Q1 2024 Earnings Call

Company Participants

- Benjamin G.S. Fowke, Interim Chief Executive Officer and President
- Charles E. Zebula, Executive Vice President and Chief Financial Officer
- Darcy Reese, Vice President, Investor Relations
- Peggy I. Simmons, Executive Vice President, Utilities

Other Participants

- Andrew Weisel, Scotiabank
- Carly Davenport, Goldman Sachs
- Durgesh Chopra, Evercore ISI
- Jamieson Ward, Guggenheim Partners
- Jeremy Tonet, J.P. Morgan
- Nicholas Campanella, Barclays
- Paul Patterson, Glenrock Associates LLC
- Ryan Levine, Citigroup Inc.
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for standing by. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the American Electric Power First Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. And after the speakers' remarks, there will be a question-and-answer session. (Operator Instructions) Thank you.

And I would now like to turn the conference over to Darcy Reese, Vice President of Investor Relations. You may begin.

Darcy Reese {BIO 20391516 <GO>}

Thank you, Abby. Good morning, everyone, and welcome to the first quarter 2024 earnings call for American Electric Power. We appreciate you taking time today to join us.

Our earnings release, presentation slides, and related financial information are available on our website at aep.com. Today, we will be making forward-looking statements during the call. There are many factors that may cause future results to differ materially from these statements. Please refer to our SEC filings for a discussion of these factors.

Joining me this morning for opening remarks are: Ben Fowke, our President and Interim Chief Executive Officer; Chuck Zebula, our Executive Vice President and Chief Financial Officer; and Peggy Simmons, our Executive Vice President of Utilities. We will take your questions following their remarks.

I will now turn the call over to Ben.

Benjamin G.S. Fowke {BIO 5234300 <GO>}

Well, good morning, and welcome to American Electric Power's first quarter 2024 earnings call. Shortly, Peggy will give a regulatory update, followed by Chuck, who will provide more detailed financial review.

A summary of our first quarter 2024 business highlights can be found on Slide 6 of today's presentation. Beginning with AEP's financial results, today we announced first quarter 2024 operating earnings of $1.27 per share, a $0.16 increase over one year ago. We're also reaffirming AEP's 2024 full year operating earnings guidance of $5.53 to $5.73 and a long-term earnings growth rate of 6% to 7%. I'm pleased to note we achieved a 14.2% FFO to debt ratio this quarter, which is within our stated range. Let me assure you that AEP's direction and strategy remain on track, as this team is fully engaged, energized, and working well together to enhance the customer experience and investor value. I've reviewed AEP's financial targets, and I have total confidence in the plan's achievability.

It's hard to believe it's been just two months since I stepped into the role of Interim CEO, and it has been a busy and productive 60 days. I've had the opportunity to meet with many different stakeholders, including elected officials, regulators, community leaders, customers, investors, and of course, the team right here at AEP. All of these meetings have been very useful in helping shape the initiatives I will discuss shortly.

Before I dive into other business, I want to give you a brief update on the search for a permanent CEO. The process is well underway, and I am certain, based on the talent pool that we're looking at, that we will find the right person to lead AEP. As I mentioned, when we first talked at the end of February, the search will probably take between 6 months to 12 months. We will take the time necessary to find the best candidate, and we're committed to keeping you informed.

So, across the AEP's system, I see the need to increase capital spend in the future, including incremental investment related to commercial load growth from data centers and resiliency spend. Specific to load growth, the amount of service requests is truly staggering and ranges between 10 gigawatts to 15 gigawatts of incremental load by the end of the decade, in addition to many, many more gigawatts from hundreds of inquiries. The key to capturing this commercial and industrial growth is to work with parties to make sure the commitments are real and secure, the tariffs and contracts are fair to all customers, and growth is self-funded. And of course, that the load can be met.

A couple of great examples of new commercial commitments can be evidenced by last week's announcements from both Amazon Web Services and Google to build large data centers in INM's Northern Indiana service territory. At AEP, we have the largest transmission system in the United States with a high voltage backbone in the Midwest. We expect more transmission investment possibilities driven by this data center growth, specifically in substations and customer connections. As a side note, I'd like to call attention to AEP's commercial load in the first quarter of 2024, which grew at 10.5% over the first quarter of last year.

In addition, we will file our system resiliency plan in Texas no later than the third quarter of this year related to legislation passed in 2023, including investment related to hardening and modernizing the grid, expanding vegetation management, and of course, wildfire mitigation. Now, clearly a strong balance sheet is critical as we look to fund potential increased capital spend, and I believe incremental growth equity needed to fund smart capital is a positive thing. That said, we are open to equity alternatives through portfolio optimization, looking at opportunities where price meets execution, while at the same time staying focused on our efforts to achieve constructive regulatory outcomes.

On a similar note, I'd now like to provide a brief update on the sales of our AEP Energy retail and AEP OnSite distributed resources businesses, both of which are included in the Generation & Marketing segment. We are working through final phases of the process and expect to conclude that process by our second quarter earnings call.

Now, let's move on to last week's newly published federal EPA rules on greenhouse gas standards, coal combustion residuals, or CCR, effluent limitation guidelines, or ELG. Although our team is still reviewing the rules, we will likely pursue legal challenges while working with others, including our states who are aligned with AEP's commitment to provide customers with reliable and affordable energy. These new regulations in some cases require the use of unproven technologies, are extremely expensive and establish unreasonable compliance schedules. We are at a time when our nation needs to add dispatchable generation to support grid reliability and growth, and these rules have the potential to not only prematurely accelerate plant closures, but also discourage new dispatchable generation from being built.

Now turning to labor management. We announced a voluntary severance program earlier this month, taking effect July 1st. We expect this initiative will save labor costs of approximately $100 million, and will assist us in managing our costs to better serve our customers, allow us to redeploy resources locally in a regulated footprint, and finally, mitigate impacts from inflationary pressures and interest rates. Of course, we will do it so in a way that is fair and equitable to all of our valued employees.

So, as I mentioned, it's been a busy and productive couple of months. I have confidence in our strategy and team. I'm excited about the opportunities ahead to drive growth and create value for our investors. We look forward to providing you even more positive updates as we move forward in the year, further solidifying stakeholder confidence in our financial targets.

Before we turn to Peggy for additional updates, know that I am aware of AEP's regulatory successes and some of our challenges. We continue to review plans to strengthen our regulatory compacts as we work through the past and are ready for the future. Peggy?

Peggy I. Simmons {BIO 17724877 <GO>}

Thanks, Ben, and good morning, everyone.

Now, let's go to an update on several of AEP's ongoing regulatory initiatives. We are currently focused on investing more in people resources at the local level, particularly in regulatory and legislative areas. The utility industry is changing, and more now than ever, it's critical that we enhance our engagement in this dynamic environment. More details of our related regulatory activity can be found in the appendix beginning on Slide 23.

AEP's operating company leaders are running the business and engaged with our state regulators. Higher costs for materials and frequency of cases shines a spotlight on affordability, and customer bills are top of mind for us. We are focused on advancing interest in each of the states we operate to achieve outcomes that are good for our customers, our communities, and our investors.

This includes economic development work across our service territory, which brings jobs and creates headroom from larger load perspectives. We continue to reduce our authorized versus actual ROE gap. We're doing the work, and our ROE improved slightly this quarter to 8.9%. Even considering this measure is depressed by approximately 30 basis points from mild weather conditions.

Staying with the recent positive developments, I'm pleased to report AEP Ohio's Electric Security Plan V settlement obtained last summer -- excuse me, last September was approved by the commission earlier this month. This ESP covers a four-year term of June 2024 through May 2028. As we shared previously, we filed new base cases in Indiana and Michigan in the latter half of 2023. In Indiana, we reached settlement, which was filed in December, and we expect a commission decision by June of this year. In Michigan, we completed the procedural schedule and expect a ruling in that case in July.

The team has been busy in 2024 so far. Filing an Oklahoma base case for PSO in January and an AEP Texas case in February. Last month, we filed the APCo Virginia biennial rate review required by statute from legislative changes attained in 2023. Earlier this month in SWEPCo, Arkansas and Louisiana jurisdictions, we filed the annual formula rate plan.

Now, onto the regulated resource addition. We continue to advance our five-year $9.4 billion regulated renewables capital plan and have a total of $6.6 billion approved by state commissions at APCo, I&M, PSO and SWEPCo. As you can see, we're making great progress. We are also considering the renewables market, local input, as well as evolving reserve margin and -- margins and resource adequacy as we meet the needs of our customers. We are advancing toward our fleet transformation targets, which are aligned with and supported by our Integrated Resource Plan.

We have pending requests for proposals for a diverse set of additional generation resources at I&M, Kentucky Power, PSO and SWEPCo, with more to come from other operating companies, including APCo. These generation investments are an integral part of our broader capital program, which is 100% focused on regulated assets.

Looking ahead, we know there is more work to be done as we advance our regulatory strategies in 2024 to achieve a forecasted regulated ROE of 9.1%. We look forward to continuing to engage constructively with our regulators and strengthening relationships.

With that, I'll pass it over to Chuck to walk through the performance drivers and details supporting our financials.

Charles E. Zebula {BIO 6231994 <GO>}

Thanks, Peggy, and good morning, everyone. Today, I'll review our financial results for the first quarter, build on Ben's comments about our service territory load, and finish with commentary on our financial metrics and portfolio management activities.

Let's go to Slide 7, which shows the comparison of GAAP to operating earnings for the quarter. GAAP earnings for the first quarter were $1.91 per share, compared to $0.77 per share last year. There is a detailed reconciliation of GAAP to operating earnings on Page 13 of the presentation today.

One significant item I want to highlight in our GAAP to operating earnings walk is the one-time positive adjustment of $260 million, primarily for the remeasurement of a regulatory liability for excess deferred taxes due to guidance recently received from the IRS related to the standalone treatment of taxes for rate making purposes.

Let's walk through our quarterly operating earnings performance by segment on Slide 8. Operating earnings for the first quarter totaled $1.27 per share or $670 million compared to $1.11 per share or $572 million in 2023. This results in a quarter over quarter increase of $98 million or $0.16 per share.

Operating earnings for Vertically Integrated Utilities were $0.57 per share, up $0.05. Positive drivers included rate changes across multiple jurisdictions with the PSO base case and the Virginia proceeding being the most significant, favorable year over year changes in weather and income taxes. These items were partially offset by higher interest, higher depreciation and other taxes.

The Transmission and Distribution Utilities segment earned $0.29 per share, up $0.05 compared to last year. Positive drivers in this segment included rate changes primarily from the distribution cost recovery factor in Texas and the distribution investment rider in Ohio, increased transmission revenue, higher normalized retail load, and favorable year-over-year changes in weather.

These items were partially offset by higher depreciation, other taxes and interest. Please note that although weather was a positive variance quarter-over-quarter in both the Vertically Integrated and T&D segments, weather for the first quarter 2024 was very mild. Compared to normal weather, our estimate of the variance is roughly $80 million unfavorable, which is about $0.12 per share.

The AEP Transmission Holdco segment contributed $0.40 per share, up $0.05 compared to last year, primarily driven by investment growth and favorable income taxes.

Generation & Marketing produced $0.12 per share, up $0.03 from last year. Positive drivers included higher generation and retail margins along with favorable interest expense. These items were partially offset by lower wholesale margins, higher income taxes and lower distributed and renewable generation results, compared to the prior year, largely due to the sale of the universal scale assets in the third quarter of 2023.

Finally, Corporate and Other was down $0.02 compared to the prior year, primarily driven by higher interest costs.

Moving to Slide 9. Overall retail load continues to accelerate ahead of expectations. This is due to our ongoing success in economic development as well as the rapidly increasing demand from the many data centers finding a home within our footprint.

Weather-normalized retail load grew 2.9% in the first quarter, highlighted by a remarkable 10.5% increase in our commercial load, which is where the data center load is classified. This is a trend we expect to continue over the next several years as the growth of AI and other technologies boost the need for additional data storage and processing.

Driving the demand are existing and new projects that have ramped up more quickly than first anticipated, especially with some of our largest customers in Ohio and Texas. As we refine our forecast for the remainder of this year and next, expect that those projections to move higher to reflect the rapidly evolving situation as Ben had outlined in his comments.

Outside of data centers, our economic development efforts are also helping us maintain growth in industrial load, despite softness in manufacturing activity nationally. Industrial load grew 0.4% in the first quarter, roughly in line with expectations for the full year. This was driven primarily by increased activity amongst our plastics, tire, and paper manufacturing customers.

We are keeping a close eye on our industrial customers given the higher interest rates for longer environment. However, the number of large new loads anticipated to come online in the next two years provides us with confidence that demand will remain steady in the face of any economic challenges for our existing customers.

The main takeaway on load, however, is the significant growth in large customers that we continue to bring online across our footprint. As I mentioned earlier, be on the lookout for higher load projections as we provide additional guidance later this year.

Let's move on to Slide 10 to discuss the company's capitalization and liquidity position. In the top left table, you can see the FFO to debt metric stands at 14.2% for the 12 months ended March 31st, which is a 100 basis point increase from year-end, and in alignment with what I discussed on the last two earnings calls. Our debt to cap decreased slightly from year-end, and was at 62.8% at quarter-end.

In the lower left part of this slide, you can see our liquidity summary, which remains strong at $3.4 billion and is supported by $6 billion in credit facilities that were recently renewed and upsized by $1 billion to support our liquidity. Lastly, on the qualified pension front. Our funding status has remained relatively flat since the end of the year and ended the first quarter at 100.6%.

Let's go to Slide 11 for a wrap-up of today's message. The first quarter has provided a solid foundation for the rest of the year with a $0.16 increase in earnings per share compared to the first quarter of last year despite the mild weather conditions that we experienced this winter. We remain focused on achieving our objective which include: improving the financial performance of our utilities, offsetting cost increases due to inflation to keep electricity affordable, and embracing the opportunity to bring economic development to our communities by serving large loads.

As an update, we successfully closed on the sale of our New Mexico solar assets for $107 million in cash proceeds in February and we continue to work through the final phases of the AEP Energy and AEP OnSite Partners process. We expect to announce the results of the process by our second quarter earnings call.

Our first quarter results give us the confidence to reaffirm our operating earnings guidance range of $5.53 to $5.73 per share. We remain committed to our long-term growth rate of 6% to 7% and FFO to debt solidly in the 14% to 15% range. We appreciate your investment and interest in American Electric Power.

Operator, can you open the call, so we can address your questions. Thanks.

Questions And Answers

Operator

(Question And Answer)

Thank you. And we will now begin the question-and-answer session. (Operator Instructions) And your first question comes from Jeremy Tonet with J.P. Morgan. Your line is open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Good morning.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

I just wanted to peel in maybe a little bit more on the data center point that you laid out there. And just wondering, we see a lot of forecasts out there on the timeline of how quick some want to come to market, and we're trying to figure out how that matches against the system's ability to provide the power there in the connects. And just wondering, how you see those two aligning? What does that mean for AEP over time versus plan? And just, how do you think about, I guess, structuring rates in the right way so that other rate payers don't bear more of a burden?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. Those are all really good questions, Jeremy. And our team has done a tremendous amount of work thinking this through. I mean, first of all, I like to say, here at AEP that we're really wired for growth. And we -- as you know, we've been making significant transmission investments over the years, and that's going to allow us, I think, to accommodate this first wave of growth we're seeing from data centers. And so, in our next five years, you will see that load coming on, and you'll see some of the capital spend -- the incremental capital spend to support it.

As we get out further in the decade, I think it's going to be a function of an additional transmission and perhaps even generation that'll need to get built to meet it all. But I'm -- this team's working really hard. We have a great economic development team, very supportive business community in States. And we've done a lot of groundwork to put ourselves in this position. And you're also seeing, Jeremy, data center load ramp up at the same time. So, that's a natural trend, too.

Now, to your latter question, this is one I've been keenly focused on. And the good news is, we believe that the load growth that will be coming on will be fair to all customers, and in fact, will help us keep our rates affordable across all of our jurisdictions. We are developing new tariffs. Tariffs that require longer-term commitments. Tariffs that require the data centers to deliver on the load expectations that we're building for, obviously, credit quality, et cetera. And when you do the math, that load growth then benefits all customers. And that's what I'm really excited about. Because that was really important to myself and the team that we do keep rates affordable, and this growth will do just that.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. Thanks. And maybe just to dive in a little bit more. As we think about data center load sensitivity, should we be thinking that more along the lines of commercial sensitivity or industrial sensitivity as provided in your guidance if we think about demand outstripping forecast?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Go ahead, Chuck.

A - Charles E. Zebula {BIO 6231994 <GO>}

Yeah. So, I would think of a Jeremy more like an industrial customer and that sensitivity there.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. Thanks for that. And then just the last one if I could is, it relates to the external CEO search. Just wondering it or has anything changed with regards to, I guess, the characteristics that are in focus for a candidate? How is the pool building at this point? Just wondering, if there's any other color that you might be able to share on how the process is going?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Well, I can just tell you that the attributes and the qualities we're looking for remain unchanged from what I described on the first quarter call. We are well under the -- underway now. We've got some really good candidates, impressive candidates. It takes time to sort it all out, and there's other obviously things that we need to look at. But the timetable that I outlined for you just a couple months ago was 6 months to 12 months, so truncate two months off of that, and it's 4 months to 10 months. And -- but that said, we'll take as much time as we need to get the right person in place, and I'm very confident that we'll do just that.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. And actually, if I could just sneak one last one in. Just wondering on overall corporate strategy. Could you talk more about where things stand for AEP decentralization efforts? And looking to kind of more closely align P&L to the end decision maker at the local levels, just wondering how that's progressing?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Well, I think it's -- this is a focus of ours. And one of the -- and I'm going to turn it over to Peggy. She's developing -- has developed a detailed plan. But one of the things we want to do is put those local resources in our communities. And I know that's the right thing to do, just talking to stakeholders. It costs money to do that, which is one of the reasons why we did the voluntary severance so we can free up some of those resources going forward to make those critical investments in our communities.

Peggy, I don't know if you want to add anything.

A - Peggy I. Simmons {BIO 17724877 <GO>}

Ben, I think you pretty much covered. We have worked with the team and looking at how we can get some more of those -- enhance the resources from a regulatory and legislative perspective. Having more boots on the ground. As I mentioned in my opening statements, there's a lot of change in our industry and having folks out there having these ongoing conversations is really important. So, we're working through that process and more to come on that topic.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Thank you for that. I'll leave it there.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

All right. Thank you. Have a good day.

Operator

And we will take our next question from Steve Fleishman with Wolfe Research. Your line is open.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Hey, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey. Good morning, Ben. Thanks. So, just in Ohio and Texas, your wires company, but in Indiana were these last two announcement. I think you've got generation two. And are you -- so, in some of these recent deals that announced the past week, are you supplying the generation as well? And is there going to be a generation need in Indiana related to those?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Well, we do have RFPs outstanding. Peggy, do you want to take that?

A - Peggy I. Simmons {BIO 17724877 <GO>}

Yeah. We do have RFPs outstanding in I&M. But to answer your question, yes, in our Vertically Integrated, like Indiana, we will have to serve the generation component. And we are working with those large loads that are coming to us on what that would look like, and we are also focused on, as Ben mentioned earlier, redefining and looking at our tariffs as well. So, that will be part of our strategy.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And just to kind of clarify back to the initial question. So, the transmission grid is built up and has capacity to take on these customers near-term. But is there still -- even near-term, is there more capital needed or is it more this -- after this five years?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

No, Steve, there will be more capital needed. But I don't think it will be those massive 765 lines that can take a long time to get built. We believe the team has done a lot of work on how we could accommodate that load within our footprint, working with PGM and others. And so, yeah, no, there will be more spend but it will be manageable and doable to the point.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then on the FFO to debt, you're in the target range now. Is there anything about that that's kind of -- are you in there for good do you think now? Is there any -- was there any timing reason? Or is it you're in that and expect to be in it throughout the year?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Steve, we're in the range. We expect to be in that range now. Our forecast that we review internally and with the agencies show us, being in that range. So that's the plan, and we plan to defend that.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Great. Thank you.

Operator

And we will take our next question from Shar Pourreza with Guggenheim Partners. Your line is open.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Good morning, Shar.

Q - Jamieson Ward {BIO 22436950 <GO>}

Hi. It's actually Jamieson Ward on for Shar. He's on the road and regrets that he's not able to join you today, but we have a couple questions for you here. The first was just on the annual customer bill increase, the pace there. You reduced it to 3% increases per year through 2028, which is great to see. Does that already take into account the anticipated infrastructure investment needed to support any future data center growth? Or could we see that number be revised as well?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Well, I mean, the answer is, the incremental stuff we're talking about and the incremental transmission investment, it's not included in that, but it's not going to be -- it's not going to drive that from 3% to 4%. If anything, it should level -- keep it level and perhaps even drop it a bit. Obviously, there's other things that go into that, other inflationary factors, supply chain pressures, et cetera. But as I mentioned, this -- we've done a lot of work making sure that the incremental investment that we would need to make over the forecast five-year timeframe is actually at a level that is accretive, if you will, to keeping customer rates affordable. And that's why I'm very confident of moving forward with it.

Q - Jamieson Ward {BIO 22436950 <GO>}

Got it. Terrific. Thank you for that. And then expanding on Jeremy's earlier question, how are you approaching some of the more unique issues presented by data centers? For example, those who want to be behind the meter but still want to have an emergency tariff with the utility or data centers, which as you mentioned, want to socialize the cost of interconnection through all rate classes but which may not have a major economic impact. If we can just get a bit more detail there, that would be helpful.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

I'm going to turn it over to Peggy in a second, but listen, it's got to be fair to all customers now, okay? I mean, this is a big deal. It's an exciting big deal, but growth needs to be as close to self-funded as possible. And that's what I think we'll get with these tariffs and some of the other analysis that we're looking at.

A - Peggy I. Simmons {BIO 17724877 <GO>}

Yeah. So, what I would add to Ben's comment there is that, on our tariffs, we are looking at what minimum demands are. Most of the large loads are wanting to be connected to the system, but if they want some form of self-generation, we are asking so that we understand that and we can include that as part of our planning. So, we're trying to get all of that information on the front end so that we can appropriately serve customers and make sure that it's fair and balanced for all customers, and everyone's paying their fair share, as Ben has mentioned.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. I mean, the worst-case scenario, and this is what -- to Peggy's point, what we're preventing is, the load doesn't show up consistent with how we built the infrastructure. And when it does show up, it doesn't use, especially on a peak basis, the energy that we built for. So -- and -- but if you control that, which by the way, I think we also have to be very careful too that these large, large loads are don't are -- don't jeopardize grid reliability. And so, these tariffs address that, too. If you do all those things, then growth is good for all, and that's what we're pushing for.

Q - Jamieson Ward {BIO 22436950 <GO>}

Thank you. That's very clear. And then, on the updated load growth forecast coming later this year, should we assume that at a high level that means EEI? Or are there particular IRPs or other proceedings that we should maybe watch out for, which could come say before EEI, that would be driving that?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

I mean, I think the big update will come -- well, I understand EEI in the third quarter's earnings call right on the same. But it would either come on the third quarter or EEI unless -- there might be drips and drabs that get released before that. But that's what we're planning to do right now.

Q - Jamieson Ward {BIO 22436950 <GO>}

Understood. Got you. Last question from us is just on asset sales. In the deck, you mentioned remaining committed to simplifying the business in the immediate term with a focus on continued execution of the sale processes. So, how should we think about the potential for any additional sales announcements following the conclusion in the second quarter of the current process for the retail and distributed resources businesses? And that's it for me.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

It would be on an opportunistic basis. We're going to look at -- we're always open to ideas. Chuck and I and the team have been around a while. We know that sometimes good ideas sound good on paper, but you can't execute on them. So, we do filter that through the regulatory screening process, as you can imagine.

And then, we like our assets, so obviously the price has to be right. But what you're not going to see from us is like strategic review too and pre-announced kind of things that we're looking at. If the opportunity arises and we can execute on it, then you'll hear about it. But in the meantime, our status quo plan, I think, is a pretty darn good plan. And to the extent that we issue equity to fund additional incremental CapEx, this is going to be smart CapEx, good growth for all. And we'll keep our balance sheet strong, which I think is so important as you enter, I think, an extended era of higher CapEx growth.

Q - Jamieson Ward {BIO 22436950 <GO>}

Perfect. Thank you very much. Much appreciated.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Welcome.

Operator

And we will take our next question from Carly Davenport with Goldman Sachs. Your line is open.

Q - Carly Davenport {BIO 21913922 <GO>}

Hey. Good morning.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Good morning.

Q - Carly Davenport {BIO 21913922 <GO>}

Thanks for taking the questions today. Maybe just going back to the balance sheet. As you think about your financing needs for the remainder of the year, can you just give us an update there? And if you expect to see any impacts relative to your initial plan with the moves that we've seen in rates year to date?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. Hi, Carly. The plan that we laid out laid out at EDI is still intact. Other than I think at EDI, we had the West Virginia securitization in the plan, and that has been replaced by a Kentucky securitization nearly of equal amounts. So, the plan is still intact, there's been no significant changes and we're proceeding on that plan.

Q - Carly Davenport {BIO 21913922 <GO>}

Great. Thank you for that. And then just going back to the commercial load and data centers. As you think about that and the expectation to raise later this year, could you just talk a little bit about sort of what surprised the plan to the upside so materially thus far? Is it just sort of more success on the economic development front or more consumption from existing customers? Just any color on that would be helpful.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. Carly, it just mainly the ramp rates of the customers that have hooked up have come on more rapidly than we anticipated. And so, that's why you're seeing those big bumps in commercial load as we go through the quarters here.

Q - Carly Davenport {BIO 21913922 <GO>}

Great. Thank you.

Operator

We will take our next question from Nicholas Campanella with Barclays. Your line is open.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Hey, everyone. Thanks for taking my questions today. I'll try to keep it to two. So, I guess, you talked about this need for growth equity. Can you just elaborate when you anticipate needing that and what part of this five-year plan would that be?

And then, I guess just -- you do have $700 million to $800 million, I think, a year in your financing walk here of equity needs. Just why not do something sooner than later to kind of knock that out if the opportunity presents itself? I know you don't want to pre-announce and go into a strategic review round two like you said, but maybe you can kind of give us some additional thoughts on how you're thinking about that.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Well, I'll turn it over to my esteemed colleague here, Chuck. Yeah.

A - Charles E. Zebula {BIO 6231994 <GO>}

No, Nick it's a good question. I mean, look, as we said earlier, right, we're formulating, right, the changes to our plan and how ultimately, right, how financing is going to affect that. You are right, we have $400 million in equity this year followed by $800 million in equal amounts in the following two years.

So, I think the point that we -- I tried to make earlier on FFO to debt, look, we're going to defend our BBB credit, right? We're going to maintain a long strong balance sheet. So, as we put out additional capital forecast, I think you could assume, right, that, that strong balance sheet is going to remain intact. So, just kind of wait for that update on CapEx and you should be able to figure that out pretty clearly.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Okay. I appreciate that. And then, Chuck, I know that, whether a VIU is kind of a $0.10 drag versus normal, but you also had some of these tax items in there as well. Just on the tax item benefits, is that normalizing from last year or is that one time in nature as we kind of think about year-over-year into '25?

A - Charles E. Zebula {BIO 6231994 <GO>}

Yeah. So, Jeremy, about half of that will normalize throughout the year, and the other half is a one-time, things that happen in '23 that won't happen again in '24, so it's a true increase.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Okay. Have a great day. Thanks.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Thank you.

Operator

We will take our next question from Durgesh Chopra with Evercore ISI. Your line is open.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, Ben. Great talking to you after a while now. Hey, let's just -- I wanted to go back on your commentary, Ben, on portfolio optimization, new financing plan. Just to be clear, the financing plan, the CapEx updates, the load board updates, is that sort of -- should we think of that as a separate process and the CEO search? I'm just thinking about the two, and are those two, independent processes that we should think about or are they somehow tied? I'm thinking about the cadence of your updates, your new plan, and then the parallel CEO search.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

I mean, if I understand your question right, are we holding things back until the new CEO gets in place? Is that what you mean?

Q - Durgesh Chopra {BIO 20053859 <GO>}

That's right, Ben. Yeah.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

No, no. I mean, I -- no, I mean, we typically -- as you know, we typically update all our CapEx and financing plans and all those sorts of things at the time of EEI. And if there's something major in between, obviously we give you updates. But we're not -- no, I mean, I -- this company's not in neutral.

I mean, we really -- we're moving forward. This team is -- they share my belief that this growth is here. We need to accommodate it, we need to talk about it, and we need to make sure it's fair to all, so we're really, really focused on that. Focused on, I think, the strategy of putting more control at the local level, more resources at the local level. So -- and we just announced the voluntary severance, so we're not kind of just putting it in neutral and coasting until the permanent CEO gets in there. We're -- I honestly think these are all no regret type decisions and that the new CEO will ultimately benefit from. But did I answer your question?

Q - Durgesh Chopra {BIO 20053859 <GO>}

You did. Thank you very much. That's exactly what I wanted to ask you, and a very clear response. Thank you. And then, second question, Ben, again, like you mentioned, challenging the EPA proposed ruling. Maybe can you share a little bit more color there? Is it the carbon capture technology that you were referring to? And then you mentioned the accelerated plant retirements, was that directed towards coal? Just any color you can share there. Thank you.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. Well, it's a great question. And again, I harken back to Steve Fleischman's report that came out a couple months ago where he talked about our industry, which if you aggregate market cap is somewhere around $0.5 trillion, being responsible for this -- we want to onshore data centers, artificial intelligence, reshoring and manufacturing. And it's our industry that has to do it. We're going to build all the transmission we possibly can. That's not easy to get built either, but we are going to have to plug into something.

And as you know, in my former role, I'm a big advocate for renewable energy. I think it's great, particularly when it's economic. Now, some of that changes over time and regionally. But to think that we don't need dispatchable generation, I mean, it's -- we need it. And I'd love to see things like SMRs and other things develop, but they're not going to happen overnight. And meanwhile, we can't -- we have to be willing to move forward realistically.

And yeah, it's not just the carbon capture rules. I mean, there's -- we're looking at all the other rules, the CCR rules, the ELG rules, which -- by the way, we just spent a lot of money coming into compliance on that, and that was only a couple years ago. And now it's a completely different rule -- role, which would require different technology. So, it's -- our industry has come so far in carbon reduction, and I think we're willing to do so much more, but it has to be with affordability, reliability, and resiliency in mind. And I'm just -- I'm really passionate about that. And you never like to have to sue, but we're going to do what we have to do to defend our grid and our customers that use that grid every single day.

Q - Durgesh Chopra {BIO 20053859 <GO>}

That's great. I appreciate you giving me time today. Thank you again.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Thank you.

Operator

And we will take our next question from Andrew Weisel with Scotiabank. Your line is open.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Good morning.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hi. Good morning. Thank you. Excuse me. Two quick ones here, please. First, to elaborate on the commentary on load growth, Ben, I think you mentioned an incremental 10 gigawatts to 15 gigawatts by the end of the decade. I assume that's across the entire portfolio. Can you talk a bit about the Vertically Integrated Utilities? You have about 20 gigawatts identified through the current IRPs. My question is, how soon might we see more filings to include the new expected load, which there's no doubt coming quickly?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. So, when I look at those incremental loads, I mean, Ohio, within the PJM footprint, Ohio is the biggest driver of it. Although, Indiana is definitely getting its share, and I suspect we will have to do incremental RFPs to capture that load. I can't give you the exact timing of when that would be.

A - Peggy I. Simmons {BIO 17724877 <GO>}

We have -- so, Indiana -- well, we have an IRP that's coming up, that's going to be later in November. But -- so, that will be part of the process as we start to look at how we accommodate some of this load as we start to see it to come on as well. We'll be using those same types of process.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

And just maybe outside of data centers, if you look down at SPP, that's a very constrained region, as it is right now. And they haven't seen a tremendous amount of data center growth to date, it doesn't mean they won't. But in the meantime, we've got to make sure we've got adequate load to serve the load that we do know we have.

In Ohio -- again, we don't have generation in Ohio. So, the incremental investment will be transmission. There's a lot of talk here in Ohio and the business community at the state level, do regulated utilities need to be back in the generation game? I don't know. I think -- honestly, I think that would take legislation, at least from our perspective, so that we'd be assured of good recovery and potentially any kind of stranded cost risk because we've seen that play out before. It doesn't mean we're not -- we wouldn't be open to it but it would probably require legislation. ERCOT, we don't own generation. But we would obviously need to be building a lot of transmission and ultimately needing something to plug into.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Great. That's very helpful. And one quick one on the voluntary separation program. Would there be any kind of meaningful one-time cash outflow associated with that? And if so, how would you finance it?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. I think the -- so, it would go into effect mid-year, July 1st. And so, the annual savings that we would see this year would just about offset the severance cost. And then, of course, then on an annualized basis, '25 and beyond would benefit from that.

And again, this is about --

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yes. Okay. I'll just stop there. All right. Thank you.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you so much.

Operator

And we will take our next question from Ryan Levine with Citi. Your line is open.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Good morning.

Q - Ryan Levine {BIO 19520640 <GO>}

Good morning. On rate design for data center load, what duration commitments and load ramps are you assuming or looking for to help protect residential customers? Any differences on rate design between jurisdictions to call out? Any color is appreciated.

A - Peggy I. Simmons {BIO 17724877 <GO>}

Yeah. So, I'll take that. Thank you for the question. I mean, generally, we need to -- we're -- we would have to be building long-term assets, so we need some commitments that are longer in nature. So, I mean, you would think somewhere around the 10-plus, 15-plus year range but we're working through that process now.

Q - Ryan Levine {BIO 19520640 <GO>}

Thank you. And then in the prepared remarks, you're signaling higher load and potential new investments. In terms of funding that potential new investments in the back half or outside of plan, any -- how are you thinking about what tools are most advantageous to execute on that potential opportunity?

A - Charles E. Zebula {BIO 6231994 <GO>}

Well, as Ben mentioned, we would consider everything. Everything's on the table. But I think the underlying tenant is that, we will defend our BBB credits.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay. Thanks for taking my questions.

Operator

And we will take our final question from Paul Patterson with Glenrock Associates. Your line is open.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Hey. Good morning. I wanted to circle back on the one-time gain associated with the PLR rulings that you got or the letters that you got. What's the ongoing impact of that? And could you just elaborate a little bit more on -- I did read the 10-Q and that section of it, but I just wanted to make sure I fully understood it.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. So, thanks for the question, Paul. So, that standalone rate-making for tax purposes has really been on our radar for some time now. It really kind of results from some of our affiliates today generate taxable income and others generate tax losses, which has really kind of created the issue for us. And really kind of compounding that is our significant capital program over the last five years, as well as bonus depreciation has extended that dynamic. So, we were concerned that if we did not address that we may have a normalization issue. So, we asked the IRS for a private letter ruling.

Interestingly, some of our jurisdictions support the standalone approach, either in legislation or in their own rate-making, and other utilities also endorse and use the standalone approach as well. So, we received the PLRs in the first quarter, and the PLR is really kind of boiled down four key facts. One is the standalone NOL must be included in a rate base. The second, which addressed the gain in our adjustment from GAAP to operating is that the NOL must be included in the calculation of excess ADIT. So, that would reduce the overall regulatory liability for excess ADIT, which, of course, was created due to tax reform.

And then, any adjustment to offset the NOL would constitute a normalization violation. So, we took corrective action. We're glad that we did, to avoid a normalization violation. And our plan now is to work with regulators to make the appropriate adjustments to rates, so that we can include that going forward.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. So, that should be a positive going forward assuming the regulators agree.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Once we're able to go through our jurisdictions and get it into rates, yes.

Q - Paul Patterson {BIO 1821718 <GO>}

And when I read the 10-Q, it said West Virginia was -- they've agreed to the standalone approach, correct? In the past, they've been a little bit -- is that right?

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah, that's correct.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then, just with respect to transmission, FERC has some stuff coming out in a few weeks. And I was wondering if you had any idea about -- if you know what I'm talking about, it's the planning and what have you sort of long-awaited reforms. Do you guys have any sense as to what we might see there?

And then, sort of a related question on grid enhancement technologies, do you -- how do you see those playing with your large transmission system? Just any thoughts you have with respect to that.

A - Benjamin G.S. Fowke {BIO 5234300 <GO>}

Yeah. As far as the planning, I am told from our experts, in-house experts, that we don't anticipate it having much of an impact on us. The grid enhancing technologies, I'm not quite sure about that one.

A - Peggy I. Simmons {BIO 17724877 <GO>}

So, we do use grid enhancing technologies. And as it relates to the planning information at FERC, I mean, our team has been very involved in it. I mean, I think they're looking at longer planning horizons and things of that nature. So, our team's been at the table the whole time, working with FERC on those.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Thanks so much.

A - Peggy I. Simmons {BIO 17724877 <GO>}

You're welcome.

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. Abby, would you please give the replay information?

Operator

Thank you. This call will be available for replay today, approximately two hours after the conclusion of the call. And will run through Tuesday, May 7, 2024, at 11:59 p.m. Eastern Time. The number to access the replay is 1800-770-2030 or 1-609-800-9909. The conference ID to access the replay is 7939795#[ph].

And thank you, ladies and gentlemen. This concludes today's call. We appreciate your participation, and you may now disconnect.