2.8% range and we're right about in the middle of that throughout 2016.

<**A - Nicholas K. Akins**>: About 2.9% yeah.

<**A - Brian X. Tierney**>: 2.75% really. And Michael that's non-bypassable non-offset O&M, okay.

<**Q - Michael Lapides**>: Yep. No. Understood. Just trying to check in on that, because O&M can have a big impact on earned returns as well.

<**A - Nicholas K. Akins**>: Yep.

<**Q - Praful Mehta**>: And sorry to go back to the PPA aspects, but looking on the non-PPA, I'm a little confused with the timing and the sequencing. Because if your goal is to get an exit quickly on the non-PPA asset, but you also want to attempt to try to re-regulate, I just don't see how the timing works because if you want to just sell the assets you've probably got to execute pretty quickly rather than wait to try and re-regulate. Could you help me just understand how the timing could work there?

<**A - Brian X. Tierney**>: So there's two different things here. I mean, the non-PPA assets are part of the process that's already ongoing. And that process is already in play. There's already confidential data rooms. There's already a review going on. There's all kinds of things going on with that transaction, and really the schedule is pretty aggressive, but

we're going to get it done. The –

<Q - Praful Mehta>: Sorry I meant the PPA assets. I was trying to –

<A - Brian X. Tierney>: Okay. So the PPA assets, obviously we're going to have to do the same thing there in terms of getting a lot of data associated with that. Now just think about – the original non-PPA assets are plants that are wholly owned, there's no partners, there's primarily natural gas, which is pretty easy to evaluate with Gavin obviously, and Gavin is the piece that people have to take a look at as well. With the other set of assets, I'm sure, we've got to get a lot of data and information together for them to present them in a positive way to ensure that potential investors can look at those assets and give them time to do that.

So we wouldn't want to slow down the existing non-PPA for that. And you can only move so quickly with those kinds of transactions, particularly as it relates to the existing PPA assets, but we'll start the process. We'll move as quickly as we can, but I'm just trying to be realistic in that it will take a little bit longer than the existing schedule we have for the non-PPA. And now what it also says is, is that the re-regulation or anything, any potential option thereof is going to have to move very aggressively. And so we don't have any time to spare on that, because I think that – but I'm just saying that that's not the critical path. On the critical path, we have two projects: one, the existing non-PPA, and then now we have the existing PPA assets, and we're going to move as quickly as we can. There's been a lot of homework done on it, lot of analysis done on it. So we don't have to do any of that and recreate it, but we've got to make sure our process is robust enough so that people can understand probably a more complex set of resources.

<Q - Praful Mehta>: Fair enough. Got you. That's very helpful.

<A - Nicholas K. Akins>: Yep.

<Q - Praful Mehta>: And just secondly for both the assets, PPA and non-PPA, could you just remind us, given there's a little bit of timing difference, but broadly both are going to be sold. If that's the base case, could you just remind us in terms of the tax basis or the tax leakage expectation, if any, and the use of proceeds, if it's just going to be for reinvesting in the Transmission side or you're also going to do some share buybacks?

<A - Brian X. Tierney>: So we've not shared the tax basis on those assets. And really the use of proceeds discussion would be likely timed to when we would announce what a transaction would be, but we have a great opportunity to reinvest in our organic business with those proceeds, as you saw us do, when we had a – bonus tax depreciation got extended, we're able to increase the CapEx for 2017 and 2018 by $1B immediately, most of that going into the wire side of the business, but more a fulsome discussion on what we would do with use of proceeds would likely be at an Analyst Day following the announcement of the resolution of that strategic review.

<A - Nicholas K. Akins>: What I can tell you is we're very mindful of is that we have a whole laundry list of potential places to put any available cash that comes in. You named one of them, obviously transmission, which we have substantial ability there. There's other things on the list that we continue to invest in, not only the operating companies but also on the competitive side with purchase power arrangements. So those are opportunities that we can continue to develop in anticipation of cash proceeds coming in. But what I want to make sure of is that, we're not going to just get a pile of cash and have it burn a hole in our pocket and we wind up doing something stupid.

<Q - Shahriar Pourreza>: Most of my questions were answered, but just on the legislative route. I know it's not probably the primary route you want to take, but this is probably the first instance that I can remember that all the utilities seem like they're unified within the state. So when you're sort of thinking about taking the legislative route, is this something you're going to collaborate with, with your neighboring utilities, and has this sort of been a preliminary discussion?

<A - Nicholas K. Akins>: Yeah. I think our interests are consistently aligned because there's a problem, and everyone knows there's a problem. And for some probably, it's more of a problem than others, but it's still a problem. So we're going to continue to address it, and you'll have to ask Chuck at FE and others, what their thoughts are, but I would venture to say that our interests are aligned in many ways from that perspective because there is a problem.

<**Q - Shahriar Pourreza**>: Got it. Okay, good. And then just lastly, not to drill another parallel path here, but is there an option to hold a competitive RFP process for the PPAs and allow the other gencos to bid into this?

<**A - Nicholas K. Akins**>: Well, I guess the question is, is there enough capacity? I'd just have to take a look at that.

<**Q - Shahriar Pourreza**>: Got it. Okay, good. And then just lastly here bypassable…

<**A - Nicholas K. Akins**>: Let me just say this, though...

<**Q - Shahriar Pourreza**>: Yeah.

<**A - Nicholas K. Akins**>: … I really don't want to get to a point where we have 10 options that we're evaluating, because I think it's pretty clear what we need to do.

<**Q - Shahriar Pourreza**>: Got it. Okay, great. And then just I probably know the answer to this, but a bypassable route on the PPAs is not something you'd want to take up.

<**A - Nicholas K. Akins**>: Well, that is an option but we'll have to investigate it and see what actually that means for the company financially but that is an option that has been initially discussed, but whether that prevails or not, we'll just have to take a look and see.

<**Q - James von Riesemann**>: I have a couple of, just like semantics types questions. So the Ohio legislature is supposed to end in mid-June. When is the last date to submit a bill? And do you need to have a bill submitted in order for the government to call a special session?

<**A - Nicholas K. Akins**>: We'll have to take a look at that. I don't know. Do we have any of our...

<**A - Brian X. Tierney**>: No deadline…

<**A - Nicholas K. Akins**>: Yeah, okay. So there's no deadline for legislation being introduced.

<**Q - James von Riesemann**>: Okay, okay. And then I guess the second question is, if you go this route and this whole FERC process doesn't work out, are you still subject to the refund that they discussed in the order yesterday?

<**A - Brian X. Tierney**>: Nothing's been collected yet, so there's nothing to refund.

<**Q - James von Riesemann**>: Okay.

<**A - Brian X. Tierney**>: But their refund order stays in effect if we were to begin collecting, but given what they said about the waiver, we can't begin collecting because we can't implement the PPA. So there's nothing to refund.

<**A - Nicholas K. Akins**>: We weren't collecting until…

<**Q - James von Riesemann**>: Just making sure.

<**A - Brian X. Tierney**>: Yeah.

<**A - Nicholas K. Akins**>: Yeah. We weren't collecting until June 1, so, I guess…

<**Q - James von Riesemann**>: Yeah. I was just making sure.

<**A - Nicholas K. Akins**>: Yeah. No problem there.

<**Q - James von Riesemann**>: And then totally different topic. Do you have any comments or thoughts from the Senate Energy Bill that has been passed there and needs to go to reconciliation?

<**A - Nicholas K. Akins**>: Yeah. I think certainly Senator Murkowski has been working very hard to get bipartisan support for the bill has energy efficiency provisions, has provisions for the grid in terms of certainly the focus on making sure the grid is reliable. I think that's a good bill. And obviously, it has to go to conference and Fred Upton has been working on the other side on the House side. So they'll have to put those two together and they're very different in some respect. So we're going to have to work through that process, but overall, though, anything that Congress and

the Senate can do to come together from a bipartisan standpoint to focus on reliability of the grid, integration of all these activities that we are having to deal with is a good thing, and I think it's a good start. Now, there's some heavier lift issues that eventually will need to be addressed but you got to start somewhere, and I think Lisa Murkowski has done an incredible job – I think it's Cantwell on the other side of the aisle – but it's good to see.

<Q - James von Riesemann>: Is it premature to discuss what sort of impact it might have on your company, the bill, in terms of incremental CapEx?

<A - Nicholas K. Akins>: You know even for what it's doing in terms of things like renewables, I mean I think it would be potentially more wires investment for us, which we've been very effective at implementing to enable solar and wind development. I mean I think it's only an upside at this point. We haven't quantified what that is yet Jim.

<Q - James von Riesemann>: Okay.

<A - Nicholas K. Akins>: But we think it's the positive opportunities for us.

<A - Brian X. Tierney>: I certainly don't think it's anything we're concerned about.

<Q - Michael Simon Worms>: Nick, I think with regard to potential for re-regulation, I believe you've indicated earlier that there is not enough generation to meet load. And so I guess the question would be under such a scenario, what would the impact be to the consumer in terms of building out the system to meet the load relative to what the market pricing is today under the current environment?

<A - Nicholas K. Akins>: Yeah. Well, we haven't neither created nor destroyed capacity out in the market. So there may have to be interim solutions of capacity to get through until the state can actually decide what does an integrated resource plan look like for the state going forward. So the capacity is probably available but because we transferred our capacity as well and retired capacity, we'll need to make sure we have a plan to recover from that.

I think from the customer standpoint, to put new capacity in place or buy existing capacity that's out on the market, would be a positive thing to provide certainty in terms of their bills in the future. And I just see a very volatile future for Ohio customers and usually that volatility happens at bad times, where customers can here afford to be able to pay a bill, I think. The utility sort of focus, as particularly an integrated utility is sort of a big budget biller. And when you open it up to market forces, the budget biller is not in the game anymore. So I think there's value in that.