Company Name: American Electric
Company Ticker: AEP US
Date: 2016-07-28
Event Description: Q2 2016 Earnings Call

Market Cap: 33,888.62
Current PX: 68.92
YTD Change($): +10.65
YTD Change(%): +18.277

Bloomberg Estimates - EPS
Current Quarter: 1.082
Current Year: 3.668
Bloomberg Estimates - Sales
Current Quarter: 4453.200
Current Year: 16757.917

Q2 2016 Earnings Call

Company Participants

- Nicholas K. Akins
- Brian X. Tierney

Other Participants

- Greg Gordon
- Anthony C. Crowdell
- Julien Dumoulin-Smith
- Michael Block Exstein
- Paul Patterson
- Paul T. Ridzon
- Steve Fleishman
- Ali Agha

MANAGEMENT DISCUSSION SECTION

Nicholas K. Akins

Q2 2016 Results

Operating Earnings

- AEP had a strong second quarter with GAAP and operating earnings coming in at $1.02 per share and $0.95 per share respectively, bringing the YTD earnings to $2.04 per share on a GAAP basis and $1.97 per share on an operating basis
  - This compares favorably to Q2 2015 GAAP and operating earnings of $0.88 per share
- The 2016 YTD earnings compare unfavorably to 2015 primarily driven by the significant weather and energy market differences experienced in Q1 2015 vs. first quarter 2016, as we reported last quarter

Guidance

- These results clearly keep us on pace to meet our operating earnings guidance range of $3.60 to $3.80 per share, which we are reaffirming
- We’re also reaffirming our 4% to 6% growth rate
  - So overall, a steady as she goes quarter with a discipline and consistency that our investors have come to expect from AEP

Business Priorities

- Our focus on the utility operations, transmission growth, expansion of our customer sales channels, process optimization
  - And the disciplined deployment of capital and O&M expenses continues to drive positive results for our shareholders and customers
- While externally it may appear to be a relatively calm quarter, there has been substantial activity internally that further demonstrates the direction of AEP and its strategy to be the next premium regulated utility

Organizational Change

- We recently established a Chief Customer Officer role assumed by Bruce Evans, our former AEP Texas President that provides a focus on improving our customer experience
  - This organizational redesign will focus on addressing the evolving nexus that exists between the regulatory frame work, emerging technologies that enhance the customer experience and deploying the analytics and technologies of the future to address resource needs and to optimize smart grid applications

Business Capabilities

- As we progress with a substantial build-out of transmission and distribution to accommodate large scale optimization and renewal of the grid, along with the development of additional sales channels that provide growth, we are emerging as an energy company that provides solutions for our customers through both the classical regulated envelope that provides universal access and tailored solutions for customers
- AEP’s culture is one of openness, collaboration and innovation and I have no doubt that AEP when focused on the investments in the largest transmission system in the U.S. and the energy grid of tomorrow will continue to evolve to be the next premium-regulated energy company

Strategic Business Review of Competitive Generation

Non-PPA Assets

- Also during Q2, we continued our strategic review of the competitive generation
- Keep in mind, we now have two tranches of generation, the first of which we call the non-PPA assets for lack of a better term, which essentially is the natural gas units and the Gavin coal station
- The process for this tranche is going according to plan and continues beyond initial bids that were received in Q2 with final bids due in August
- I can say that the response has been robust and we are confident that the process will move toward the conclusion of the strategic review in the coming months
- We’ve also begun the planning for the disposition of any cash proceeds to ensure an earnings trajectory that replaces lost earnings as quickly as possible
  - This could include some ramp-up capital spending in transmission and other actions that we’ve done previously and because of immediate recognition of PTC benefits, the one business we are currently ramping up is our investment in long-term solar arrangements as well

PPA Assets

  - The second tranche, the previously referred to PPA assets are in the initial phase of preparing the assets for a process much like the non-PPA assets
  - This process will occur in parallel with our focused efforts toward restructuring in Ohio
  - We will be discussing these issues and implications in more detail during the coming months leading up to November EEI

Ohio Restructuring

- To follow up on the Ohio restructuring discussion, for those of you who don't know, several of our company sites have shown up in the latest craze of Pokémon GO! One of those sites was our turbine sitting in the front of our 1 Riverside Plaza corporate headquarters
- The virtual reality of a Pokémon next to our generator turbine in Ohio made me think that it may be good for a game, but if the generator is virtual, we might have a real problem on our hands
  - And that is where Ohio is heading if it depends too much on federal markets that do not value the long-term baseload generation
- I invite you to look at the PJM website, pjm.com to review the generation mix at the peak during the warm days we have been experiencing lately
- The vast majority of capacity at the time of the peak is delivered by coal and nuclear resources that are not valued properly in the market construct
  - Moreover, these markets do not take into account other issues that are of state concern, such as placement of generation, balanced portfolios, jobs, taxes and other state issues
- These markets including PJM need to be improved to adjust to these realities
- With FERC's order potentially taking the Ohio PPA proposal approved by the Ohio Commission off the table, which I discussed last quarter, AEP is addressing the situation by pursuing restructuring in Ohio
  - Note this is restructuring, not re-regulation

Proposed Legislation

- Our proposal for legislation is now being discussed with various stakeholders and involves the ability to transfer existing generation and invest in new generation such as natural gas and renewables by AEP Ohio
- The proposed legislation strikes a balance between our ability to invest and maintain generation in the state and the customer's ability to choose generation suppliers
  - This overall process would allow AEP Ohio to move forward with the transition of generation resources in a responsible way that would benefit the State of Ohio and AEP and its customers
- The legislation would address any potential FERC jurisdictional matters while allowing the state to take control of its own resources as well as the new transition envisioned under initiatives such as the Clean Power Plan
- In the absence of restructuring legislation, AEP will continue with the strategic process with the second tranche of generation
- We continue to analyze the load situation in our service territory
- Shale gas load has tailed off in recent months, along of course with mining
- While industrial load has dropped, commercial and residential load increased

  - So from quarter-to-quarter the last several years have overall been a mixed bag and hard to read, much like the economy in general

- Brian will address the load-related issues in more detail in a few minutes

ROE

- Moving to the equalizer chart on page four that shows our various operating areas
- Our overall ROE continues to improve, as we mentioned last quarter
- It's now at 9.8% vs. 9.4% that we recorded last quarter and is still expected to move toward our forecasted 10.1% overall ROE for 2016
  - So all is moving according to plan

Regulated Business Unit Results

Ohio Power

- So here's the story for each of the regulated business units
- For Ohio Power, the ROE for AEP Ohio, at the end of Q2 was 13.3%
- We expect it to be more favorable than the forecasted 11.9% at the end of the year
- The improved ROE forecast is primarily due to AEP Ohio receiving a regulatory order related to the PIRR or the Phase-In Recovery Rider that allows us to recover accumulated deferred fuel costs with carrying charges as approved by the commission in the ESP 1 case
  - And also $21mm increase in retail margin due to a regulatory reversal provision that occurred and then a favorable annual PJM transmission formula true-up
- The OPCo, Ohio Power is doing very well at this point and we continue to expect that

APCo

- APCo, the increase in ROE is primarily due to a one-time recognition of deferred billing in West Virginia as approved by the Public Service Commission of West Virginia in June of 2016
- The 2015 West Virginia base rate case included delayed billing of $25mm of the annual base rate increase to residential customers until July 2016
  - As these revenues phase in, the company's ROE is expected to trend near the 2016 forecasted ROE
- APCo does continue to monitor reduction in industrial and residential load, particularly in the cold depressed areas of the state
- We're watching that very closely

Kentucky Power

- Kentucky Power, we're seeing the expected continual improvement at quarter-end

- The commission authorized $45mm rate increase effective July 2015 and this rate case will continue to improve the ROE in 2016
  - And also they are continuing to watch their economy as well

I&M

- I&M achieved an ROE of 10.1%
- I&M continues to benefit from the reasonable regulatory frameworks in place for those major capital investment programs that we've had in the state generation such as Rockport, the solar projects, nuclear with the life-cycle management at Cook, and transmission projects as well
  - So I&M is well positioned for another positive year in 2016

PSO

- PSO, its ROE is generally aligned with expectations
- Oklahoma's economy continues to experience a slowdown, due in large part to low oil prices and reduced oil and gas activity in the state
- In December 2015, the Oklahoma Corporation Commission heard the rate case and PSO implemented an interim base rate increase of $75mm, subject to refund in January of 2016
  - So a final Commission order is expected on that in Q4
- SWEPCO 2016 revenues were challenged by the weakness in oil and natural gas prices
- Some wholesale revenue is rolling off as wholesale customers exercised options for self generation or market participation
  - But we filed an application in Arkansas that went into effect March 24 to recover our retrofit investments at Welsh and Flint Creek

Texas

- And then in Texas, we filed transmission and distribution riders as well in that state
- So we continue to make various filings in those states to improve the ROE
- AEP Texas, the ongoing distribution capital investment at AEP Texas that serves higher levels of electric load and maintaining the reliability of the grid had gradually lowered the regulated ROE over time
- The ROE should continue to improve, however, due to the recently approved $56mm DCRF settlement that will go into effect September 1, 2016
  - And that's the Distribution Cost Recovery Factor, for those of you who don't know what DCRF is

Transmission Holdco

- AEP Transmission Holdco, the Transmission Holdco's return of 11.7% is outperforming the 2016 forecast of 10.2%
- The increase in ROE is really focused on an annual true-up that occurs in the transmission formula

    - So we expect that ROE to come down during the year but still expect it to be around 10.7% by year-end
- So that's a known and measurable process that we're going through there
- So, overall 9.8% continues to track upward and we're pleased with the progress that the operating companies have made

Summary

So overall another great quarter for AEP

This quarter has been a continued approach by AEP to ensure consistency, discipline and execution to provide quality shareholder value

It's hard for anyone from outside of AEP to see the company I see from inside with the dedication, innovation of our approximately 18,000 employees

So I'll just put it this way

- I happen to play drums in a band at an event in Cleveland last week where we backed up The Marshall Tucker Band

We played some Bruce Springsteen and it's still on my mind, so I'll just end up by saying, baby we were born to run

Brian X. Tierney

Q2 2016 Financial Results

I'll take us through Q2 and YTD financial results, provide our latest insight on load and the economy

- And finish with a review of our balance sheet strength and liquidity position

Operating Earnings

- Turning to slide five, operating earnings for Q2 were $0.95 per share or $466mm compared to $0.88 per share or $429mm in 2015
- Overall the increase in earnings was driven by rate changes, including the reversal of a regulatory provision and lower O&M in our regulated utilities and higher earnings in our AEP Transmission Holdco segment
    - Both of which were partially offset by the expected decline in the Generation & Marketing segment

Segment Results

Vertically Integrated Utilities

- Earnings for the Vertically Integrated Utilities segment were $0.43 per share in Q2 for both 2016 and 2015
- Lower O&M due to decreased plant outage expenses and recovery of incremental investment to serve our customers were offset by lower margins on retail sales and decreased off-system sales margins due to lower energy prices

Transmission & Distribution Utilities

- The Transmission & Distribution Utilities segment earned $0.25 per share for the quarter, up $0.09 from last year
- This segment's major variances included the reversal of a previous regulatory provision in Ohio, adding $0.03 per share and higher margins on retail sales, which added $0.02 per share
  - Other favorable drivers, each adding $0.01 per share, were rate changes, higher ERCOT transmission revenue and lower O&M expense

Transmission Holdco

- Our AEP Transmission Holdco segment continues to grow, contributing $0.19 per share for the quarter, an improvement of $0.06
  - The growth in earnings reflects our return on incremental investment and includes the impact of the annual true-up for the formula rate mechanism
- Net plant investment less deferred taxes grew by approximately $840mm, an increase of 32% since last June

Generation & Marketing

- The Generation & Marketing segment produced earnings of $0.09 per share, down $0.07 from last year
- Capacity revenues were lower by $0.07 due to plant retirements and the transition of Ohio to full market pricing
- Energy margins were lower by $0.03 per share due to power prices liquidating 18% lower than last year
- On the positive side, the commercial organization in our competitive business performed well and wholesale trading and marketing was favorable by $0.01 this quarter
- Corporate & Other was down $0.01 from last year due to higher O&M expense

YTD Financial Results

Operating Earnings

- Let's turn to slide six and I'll briefly highlight our YTD results
- Operating earnings through June were $1.97 per share, or $967mm, compared to $2.15 per share or $1.1B in 2015
- The detail is on the slide for those of you who would like it but overall, the decrease in earnings was driven by the expected decline in earnings in the Generation & Marketing segment, less favorable weather conditions in Q1, depressed power prices and the disposition of our River business last year
  - These unfavorable drivers were partially offset by rate changes, a change in the effective tax rate, growth in normalized margin and increased earnings in our transmission businesses

Load Performance

- Now let's take a look at slide seven to review normalized load performance
- For both the quarterly and YTD comparisons the message is the same
- Our normalized retail sales were down compared to last year because the increase in residential and commercial sales was more than offset by the drop in industrial load

- In the lower-right chart our normalized retail sales were down 0.4% for the quarter and 0.3% YTD
- For both periods, the strong sales performance in our Texas territory is being offset by weakness in the Appalachian and Kentucky regions
  - This illustrates the benefit of geographic diversity
- Normalized residential sales in the upper left rebounded in Q2 and are now essentially flat compared to last year
- Through H1 2016, our residential sales, customer counts and normalized usage were all essentially flat
- In the upper right, commercial sales grew by 1% for the quarter and are up 0.8% YTD
- This growth was spread across several of our operating companies, although the strongest growth occurred with the T&D Utilities segment
  - This is consistent with some of the economic data I will share with you on the next slide

Industrial Sales

- Finally, industrial sales dropped by 4% this quarter and are down 1.6% through June
- The sustained drop in energy prices, weak global demand and strong dollar have combined to form a challenging environment for manufacturers
- For the quarter, industrial sales declined in seven of our top ten industrial sectors
- The two sectors that grew in Q2 were:
  - Pipeline transportation
  - And transportation equipment manufacturing
- The petroleum and coal product sector was flat for the quarter
- I'll provide additional color on our industrial sales later

Service Territory

- Now let's turn to slide eight to look at the most recent economic data for AEP's service territory
- Starting at the top with GDP, the estimated 1.3% growth for AEP is only 0.3% behind the U.S
- The upper right chart shows that our eastern territory is not only growing faster than our western territory, but is now exceeding the U.S
  - This was not the case for our western territory, where there's greater exposure to lower oil and gas prices
- Depressed energy prices have created a noticeable slowing in our western footprint
- While the nation benefits from lower fuel prices, AEP's regional economies supporting these shale plays are experiencing the impact of lost jobs

Employment Growth

- The charts at the bottom show that employment growth for AEP is holding steady at 1.1%, but still lags the U.S. by 0.6%

  - It is not surprising to see job growth in AEP's eastern territory exceeding the west given what we just discussed
- Earlier in the presentation, I mentioned that our commercial sales were the strongest in our T&D Utilities segment
  - That matches the employment data for our service territory as well
- Over two thirds of all jobs added in 2016 have been in Ohio and Texas
- The sectors 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 over 22,000 fewer employees in that sector than last year, and approximately 15,000 of those jobs were located in our western footprint

Industrial Sales Trends

- Now let's turn to slide nine to review our industrial sales trends by region
- Over the last several years, our industrial sales growth has largely been tied to the oil and gas activity around the major shale plays
- Up until this quarter, sales to the oil and gas sectors have been fairly resilient despite low energy prices
- The chart in the upper left shows that the tide has started to turn
- AEP's industrial sales in shale counties this quarter actually declined by 0.3%
  - Specifically, the decline is largely coming from our upstream oil and gas extraction sector which experienced a 6% decline for the quarter
- The map on the right identifies our coal counties shown in blue
  - I want to highlight these counties since we continue to see 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 14% for this quarter while sales to the mining sector alone were down nearly 18%
- Low natural gas prices, environmental regulations, lower demand from the utility sector and less demand globally for metallurgical coal have created a bad situation for Appalachian coal producers
- Outside of our shale and coal counties, the rest of AEP's industrial sales were down 3.3% for the quarter

Balance Sheet Highlights

- Now let's move on to slide 10 to review the company's capitalization and liquidity
- Our total debt to capital ratio crept up by 0.3% during the quarter and remains healthy at 54%
- Our credit metrics, FFO interest coverage and FFO to debt are solidly in the BBB and Baa1 range at 5.6 times and 20.2% respectively
- Our qualified pension funding remained unchanged for the quarter at 94%

    - Although plan assets increased during the quarter, so did plan liabilities due to the discount rate coming in lower than assumed

- During the month of June, we funded about $86mm to plan assets, an amount equal to the estimated service cost for the year
- Our OPEB funding now stands at 101%
- Plan assets increased by 0.2%, but plan liabilities increased 3.1% due to dropping discount rates
- The overall impact dropped our OPEB funding ratio by 2.9%
- The estimated after-tax O&M expense for both plans this year is expected to be about $13mm

Liquidity Position

- Finally, our net liquidity stands at about $2.3B and is supported by our two revolving credit facilities
- During Q2, our Treasury team worked with our banking partners to amend and extend our key credit facilities
- We now have $3B facility that extends into June of 2021
- And a second $500mm facility that expires in June of 2018
    - This tiered structure allows for maximum flexibility as we continue our strategic review of our competitive generation assets
- All together, AEP's balance sheet, liquidity and credit metrics are strong and will allow us to fund our utility operations, growth in dividends under all reasonably foreseeable conditions

Summary and Outlook

Now, let's turn to slide 11 and wrap this up so we can get to your questions

We are pleased with our earnings results for Q2 this year

Gains in our wires businesses more than offset expected decreases in our competitive businesses due to lower energy prices and deregulation in Ohio

As we look towards H2 2016, we believe that our regulated businesses will more than offset any challenges presented by our Generation & Marketing segment

- Giving us the confidence to reaffirm our operating earnings guidance range of $3.60 to $3.80 per share

Finally, as Nick mentioned earlier, the strategic review of our competitive generation remains on track and we hope to have news for you in that regard either later this quarter or early next quarter

QUESTION AND ANSWER SECTION

<Q - Greg Gordon>: So looking at the numbers, the quarter was obviously great, but the sales trends in industrial are a bit concerning…

<A - Nicholas K. Akins>: Yeah.

<Q - Greg Gordon>: …especially if you just extrapolate them out on a compounding basis. And I've heard some concern from investors just around the ability to meet the 4% to 6% earnings growth aspiration if, in fact, the sales growth targets that you laid out when you laid that target out a year or so ago failed to materialize. You aspire to be a premium utility. The premium utilities don't blame changes in the outlook for not meeting their growth rate. So how do you aspire to sort of optimize your plan through time if industrial sales continue to be a drag on the plan?

<A - Nicholas K. Akins>: Yeah I think the last four years have shown us a couple of things. One is the inconsistency of load from quarter-to-quarter and obviously we've had to work through that. I think the other thing the last four years has shown us, we have to adjust to it. And you know when you think about the levers that we have around O&M but also we have emerging revenue sides as well. I mean the transmission continues to pick up. There's no question that we will have to continue to invest in the grid and in particular, transmission as well.

And then we also have other investments like solar and those kinds of relationships with customers that are improving earnings as well. So I think when you look at the 4% to 6%, we're still confident in the 4% to 6% and as we go through the year we'll certainly be able to fine tune that in more detail. But I guess the overall message is we feel like we have the ability as we've done in the last four years to be able to compensate for any of these issues that occur.

And there's no question, any business has to adjust based upon what the sales forecast looks like but also they've got to look at the revenue side as well to ensure that we're doing everything we can do there to do its work as well. So, Greg, I know there's a lot of concern out there about load forecast going forward, if you trend it out and, of course, what we do with the unregulated generation. But at the end of the day, we're going to adjust to it. And I think we take very seriously, the consistency that we've built and maintained over the last four years and we don't intend on giving that up.

<Q - Greg Gordon>: Great. That's great. Also when I look at the balance sheet, you guys have sort of ascended to a position of having one of the strongest parent balance sheets amongst what I'd consider your utility holding company peers, if you look at the FFO to debt metrics, the debt to EBITDA and thus…

<A - Nicholas K. Akins>: Yeah.

<Q - Greg Gordon>: …you've got a lot of balance sheet capacity. How do you think about that store of value and how you might use it going forward?

<A - Nicholas K. Akins>: Yeah, we look at it as stored value. It gives us a lot of opportunity, but we have the ability to invest indigenously within our own footprint, and we also from a transmission standpoint and other revenue producers that we're working on to really define that, whether it's the energy company of the future or whatever you want to call it. But there's no doubt that we've built up a strong balance sheet with great credit metrics and obviously we intend on maintaining that. But at the same time there is the ability for us to look at various options for the use of that debt. And it's actually a good place to be in, but also, in this day and age and how the economy is doing and what's going on there, it's a good place to be.

<A - Brian X. Tierney>: Greg, you know this management team and you know how we've used that balance sheet capacity in the past. It's been on prudent, regulated-type utility investments and I think you'd expect us to spend any of that balance sheet capacity in a similar vein going forward.

<Q - Anthony C. Crowdell>: Good morning, Nick. Just two questions. First question I guess on Ohio. You've had another utility in your state apply for a regulated plan. Looks like it's going to be a wires charge to grow to make more of a robust grid. Does AEP make a similar filing given that staff has recommended that?

<A - Nicholas K. Akins>: Yeah. Ultimately, we can always do that. I think that's an option for us to do. But AEP is sort of in a different place. We have some outstanding issues that we're working through with the Commission. The PIRR that we just got was one of those, but we also have the Supreme Court cases on capacity that have come back and on the RSR.

And so we're working through a list of outstanding issues, and each one of those is generally positive for AEP. So we're going to work through those and get them resolved and I think it's a great opportunity for us to do that. And at the end of the day, if that other company is successful then obviously we'll take a hard look at that. But we want to make sure that we're investing in this state and those areas that make sense, and we're doing well from a transmission and distribution perspective. We've got to get this generation thing settled once and for all.

<Q - Anthony C. Crowdell>: And then following up on Greg's question, you mentioned you guys have a strong balance sheet, highlighted all of that capacity you have, you're going through the changes at the Generation & Marketing segment right now. Southern's call yesterday highlighted the success at Southern Power of finding all of these renewable projects. Do we see the Generation & Marketing business for AEP in a year or two looking more like a Southern Power with a lot more renewables? Is that going to be the focus as we go forward, or is it just really managing the fleet – or just winding it down and just being a wires company or a regulated company?

<A - Nicholas K. Akins>: No, I think clearly, and we're probably a little more quiet about it because the major part of our business is around infrastructure, infrastructure development, on the transmission side, we have a huge transmission system so we have a lot of ability to invest. But you're always looking for sources of new revenue and we see it as another tool in the toolbox to be able to focus on enhancements of earnings, because obviously there's near-term benefits of the production tax credits, and we're out there doing that.

We just did a universal scale or utility scale project in Utah that hasn't been announced yet. We can't say who but it's a 20 megawatt project. And then we also have several other small projects with municipalities and so forth in New York and other locations around the country. And we've been doing that and we know how to do that.

What we really are focused on though is ensuring that we do have a place to deploy our capital in the wisest fashion, and that can certainly augment our business but our main focus is to focus on the infrastructure and what it means. And it goes beyond solar. It goes to relationships with customers, and I sort of alluded to that in my opening discussion. You have much broader relationships with some of these customers that goes beyond solar. It goes to obviously renewables, but storage. We're very focused on storage aspects. We are an investor in Greensmith, for example, the integration of solar and wind but also in energy storage. And you see those applications coming together from a distribution standpoint and that's going to be a huge benefit to us.

So, obviously, we're going to be in the solar business but we also want to be in the wind power business, really addressing tailored needs of customers, focused around that customer experience. And so, in an ancillary fashion it's coming to pass but we'll probably be getting larger at it, but we'll be good at it. We'll be focused on, ultimately those customer experience side of things.

<Q - Anthony C. Crowdell>: My last thing – just to make sure I understood correctly, it looks like you'll look at multiple opportunities maybe to bridge the gap [ph] on the genco and (33:16) marketing and one of those may be like a solar ITC bridge there? Is that correct, or that's not what you said?

<A - Nicholas K. Akins>: Yeah. Essentially that's right, but at the same time we want the earnings driven by the utility business to drive that consistency. Well, if you're able to augment with long term purchase power arrangements, whether it's solar or whether it's anything else, then it's quasi-regulated that we can show consistency. And that's the first thing we measure it on. So we're not out there doing solar just for solar's sake or solar with counterparties that we're not sure they're going to be there or not. We're being very selective about what solar projects and what counterparties we become involved with.

And I think – and certainly, Chuck Zebula who's running that business, I think you probably all know him. He's very structured in the way he addresses these things, just like he did with even a lot of this unregulated generation. We've performed extremely well in doing that business regardless of whether we should be in it or not. That's another question. But when we do it, it's very disciplined, it's very structured and it's very focused on what we're trying to achieve. So you're exactly right.

For us, if you look at the use of proceeds, if we have cash proceeds coming in from a transaction then obviously one of the issues that we talked about earlier was repurchase of stock. But, obviously, if you can invest in a long-term solar project and take PTCs upfront, that's also a great measure for investment as opposed to buying back stock. So there's a lot of things that are on the table that we're preparing as we work through the process of that disposition of cash, for example.

So I think to be the energy company of the future, you've got to be involved with all these facets of the business and understand the facets of the business. But you've got to be very disciplined in your approach and we just have a – I wouldn't say a different view in terms of whether all these resources, that should be a balanced set of resources, we agree on that. I think the issue is we're very focused on the wires piece of it and how it interacts with the customer. And in the future, you're going to see a lot of these distributed solutions that are driven by the customer interaction at the distribution level, and we're going to be there to do it.

<Q - Julien Dumoulin-Smith>: Hey, so quick follow up if you will on the just process here. When you think of the amount of legislative effort whether restructuring or what have you, when do you make a final call here? You kind of talked about end of this quarter, early next kind of making a position on the sale. Is there a potential for you to stretch it into next year to try to get it done given the kind of limited window on legislation this year?

<A - Nicholas K. Akins>: Yeah. Let me give you an idea of at least my perception of the timing here. We have the framework of legislation that we're addressing with stakeholders now. And that's whether its legislators, whether it's others that are important to the discussion process, other participants in the market, those kinds of things. We're going to focus on that between now and November.

And then November is when the Ohio legislation comes back into place. And keep in mind I'm talking about the first tranche of assets. This is really regarding the second tranche which is what formerly was the PPA assets. So the first tranche, that's moving along. It's already, the train's left the station and it's moving forward. The second tranche, I'm saying from the restructuring standpoint, we're going to go through and have the legislation, have discussions with stakeholders, get that process in place in November when Ohio, the legislature comes back into session. It will be a lame duck session so we'll have to make sure that we are focused on those legislators that will still be around and the future leaders of that organization. And then that way we can hit the ground running with legislation that's already been by-and-large bedded and discussed in Q1 by the first of the year.

So in Q1, you're starting with a new legislature. I think we're going to know pretty quickly whether people are open to the possibility of this kind of thing happening or not. And at that point in time, we have already started our secondary process that I talked about around the PPA assets, getting the data room ready, all that kind of stuff. And we'll make a determination of where we think Ohio is going to go.

Ohio, many people didn't think the PPA would happen in Ohio and it did happen. And I still think there's going to be some form of restructuring in Ohio because there has to be. But the question becomes number one, are people receptive to it? Number two, is the timeframe appropriate for what we're trying to achieve, because the driver here will be that secondary process and we'll have to get some determination as to whether the openness and the collaboration with the State of Ohio would work to get something done during the pendency of all that.

So that's where we're at. So when we think about that, you're probably thinking this decisional process in Q1 next year that we'll know whether Ohio, if there's a chance of moving forward with that thing or not. And so that'll tell us what we need to know.

<Q - Julien Dumoulin-Smith>: Got it. And then just to keep going with that same theme, you kind of alluded to new investment as well.

<A - Nicholas K. Akins>: Yeah.

<Q - Julien Dumoulin-Smith>: And I was just curious, even if you pursue the sale, do you pursue legislation next year to cutting open that door as well and to that end what kind of generation and how do you envision that today?

<A - Nicholas K. Akins>: Yeah, I've made it very clear in the state that we're not going to invest in new generation in this state, period. Until something is resolved from a restructuring standpoint that enables us to invest and do it in a wise fashion. And the legislation includes the ability for AEP Ohio to not only transfer those assets that were under the PPA to AEP Ohio but also to be able to have a mechanism for investment in future generations and obviously the State of Ohio is very interested in getting natural gas going. There's a lot of discussion about there's three or four natural gas units getting built. Well that's woefully inadequate of what the Ohio load actually is. And so there is a capacity deficiency in Ohio and if Ohio wants to take advantage of additional natural gas build-out, the additional structural additions such as pipeline infrastructure, electric transmission infrastructure, the economic development follow-on to all that. There's no reason for Ohio to give that up. And so there has to be a mechanism to do that, and that's what we're after.

<Q - Julien Dumoulin-Smith>: And just to clarify, renewables as well in the legislation?

<A - Nicholas K. Akins>: Yes.

<Q - Julien Dumoulin-Smith>: Obviously that's kind of a hot-button issue this year.

<A - Nicholas K. Akins>: Yeah. Renewables as well and we've had discussions. Some, there's different opinions on wind, there's different opinions on solar. Most are for solar, some are against wind but I think there's dialog to where we can probably reach some happy medium.

<Q - Michael Block Exstein>: Hey, just to follow up with Julien's question. You had mentioned that this is not re-regulation, this is restructuring and I'm just curious about why the deemphasis of on re-regulation and what push back do you see if that term was used or proposed?

<A - Nicholas K. Akins>: Yeah, because I think re-regulation has the connotation that everything is going to be slammed back into the wires company and there won't be any ability to shop and other participants can't participate in a market. So we are focused on reaching that balance of the ability for the utility to invest but also others to invest as well and customers to be able to choose. So that's really the distinction. It's – re-regulation just has a larger connotation to it and actually is a much heavier lift, to put the entire genie back in the bottle.

<Q - Michael Block Exstein>: Right. So I guess it is the spectrum of possible options, one where you would have everything put in one where you have only certain assets like the PPA assets. And then perhaps maybe on the other end of the spectrum might be only to allow the utilities only to invest in new assets. I don't know if that's also something that might happen, but.

<A - Nicholas K. Akins>: Well. That's not our preference obviously and that's going to be determinative on the second tranche of generation for sure. Our intention is to make sure that we can transfer these assets back into the wires company and enable the ability for us to continue to invest in new generation in a credible fashion and it will take a legislative mechanism to do that. And we also obviously want to make sure that we accommodate other participants in the market in some fashion and that's part of the dialog. But those two things are what we're after.

<Q - Michael Block Exstein>: As a re-investment possibility on with the solar investments that you were talking about.

<A - Nicholas K. Akins>: Yes.

<Q - Michael Block Exstein>: How big do you see that getting in terms of contributing to the 4% to 6% growth rate vs. let's say the transmission Holdco growth that you were forecasting for that segment?

<A - Nicholas K. Akins>: Yeah, so we plan on updating that at EEI in November, particularly as it relates to 2017 and beyond. We know it is for this year and it's been pretty good. Its $15mm to $20mm has been added for this year. So and those projects is a huge pipeline of projects and I think you probably heard others talk about there's a lot of solar projects out there but we're going to pick and choose the ones that match up to what our degree of risk is and we want to make sure that that business continues to grow, but we're going to be very disciplined in our approach. So we'll have more on that at EEI in November.

<Q - Michael Block Exstein>: Great. Look forward to it. Thank you.

<A - Nicholas K. Akins>: Yep, okay. And it's not that, it's what we're doing with wind power or with energy storage as well, and it could be even more defined energy service relationships as well.

<Q - Paul Patterson>: Just in terms of the tax audit, could you elaborate a little more what happened there and if it's going to maybe impact tax rates going forward?

<A - Brian X. Tierney>: Yeah, so it should not impact tax rates going forward at all. So it was a favorable federal tax adjustment related to a settlement of the federal tax audit issue where we had a tax valuation allowance recorded in 2011. And talk about how legacy of an issue this is, that was related to litigation that stemmed out of the Enron bankruptcy, so we're going back pretty far in history. These things take a long time to work their way through the IRS and ultimately, a congressional committee, and that's what happened on this. So it's great to get that resolved and behind us but don't expect anything like that to be a recurring item.

<Q - Paul Patterson>: Okay, great. And then on the reregulation or restructuring, just to make sure I understand. It sounds like you'll be in a – I wasn't clear as to whether or not November, the lame duck session was when things might be clearer to you or what that meant in terms of whether something actually might happen then or whether you're really looking at Q1 2017?

<A - Nicholas K. Akins>: Yeah, so I'm thinking okay, so it really is more of a soaking period because what we want to do is in November we'll be talking to the other stakeholders and come to the legislature with what we believe is a balanced package that other participants in the market can latch onto as well. If we do that, then the discussions we've already had with the legislators, we're trying to get to every legislator we can that we know is going to still be around. And then that would be – November, we'll get an early indication of where things are going. But really, nothing – I don't expect anything can happen until the first of the year when the new legislature comes in. But, obviously, we'll know who's coming in so we can have that [ph] soaking (47:26) period from November, December and then in earnest move that legislation forward.

I know that's aggressive, but I think what we'll be looking for is really the feedback that we get in terms of not only whether it can get done or not but in terms of timing, would be important considerations for us. So I don't see legislation actually getting done until Q1 or Q2 next year but if we know it's coming and we know what's until then, then we can plan for it.

<Q - Paul Patterson>: Okay. And then when you mentioned stakeholders, are we talking about other merchant generators? And the reason for the question is, as you know, it seems that unless their generation is included or what have you that there's this sort of vehement, take-no-prisoners, kind of like no, no, no, no, no, on anything like restructuring or what have you because of the fear that they might not be competitive, if you follow me. Is their participation something critical here? Or how should we think about the stakeholder process you're mentioning?

<A - Nicholas K. Akins>: I certainly think that they're part of the equation, and certainly we want to be able to accommodate as much as we can, the investments that have been made in the state of some of these independent power producers. And keep in mind, they can still have PPAs because they're not affiliated, so there are opportunities for them to actually confirm earnings in a period where obviously being an independent power producer is – not a good time to be in that business right now. So – I'm not going to go into who we've been having discussions with or anything like that but I would have to say that they are an important part of the puzzle here.

<Q - Paul T. Ridzon>: Can you just once again review kind of the priorities for the proceeds from the non-PPA assets?

<A - Nicholas K. Akins>: The proceeds for the non-PPA assets. Okay. So that process will go forward and the priority will be, we will look at as much ramping up as we can do relative to a transmission investment, and other types of investments to fill – to make sure that the earnings come in as quickly as possible. Obviously solar could be a piece of that as well. And we're obviously looking at other measures that we can do to invest more quickly to address the level of cash that's coming in. And we'll obviously fill in more of the detail of that in November as well.

<A - Brian X. Tierney>: Paul, we'd like to be able to come out and have an analyst day, when we do have something to announce on that strategic review that's underway. And we would have a detailed discussion of that at that time.

<Q - Paul T. Ridzon>: Thank you. And you indicated that the process was proceeding fairly – I think you characterized it as going well.

<A - Nicholas K. Akins>: Yes.

<Q - Paul T. Ridzon>: Can we use kind of the Duke Ohio assets on a dollar per kilowatt basis, is that a reasonable proxy?

<A - Brian X. Tierney>: You know, Paul I don't want to tell you which ones – which assets to use. I think with your knowledge of the industry you can probably come up with something that would be reasonable for what those would be. Others have. Some have missed it terribly, but I think the smarter people like you in the industry can figure it out pretty readily.

<A - Nicholas K. Akins>: I think as I mentioned earlier, we have a robust set of bidders, so I'd hate to give them any guidance at this point.

<Q - Paul T. Ridzon>: Understood. And that's 5,000 megawatts of non-PPA?

<A - Nicholas K. Akins>: Yeah.

<Q - Steve Fleishman>: Just clarity on timing of the non-PPA outcome, is that…?

<A - Nicholas K. Akins>: Yeah. So, from a non-PPA piece, we'll get final bids in August. It'll probably take – it could be third quarter, early fourth quarter to have a completed deal that we would announce at that point in time. And then the process would occur relative to closing, and that could fall into 2017. But, obviously, the deal will be done and we'll get to closing. So, in all likelihood it will take – once a deal is done it could take around six months, maybe nine months to actually close.

<Q - Steve Fleishman>: Okay. And then, also just you mentioned some of the weakness in your coal country subsidiary utilities. And are you planning to kind of have to get rate relief in those areas or given that they're depressed, like is there other ways that you might be able to find solutions there? Doesn't seem like the politicians want to find a way to invest in new things in these areas, so I'm just curious how you're thinking about that?

<A - Brian X. Tierney>: Paul, there are a couple of things going on in – I'm sorry, Steve, in Kentucky in particular, we just had some rate relief and we're looking at when it makes sense for us to go back in. But in Kentucky, in particular, the governor's office is looking at ways to try and attract new businesses and retain the businesses in those areas that are negatively impacted by what's happening with coal. And we, from an economic development perspective, are certainly working with the governor and the state legislators to try and see how we can be a productive part of that.

<A - Nicholas K. Akins>: Yeah, so Steve, and keep in mind too, we've converted some of the coal to natural gas as well so the Big Sandy side is converted to natural gas. Clinch River has converted to natural gas. Those are operational now and you'll probably see more natural gas build out, but also on the renewable side, you'll continue to see expansion from that perspective. So and as Brian mentioned, we actually have been working our economic development, people had been working with the states to present these sites as brownfield sites for manufacturing industrial. So we're working to try to reinforce those service territories as much as we possibly can.

<A - Nicholas K. Akins>: I'd say, though, that there's a – I mean a lot of damage that's been done to coal country. There is no question about it. And whoever gets elected in this process really needs to focus one way or another on reinforcing a hugely depressed area, and each one of them has their own way. I mean Hillary Clinton wants to just, I guess, do several billion focused on rehabilitating from a jobs perspective and that kind of thing. That seems like a longer term issue. And of course, Donald Trump is on the other side, saying he's putting the miners back to work. And I don't know exactly how that works, but either way, I think both of them, they really ought to be focused on reinvigorating that part of the country, since it's been so devastated by what's happened recently.

<Q - Ali Agha>: Nick, first just to bring closure to the overall merchant portfolio, the exit here. So if I'm hearing you right, the non-PPA assets announced late Q3, early Q4 takes six to nine months to close from there. The PPA assets, will you have something to announce in Q1 or are you going to follow the legislative process and maybe that spills over into Q2? Not quite clear on when the final closure happens on that portfolio.

<A - Nicholas K. Akins>: Yeah and I think you read that right. We're going to have to gauge the receptivity from the legislature that comes into play at that point in time and we'll have a lot of groundwork already done. So we'll have a good feeling, I think by Q1 where this is going to go. Now if – and keep in mind, that second tranche is continuing in parallel. So we're not slowing down on that. What we're saying is we're going to gauge that first quarter and you may get an announcement from us if we're not sensing that it's going the right direction in Ohio then we'll say we've got the second tranche. It's moving along and we'll give an update to that. If we see that legislation can get done, then there'll be an expectation to get that legislation done as quickly as possible, but we'll continue running the tranche until we know for sure that legislation's going to happen. So I would say you're going to hear something from us first quarter, perhaps at the beginning of second quarter but I believe first quarter you'll hear from us some very significant thoughts around that.

<Q - Ali Agha>: Okay. And then second, given how low trends have played out through H1, are you still sticking to the +0.9% target for the year or should we be adjusting that?

<A - Brian X. Tierney>: Yeah, Ali. As we do an update being halfway through the year and looking at where we've been YTD, we'd anticipate being closer to flat by year-end vs. 2015.

<Q - Ali Agha>: Okay. And last question, I mean when we look at the transmission growth profile you've laid out for us, the Transco business through 2019, that's growing well above 4% to 6%. It's becoming a bigger piece of your overall earnings as well. So when you look at this company beyond the merchant, so just on a regulated basis and if your T&D, et cetera grows pretty much in line with everybody and the transmission grows the way it is, might we be looking at an overall portfolio that has a growth rate north of 4% to 6% just looking at those kind of numbers?

<A - Brian X. Tierney>: Yeah. So, Ali, we're going to provide a more fulsome update on longer-term growth rate when we would get together after the announcement of the conclusion of the strategic review of the assets. We'd like to have an analyst day when we go into all that, sort of reset growth rate if it's time to do that and take a look at use of proceeds if that's what we're facing at that time and give you a more fulsome view hopefully later in the Autumn this year.

<A - Nicholas K. Akins>: So without answering, which we'll answer later in the year as Brian said. You have really brought up the kind of company this is going to be in the future, and that will be one driven by transmission/distribution focused on wires and the convolution of resources and energy services associated with that. So it's going to be a very, very good company going forward from a consistency basis but also from an investment standpoint. And what we're investing in I think it will position us very well for the next hundred years.

<Q - Ali Agha>: Right. But the regulated business should pretty much be growing with your rate base investment, is that fair?

<A - Nicholas K. Akins>: That's fair.