Q1 2020 Earnings Call

Company Participants

- Brian X. Tierney, Cheif Financial Officer
- Darcy Reese, Investor Relations
- Nicholas K. Akins, Cheif Executive Officer

Other Participants

- Analyst
- Durgesh Chopra, Analyst
- James Cowlrick, Analyst
- Julien Dumoulin, Analyst
- Michael Lapides, Analyst
- Sophie Karp, Analyst
- Sophie Ksenia Karp, Analyst, KeyBanc Capital Markets Inc., Research Division
- Stephen Byrd, Analyst

Presentation

Operator

Ladies and gentlemen, thank you very much for standing by and welcome to the American Electric Power First Quarter 2020 Earnings Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given to you at that time. (Operator Instructions).

I would now like to turn the conference over to your first speaker, Ms. Darcy Reese. Please go ahead.

Darcy Reese {BIO 20391516 <GO>}

Thank you, Perky. Good morning everyone and welcome to the First Quarter 2020 Earnings Call for American Electric Power. Thank you for taking the 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 the future results to differ materially from these statements. Please refer to our SEC filings for a 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. Thank you, Darcy. Welcome and thank you all for joining AEP's first quarter 2020 earnings call. I want to take a moment to extend our sympathies to all those who have been personally impacted by the COVID-19 pandemic. At AEP, we understand that we are all in this together. The AEP Foundation has contributed charities across our footprint to ensure that we are part of the solution for the customers and communities.

In addition to providing our employees with the personal protective equipment, they need to do their jobs, we have donated mask, gloves and other essential items needed by hospitals across our service territory. To further assist those in need within our communities, our customer service representatives had provided assistance in fielding questions on how to secure small business loans.

Throughout these challenging times, I continue to be extremely proud of our employees. We have done an outstanding job demonstrating their capacity for being adaptable and exercising the agility needed to meet the challenges of a rapidly changing situation. As we continue to adapt to the ongoing challenges imposed by COVID-19, we remain committed to keeping our employees safe and keeping America power through this unprecedented times.

Certainly as we had in the March during the first quarter, the story for the quarter would have been one in which we have all heard before, mild weather impacted the first quarter, but as we've also heard before, a quarter does not a year make and there is plenty of time to recover from a mild winter. We adjust to these types of issues all the time. But I'm sure you are more interested in the last half of March and what April tells us about the future.

I'll get into all that in a minute, but first let's just do the headlines -- the financial headlines for the quarter. For the first quarter, we came in with operating earnings of $2 per share. We are reaffirming our 2020 operating earnings guidance range of 425 to 445 per share and our 5% to 7% long-term growth rate.

AEP is doing this because regardless of whether we forecast a V-shape, U-shape or W-shape COVID-19 recovery, we see our service territory as an arbitrage between residential load and commercial industrial load that is defined really by a pendulum between the financial characteristics of working from home versus the restart of commercial and industrial businesses. With all of this considered along with capital O&M credit metrics and updated load forecast and actions we have taken, we expect to be in the half of our guidance range.

We are shifting $500 million of capital spending substantially contracted renewable business and corporate related capital for the time being to maintain our commitment to solid credit ratings. We are reaffirming our $33 billion of capital over the five-year period, however. We believe this to be the smart play, given our ability to adjust capital quickly to respond to market conditions. We give all of this guidance insight, given an exhaustive review county-by-county of our service territory from a load perspective through April, weather impacts thus far in the year and expense control measures already put in place to respond to present conditions.

We will continue to refine these assumptions as data becomes available. Certainly weather, customer load mix, pace of economic recovery and continued O&M related actions will dictate further positive progress within the guidance range. Brian will get into more detail about these assumptions, but I want to reaffirm for you that our cap -- that our balance sheet is strong, credit metrics are good and liquidity is secure, as we move forward.

Okay. So let's move on to the specifics related to COVID-19 and its implications to our operations and our financials as we see the year progressing. As, many have heard, there is a famous boxing quote from our own Mike Tyson that is truly appropriate here, "Everyone has a plan till they get punched in the mouth." Well, that's what we have faced in the end of this quarter and will face probably for the rest of the year. But I'm here to tell you, yes, we've been challenged a little bit, but we are very much still in the match because of our quick responses and agility to be in the position to reaffirm our existing guidance range.

I'll start by discussing our employees commitments to our customers, communities and our shareholders, as we move through the crisis that I referred to at the beginning of my presentation. First, I want to recognize all the health care and [ph]first responders, who have put themselves in the line of far to help us all to be more safe and healthy. As a critical infrastructure service company, the front-line employees of our utility have also taken on risk by ensuring we are out in the field, responding to the a substantial storm activity to ensure the resiliency and reliability of electric service, so there are hospitals, critical businesses and customers who are under stay at home provisions can continue to benefit at least from some degree of comfort in these challenging times.

We have instituted protection measures for these employees that reflect CDC guidance regarding physical distancing including smaller work teams, proper hygiene in appropriate PPE and testing to minimize risk of contact with the virus. Approximately 12,000 over 70% of AEP's employees have been working from home for several weeks now and will continue to work from home, even after stay at home provisions are lifted to ensure further precautions were taken both at home and at the office for employees seamless return for various reasons.

We have instituted specific COVID-19 adjustments to our health plans and benefits for employees and as a critical infrastructure business have continued to pay our employees as they work from home. For most field level employees, we have also ordered additional days off with pay to enable more time with their families during this time.

We have over 82% of our call center employees working from home and as they not only answer customer questions, they are also helping our small businesses get back on their feet by helping them navigate through the SBA loan provisions of the Care Act. Regarding our customers, we recognize the hardships that this pandemic has brought on and have temporarily suspended all service disconnects for non-payment and our team of call center professionals have been working diligently to administer more flexible payment arrangements for our commercial and residential customers.

Some states have mandated this, but we do so voluntarily and our state commissions have fully supported these actions through the establishment of the deferred accounting and other measures, which I want to take the time to thank them for addressing these issues. Regarding our communities, AEP Foundation has donated over $3 million to support basic human needs to help address hardships from food, security, housing clothing and other issues during this time.

We have donated over 9,005 mask 110,000 gloves and disposable surgical mask and 1200 face shield from our warehouse stocks and 3D printing facilities within our innovation labs. In my 37 years of being in this business, I have never seen the level of coordination and concerned by multiple agencies to do the right thing for our customers, our employees, our businesses and communities. While much focused on this call is on the financials, it is important to remember the part we play in the broader social fabric as a critical infrastructure business. And our effectiveness is defined by the level of cooperation and support from all the agencies that we deal with. Our state commissions and governors, offices federal and state legislators FERC, NERC, DOE, DHS, NRC and others, and they all have answered the call and we at AEP thank them.

There is much work yet to do, but I believe all have embraced the capital as per social from an ESG investor perspective. From the operational side, we have had no disruptions to plan or grid operations, while storm activity has been exceptional, given a significant storm activity in several of our operating company territories and considering the additional COVID-19 related safety precautions. There has not been a delay in the North Central wind facilities construction and the regulatory cases regarding this project have continued on schedule.

As well future rate cases are on track to be filed, including in Ohio and Kentucky. On the regulatory front, it has been a busy quarter. In fact, we have already received approvals for 96% of the budgeted regulatory recovery for 2020. In March, the Indiana Utility Regulatory Commission authorized $77 million revenue increase based on a 9.7% ROE.

The commission approved I&M's proposed distribution system investments and full tracking of preferred transmission costs. The company also saw an adjustment to reflect the reallocation of capacity costs associated with termination of certain wholesale contracts which was denied by the commission. We have filed for rehearing on this matter.

In January, the Michigan commission approved the settlement of the base rate case, resulting in an increase of $36 million based on a 9.86% ROE. In April, the PUCT Public Utility Commission of Texas issued a final order approving the settlement agreement in the AEP Texas base rate case allowing for a 9.4% ROE. With a 42.5% equity layer on the company's $5 billion asset base. Also in April, we filed a DCRF distribution cost recovery factor to add approximately $440 million in assets, the rate base for distribution investments we made to benefit our customers in AEP Texas. A T Cost filing, the transmission costs filing was also made to recover $800 million in transmission investments made over a similar timeframe.

The company also filed the required base rate case in Virginia as part of the states for annual review in that filing the company asked for a 9.9% ROE on a 50/50 cap structure on a $2.5 billion base resulting in an increase of $64.9 million. Rates would be effective at the end of January 2021. There is no question that these are unprecedented times, I think it goes without saying that we will need to ensure that utilities and commissions work together to devise creative solutions to the challenges we all face.

Tony Clark former Commissioner at the Federal Energy Regulatory Commission prepared and submitted a white paper to NARUC recognizing the unique challenges, the energy industry is facing and the need for regulators to be creative to solutions. In that article, he called for policymakers at both the federal and state level to be proactive in both the short and long-term by targeting measures that support both customers utilities.

Collectively with our legislators and our commissions, we need to work together to recognize the importance of protecting customers and ensuring utilities who are able to invest in their systems and maintain the level of service that our communities depends upon whether through deferrals, preferably writers or forward-looking test years because cash is key again for utilities to be able to adequately invest in critical infrastructure. Two examples within our service territory at the commissions of -- where they've taken a proactive, you have been in Texas and Ohio.

We believe both are steps in the right direction. In Texas, the commission approve the COVID-19 electricity relief program for residential consumers who were having difficulty paying their bills. A rider has been put in place to fund the ERP that enables AEP Texas to access cash, to begin the program costs. In Ohio Commission Staff recommended approval of the regulatory asset deferral for future recovery and recovery of the demand [ph]ratchet program calls through the existing economic development rider.

This will help lessen the impact to industrials, your key employers within the state and protect utilities. We believe both are examples of progressive lose by states to help mitigate the risk associated with COVID-19 to both customers and provide certainty for utilities.

Moving on to the North Central project. We continue to make progress on this landmark project and provide significant benefits for our 1.1 million customers in our PSO and SWEPCO states. We received approval of the unanimous settlement in Oklahoma, as well as FERC approval in the first quarter. We expected May to be an important month of the project for the remaining jurisdictions, and I'm pleased to report that yesterday the Arkansas Public Service Commission approved the 155 megawatts or approximately 10% of the total project along with the flex-up option.

As you recall, the flex-up option allows Arkansas to increase the megawatt allocation should another SWEPCO state reject the application. The commission in that order determined that SWEPCO should use formula rider to recover its cost. In early March, we filed the unanimous settlement in Louisiana for 268MW or approximately 18% of the total project, which also include the flex-up option. We expect a decision by the Louisiana Public Service Commission in the May or June timeframe.

Lastly, after concluding our hearings in February, we expect a proposal for Commission decision from the Texas ALJs in late May. With approvals in Oklahoma, Arkansas and FERC under our belt, the project has what it needs to go forward at 846 megawatts of the 1485 megawatt project. Of course, the project can move forward with even more savings for customers and the full $2 billion investment opportunity if either the LPSC approves with the flex-up option or the LPSC and the Public Utility Commission of Texas approves their portion of the full project.

Okay. So now I'll talk to the equalizer chart, we can go to that. And for AEP Ohio, most of these are weather related. But for AEP Ohio, we've had the roll-off of some of the legacy fuel and capacity carrying charges they rolled off. So we expect the trend for the ROE to be at the authorized levels of around 10%. And presently it's 9.9% for quarter 2020.

In APCo, the ROE for APCo at the end of first quarter is 8.7% and that's driven by normalized -- lower normalized usage and higher depreciation from increased capital investments and of course unfavorable weather. Virginia's first triennial review was filed in March 2020, as I mentioned earlier and it covers the 2017 and '19 periods, and ROE of 9.42% would be used for the triennial review with 70 basis point bandwidth of 8.72% to 10. 12% ROE.

Kentucky Power, the ROE for Kentucky Power at the end of first quarter was 6.7% and that's primarily driven by a loss of load from weak economic conditions, loss of major customers along with higher expenses and unfavorable weather. We are also have been in a stay-out provision associated with rate filings, but that goes away here soon and we expect to be filing in Kentucky in the July timeframe.

I&M, the ROE I&M at is at 10.5% and we've been implementing new rates for Indiana, which will take place in the second quarter. But we fully expect they to be at the authorized areas of around 9.7% to 9.86%. And then PSO, PSO is at 9.2% primarily driven by unfavorable weather, SWEPCO at the end of first quarter was 6.2% and that was because of the loss of load, unfavorable weather and continued impact of the Arkansas share of the Turk plant, which is accounts for about 112 basis points.

The Arkansas base case settlement in December -- went in place in December 2019 and is effective, January 2020 approved to $24 million revenue increase there. In AEP Texas it's at 8% and that's due to a lag associated with the timing of annual filings and onetime adjustments from our recently finalized base rate case. Favorable regulatory treatment has historically allowed us to file annual DCRF and biannual T cost filings to recover our cost and I mentioned those earlier. So there's a lag associated with those, but we should see a pick up there and drive more toward a 9.4% ROE in the long term.

And then the Transmission Holdco, it's at the end of the first quarter was 11.5% and it was driven by higher revenues due to differences between actual and forecasted revenues. So we fully expect the transmission ROE to be in the mid 10% range in 2020.

So with that, when there is a pandemic like the one we were experiencing today, that has not occurred in 100 years and this nation's economy has been effectively shut down so much there is no question that everyone is challenged and AEP is no exception. But we are up to the challenge to recognize not only the role that this company has and the resiliency in restart of our economy, as well as a provision of electric service, no matter where our customers are working or living, but also the importance of the consistency and quality of earnings and dividends to our shareholders that makes our work possible.

We will strike that balance, respond to challenges and I'll stick with the boxing analogy with a Sylvester Stallone movie Rocky, where the music is playing, the theme from Rocky and he is running up the steps that represents the adversity of reaching a goal. I believe at the end of the year, we all will. The AEP, the communities we serve, our customers and our shareholders will be at the summit raising our arms in victory. Brian?

Brian X. Tierney {BIO 15917272 <GO>}

Thank you, Nick and good morning, everyone. I will take us through the financial results for the quarter, provide some insight into how we're thinking about 2020, including an update on April load and finish with a review of our balance sheet and liquidity. It's up briefly on Slide 7, which shows the comparison of GAAP to operating earnings for the quarter. GAAP earnings were $1 per share compared to $1.16 per share in 2019. There is a reconciliation of GAAP to operating earnings in the appendix.

Let's turn to slide 8 and look at the drivers of quarterly operating earnings. Operating earnings for the first quarter were $1.02 per share or $504 million compared to $1.19 per share or $585 million in 2019. Looking at the drivers by segment operating earnings for vertically integrated utilities were $0.50 per share, down $0.13. Earnings in this segment declined primarily due to warmer than normal winter weather and lower normalized retail load, other small decreases included of higher depreciation, higher tax expense and lower wholesale load, AFUDC and off-system sales.

Favorable drivers included rate changes and higher transmission revenue.

The transmission and distribution utility segment earned $0.24 per share, down $0.08 from last year, primarily driven by the 2019 reversal of a regulatory provision in Ohio. Other smaller drivers included higher depreciation, the roll off of legacy riders in Ohio and unfavorable weather. These items were partially offset by higher rate changes, normalized retail load and recovery of increased transmission investment in ERCOT as well as lower O&M.

The AEP Transmission Holdco segment continue to grow, contributing $0.28 per share, an improvement of $0.03 over last year. Net plant increased by $1.5 billion or 18% since March of last year. Generation and marketing produced earnings of $0.07 per share, down $0.02 from last year. The renewables business grew, with the acquisition of multiple renewable assets, increases in retail margins were more than offset by timing around income taxes and lower generation sales due to lower energy prices and plant retirements.

Finally, Corporate and Other was up $0.03 per share, primarily driven by lower taxes relating to a prior year income tax adjustment and other consolidating items that were reversed by year-end. Other variances related to higher interest expense and lower O&M. Earlier in the call, Nick indicated that we are reaffirming our 2020 operating earnings guidance range of $4.25 per share to $4.45 per share and would likely be in the lower half of that range.

Let me give you some of the detail that leads us to that outcome on Slide 9. And then I'll provide more detail on each of the key assumptions in the following slides. Our economic forecasting group uses Moody's Analytics as a key input to our models. In April, Moody's published a county level forecast and included their projected impact of COVID-19 on our service territory. We use this new data, along with updated assumptions from our customer service engineers to come up with revised, retail sales projections for the year. We now expect residential sales to increase 3% over 2019 levels, largely driven by all of the activity that is taking place in residences rather than in places of work or in the classroom.

Conversely, we are anticipating commercial sales contractions of 5.6% and industrial sales declines of 8% over 2018 levels. Many businesses have shifted their operations to a mostly online platform, while others employers have had to make the difficult decision to furlough or reduce employee head count until market demand is restored. These retail forecast lead us to expect an overall decline in sales of 3.4%. This updated load would impact our prior forecast negatively by $0.15 per share.

We've already discussed our year-to-date negative impact from mild weather of $0.11 per share. In response to these circumstances, we have taken action to reduce untracked operations and maintenance expenses by an additional $100 million resulting in a positive expectation of $0.17 per share for the year, the net result of load, weather and O&M reductions would have a negative $0.09 per share impact for the year, leaving us inside within the lower half of the original operating earnings guidance range.

We realized moratoriums on disconnects and the economic impact to our customers may have on our cash receipts. In response to this, we have initiated a shift of $200 million of capital expenditures out of 2020 to be placed into the future years of 2021 to 2024. As we made these deferrals, we were mindful of customer and reliability impacts. In fact about $200 million of these investments were in our competitive renewables business and about $100 million were corporate investments. The shift can be ramped up or down going forward, in response to how events play out in real time.

With this moderate level of capital shifting, we are able to reaffirm our 5% to 7% long-term growth rate off of our original 2019 operating earnings guidance range. Regarding potential increases in bad debt across our jurisdictions, we have already received orders in Texas, Arkansas, Louisiana and Virginia to set up regulatory assets related to COVID-19 costs. Other states where we have filed for recovery of COVID related deferrals include Ohio, Michigan, Tennessee and Oklahoma.

We have tried on this slide to provide some of the detail for how Coronavirus and oil and gas events will impact AEP's operating earnings guidance --

Operating earnings for 2020. Instead of taking you through the details of our scenario planning, let me highlight some of the items that could positively and negatively impact our view as we make our way through the year.

On the positive side, a sharp V-shape recovery, that is more dramatic than the gradual recovery from the second quarter, low point that we have assumed would improve results. Additionally, litigation of Coronavirus infection rates, leaving the economy to open up sooner than we have assumed would improve results. A greater increase in residential sales and an improvement in commercial and industrial sales would further improve our outlook.

We've experienced a mild winter. If that carried forward into a warmer than normal summer, that would have positive earnings implications. Another positive would be if we could garner incremental savings to what we have assumed at the $2.7 billion level of untracked O&M expenses. The items that would create negative impacts to our assumptions for the year are largely the opposite of the positives. A prolonged U-shaped or dramatic L-shaped recovery would be more negative in our assumptions.

Increased coronavirus infection rates could lead to weaker economic conditions for longer periods than we have assumed potentially impairing our outlook for the year. In addition, continued mild weather and/or O&M expenses beyond our control, like for storms could negatively impact the outlook for 2020. We have tried our best using data, experience and judgment to update and share our outlook with you for 2020. We've tried not to be unreasonably optimistic nor pessimistic. This outlook allows us to reaffirm our 2020 operating earnings guidance range with a view that we are likely to be in the lower half of the range

Now let's turn to Slide 10 and provide an update on our system load, focusing on our outlook for the balance of the year. Our first quarter normalized load was down [ph]70% compared to last year. Our residential and industrial sales were both down for the quarter, while commercial sales were essentially flat. Our original guidance for the year assumed half a percent normalized load growth. Clearly a lot has changed since that forecast was developed. Since then, we have taken a fresh look at our forecast and now expect our total load to end the year down 3.4% on a weather-normalized basis, with meaningful changes in customer mix and related margins. For 2020, we anticipate a significant contraction in the second quarter, followed by a gradual recovery over the balance of the year.

In the upper left quadrant, we've raised our residential outlook for 2020 to 3%. We are seeing significant increases in our residential load during the stay at home period. Even after our states begin to reopen their economies in the second quarter, it is our expectation that many employees will continue to work from home. Having said this, we expect the strongest residential growth in the second quarter with some tapering off during the second half of the year.

Moving clockwise, our commercial sales outlook is now assuming a 5.6 % decline from 2019 levels. Prior to the COVID outbreak, we experienced consistent improvement in our commercial sales class over the past year. However, once the stay at home provisions were in place, we experienced significant declines in our sales to traditional retail stores, hotels, restaurants, churches and schools. However, not all commercial load was negatively impacted by the outbreak. Sales to hospitals and government support offices were up substantially in the first quarter.

When you consider the challenges many businesses will face trying to introduce social distancing protocols into their normal operations, we are projecting a difficult second quarter for commercial sales with modest improvement through the remainder of the year. Finally, in the lower left chart, the outlook for industrial sales has changed significantly. We now expect 2020 industrial sales to come in 8% below 2019 levels. A number of factors have changed the outlook for this class, but the biggest driver is the overall drop in economic activity.

Over the past several weeks, we have learned a number of large industrial customers that are either idling their production or reducing their output temporarily until market conditions improve. In addition, a number of expansions we have previously assumed to come online later this year had been delayed or postponed. These delay should be reversed as the economy gradually recovers. Since nearly 30% of our industrial sales come from the oil and gas sectors, let me explain recent sales trends in the sector.

Surprisingly, sales to the oil and gas sectors in the first quarter increased by 9.7% which was the strongest quarter we've experienced since 2016. Most of that growth came from the pipeline transportation sector, which was up 28% for the first quarter. Going forward, we expect some reduction in oil and gas extraction that will be offset by growth in the midstream and downstream operations.

We don't normally report our monthly load numbers, but since we have the data, let's take a look at April load on slide 11. Total normalized retail load for April was down 4.3% with the relationship between the retail classes being similar to what we assumed for the balance of the year. Not surprising, given the number of people relegated to their homes, normalized residential sales were up 6% for the month. Equally, not surprising normalized commercial sales were down 7.7% for the month with the biggest declines being in schools, churches, restaurants and hotels.

Industrial sales were down 10% for the month. The biggest decline was in sectors that support the automotive industry, while we experienced strong sales growth in pipeline transportation and food manufacturing sectors.

Looking at April results, the relationship between the classes, also known as sales mix as well as the levels of sales in each class are consistent with the assumptions we have made for the second quarter of our balance of your assumptions. Moving on to slide 12, let's discuss some load sensitivities and highlight some of our rate recovery mechanisms. The pie-charts show that by segment and in total, about half of our non-fuel revenues come from the residential class.

Applying the 3% growth we are now projecting for residential sales in total to the sensitivities we provided at last year's EEI Financial Conference, we would pick up $0.12 a share from higher residential sales, repeating the same calculations for the projected load loss in the commercial and industrial classes would produce a drag of approximately $0.11 and $0.16 per share, respectively. When you add these three impacts together, you get the $0.15 per share impact we identified on slide 9.

Finally, retail rate design has a couple of features that stabilize our revenues during an economic downturn. First, most of our large industrial tariffs include demand provisions designed to cover the fixed portion of utility costs, these provisions remain in place even when volumes are down. Second, in our residential customer class, we have had some success over the years, better aligning the fixed portion of customer rates, with fixed costs. Together these rate considerations provide a stabilizing effect on our revenues, even when sales volumes decline.

Turning to slide 13. Another key assumption is the weather. As mentioned earlier, weather in the first quarter was extremely mild. The green bar, in the first quarter, shows that mild weather cost us $71 million compared to normal, which was $65 million worse than the first quarter of last year. While our outlook assumes normal weather for the remainder of the year, this chart shows that weather can change significantly as evidenced by last year's experience. If we were to have another warm summer like we did in 2019, it could offset the $0.11 drag for weather in the first quarter that we showed you on Slide 9.

Our management team has proven a track record of adapting our plans to changing conditions if necessary. In years when the weather has provided a tailwind, we have accelerated spending to provide stability to our earnings in line with our 5% to 7% growth targets. In years where weather has been less accommodating, we have been able to shift our spending to future years to achieve the same goal. You can expect this management team will react similarly this year.

Turning to slide 14, you can see that for nine 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. We had originally planned to drive down O&M costs in 2020 to $2.8 billion. In response to the expected decline in sales, we now plan to reduce O&M spend by an additional $100 million. Plans like the Achieving Excellence program an additional one-time an extraordinary reductions will help us to achieve those reductions.

Now let's move on to slide 15 and review the company's capitalization and liquidity. Our debt to total capital ratio increased during the quarter from 59.8% to 61.8%. The increase in the debt component is attributable to financing to support our ongoing investment program and to fortify our liquidity position to ensure smooth operational financing during this period of market volatility.

As you would expect, the increase in debt combined with the ongoing pressure associated with the flowback of ADIT resulted in pressure on our FFO to debt metric which at quarter end stood at 12.5% on a Moody's basis. The decline in the metric is also temporarily influenced by the $1 billion 364 day term loan the company proactively obtained in late March. Despite the temporary decline in this metric, rating agencies view this enhanced liquidity as credit positive. Adjusting for this facility and associated cash balances, the metric would be 13%.

Our liquidity at the end of the quarter remained strong at $2.8 billion. Since then, our commercial paper balances have dropped to $1.6 billion and our liquidity position has increased to $3.1 billion. Our qualified pension funding increased approximately 4% to 93% and our OPEB funding decreased approximately 15% to 130%. Pension and OPEB equity returns were negative 23% and negative 22% respectively for the quarter and were the primary reasons pensions and OPEB funding decreased.

Fixed income returns of approximately 7% and 6% in the Pension and OPEB respectively served to offset some of the equity losses. We worked hard over the years to focus on Pension and

OPEB funding and are pleased with how the asset portfolios have performed in spite of recent market volatility.

Let's wrap this up on slide 16, so we can quickly get to your questions. In response to the economic downturn and related implications, AEP has responded to quickly reduce our O&M spending by an additional $100 million for 2020. This action, combined with our updated load forecast allows us to reaffirm our existing operating earnings guidance of 2020 from $4.25 to $4.45 per share.

In addition, in response to uncertainties about cash flows related to reduced customer demand and potential delays in customer receipts we are shifting about $500 million in capital expenditures out of 2020 and ended the period 2021 to 2024. We can adjust the timing and size of this shift in reaction to how events play out relative to our assumptions. Because of our ability to continue to invest in our own system organically, we are confident in our ability to grow the company and our stated long-term growth rate of 5% to 7%. We continue to make progress on obtaining approvals for our $2 billion in North Central Wind project, in Oklahoma, and plan to proceed when approvals are obtained.

With that, I will turn the call over to the operator for your questions.

Questions And Answers

Operator

Thank you, ladies and gentlemen. (Operator Instructions) And one moment for the first question. And our first question comes from the line of Steve Byrd with Morgan Stanley. Please go ahead.

Q - Stephen Byrd {BIO 15172739 <GO>}

Hi, good morning. Hope you all are doing well.

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

Good morning, Steve.

Q - Analyst

Thanks for the update on a lot of topics. I wanted to talk, first, just about two of your rate cases, Indiana and Michigan, where I believe the test year is going to be 2020 test year. How do you think about that sort of test year in light of COVID, load adjustments, COVID related expenses, as you think through that rate case and sort of how to approach 2020 given its such an unusual year?

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

Yeah, so, in, at least Indiana, we have a forward test year views. And I think it's particularly important as we go into these cases for there will be an understanding that we are dealing with the COVID related year, if it is a test year. But where we have forward test years, though, you can, you can account for that going forward in the rate-making.

But certainly, we'd be, we'd be certainly tuned into the process, whether you pro forma in or do other things. I think there's probably at least opportunities for discussion about that, because COVID -- 2020 is going to be an unusual year and to be used for test years, will be particularly challenging. You have to really go to some form of pro forma view that has the level of investments, the level of business activity that you would normally see. So, I would expect our commissions to be reasonable in that approach.

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

In both those cases, Steve, we had forward looking test years, and we do have orders effective in both of those jurisdictions.

Q - Stephen Byrd {BIO 15172739 <GO>}

Okay, that's helpful. Yeah, it makes sense that you sort of trying to work through the adjustments, makes sense. On North Central Wind some great progress there, that's really encouraging. I guess I had, sort of, two related questions on North Central. If you do get those additional approvals that you're waiting for such as in Louisiana, Texas, can you just sort of quickly flex the plan to go to the higher megawatt level. And then I guess relatedly, you've obviously deferred some CapEx, do you have that flexibility to deploy whatever capital you need to kind of make this a bigger project or does your sort of capital position caution against sort of significant ramp up in CapEx this year? Just kind of thinking through the growth in North Central.

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

Yeah. So originally North Central was not in our capital plan. And so when we get approval for that, they will be dealing with a different financing model associated with that. As far as the megawatt level and the amount of investment, yes, if we get approval for Louisiana for example and Louisiana also approves the up rate which is in the settlement arrangement, then we would have the full $2 billion investment opportunity there. We already know we're going forward with the project, that was the importance of Arkansas approval. So the projects moving forward, the question is what size and then when Louisiana approves that and hopefully with a flex up as well, then that's a full $2 billion or if Texas takes their portion, then all the operating jurisdictions will be taking their particular portions as we go forward.

Now there is additional opportunity for renewables in those areas, the integrated resource plans have the capability for that, but we felt like as we originally said about this project, there were sort of a breakpoint between the opportunities that exist around the wind farm projects and the pricing. And we wanted to make absolutely sure that the pricing was very effective and produced very positive savings for our customers. So we can always go out for bid again to fill, to fill the rest of that from the resource planning perspective.

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

Steve will be full speed ahead on the CapEx associated with North Central Wind one way or the other. Nick mentioned that it's not in the $33 billion that we had previously identified, for the five years 2020 to 2024. And we previously said that we anticipate an equity component of that investment to be between 50% and 66%.

Q - Stephen Byrd {BIO 15172739 <GO>}

Yeah, that's super helpful. I'll let others ask questions. Thank you.

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

Thank you.

Operator

Thank you. And our next question comes from the line of Durgesh Chopra with Evercore. Please go ahead.

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

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, guys. Thanks for taking my questions. I have two, just -- the first one on 2020 guidance range here, the [ph]$0.15 EPS, what are you assuming in terms of declining trends for the rest of the year? I guess what I'm asking is, are you assuming some amount of recovery in Q3 or Q4, just curious as to what you're assuming in terms of profiling for the rest of the year?

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

Sure. So we are assuming that the second quarter be the lowest quarter for load and that there'll be a gradual recovery over the balance of 2020 and into the first quarter of 2021.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. Perfect. And then can you comment on just your -- assuming that you are going to hit your lower half of the EPS guidance range for this year, where would that put you in terms of credit metrics that order debt versus your targeted metrics? And then any color that you can provide us with your recent conversations, if you've had with Moody's on some of the changes that you've made to your plan?

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

So we've really been -- we anticipate year end being FFO to debt in that 13% to 14% range. We've communicated that with S&P and Moody's had dialogs with them as late as yesterday. They understand where we are and what we're doing. I think they were encouraged to see us flex a little bit, our CapEx for the balance of the year in response to anticipated lower cash flows than what we had anticipated. And they're supportive of that, they were -- they viewed what Julie and her team did around the term loan facility as being credit positive. And they are fully aware apprised of what we're doing and you should ask them, but I think the answer would be supportive.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Great. That's all I got. Thank you very much.

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

Yeah, thank you.

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

Thank, Durgesh.

Operator

Thank you. And our next question comes from the line of Julien Dumoulin with Bank of America. Please go ahead.

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

Morning, Julian.

Q - Julien Dumoulin {BIO 15955666 <GO>}

Hey, good morning, team. I hope you all well. Perhaps just to pick up where the last question left off to return here. On guidance in 2020 lower -- how do you think about the reduction in CapEx? I just want to reconcile that, but it seems that you're not really changing FFO debt expectations as you (inaudible) CapEx altogether. But, why do that relative to the change in (inaudible). Just, can you walk through the thought process there and then also it seems that it doesn't necessarily have too much of an earnings impact given the corporate nature some of the CapEx, so I just want to make sure whether you got that correctly as well?

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

Sure, Julian. Thanks for the question. So we are anticipating there to be some reduction in cash flow this year associated with two things; one, lower customer demand. And then two, we have eliminated disconnects currently. And so we think that customers will pay us slower than what they have in the past. We're not seeing the impact of that in a significant way yet it's too early, but in anticipation of lower cash flows to maintain those FFO to debt metrics, we felt it was imprudent to at least engage the motor on our ability to scale back CapEx. In regards to the no impact on future earnings, we tried to do it in places that have either lower regulatory lag or the increase in earnings isn't as great.

So Nick mentioned that some of that reduction is in the competitive renewable space and some of that reduction is also at corporate capital things like IT and things like that, that are much slower to flow into customer rates during rate cases. Things that we were careful not to cut were things like transmission, where we're spending on customer resilience and reliability. And we have those formula base rates to update and get that CapEx into rates on a fairly efficient basis. So we are really thoughtful about how we cut that small -- shifted that small amount of CapEx and made sure that it wasn't impacting earnings.

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

Julian, I think you're reading it right, though. I mean, we're being as transparent as we possibly can be through this process using the latest information, in fact, we got the load information -- April load information yesterday. So we're trying to be as transparent as possible, but also taking the right smart appropriate steps to ensure they were able to be agile enough to do what we need to do. So I think you are reading that, right. We obviously will put that capital back in as quickly as possible. And then, as Brian mentioned, we're not only mitigating any impacts to the earnings capability, but also thinking ahead in terms of where we deploy that capital in the future. So, and then we also have North Central coming about. So those things are occurring. We're trying to manage through this year in a very positive fashion and really a defensive posture, and then, set ourselves up for the future years in '21 and beyond.

So we'll continue that approach. And obviously, if we get a hot summer for example, we'll through capital back in, that means, all kinds of things that can adjust. And then from a residential standpoint you heard our residential load for April was 6% and we're saying 3%, so we don't know exactly how this is going to play out, particularly with changing dynamics of business cases themselves changing. I mean, we had a nationwide recently come out and say that their people are going to be working from home. And we have 70000 employees and 12000 are working from home, we may be looking through our Achieving Excellence program, which we have already accelerated to look at how you look -- how you look at people working from home and maybe the whole business case changes from that perspective, and also reduces O&M further. So we are in the process of doing all of that, but we're just trying to be as transparent as possible, if you're reading the tea leaves, right.

Q - Julien Dumoulin {BIO 15955666 <GO>}

Got it, excellent. And let me just clarify in terms of new (inaudible) you all reaffirmed intentions to file rate cases in various geographies, this sudden shift timing necessarily it sounds like, and more and at the same time I don't want to tie one to the other, does it shift any expectations with respect to after sales disposal, strategic reviews, trying to make sure we're on the same page there, and then it could be even further capital needs?

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

Yeah, no, it doesn't change. As a matter of fact, we'll continue those cases. I mean, obviously, as I mentioned, Kentucky. We have a stay-out provision. We need to file a case and we'll do that when that stay-out provision is lifted. And then that would be effective January 1st of '21. And then for Ohio, obviously we're due to file a case there as well. It's is a pretty, moderate case, but nevertheless as far as we can tell, I mean, everything is going exactly like we had planned. Now UASC some procedural schedules change, but the end result in the end date aren't changing. So that's, that's where we're at today.

Q - Julien Dumoulin {BIO 15955666 <GO>}

All right, great. Thank you.

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

Yeah.

Operator

Thank you. And our next question comes from the line of Michael Lapides with Goldman Sachs. Please go ahead.

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

Good morning, Michael.

Q - Michael Lapides {BIO 6317499 <GO>}

There is a better chap pronouncing my last name than most people do.

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

I have the same problem.

Q - Michael Lapides {BIO 6317499 <GO>}

Yeah. A few handful of questions. One, I'm going to be a little more specific on CapEx. So, $500 million cut $200 million is at the non-regulated renewable, $100 million --

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

Michael, Micheal.

Q - Michael Lapides {BIO 6317499 <GO>}

Yeah.

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

$500 million shifted.

Q - Michael Lapides {BIO 6317499 <GO>}

Shifted, my bad.

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

Yeah. We are simple about that.

Q - Michael Lapides {BIO 6317499 <GO>}

$500 million shifted, $200 is with the non-regulated renewable, $100 is at corporate, what's the other $200 million?

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

There is another $75 million to $100 million that is in our distribution in our APCo. And then the other $100 million is spread across our organizations, but not in the transmission side of the business.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Okay, that's fine. The other question is, is there any scenario where you could delay given a whole that's going on in the world, all the uncertainty about demand, about the impact of disconnects, is there any regulatory scenario where you could actually postpone or push out the AEP Ohio rate case?

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

No I don't think -- we don't see that happening, because obviously we are required to file a case and actually it's a pretty, pretty moderate case. So I think that, that there really isn't any reason to delay it at this point.

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

I think, Michael, I think Nick's answer earlier was there could be a delay in the procedural schedule. We would still expect to get the result of the case when we originally had.

Q - Michael Lapides {BIO 6317499 <GO>}

Yeah. Got it. And then final question --

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

And everybody knows, everybody knows about it, as well. So there won't be a surprise to anybody.

Q - Michael Lapides {BIO 6317499 <GO>}

No, that is good.

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

It was pretty a negligible impact on customers too, in that case too.

Q - Michael Lapides {BIO 6317499 <GO>}

Now, that makes it kind of sense. And then, last question, we've done a great job in managing down O&M for the last 40 years. And you've taken a lot of O&M out of the company, it saves the customers' money, it's good for shareholders. At what point do you think the long-term rate of change in O&M management starts to flat now, being the curve, the ability to keep taking out more or becoming more efficient, just start to flatten out the pace of change slows?

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

We've had a lot of conversations of about that, but every every day you're surprised by some new innovation or something that can change the trajectory of O&M expense. So, we spend $4 billion a year I think $2.8 billion is not tracked. And when you look at some of the opportunities that are available, and actually, I think that if there is a lining in the Coronavirus pandemic, it is that we -- we can really reevaluate what it means to get our business done. Because we've been very effective at the people working from home. And actually productivity has not suffered as a result, and we still have obviously the field employees that are still out there working as well. But you see the innovations that are occurring, I think, I think we have years ahead of us to continue to optimize O&M expense. And when you think it's going to level out something new comes about and I think that's going to be a continual opportunity for us.

And we actually and you probably saw we announced -- we have a new Senior Vice President over our actually the digital experience as our Chief Information & Technology Officer who is joining the company. We wanted to make sure that we put technology, the customer experience and certainly our charge innovation hub and those kinds of things together to really focus the organization on what the future holds and what it can mean in terms of O&M in the future.

So I think it's -- I think we don't know the answer to that and really you don't want to know, you want to just keep, keep pressing forward and we'll do that.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you, Nick. Much appreciate it.

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

Yeah.

Operator

Thank you. And our next question comes from the line of Jeremy [ph]Tom with JPMorgan. Please go ahead.

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

Good morning, Jeremy. Good morning.

Q - Analyst

Hi, good morning. Thanks for having me here.

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

Yeah.

Q - Analyst

I could be wrong, but I think in the past, you might have provided a multiyear view of financing needs in the earnings deck. And I think I might have missed that here. So didn't know if there is kind of any changes to how you're thinking about funding CapEx going forward here. And is there any interplay with kind of where Moody's is at right now, if you think about that.

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

Jeremy, there's really no change in our funding CapEx and I think the big thing we did really at the last call was give some insight into how we were going to fund North Central Wind and the idea that we'd be doing that between 50% and 60% equity. We've always been fairly conservative in our balance sheet management. And we're going to continue that going forward.

Q - Analyst

Got it. That's it from me. Thanks for taking my question.

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

Yeah. Thank you.

Operator

Thank you. And our next question comes from the line of James Cowlrick with BMO Capital Markets. Please go ahead.

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

Good morning, James.

Q - James Cowlrick

Oh, yeah, hi, how are you guys. Thanks for taking my call.

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

Sure.

Q - James Cowlrick

Just a following up on Jeremy's question, just wondering, Brian And Nick, as you guys are getting closer to the North Central Wind approvals, have you sort of sharpened your idea on how you're thinking about financing that and especially, have you looked a little bit more maybe some cycling, some current assets as opposed to accessing the capital markets, specifically.

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

So, James. We do have a little bit of time for that. Right. The smaller portion of North Central Wind is going to come about $300 million at the end of '20, which would really make the financing of that a '21 event. And then we have really until the end of '21 to go forward with that.

So how we come up with the equity portion of that, whether it's capital rotation, or whether it's the equity capital markets, I still think that we have plenty of time to work through. But I think the important assumption was the range of percentage of equity that we used for that project and that's where we talked about being in the 50% to 66% of the project.

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

Yeah. And really probably the main message is, all the options that were available to us before is still on the table and still being considered. And there hasn't been any, any change from a timing perspective, and our ability to get that done. So I'd say we're still at the same place we were and we are ready to execute. I think it's just a matter of us getting the ducks all on the road and ensure that we're at the right place at the right time.

Q - Analyst

Sure, sure. I just wasn't sure if you guys were looking at the potential for augmenting some of the equity with a sort of the recycling of assets and they've became a regulatory proceeding or something like that, that would have to be sort of taken into consideration ahead of time, just because of --?

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

Yeah. And we said, for really over a year now that with capital rotation, but also sale of assets is on the table is part of that process. We are obligated to do that from a shareholder perspective and we will certainly do that.

Q - Analyst

Got it. Thank you very much. Appreciate the time.

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

Yeah.

Operator

Thank you. And our next question comes from the line of Sophie Karp with KeyBanc. Please go ahead.

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

Good morning, Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi, good morning and thank you for taking my question.

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

Good morning.

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

Good morning.

Q - Sophie Karp {BIO 19699392 <GO>}

Yeah, Couple of questions here from me. So for, could you remind us if North Central Wind was contemplating tax equity finance into the part of the plan.

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

It is not.

Q - Sophie Ksenia Karp {BIO 19699392 <GO>}

It is now. Okay. Okay, so then maybe another one from me, I know this has a pretty decent chunk of your workforce that was on track to retire within the next four to five, seven years may be, are you contemplating offering them the folks some sort of voluntary early retirement may be in an effort to cut O&M, is that something that we could see on the table?

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

Well, I usually get that question from employees. We have, as we look at the O&M and the issues that we're dealing with to try to reduce O&M to the $2.7 billion level and beyond, we look at a lot of things, but one thing we have to be very careful about is certainly if you offer things like that, you usually lose people, you don't want to lose. And in this day and age with certainly at our front-line employee ranks, we need to every individual is working. And there's a lot of competition going on for the professionals and in those industries. So that's something we have to be really careful about.

Now obviously it's part of the -- its part of our regular operations that if we evaluate groups and there is efficiencies in terms of resources, whether it's vacancies or retirements or even were severance is offered, we'll continually manage our resources (Ends Abruptly)