Q4 2019 Earnings Call

Company Participants

- Brian X. Tierney, Executive Vice President and Chief Financial Officer
- Darcy Reese, Investor Relations
- Nicholas K. Akins, Chief Executive Officer

Other Participants

- Ali Agha, Analyst, SunTrust
- Analyst
- Andrew Weisel, Analyst, Scotia Bank
- Praful Mehta, Analyst, Citigroup
- Sophie Karp, Analyst, KeyBanc

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the American Electric Power Fourth Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the conference over to our host, Darcy Reese. Please go ahead.

Darcy Reese {BIO 20391516 <GO>}

Thank you, Tiffany. Good morning everyone and welcome to the Fourth Quarter 2019 Earnings Call for American Electric Power. Thank you for taking time today to join us. Our earnings release presentation slides and related financial information are available on our website at aep.com. Today, we will be making forward-looking statements during the call. There are many factors that may cause future results to differ materially from these statements. Please refer to our SEC filings for discussion of these factors. Our presentation also includes references to non-GAAP financial information. Please refer to the reconciliation of the applicable GAAP measures provided in the appendix of today's presentation.

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

Nicholas K. Akins {BIO 15090780 <GO>}

Okay, thanks Darcy. Good morning everyone and thank you for joining us today for AEP's Fourth Quarter 2019 Earnings Call. I'll certainly spend some time reporting on the final quarter of the year and how the year has concluded. But there is no question, AEP has hit the ground running in 2020. I know I live in Columbus, Ohio, and I do route for the Buckeyes if they're not playing LSU, but I have to use an LSU analogy given their victory in the college football national championship. The way in which the LSU is often executed during the season is the way I feel about our AEP team, whether it's our emphasis on customer experience, regulatory activity, major projects and initiatives contracted and regulated renewables, capital allocation O&M optimization and our focus on culture innovation and operational excellence. These are just a few of the plays in the playbook that continue to be executed flawlessly with the talent their team possesses. The results of 2019 indicate that in the success so far in 2020 of major initiatives that I will cover today indicate that as well.

But first, let's discuss 2019. 2019 was a great year for the company. We delivered operating earnings of $0.60 per share for the quarter bringing our operating earnings for 2019 to $4.24 per share, which was at the top end of our revised guidance range of $4.14 to $4.24 per share. As we shared at the last EEI Financial Conference, AEP has a habit of any the upper half of the guidance range if not exceeding it, and this year has been no exception. As we have said repeatedly, we would be disappointed in not achieving the same track record in the future. Brian will cover GAAP and operating earnings later in today's presentation. Additionally for 2019, we had an average regulated ROE of 9.7% for the year, an increase in the dividend as well during the fourth quarter 2019.

It was also another year of rate case activity with the completion of cases in West Virginia, Oklahoma and Arkansas and additional filings made Indiana, Michigan and Texas. We also filed for regulatory approvals at the PSO and SWEPCO jurisdictions, Oklahoma, Arkansas, Louisiana and Texas for North Central Wind, a 1485 megawatt wind investment all of which I will update later. During 2019, we acquired the Sempra Wind portfolio, which in addition to our other contracted renewables portfolio has delivered beyond our expectations. Lastly, as we promised during last year's EEI Financial Conference, we are focusing on bending the O&M curve with an eye toward the future. Late last year, we kicked off our achieving excellence program to not only further optimize O&M but also set the tone for a sustainable and lasting culture change that constantly demands a forward-looking view of efficiency gains, the process and technology reviews.

Brian will give the details of load growth, but I'll frame the discussion by saying that although load decreased in the fourth quarter compared to the previous year, we've seen consistent improvement in our commercial class of customers through 2019 mainly in education, health care and while industrial growth has slowed, we still anticipate further additions in Industrial load during 2020. So we are still projecting an increase in load for 2020. We have several areas of focus for 2020. First of all, delivering operating earnings within the guidance range of $4.25 to $4.45 per share with a midpoint of $4.35 per share. We will continue to focus on disciplined capital allocation investing $6.3 billion in CapEx substantially in our regulated wires businesses.

We are pleased with the progress of our contracted renewables and fully expect that part of our business to continue to grow as well. Because of a very positive focus on fully utilizing our balance sheet for growth in dividends, you can expect a more refined approach to capital allocation and rotation as we further develop opportunities for earnings growth associated with the capital we deploy. We expect to continue to develop 5% to 7% operating earnings growth and again we would expect a step change of the base for earnings growth after North Central comes into play and continue with a 5% to 7% growth trajectory beyond that. We anticipate more granularity on that by the time we reach November EEI.

Additionally, as we have said before, we will be disappointed if we are not in the upper half of that growth rate. Additionally, we will be finalizing base rate cases in Indiana, Michigan and Texas with constructive results and I will describe -- that I will describe in a minute, and we'll be initiating rate cases in Ohio, Louisiana and most likely Kentucky as well. First, the cases with settlements in Michigan, I&M followed a unanimous settlement in early January of 2020 with the net revenue requirement of $30 million, authorized ROE of 9.86%, an effective date of February 1, 2020. Adjustments for wholesale load loss were approved, so overall, a good settlement that was approved by Michigan Commission in January. During fourth quarter, the Arkansas base case was completed with a unanimous settlement fall in October and approved by the Arkansas Public Service Commission in December 2019.

It included an $18 million net increase of 9.45% ROE with a cap structure of 52.1 and 47.9 debt to equity with a formula rate plan process for 5 years. Regarding Texas on February 13 of this year, AEP Texas filed a settlement that included a $40 million revenue requirement reduction with a 9.4% ROE and the cap structure of 57.5 debt to 42.5 equity along with other disallowances and refunds associated with capital disallowances and tax reform. The settlement also include deferral of capitalized vegetation management into a regulatory asset collected over 5 years and our commitment to file another base case within 4 years and the left of the PUCT to decide the ring-fencing issue. It appears the Commission dealt with the ring-fencing issue in a positive way in the CenterPoint case, so hopefully it will be treated to favorably as well.

We anticipate the PUCT will take up the case at the February 27 open meeting. In the Indiana base case, a hearing was held in October. We continue to await an order and still expect the order to be effective in March of 2020. Regarding the other cases in Ohio, Louisiana and Virginia, truck of Louisiana initiated a base rate proceeding previously ordered by the LPSC. SWEPCO plans to supplement this filing with the cost to service study in additional testimony during 2020 after the present 2017 formula rate plan is completed. In Ohio, we will file our next distribution rate case by June 2020. We now expect this case to be unusual in that regard, most likely will request a fairly low increase in rates.

We will also review the distribution investment rider as part of this case, so more to come later in 2020 on this case. In APCo Virginia, we are required to file in March and we'll show that we are in below the bottom of the earnings range for the 2017, 2019 triennial period. In December 2019, we impaired $93 million before tax related to the early retirement of three coal units as allowed under Virginia law. This enables us to file for a rate increase and we would expect new rates to be effective in February 2021. Now onto the North Central Wind project, we continue to make positive progress on this 1485 MW wind project that will benefit PSO and SWEPCO customers. In December 2019, we filed a settlement agreement in Oklahoma for 675 MW and in late January of this year, we filed a settlement agreement with parties in Arkansas for 171 MW together if approved by the Oklahoma and Arkansas commissions that represents about $1.1 billion of incremental capital opportunity and meets the threshold to move forward with the project regardless of Louisiana and Texas outcomes. To move forward with the entire project representing $2 billion of incremental investment would require Louisiana and Texas to approve their portions or for the other jurisdictions that take advantage of the Flex up options and in other jurisdiction if in other jurisdiction does not move forward. While the Oklahoma settlement does not include the Flex up options, the Arkansas settlement does recommend this option.

So for example if Louisiana where to flex up, Texas would no longer be required. However, I would say we welcome settlement discussions in both Louisiana and Texas and remain hopeful that these jurisdictions will also recognize the value that these investments will deliver to customers. First up to bat for approvals as Oklahoma which is its own signing agenda actually for today and Arkansas approvals are expected in May of this year, so great progress and we are optimistic about the future of North Central win. Of course regarding the financing as you might recall, the current $33 billion CapEx plan provided the EER which goes through 2024 supports a 5% to 7% growth rate and does not include North Central win, although the actual size and investment is still yet to be determined.

And if you were to ask about a base case assumption, our current thinking is to finance the acquisition with somewhere between 50 to 2/3rd equity. We will time the raising of capital with the execution of the project. In the event of any asset sale or rotation, we will consider relevant proceeds as part of the financial decision. The CapEx associated with this project will be incremental to the current CapEx plan and will result in a step change to base in which to measure our continued 5% to 7% growth rate. We are committed to our 5% to 7% growth rate, and this will not change, but the addition of this project is expected to put us solidly in the upper half of the range. Now since we have talked about some of the growth related issues, let's discuss our achieving excellence program that will enable us to bend the O&M curve. Over the last decade, AEP has successfully been able to manage O&M relatively flat.

We historically focused on identifying efficiencies implemented with a lean management system throughout the organization. A couple of years ago, we were put in touch with the company, EHS partners actually through State Auto CEO at the time the specializes in engaging companies to focus on generation and enactment of cost savings ideas. They have also worked with other companies in our space and came highly recommended. We were not only looking for reviews of existing processes and activities but also with an eye towards digitization, optimization and sustainability review in the future. The program is called the achieving excellence program and it is an employee based O&M prioritization and optimization effort to drive down cost in 2020 and beyond. Going forward, we expect to find additional efficiencies with the program through data analytics, automation digital tools, use of drones, outsourcing, workforce planning, strategic sourcing and others.

We started the intensive process last year and are currently in the process of validating thousands of ideas and are presently targeting approximately 1,000 for validation in execution. Some have already started in order to leverage into 2020. Examples of ideas include various use of Telematics to optimize crew routing and utilization robotic process automation for labor intensive processes like some aspects of accounting and various uses for drones for boiler distribution inspections and so forth. This process is kicking in the year and will become part of our budgeting process each year and ultimately embedded into our culture of innovation, more to come on that later in the year.

We are no doubt in a transformational time in our industry, our resources are changing dramatically and we intend on moving toward a clean energy future as quickly as possible.

From the North Central project to the recent announcements of the Flat Ridge 3 wind project in Arkansas that's being sold to (inaudible), the output being sold to (inaudible) and to our South Bend solar installation that we partnered with Notre Dame on the IURC the Indiana Utility Regulatory Commission just to prove that yesterday and with Google, Facebook and Amazon resources are indeed changing. In fact by the end of 2020, we will have retired over 10,000 MW of generation to make way for the resources of future. This process will continue for AEP and certainly represents another great opportunity to invest capital for the betterment of the customer experience to improve reliability and resiliency of the grid, and to continue to improve our carbon emissions. This process will continue and working with our commissions and other stakeholders and through the development of our integrated resource plans.

So when you think about the opportunities for generation transformation investment in transmission, the renaissance of distribution distributed resources and the electrification of transportation and other areas, you can't help but be bullish about the future of this industry in particular AEP with check marks in every category. So now I'll move to to the equalizer graph and talk about some of the individual jurisdictions, so overall we have regulated operations ROE of 9.7%. We generally project the ROE for our regulated segments to be combined in the 9.5% to 10% range. Note that AEP Transmission Holdco is now solidly our second largest company based on average equity after APCo with AEP Ohio, I&M, SWEPCO in AEP Texas all roughly comparable sizes to each other and certainly if PSO approves the North Central project, they will pick up as well. So we have, we're actually pretty well off with subsidiaries, they are roughly about the same size with a lot of diversity. AEP Ohio, the ROE at the end of the fourth quarter was 12.3%. It's 9.6% adjusted for the legacy items and these legacy items were still the legacy fueling and capacity carrying charges that will be rolling off probably during this year. So we'll start tapering off to the roughly around 10% ROE as those areas roll off. APCo at the end of the fourth quarter 2019 was 9.2% is below authorized due to lower normalized usage, increased other taxes and higher depreciation from increased capital investments, partially offset by favorable weather.

West Virginia implemented new base rates in March of 2019, including $44 million base rate increase based at 9.75% ROE. And as I mentioned earlier before, the Virginia triennial review is in 2020 and I'll cover those periods as well. As far as Kentucky is concerned, the ROE for Kentucky at the end of fourth quarter was 7.4%, it's below authorizes due to loss of load from weak economic conditions and loss of major customers along with higher expenses. Transmission revenues were also lower due to the delay of some capital projects. I&M at the end of fourth quarter was 11%, ROE was above authorized due to favorable weather, time and expenses and one-time adjustments.

I&M expects ROEs to be in the authorized range going forward with the continued successful execution of capital programs in generation, transmission, distribution and the recent future test year cases in Indiana Michigan. PSO at the end of fourth quarter was 10.7%. PSO's ROE was above authorized mainly due to favorable one time true ups and weather. PSO received an order on its base case settlement effective April 2019 approving a $46 million increase transmission tracker, ROE of 9.4% the cap structure of 51.86% debt, 48.14% equity. The ROE for SWEPCO at the end of the fourth quarter was 6.8% that was below authorized due to loss of load, mainly the wholesale load and continue to impact of the Arkansas share of the Turk Plant that is not in retail rates. This certainly as we said before in that portion of Turk impacts the ROE by about 125 basis points.

SWEPCO received an order in this Arkansas base case settlement as I mentioned before. So we expect an uptick on it's ROE going forward. AEP Texas fourth quarter was 7.7% and as I just mentioned, the AEP Texas rate case was going on expecting an output of that pretty soon and then also the (inaudible) cost and DCRF filings that we usually follow annually aren't made during the annual period of the rate case, so there is a lag associated with that. And while earnings should improve in 2020 after we can resume these annual filings continued high levels of investment will continue to impact the ROE as well.

So investing heavily there, the annual trackers are particularly important and it'll be great to resurrect those and keep on going after the outcome of the rate case. AEP Transmission Holdco, the ROE for AEP Transmission is a 11.5% and was driven by higher revenues due to differences between actual and forecasted revenues as well as a favorable true up and we expect transmissions forecasting to be in the mid 10% range in 2020. So with that said, we're still making progress from that perspective and the ones that are lower, you know we have rate cases that are planned and we have a stay-out provision in Kentucky, so until June will be most likely following the case then there as well. So, all of them should be moving in the right direction.

So lastly, as many of you know, I'm a lifelong drummer and out of respect for Neil Peart from Rush, one of the greatest drummers of all time, as well as a lyricist and novelist who passed away in January, I'll leave you with this thought before turning it over to Brian. In his novel, Clockwork Angels in the song titled, The Garden, he wrote the measure of a life is a measure of love and respect, so hard to earn so easily burned in the fullness of time a garden to nurture and protect. This is true in life and is also true for companies like AEP. We strive for our investors and other stakeholders to the level we're doing and respect the work that we do through operational excellence, financial discipline, innovation. The track record of consistent earnings and dividend quality and the focus on our communities and customers is central to our continued mission of being the premium regulated utility and once again last year in 2019, we continued that progress and now on to 2020, Rock On. Brian.

Brian X. Tierney {BIO 15917272 <GO>}

Thank you, Nick. I'll ask the participants to listen carefully, although it is a little bit subtle, this is in fact me rocking on. So good morning, everyone. I will take us through the fourth quarter and full-year financial results focusing primarily on to date, provide some insight on load in the economy, review our balance sheet and liquidity and finish with a review of our outlook for 2020. Let's see briefly on slide 6, which shows the comparison of GAAP to operating earnings for the quarter and year-to-date periods. GAAP earnings for the fourth quarter were $0.31 per share compared to $0.74 in 2018. GAAP earnings for the year were $3.89 per share compared to $3.90 per share in 2018. There is a reconciliation of GAAP to operating earnings in the appendix. We have consistently provided value for our shareholders, outperforming the S&P 500 Electric Utilities Index in total shareholder return this year, and both the S&P 500 and Electric Utilities Index over the 3 and 5 year periods, respectively. Let's turn to slide 7, the fourth quarter operating earnings were $0.60 per share or $294 million compared to $0.72 per share or $354 million in 2018. The detail by segment is shown in the boxes on the chart, but the change in our regulated businesses was driven by higher planned O&M and depreciation, more than offsetting the return on incremental investment. Generation of marketing was down $0.07 from last year, primarily driven by the expected timing of taxes. This segment reflects the growth in the renewables business and favorable retail margins, which offset lower capacity and energy margins in the generation business. Corporate and Other was up $0.02 primarily due to lower income taxes from the expected timing of consolidated tax adjustments, partially offset by higher state taxes.

Let's turn to slide 8 and review our full year results. Annual operating earnings for 2019 were $4.24 per share or $2.1 billion compared to $3.95 per share or $1.9 billion in 2018. Looking at the drivers by segment, operating earnings for the vertically integrated utilities were $2.17 per share, up $0.17 with successful implementation of rate changes being the largest driver. Other positive items included lower O&M and taxes, as well as higher AFUDC. While weather was favorable compared to normal, it was unfavorable compared to 2018 subtracting $0.16. Normalized load was also down for the year and depreciation increased as well. The transmission and distribution utility segment earned $1 per share, down $0.05 from last year, earnings in this segment declined due to the roll off of legacy riders in Ohio lower normalized retail margins and higher O&M, depreciation and property taxes.

These items were partially offset by the recovery of increased transmission investment in ERCOT higher rate changes, the reversal of the regulatory provision in Ohio favorable carrying charges in Texas and lower income taxes. The AEP Transmission Holdco segment continues to grow, contributing $1.05 per share, making this the second largest segment for operating earnings. The improvement in earnings of $0.30 over 2018 reflected a return on incremental rate base, the non-recurring prior year accounting adjustment, a favorable annual true up and FERC settlement as well as higher AFUDC. Net plan increased by $1.5 billion or 18% since December of 2018. Generation and marketing produced $0.30 per share.

The renewables business grew with the repowering of Trent Mesa and Desert Sky as well as the acquisition of multiple renewable assets. Increases in retail margins were offset by lower generation sales due to lower energy prices, retirement of plan and outages. Finally, Corporate and Other was down $0.14 driven by higher tax expense primarily from state taxes in a prior period tax adjustment. Interest expense was also higher. For 2019, we are pleased with our results as we landed in the upper end of our increased earnings guidance range. Now let's turn to slide 9 to provide an update on our system load starting in the lower right chart normalized retail sales declined by 1.5% in the fourth quarter compared to 2018. The growth in commercial sales this quarter was more than offset by the decline in industrial and residential sales. For 2019, AEP's normalized retail sales were down eight-tenths of a percent from the prior year. Sales were down across all customer classes and most operating companies in 2019.

Moving counterclockwise, normalized commercial sales increased by 0.5% for the quarter. The results varied by operating company but were strongest in the transmission and distribution utility segment. The commercial sectors that experienced the fastest growth for the quarter were utilities, government support offices and accommodation. For the annual comparison, normalized commercial sales were down four-tenths of a percent in 2018 not surprising, the sector that saw the biggest decline in 2019 with traditional retail. By contrast, there has been consistent improvement over the past 12 months in commercial sales growth. Moving left, normalized residential sales decreased by nine-tenths of a percent for the quarter. Residential sales were up in the West Vertically Integrated Utilities, but lost momentum elsewhere. While personal income growth across AEP's footprint outpaced inflation for the quarter, it was unable to keep pace with incomes for the rest of the US.

For the year, normalized residential sales were essentially flat compared to 2018. Customer counts increased by three-tenths of a percent, while normalized usage decreased by four-tenths of a percent. Finally in the lower left chart, industrial sales decreased by 3.5% in the fourth quarter which brought the annual comparison to 1.9% below 2018. For both periods, industrial sales were down across most operating companies. Looking forward to 2020, we are projecting normalized load growth of five-tenths of a percent over 2019. The majority of this growth is expected to come from the industrial class where a number of industrial expansions are expected to come online.

Turning to slide 10. I'll provide a brief update with respect to industrial sales growth by sector. This chart shows the distinction in growth between the oil and gas sectors and all other industrial sectors. Sales to oil and gas industries increased by 3.5% in the fourth quarter and ended the year 4.4% higher than 2018. This was largely driven by the 17% growth in the pipeline transportation sector. Most of this growth was a result of a number of anticipated expansions that addressed congestion in the major oil and major shale regions in our service territory. There are additional oil and gas related expansions that should provide continued growth in 2020. Focusing your attention on the green bars, the non-oil and gas industrials were down 6.1% for the quarter and ended the year down 4.2%.

For the AEP System chemicals manufacturing and transportation equipment manufacturing accounted for most of this impact. Now let's turn to slide 11 and review the status of our regional economies. As shown in the left chart, GDP growth for AEP service territory was 2.1% for the quarter, which is three-tenths of a percent below the US. All of our service territories experienced GDP growth for the quarter with Texas being the strongest. Moving to the right chart, employment growth for the AEP service territory improved to eight-tenths of a percent above 2018 while US growth moderated slightly in the fourth quarter. Throughout the AEP footprint, nearly 20,000 jobs were added in the fourth quarter with a third of those coming from the education and health care sector.

Now let's turn to slide 12 and review the company's capitalization and liquidity. Our debt to total capital ratio increased during the quarter to 59.8% from 58.7% as we borrowed to fund our investment program. Our FFO to debt ratio stood at 13.5% on a GAAP basis and 13.9% based on Moody's methodology, reflecting increased debt and the impact of the flowback of IT through customer rates. Importantly, this is consistent with the drivers embedded in our guidance provided at the November 2019 EEI Conference. Liquidity remained strong at $2.1 billion supported by our revolving credit facility.

Our qualified pension funding increased approximately 3% to 97% and our OPEB funding increased approximately 22% to 145%. Positive equity returns combined with rising yields that decreased pension and OPEB liabilities resulted in improvements in both plans funded status. The OPEB funded status also benefited from legislation, the President signed in December that repealed the Cadillac tax and health insurance fee. Let's try and wrap this up on slide 13 and get to your questions. We began 2020 with a solid track record. Our 2019 earnings were strong as we continue to invest capital in our businesses and earn a return on this investment. We successfully integrated new contracted renewables into our portfolio.

For 9 years now, we have maintained O&M discipline and kept spending net of offsets in a tight range of between $2.8 and $3.1 billion. In addition, over time, we have grown our dividend with earnings and expect to be able to do so going forward. Our dividend payout ratio is solidly in our 60% to 70% targeted range. Looking ahead to 2020, we are reiterating our operating earnings guidance of $4.25 to $4.45 per share. We will finalize our pending rate cases and move forward with additional opportunities in the renewable space. We will continue our disciplined approach to allocating capital and are confident that there is significant runway in our capital programs to reaffirm our long-term operating earnings growth rate of 5% to 7%. With that, I will turn the call over to the operator for your questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Ali Agha with STRH. Please go ahead.

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

Good morning. Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Good morning. Thank you. First question, I just wanted to confirm that the 5% to 7% growth rate, is that still based of the original midpoint of 2018.

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

Yes, yes it is.

Q - Ali Agha {BIO 1509168 <GO>}

Yeah. Okay. And then in the past I know Nick and Brian, you've talked about when you talk about the 5%, when you've talked about hitting the high end of the range. I think today. I heard you say, upper half. So I just wanted to be clear, is the aspiration upper half or is it, the high-end, which I've heard you say in the past as well.

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

Yeah. So we say the upper half as far as a generalization obviously and as we go forward, there is no question. I mean we will be disappointed. It's pretty much the same thing to us.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And then can you give us your latest thoughts on Kentucky Power and where that fits in the portfolio, might that be a source of funding for North Central Wind, just how you're thinking about it currently.

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

Well, certainly, we're in a position now to where we can, when we have uses for certainly for capital to invest, we're able to look at our entire portfolio and determine. Okay, is there an opportunity for rotation, is there an opportunity for sale of assets, those types of things, but certainly Kentucky remains a part of our portfolio. Obviously, as we look at any future positive investment we're making, I think, it's probably safe to say, and you probably see from the FFO to debt and other credit metrics that they were fully utilized in our balance sheet. So we're moving into a stage where we have to think about optimization from an ROE standpoint for our investors and that forces us to look at sources and uses.

So, no, I'm not commenting on Kentucky, in particular, I think it's important to say that now we're fully regulated utility, we can look at investments across the board and see what the best approach is and I think that's what we're certainly alluding to as you go through this process and really with North Central by the time the investment is needed, we have time to go through that process.

Q - Ali Agha {BIO 1509168 <GO>}

I got you. Last question, Brian. Looking at your 2020 load growth projections, what's causing residential to fall off more significantly in '20, what is the trend we saw in '19.

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

It's just the normal business cycle, in that we see residential and commercial generally follow industrial and now industrial starting to come out of that and residential and commercial just haven't followed yet, it's really just a normal business cycle.

Q - Ali Agha {BIO 1509168 <GO>}

Got it. Thank you.

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

Thank you Ali.

Operator

Our next question comes from Andrew Weisel with Scotia Bank. Please go ahead.

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

Good morning, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hey, good morning. My first question is on dividends. The 2020 increase was 4.5% for his guidance that growing approximately in line with EPS growth at the high-end really in the 5% to

7% range. So can you just remind us what the latest thinking is on what to expect going forward and if 6% percent would be a good bogey.

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

Yeah, yeah, it's unchanged. We fully expect our dividend growth to be commensurate with our earnings growth and as you know we've talked about this, the 4.5% this year and then the previous year as 8.2% or something like that, so it averages out to 6%. We focus nominally on the 6% so you can expect that in the future.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay, great. Just wanted to affirm that. Yeah. Next question. Pretty me if I missed it but can you describe what you're expecting around FERC approved transmission ROEs for yourselves and would you expect your PJM and SPP allowed ROEs to be within the range of the reasonableness.

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

Yeah. So obviously we have that case in the Northeast that as brought up at least some issues, and certainly that's being evaluated. A lot of parties have filed to review that outcome of the MISO case and that was really the one that that I think sort of sent us a message previously in the Northeast, there was a mechanism for 4 different measures and they went to two different measures with MISO and I think it maybe had some unintended consequences, hopefully but certainly the industries responded AEP's respond as far as Transource, we have settlements in the East and the West and in the East, we have a stay-out provision and in the West, we do not. So they are there, but would not make any sense for filings to occur while the FERC is continuing to review the outcome of the MISO rehearing that's occurring. So yeah. So the stay-out was and SPP. So just want to make sure of that. But nevertheless, right now though our rates we view them as consistent with that realm of reasonableness and we continue to see it that way and I think as we get through the rehearing at FERC. I think there is certainly an opportunity for us to ensure that that's the case going forward.

Q - Andrew Weisel {BIO 15194095 <GO>}

Any sense of when we might have better clarity on that. I know it's a tough process to predict everything it for good stuff to predict in terms of timing.

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

Yeah, I have to ask that question, but, but I think that certainly I think there is that there is a necessity to get it resolved quickly because it's brought a lot of unintended risk into the the investment and transmission and I think it's important to get it rectified earlier as you might recall the FERC did start looking at actually our path project as a proxy for evaluation of what an ongoing view should look like and we view that as promising and certainly they have reacted reasonably quickly from that perspective and I think they recognize that there that the market is truly watching in terms of what philosophy is relative to transmission investment, which I believe is unchanged and actually, I think -- I think, at least what I've heard from the commissioners and public forums is that the transmission continues to be an investment that's required for optimization of the grid and and historically, they've incentivized that and I fully expect them to continue to do that.

Q - Andrew Weisel {BIO 15194095 <GO>}

Great, that's very helpful. One last quick one, I know the Texas rate case settlement doesn't directly impact the North Central wind proposal but did that come up at all in your discussion, did the interveners give any indication about how they're thinking about it.

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

No, I think they being dealt with completely separately. AEP -- AEP Texas is the case, that it's a base case and then actually, the wind project is in the SWEPCO jurisdiction associated with Texas, so it's still integrated and regulated in that part of Texas and they're used to dealing with Wind request. It's happened before there is a lot of precedence for a review of the wind projects and certainly we were building up on what we learned from the previous Wind Catcher activity and filed something that we felt like addressed the concerns during that period of time, but also dealt with it in a way that's consistent with the integrated resource planning processes and something that's fairly innocuous in terms of, in terms of a view by the Commission.

So we certainly as I said earlier, I think Oklahoma and Arkansas are well on their way. Louisiana and Texas are certainly in the process, so we would certainly are hopeful that they will continue to see the benefits of that project as well and get it done very quickly.

Q - Andrew Weisel {BIO 15194095 <GO>}

Right. I know there are separate jurisdictions, I would just say. I think there's a lot of overlapping interveners but. Fair enough. I appreciate the color. Thank you.

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

No, there is not, there is not really, I mean. The Interveners themselves, maybe the same, but the issues are very different.

Q - Andrew Weisel {BIO 15194095 <GO>}

Understood, thanks.

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

Yeah.

Operator

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

Q - Praful Mehta {BIO 19410175 <GO>}

Thank you so much. Hi, good morning guys, and congrats on a good quarter and a good year.

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

Thanks.

Q - Praful Mehta {BIO 19410175 <GO>}

So just wanted to clarify again on the equity point and the credit point first. It was helpful to get the overall perspective on how you look at the portfolio and the credit clearly. At this point, your balance sheet is being utilized well, so if not central were to move forward, is the understanding that if there isn't any portfolio optimization opportunity that some equity would be issued at some point. Just wanted to clarify the timing of that and any further thoughts on that credit and equity point.

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

Yeah. So I'll turn it over to Brian in a second, but certainly our view is that we sort of presented a base case of without any rotation or any of those kinds of activities occurring, we would expect equity to be issued in that 50 to 2/3 range. So I think that's at least that is going in position and certainly that we're saying the project is entirely 100% incremental to our existing capital forecast. So you would expect equity, but if there is any kind of capital rotation or sale of assets that mitigates the need for any portion or all of the equity, then certainly that will be a part of the process. Brian.

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

Yeah, the only additional color I'd add to that Praful is we think that we could time any equity needs consistently with when the projects for North Central wind would come online, a small portion at the end of 2020 and a much more significant portion at the end of '21.

Q - Praful Mehta {BIO 19410175 <GO>}

Got it, okay. So the earnings and the dilution probably match that helps kind of with the earnings profile.

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

That's Right. We think we could time them very closely.

Q - Praful Mehta {BIO 19410175 <GO>}

Okay, perfect. And then just secondly on the renewable opportunities in which you highlight, is this more utility side renewables or is it more on the unregulated side or both. If you can just give a little bit more color and also how big do you see the opportunity to be because clearly everybody seems to be investing more on that side and there is a significant opportunity. So if you can scale that, that will be helpful too.

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

Yeah. So it's on both sides -- both sides of the ledger, and obviously we still have integrated regulated jurisdictions and the one in South Bend project in partnership with Notre Dame that's on the regulated, Indiana, Michigan Power and then also, there is projects that others have done in our regulated footprint and as well on the contracted side, we continue to advance that around the country in various forums, but not just tied to wind power solar, but other projects as well and we're sort of unique, I guess from the contracted business, we cover about every quadrant of the business relationship that customers would expect and really are OnSite Partners, our AEP Energy or AEP retail all those come together to really provide sort of an all-in solution for customers, so we see the growth occurring on both sides. I think certainly North Central is an example obviously the way the integrated resource plans of various jurisdictions are moving forward, I now added APCo. There is a solar requirement in Virginia and then there are opportunities for us to do it on the regulated side as well as the unregulated and keep in mind, we are contracted business. We limit to 10% of the business because of tax reasons and so we want the regulated side to grow to enable our contracted business to grow as well and this is a nice balance for us and we'll continue doing that and certainly I would say it's moving very much in both directions. And if you look at post North Central and what's now after the purchase of the Sempra Wind assets, we're probably I mean roughly half and half, so I think it's, it's a great diverse solution.

Q - Praful Mehta {BIO 19410175 <GO>}

Got it, that's super helpful. Given the size of your footprint, and as you said you have opportunities on both sides, do you see that as helping you achieve that higher end or upper end of the seven or even getting beyond that. I'm just trying to again dimension, how big the opportunity could be given you have it on really both sides given your footprint.

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

Yeah, I think that's why we said upper half because there is there is so many opportunities out there for us and for our ability to continue to grow certainly we're going to have to continue to feed the beast in a way that continues that 5% to 7% growth trajectory, but as we said before, with all the projects that we know that are out there with the opportunities in front of us, you can look at our integrated resource plan on the regulated side and see what's in front of us. And you can certainly see I think there was a report recently of AEP just the generation transformation alone, which drives the renewable piece of it along with some natural gas, it's a real opportunity for AEP to continue to enhance that growth pattern, so really the fundamentals are there, it's a matter of execution.

Q - Praful Mehta {BIO 19410175 <GO>}

Got it. Super helpful guys. Thanks so much.

Operator

(Operator Instructions). Our next question comes from Sophie Karp with KeyBanc. Please go ahead.

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

Hi Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi, Good morning guys.

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

Good morning.

Q - Sophie Karp {BIO 19699392 <GO>}

Thank you for taking my question. So on North Central wind, I guess you've had pretty constructive settlements in the couple of jurisdictions by now, Texas being more or less the only one where you are still engaged in an inactive regulatory process. I'm just curious at what point do you think you have a critical mass to officially call it to go input in the plan.

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

Yeah, we've got that. If we get approval from the Oklahoma Commission maybe today and then we get approval from Arkansas, we have the critical mass for the project to move forward. The question is at what scale. So with those two projects together, you're already at 846 MW of the 1485 and it's already a $1.1 billion investment and if you move forward with Louisiana for example, and Arkansas remember has the flex up, so the flex up means they will take the additional capacity -- the wind power capacity, if it's not taken by another jurisdiction. If Arkansas flexes up and then Louisiana approves with the flex up then you've got the 1485 MW for the whole project. Now obviously if Texas sees this way to be a part of the project as well, which I believe they should then each of the states will participate in the full projects, so right now, I'd say with Oklahoma and Arkansas, if those settlements are approved, the project is moving forward. That's a given. Then the question becomes, okay, what scale and and that will be determined by the other two jurisdictions and the amount of flex up that's enabled in those settlements. So I'd say you should be happy with the progress right now and I also think you should be optimistic about this project being fully vetted and fully approved.

Q - Sophie Karp {BIO 19699392 <GO>}

Terrific. Terrific, thank you for clarifying this. And then as a follow-up to the same kind of line of thinking, right. It seems like this playbook is working really better than maybe some of the prior projects you looking at, is that something that you can use over and over again as you scale up your investments in the renewables, maybe on the regulated side.

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

Oh absolutely. I think there is a pattern here and that's why I talk so much about the generation transformation that is occurring. We already have, we're retiring generation older generation and that's coal and natural gas and certainly replacing with new resources that provide a real opportunity and that opportunity is really driven by reducing costs for consumers and this thing in the North Central is a perfect representation of overall entire project $2 billion, investment, but over $3 billion and in savings to customers and that's one of the key areas for the utility in the future is to be able to deploy capital to reduce customers' bills and that's what we're doing and that's what many of these projects allow us to do.

Q - Sophie Karp {BIO 19699392 <GO>}

Thank you. I'll jump back into the queue.

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

Thank you.

Operator

Our next question comes from Naaz Khumawala with Granite Lane. Please go ahead.

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

Naaz.

Q - Analyst

Hey, Nick. Congratulations on LSU.

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

Yeah. But then in there for you.

Q - Analyst

I wanted to -- I had a clarification for you, just when you guys talk about your pro forma for North Central wind, is that putting you at the high end, the 5 to 7 or does it put a step up in earnings and then you grow off of that.

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

Yeah, it will be going to be a step up. It will be a step up a step change when North Central gets in, but will continue at the 5% to 7%.

Q - Analyst

Okay, all right, that's helpful. Thank you very much, I appreciate it.

Operator

(Operator Instructions) No further questions at this time.

A - Darcy Reese {BIO 20391516 <GO>}

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

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 11:30 AM Eastern today through midnight February 27. You may access the AT&T Teleconference replay system at any time by dialing 18662071041 and entering access code 7223769. International participants may dial 402-970-0847. Those numbers again are 18662071041 and for international 402-970-0847. Access code 7223769. That does conclude our conference for today. Thank you for your participation and for using AT&T Teleconference. You may now disconnect.