Q4 2023 Earnings Call

Company Participants

- Benjamin G.S. Fowke III, Interim President & Chief Executive Officer
- 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

- Anthony Crowdell, Mizuho Securities
- Carly Davenport, Goldman Sachs
- Jeremy Tonet, J.P. Morgan
- Nicholas Campanella, Barclays
- Paul Fremont, Ladenburg Thalmann & Co
- Paul Patterson, Glenrock Associates LLC
- Ryan Levine, Citi
- Shahriar Pourreza, Guggenheim Partners
- Sophie Karp, KeyBanc

Presentation

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the American Electric Power Fourth Quarter 2023 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

I would now like to turn the conference over to Darcy Reese, Vice President of Investor Relations. Please go ahead.

Darcy Reese {BIO 20391516 <GO>}

Thank you, Regina. Good evening, everyone, and welcome to the fourth quarter 2023 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 discussion of these factors.

Joining me this morning for opening remarks are Ben Fowke, our Interim President and 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 III {BIO 6023982 <GO>}

Well, thank you, Darcy. Good morning, and welcome to American Electric Power's fourth quarter 2023 earnings call. It's great to have a chance to reconnect with you, although I never thought it would be under these circumstances. As you know, the AEP Board of Directors made a decision to remove Julie Sloat from her duties as Chair, President, and CEO. Taking this action was not easy, but the Board believes it was in the best interest of AEP and its stakeholders to do so.

On behalf of the Board and the entire AEP family, I would like to wish Julie well and thank her for all her contributions. I would also like to assure everyone that Julie's departure was not due to any unethical behavior, disagreements of financial policy or because of any violation of AEP's Code of Conduct.

Now, as many of you are aware, after my retirement from Xcel Energy, I joined the AEP Board in February of 2022. I was attracted to this Board because I was impressed with AEP's business model, its strong asset base, and the quality of its leadership team and Board. I'm even more impressed two years later.

In my tenure here, I've seen the AEP team rise to meet multiple challenges. Let me give you some examples, starting with earnings. For 14 years in a row, AEP has met or exceeded earnings guidance and 2023 is no exception. Our operating earnings came in at $5.25, that's within our guidance range despite $0.37 of unfavorable weather and $0.45 of increased interest costs over the prior year.

As you know, controlling O&M expense has been a challenge for the industry and AEP has met that challenge essentially keeping O&M flat for the last 10 years, while at the same time doubling its asset base. This team's continuous focus on O&M efficiency is nothing short of excellent. You may also recall that in early 2023, the Texas Commission denied a petition to be part of SWEPCO's 999-megawatt renewables project for $2.2 billion. But the team didn't miss a beat and put the project back on track with Arkansas and Louisiana, ultimately stepping up to move forward with the full project. As a result, and including SWEPCO, today we have commission approval of $6.6 billion of new renewable projects throughout AEP's service territory, representing a 70% achievement of our current five-year $9.4 billion new generation capital plan. And I hope you would agree with me that, that is really solid execution.

Initiatives to simplify and derisk our portfolio are squarely in the focus of the Board and the management team, and we are pleased with the great progress made. Last year, we completed the sale of our Unregulated Renewables portfolio, bringing in $1.2 billion of cash proceeds. We should be closing on our New Mexico Renewable Development Solar portfolio within the next day or two. This, in combination with the expected conclusion of our retail and distributed resources sales process in the second quarter, keeps us on schedule to achieve our 2024 asset sales targets.

Now, as we move forward, AEP will continue to be a disciplined portfolio manager, and we will be willing to take action when price and the ability to execute intersect. To that end, we've made the decision to retain our ownership interests in both our Prairie Wind and Pioneer transmission joint ventures. We also completed the review of Transource and ultimately determined that owning this joint venture fits strategically within our portfolio. We like our remaining assets and will focus going forward on doubling down on our efforts to achieve constructive regulatory outcomes that will allow us to provide the quality of service, our customers need and expect.

Regarding Icahn Capital, our recent agreement came about from a culmination of a constructive dialogue between AEP and the Icahn teams.

Like us, the Icahn team believes AEP shares are undervalued and there's meaningful upside potential for our investors. The addition to AEP's Board will bring fresh perspective as we continue to execute on strategic priorities and enhance value for our stakeholders.

Looking ahead, today, we are reaffirming our 2024 full-year operating earnings guidance range of $5.53 to $5.73, as well as our long-term earnings growth rate of 6% to 7%, which is underpinned by a $43 billion five-year capital plan, in addition to 14% to 15% FFO to debt target, which Chuck will expand upon shortly. You should know that I am committed to my role as Interim President and CEO, and I believe I can add value, while the Board works to identify a permanent successor.

So, before I turn it over to Peggy for regulatory updates and Chuck for a financial review, let me also acknowledge that 2023 has been at times a challenging year at AEP. There's certainly been some twists and turns and a few bumps in the road, but I would encourage all of you to focus on the key opportunities that lie ahead. I have tremendous confidence in our team's ability to achieve our objectives as we work every day to deliver safe, reliable, and affordable energies to our customer.

With that, I'll turn it over to Peggy.

Peggy I. Simmons {BIO 17724877 <GO>}

Thanks, Ben, and good morning, everyone. Now, I'd like to turn to updates on our ongoing regulatory and legislative efforts. While we made important regulatory progress in 2023, it is clear that we can do even more to facilitate successful and constructive outcomes. Detail of related activities can be found in the appendix on Slides 29 through 31.

Closing the authorized versus earned ROE gap is a key area of focus for us. Our fourth quarter ROE came in at 8.8%, a slight improvement over the third quarter. This also reflects impacts of approximately 40 basis points from mild weather conditions in 2023. Our efforts to improve and bridge the ROE gap is supported by work we've done related to the recent passage of legislation that will help position us to provide safe and reliable service, while managing costs and reducing regulatory lag.

Most importantly, we obtained securitization in Kentucky, a bi-annual distribution cost recovery factor or DCRF in Texas and rate reviews every two years in Virginia. On the regulatory front, we secured several important wins over the course of 2023, including achieving constructive base rate case outcomes in Louisiana, Oklahoma, and Virginia, reestablishing formula rate plans in Arkansas and Louisiana, and reaching a settlement in our Ohio ESP V filings, on which we're awaiting a commission order. Overall, in 2023, we secured $312 million in rate relief.

We also filed new base cases in Indiana, Michigan, and Kentucky in 2023. In Indiana, we have already reached a settlement, which we filed in December and we expect a commission decision by June of this year. In Michigan, we continue to advance through the process and currently expect a ruling in the case in July. In Kentucky, the base case and securitization application was approved by the commission earlier this year.

Other upcoming cases include a new Oklahoma base rate case for PSO, which we filed last month. Additional filings in the first quarter will include an AEP Texas base rate case and the APCo Virginia bi-annual rate review that should have the benefits of legislative changes attained in 2023. While we reached many constructive outcomes in 2023, we are disappointed in a couple disallowances recently received.

First, in Texas, the commission issued a decision disallowing capitalization of AFUDC related to our Turk Plant in mid-December 2023, and we filed a motion for reconsideration a week later. In West Virginia last month, the commission disallowed a portion of our March 2021 to February 2023 under-recovered fuel, and we recently filed an appeal with the West Virginia Supreme Court on February 8.

We are also disappointed with the FERC order we received in January 2024 related to treatment of accumulated deferred income taxes associated with net operating loss carryforwards or NOLC, mostly affecting our Transmission Holdco segment. We just filed for re-hearing on February 20. Shortly, Chuck will discuss the related unfavorable net financial impact to 2023 operating earnings.

Looking ahead, we know there's more work to be done as we advance our regulatory strategies in 2024 to achieve our forecasted regulated ROE of 9.1%. We are well on our way this year with almost 70% of rate relief either secured or related to mechanisms that are more administrative in nature. We look forward to continuing to engage constructively with our regulators and strengthening relationships at all levels. As Ben mentioned, this year, AEP continued to advance our five-year $9.4 billion regulated renewables capital plan and now have a total of $6.6 billion approved by various state commissions. More detail of resource additions can be viewed in the appendix on Slides 32 through 34.

As previously disclosed, we received approval for APCo's 143 megawatts of wind generation, totaling more than $400 million of investment. This is in addition to the previously approved 209 megawatts of solar and wind projects for approximately $500 million. In 2023, we also received commission approval in both Indiana and Michigan for I&M's 469 megawatts of solar projects, representing $1 billion of investment. PSO's 995.5-megawatt renewable portfolio for $2.5 billion, and SWEPCO's 999-megawatt renewables for $2.2 billion.

Our fleet transformation goals 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 in Kentucky, 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 and the production tax credits that are generated from our renewable energy projects are passed along to and provide great value to our customers.

In addition to these projects, AEP is advancing an additional $27 billion in investments in our transmission and distribution systems to support reliability and resiliency. These combined investments underpin our 6% to 7% EPS growth commitment, while mitigating customer bill impacts.

With that, I'll pass it over to Chuck to walk through the performance drivers in detail supporting our financial commitments.

Charles E. Zebula {BIO 6231994 <GO>}

Thanks, Peggy, and good morning to everyone on the call. I'll walk us through the fourth quarter and full-year results for 2023, share some updates on our service territory load, our outlook for this year, and finish with commentary on credit metrics and liquidity.

Let's go to Slide 9, which shows the comparison of GAAP to operating earnings for the quarter and year-to-date periods. GAAP earnings for the fourth quarter were $0.64 per share compared to $0.75 per share in 2022. For the year, GAAP earnings were $4.26 compared to $4.51 in 2022. As we have highlighted throughout 2023, our year-to-date comparison of GAAP to operating earnings reflects the gain or loss related to the sale of certain businesses, regulatory outcomes, as well as our typical mark-to-market adjustments as non-operating. Our team is committed to minimizing the variances between GAAP and operating earnings as we go forward. Detailed reconciliations of GAAP to operating earnings are showed on Slides 16 and 17 of the presentation today.

Let's quickly cover the fourth quarter. Our fourth quarter earnings came in at $1.23 per share, which was an $0.18 improvement over the same period in 2022. Note that we had $0.25 of favorable O&M and strong performance in our Generation & Marketing segment, partially offset by $0.06 of unfavorable weather, $0.09 of higher interest cost, and lower performance in Transmission Holdco. December weather in particular was the 28th warmest out of the last 30 years. For reference, the full details of our fourth quarter results are shown on Slide 15 of the presentation.

Let's have a look at our full-year results for 2023 on Slide 10. Operating earnings were $5.25 per share compared to $5.09 per share in 2022. Looking at the drivers by segment, operating earnings for Vertically Integrated Utilities were $2.47 per share down $0.09, mostly due to unfavorable weather, higher interest expense and higher income taxes. These items were partially offset by rate changes across various operating companies, increased transmission revenue, higher normalized retail load, favorable depreciation, and lower O&M. Once again, depreciation is favorable at the Vertically Integrated segment, primarily due to the expiration of the Rockport Unit 2 lease in December 2022.

The Transmission and Distribution Utilities segment earned $1.30 per share, up $0.14 from last year. Positive drivers in this segment included increased transmission revenue, rate changes in Texas and Ohio, and lower O&M. Partially offsetting these items were unfavorable weather, higher depreciation, and higher interest expense.

The AEP Transmission Holdco segment contributed $1.43 per share, up $0.11 from last year. Positive investment growth of $0.09 and favorable income taxes of $0.05 were the main drivers in this segment. As Peggy mentioned, we received the FERC NOLC order in January, resulting in an unfavorable net impact to consolidated earnings of $0.07 per share with the majority of that impact occurring at the Transmission Holdco. The impact of this order to our 2024 plan is approximately $0.03 per share.

Generation & Marketing produced $0.59 per share, up $0.09 from last year. The positive variance here is primarily due to improved retail and wholesale power margins, the sale of renewable development sites, and favorable impacts associated with the Contracted Renewable sale in August. These items were partially offset by higher interest expense and unfavorable income taxes.

Finally, corporate and other was down $0.09 per share, driven by higher interest expense, partially offset by a favorable year-over-year change in investment gains, largely due to investment losses that occurred in the fourth quarter of 2022.

As we mentioned earlier, we are reaffirming our guidance range for 2024. For convenience, we've included an updated waterfall bridging our actual 2023 results to the midpoint of our guidance this year in Slide 24. While some variances change due to last year's actual results, there's no change to our segments or overall guidance.

Turning to Slide 11, I'll provide an update on weather normalized load performance. Overall retail load grew 2.5% in 2023. This was stronger than the 0.7% in our original guidance, thanks to an acceleration in data center growth and our commitment to economic development across our service territory. This is most apparent when looking at the incredible expansion in commercial load, shown in the upper right-hand quadrant of the slide.

Commercial sales grew 7.8% for the year and were again dominated by data centers. We are encouraged that the gains are becoming more geographically diverse. New projects have come online in Michigan, Kentucky, and Oklahoma to supplement the development of what we see in Ohio and Texas. This is a trend we expect to continue over the next several years as the global demand for data storage and processing accelerates through the growth of AI and other technologies. We expect commercial load to continue to grow from its new higher base this year as projects work their way through the queue and commitments for 2025 are exceptionally robust. I believe that some of the 2025 load is going to accelerate and bleed into this year.

Industrial sales grew at 1.6%, which you can see in the lower left-hand quadrant of the slide. This is mostly attributable to a number of large industrial loads we've recently added across our service territories, which are more than offsetting any economic challenges seen by our existing customers. We expect industrial load growth to continue to reflect the softness in manufacturing nationally with only a modest increase this year. However, growth in industrial sales beyond this year should accelerate as borrowing costs moderate and several large loads currently under construction come online.

In the upper left-hand corner of the slide, you'll see that residential load declined slightly in 2023. Usage per residential customer has declined for the past two years as homes have become more energy efficient and workers spend more time in an office instead of at home. The negative impact of inflation on household budgets may be influencing usage as well. On a positive note, we've seen our residential customer base grow consistently in certain regions. In 2023, we added almost 31,000 net new residential customers across our footprint, resulting in a positive offset to this segment.

Overall, we're optimistic about the positive trends in load over the next several years, especially from a commercial and industrial perspective. Our conservative approach to estimating large loads gives us a lot of confidence in the growth we forecasted. In our next update, however, I would expect to see some upside in this area.

Let's move on to Slide 12 to discuss the company's capitalization and liquidity position. In the top-left table, you can see the FFO to debt metric stands at 13.2% for 2023. Positive changes in FFO were as outlined on the third quarter call, and included favorable changes in cash collateral, fuel recovery, and other various drivers. These positive changes were somewhat offset by an $830 million increase in debt during the quarter, primarily due to the issuances -- issuance of long-term debt to pre-fund our March 2024 AEP parent maturity.

We are pleased that the team has overcome strong financial headwinds due to unfavorable weather and an unprecedented increase in interest rates to end the year above Moody's downgrade threshold of 13%. We expect our FFO to debt metric to continue to improve throughout 2024 as we progress towards our targeted range of 14% to 15%. This continued positive trend assumes normal weather for 2024 and continued growth in our cash flows through various regulatory activities, including recovery of our deferred fuel balances of approximately $425 million.

Our debt-to-cap increased from the prior quarter by 60 basis points to 63%, and our parent debt to total debt is approximately 21.7%. In the lower-left quadrant of this slide, you can see our liquidity summary, which remains strong at $3.4 billion and is supported by our bank revolver and credit facility. Lastly, on the qualified pension front, our funding status remains unchanged from the prior quarter to end the year at just over 100%. While falling interest rates increased the liability during the quarter, this increase was offset by positive asset returns.

Turning to Slide 13, I'll give a quick recap of today's message. We delivered on our commitments for 2023 despite the significant challenges we faced. Weather was one of the most mild years on record for the AEP system in the past 30 years, resulting in a negative $0.37 impact year-over-year and $0.21 versus normal weather. To put a little more context to those numbers, our heating degree days were down 36% compared to normal across the system.

Also, interest expense was a $0.45 hurdle to overcome versus 2022 results. We worked diligently throughout the year to reprioritize and balance our plan by adjusting the timing of discretionary spend, while staying focused on meeting our core business needs. While admittedly facing some challenges on the regulatory front, we secured many rate outcomes that were critical in supporting our objectives to provide reliable service to our customers.

Looking into this year, we are optimistic about the opportunities and prepared to face any challenges ahead of us. We reaffirm our guidance for 2024 of $5.53 to $5.73 per share, our long-term growth rate of 6% to 7%, and an improved balance sheet, while continuing to implement our capital program, taking care of the customer, earning our authorized return, and executing on our strategic priorities.

I would like to take a moment and thank Julie Sloat for her 23 years with AEP. Julie has made a positive impact on AEP and will be missed by many. Ben, we welcome you to the AEP management team. Your leadership in the industry is well respected and you will be embraced by the employees of AEP. The entire management team looks forward to working with you and the Board as we look to enhance value for all AEP stakeholders.

Thank you for your time today. Operator, can you open up the call for questions?

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question will come from the line of Shar Pourreza with Guggenheim Partners. Please go ahead.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, guys. Good morning.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Good morning.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning. So obviously, the slides are leaning on the successes of AEP. You've reiterated your earnings guidance, balance sheet targets, growth rate, CapEx numbers. I guess, outside of some management shuffling, what do you see as broken? I guess, what's the goal of the review? What's on the table? What's off the table?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, this is Ben, and I can tell you that I don't think I would use the word broken. I think there's areas where we can do better. I think -- and I think we showed you in the script many of the accomplishments we made, but we also recognize that we can do better on getting constructive regulatory outcomes.

So, strategically, our priorities remain the same. We have completed, as we mentioned, a review of Transource. We want to keep that asset. We think it's a great asset. And I think given the various changes that FERC is looking at, I think it gives us a lot of optionality. We'll continue to be very disciplined portfolio managers. I said it on my scripted remarks, but always willing to transact where price and the ability to execute intersect, and that's our key point.

And finally, though, if you step back, I think one of the ways you add value in this industry long-term is by placing CapEx at 1x book, investing in CapEx at 1x book and getting constructive recovery of that. And again, we've done pretty good on that, but we can do better. So we're going to look at the people, the process, and the planning that goes into that, those constructive outcomes. And we're going to do it through the lens of what's important to our local leaders and stakeholders.

Extremely important that we keenly listen to what they want and what they need at a local level. And I think you can translate that then to a much better chance for success. And then you get into that virtuous circle where invested capital not only is good for customers and the community, but good for shareholders as well. So that's the plan going forward.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

And do you believe -- so Ben, did this -- do you believe there's some jurisdictions that AEP currently operates where you may not be able to hit those sort of targets as you're thinking about people, process, et cetera?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, I think there's areas where we have improvement, but I will turn it over to Peggy and/or Chuck to elaborate on that.

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

I think as it relates from a regulatory perspective, I do think what we're going to do is continue to build on the constructive legislative and regulatory outcomes that we have had. We're going to further strengthen our regulatory relationships and we're really going to be keenly focused on execution. I think that some of the disappointments that we had in 2023, we're going to learn from them and we're going to go back out and focus on execution from that standpoint.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Perfect. And then just lastly for me, just as -- Ben, as you and the Board are sort of thinking about where AEP stands today, I guess, what are you looking for in the next CEO? Are you kind of looking for a prior CEO, a President of an APCo, someone with a finance background, regulatory background, internal, external? I guess, can you just maybe specify exactly what you're looking for in the next successor?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, it's definitely an external search. I'll start with that. And I don't want to narrow it down to any specific background, but ideally -- and by the way, I think we're going to get a very robust list of candidates. The AEP is a great company with great assets, and I think it's going to be an attractive destination for many, many talented people.

So, I think it's going to be great to pick from that talent. Ideally, you get a somebody that is a seasoned executive in the utility industry is well-known in the investor community. I think that's extremely important, has great leadership qualities. We've got a lot of talent at AEP and we want to develop that talent. And ultimately, it'd be ideal if they have multi-jurisdictional experience and the ability to achieve regulatory success. Those are -- that's a big wish list, but again, I think we're going to get a lot of great candidates.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Terrific. Thank you, guys. I'll pass it to someone else, and good luck on Phase 2. Appreciate it.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Thank you.

Operator

Your next question comes from the line of Jeremy Tonet with J.P. Morgan. Please go ahead.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Hey, Jeremy.

Operator

Jeremy, your line might be on mute.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

I just want to kind of continue along these lines if I could. And I was wondering if you're able to comment, I guess, on the recent agreement AEP announced with Icahn Capital and kind of how that ties into the change at the top here given the relatively short tenure. And just wondering, if there's anything else we should be expecting, I guess, along these lines looking forward with Icahn's recent announcement.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Yes. I really just will probably just rehash what we've said in press release and in our scripted remarks. I mean, the Icahn -- additional Board members came after discussions with the Icahn team and the AEP team. We actually welcome their perspective. They share the opinion, as we do, that AEP shares are undervalued, and we want to work together to unleash shareholder value.

Regarding Julie's departure, I mean, I really can't go into any more details than what we've already said. It was a full Board decision after discussions with Julie, and we decided that the best path forward is to transition to a new CEO. We're going to continue to work hard to deliver shareholder value. I think the Icahn Board members will give us a fresh perspective as we pursue those goals.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. And just as we think about the strategic path going forward at this juncture, are all options on the table or any options off the table? Just want to kind of see the parameters of what we could expect going forward.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, we really like the assets we have, okay. We've completed the strategic reviews, but I mean, the price -- we're going to continue to look for opportunities to do the right thing for our shareholders. But I think we're in an enviable position that the assets we have can also achieve our strategic goals.

And Chuck mentioned where we are with FFO to debt and those targets. So I think we're in a pretty good position, quite honestly. So again, as I said before, not to be redundant, but I guess, it will be. We'll be good portfolio managers and we'll continue to be open to transactions if the price is right and the ability to execute is viable. But in the meantime, we're going to do the blocking and tackling that in the long-term get you the results that you're going to want to see.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Wonderful. Very helpful. Thank you for that.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

You're welcome.

Operator

Your next question will come from the line of Nick Campanella with Barclays. Please go ahead.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Hey, good morning, everyone.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Hey, Nick.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Thanks for the prepared remarks and taking my questions. Good morning. So I guess, you acknowledged in your remarks there has been some twists and turns and some regulatory volatility in '23. You had some headwinds that you highlighted from the FERC order on taxes, the Oklahoma rate order, among a few other items. But just the 6% to 7% has been pretty resilient and unchanged this entire time. So, can you just maybe help us all understand just what's kind of allowing AEP to absorb these issues and where the offsets have been kind of in the five-year plan that allows you to continue to reaffirm?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, I mean, I'll kick it over to Chuck in a minute, but the $43 billion on a five-year capital plan underpins the 6% to 7%. In the years where we might have unfavorable weather or other things like that, that's the resiliency of this AEP management team that I talked about.

And it's not just one year, it's a -- look back, I mentioned 14 years of getting what we said we were going to do. Yes, sometimes you get regulatory bumps in the road and other things that might happen. But if you look back historically and if you look forward, we produce. I mean, we are in 11 jurisdictions, we're going to file rate cases. But if you look at history, we generally do pretty well. And when we have a bump in the road, we figure out how to absorb it and what we need to do better going forward.

Chuck, I don't know if you want to add to that.

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

Yes. No, Ben, as you said, as underpinned by the $43 billion five-year capital plan, I'd also point to what Ben made an observation as a Board member and in his opening remarks about our

O&M. There's a chart in our deck that you can refer to, right?

We've doubled the rate base of this company, while basically keeping O&M flat over that entire 10-year period. I think that's a remarkable accomplishment, and that's our plan going forward as we continue to grow this company and basically repurpose and reallocate O&M.

I also talked in my remarks about the load opportunities. I tend to kind of take a measured approach to this, but we really are optimistic about the opportunities that we're seeing there. As I said, the commercial load growth is just amazing, and we're seeing some good opportunities in economic development activities in industrials as well.

And then lastly, of course, underpinning that plan is improved returns, right? We are not earning where we need to earn, and we need to have the regulatory execution and prudency review to make sure, right, that we are hitting the mark there. So I think all in all, that kind of underpins the plan going forward.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Got it. And definitely appreciate the comments on diversification and the size of the overall plan as well as the O&M. Thank you for that. And then I guess, just sticking with this 6% to 7% CAGR, is there any kind of shaping to that over the five-year plan? Is there anywhere that you kind of see yourself in that range right now? And then as we kind of think about a new CEO coming in, hopefully in the back half of this year, is it your expectation that they would come in to embrace that plan or would they have more say in where they're taking the company? Thank you.

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

Yes. So I'll take the first question. Our five-year plan is really based off the midpoint of the current year's guidance. And our plan is to grow basically on that midpoint between the 6% to 7% range with no real kind of ups and downs identified through there.

I'll let Ben answer the second --

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

I mean, I think, first of all, we'll take our time and we'll find the absolute best successor, permanent successor that we can. I think as part of that process, we obviously will have the strategic discussions. I mean, I think the Board is very comfortable with our strategy and our strategic priorities. I suspect that the ultimate permanent successor CEO will also be comfortable with those strategies and perhaps can figure out a better way to execute on them. That would be the goal, but we're not looking at a complete redismantling of our strategic priorities.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Thanks a lot for answering the questions today. I appreciate it.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

You're welcome.

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

Thank you.

Operator

Our next question will come from the line of Carly Davenport with Goldman Sachs. Please go ahead.

Q - Carly Davenport {BIO 21913922 <GO>}

Hey, good morning. Thank you for taking the questions. A bit of a shift on the asset sale program, I guess, in terms of the decision to retain the transmission JV. So, could you just talk a little bit about the rationale there? And how we should think about your view on transmission as part of the portfolio or potentially as an area of sort of value monetization going forward?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, I mean -- and I'll let Chuck -- this is Ben. I'll let Chuck augment what I'm going to say, which is pretty much what I said before. Transmission is a great asset and we are obviously the largest transmission provider in the United States and we like that position. We will be open to things that make sense that would do even better for shareholders. But we don't feel compelled. We have to do anything. So I think that puts us in a better position as we move forward.

Chuck, I don't know if you want to add to that, but --

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

Yes. I think we're also referring maybe to Pioneer and Prairie Wind and our decision to keep those assets, the reality is, right, these contributed earnings to AEP, their attractive returns, and overall, it was really insignificant, right, to our overall financing plan if we were planning on selling those assets.

So, it really goes back to the root of Ben, what Ben said, is we reviewed the opportunities before us in competitive transmission and then looked at other transmission assets that we have. We're embracing it. It's time for us, as the leader in transmission to continue, right, to lead that space and that's what we plan to do.

Q - Carly Davenport {BIO 21913922 <GO>}

That's helpful. Appreciate that. And then Chuck, probably for you, just a little bit of a shift in tone around the FFO to debt metrics as well for '24. Can you just talk about what we should expect relative to that 14% to 15% range for 2024 on FFO to debt? And what the moving pieces are that you're kind of watching that could move you outside of that range?

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

Yes. So, I -- thank you for that question. And our message has changed a bit there on the timing. But what I would tell you is really kind of timing is not what is most important. It's really the trend that we're on, and then it's hitting the mark of 14%, and it's the sustainability on staying in that range as we go through the five-year plan.

So let me comment on a couple things, right? We said we would be above 13% by year-end and we were. And we didn't make any excuses for the soft weather that happened in 2023. Note also that 13% is the downgrade threshold at Moody's. And second, right, the trend is very positive, right? This quarter, we're going to have another roll-off of cash collateral in Q1. I think the number is around $390 million that will come out of the 12-month average and also, we are working on our -- on down our deferred fuel balances.

And then lastly, right, we clearly show our models and review those with the agencies. Those models indicate that we will be in the range this year and be in the range over the longer-term. That's what's most important, right, hitting the mark, trending in that positive direction, and staying in the range. So again, the timing, which month or which quarter, is not important. It's the three things that I mentioned earlier.

Q - Carly Davenport {BIO 21913922 <GO>}

Got it. Thanks very much for the time.

Operator

Your next question comes from the line of Ryan Levine with Citi. Please go ahead.

Q - Ryan Levine {BIO 19520640 <GO>}

Good morning.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Good morning.

Q - Ryan Levine {BIO 19520640 <GO>}

Given the focus on people and processes, how long do you view the company's review of its regulatory strategy to take? And in that context, how is the new review different from how AEP has reviewed its regulatory strategy historically?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, I'm going to turn it over to Peggy, who's the point on that, but this isn't like this is something we're just initiating. This is something that I've heard discussed that as a Board member at the Board level. It's something I'm going to get very much involved in with Peggy.

We've got a good team, but we're going to have to -- we'll make sure that we do what we need to do to get better outcomes in the future. And I mean, there's a lot of blocking and tackling that really behind the scenes stuff that goes into the actual processing, executing, and planning of a rate case and it's -- it gets really down in the weeds pretty quickly, but those things add up.

So, Peggy, I'll turn it over to you.

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

Yes. I would just add in looking forward to working with Ben and talking through the regulatory strategy, we've had positive regulatory outcomes in 2023. And we shared some of those earlier, there was some disappointments that we highlighted, but I would bring forth the legislative work that we have done and that's going to help to address lag.

We've done work that's going to help to remove some of the lag in Virginia with our biennial rate review for Virginia, where it was three years before. We're going to also look at improving on. We said with Kentucky, that it was going to be a two-step process. And we very much view that we had a constructive outcome in the order that we received earlier in January with the securitization. So we're going to continue to build upon that. I agree, we do have a talented team, and we're just going to keep moving forward. And I look forward again, as I said, to working with Ben on ways we can continue to improve there.

Q - Ryan Levine {BIO 19520640 <GO>}

Great. And then unrelated, where do you see the biggest opportunities to benefit from the data center built out in your service territory? And given your balance sheet constraints, do you have any reservations or concerns around that opportunity?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

The biggest opportunities so far have been in Ohio and Texas and in our forecasts for our five-year plan we have included, the capital needed to serve those customers. If there is incremental growth beyond that, it would be an opportunity that we have to evaluate and figure out how we would smartly finance it.

Q - Ryan Levine {BIO 19520640 <GO>}

Great. Thanks for taking my questions.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

And meet the generation needs that come with it. Yes.

Operator

Your next question comes from the line of Anthony Crowdell with Mizuho. Please go ahead.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, good morning, Ben. Good morning, Chuck.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Good morning.

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

Good morning.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Just hopefully, two easy ones, one for you, Ben, one for Chuck. Just Ben, I don't know what kind of insight you can provide, but just if I think about the 1% position that Icahn had taken, and it seems that there's been some major changes in the Board, I didn't think that would be a big position that yet. I think two voting seats and then a non-advisory seat. Just thoughts on what change in the Board that may be to expand the Board.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, I mean, you're right, there's like -- I think there's 5.3 million shares that something like that Icahn holds. And we had discussions with Icahn and we settled on the two incremental Board seats and the advisory position. I think back to Julie, I'll just repeat what I said. This was a full Board decision after discussions with Julie and the Board, and we determined it was best for AEP to transition to a new CEO. So, you can read what you want into that, but I think I'm just going to just keep it as it is. It's a full Board decision, and you need the full Board to make a decision to remove a CEO.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And then Chuck, two quick ones. It looks like the equity timing had moved. I understand your questions to Carly earlier on. You are targeting 14% to 15%, but above the 13% threshold, but I think the equity maybe slid off of the near-term. And then lastly, on earned returns, what type of improvement could we expect each year? And I'll leave it there.

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

Okay. Thanks, Anthony. Our equity needs haven't changed since EEI. You maybe referring to maybe an older forecast we had, some months back. But what you're seeing in our deck today is consistent, right, with what we've shown at EEI.

I'll let Peggy go ahead and mark -- talk about the returns.

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

Yes. As it relates to for 2024, our ROE, we're projecting a 9.1% is what we're -- for our regulated segments. And we're going to continue to work on closing the gap. A lot of what I've already said earlier, just kind of building off of some of those legislative successes that we were able to have, reducing some of the lag from that perspective.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my questions. Appreciate it.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Thank you.

Operator

Our next question comes from the line of Sophie Karp with KeyBanc. Please go ahead.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning. Thanks for taking my question.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Hi, Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Just a quick one for me. I guess, like when you think about your jurisdictions, right, and the ones where you've got constructive outcomes regulatorily and the ones where you've got non-constructive outcomes. And how should we think about you allocating this increase in capital across these jurisdictions? Like, is there a strategy there to proactively reduce capital allocations to jurisdictions where your earned ROE just don't make a hurdle for what's attractive?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

I'm going to turn it over to Peggy and Chuck in a minute, Sophie, but I mean, we're always going to look to put capital where we can get the best returns. There's baseline capital that you need to do to make sure that you never compromise resiliency, reliability or safety. So we -- but apart from that, I think it gets back to what I said. It's listening to what those local jurisdictions really want and need, and that can also shape your capital needs, because quite frankly, it can shape your regulatory outcomes.

So, I turn it over to the team if they have anything to add to that.

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

Yes. I do want to echo -- I would just say -- yes, I echo Ben's comments there on, there's a certain amount of capital we need to continue to be resilient and meet the reliability needs of our customers, and as well as from a safety perspective. Those where we have really constructive outcomes. Clearly, we know in I&M, we have the forward-looking test years. We're able to continue to have that capital that's allocated there to meet what those needs are, and we just continue to look at what our outcomes are by jurisdiction.

Q - Sophie Karp {BIO 19699392 <GO>}

Okay. And then maybe as going back to data centers, right? Do you see more attractive opportunities around incremental generation to support those customers or the T&D investment?

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

Yes. In Ohio and Texas, right, we're -- those are deregulated states. In our Indiana, Michigan territory, clearly there would be opportunities for generation there to serve those customers.

Q - Sophie Karp {BIO 19699392 <GO>}

Okay. Thank you.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Thank you.

Operator

Our next question comes from the line of Paul Fremont with Ladenburg. Please go ahead.

Q - Paul Fremont {BIO 1745706 <GO>}

Thank you very much. I guess, first question would be on the '24 guidance. Does that continue to include contribution from the retail and the distributed resources as was sort of outlined at EEI?

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

Yes. Our EEI guidance, right, we kind of changed the waterfall based on the actual, right? But what's in or out hasn't changed, Paul. As Ben mentioned we're in the process that we plan to conclude here in the next several months on the retail and distributed businesses.

He also mentioned that we're closing on NMRD today, which there'll be a benefit from that sale coming through. But no, everything is underpinned. Remember too, when you look at the waterfall, we took the Generation & Marketing segment down to what we call much more normal contributions. I'm not concerned about the ability to take the proceeds, use them as appropriate and to get that accretion as we go forward, but no, it's still the same plan, if you will, as we put out at EEI.

Q - Paul Fremont {BIO 1745706 <GO>}

And then Chuck mentioned that the FERC decision is expected to have a $0.03 negative impact on '24. Is that going to be treated as operating EPS or is that going to be excluded as non-recurring?

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

No, it's operating.

Q - Paul Fremont {BIO 1745706 <GO>}

And then I guess, the last question I have is currently there's a proceeding in Kentucky where, I guess, there's recommendations for potential disallowance of fuel and purchase power costs. I think there's also a fuel review that could take place or may be taking place in Louisiana. Can you give us, I guess, an update on what your expectations are and what's happening in those proceedings?

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

Yes. In Kentucky, we do have a two-year fuel review that has been underway and we're awaiting the outcome as it relates to that. We had a hearing earlier this month actually. And then from -- excuse me, what was your other question? Was it related to SWEPCO?

Q - Paul Fremont {BIO 1745706 <GO>}

Yes. I think as part of the settlement on the renewables, there was, I guess, the ability of staff to do a review of the fuel there.

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

Yes. That was part -- excuse me, sorry, go ahead, finish your question.

Q - Paul Fremont {BIO 1745706 <GO>}

No, that's it.

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

Yes. That was part of the review and that is ongoing as well. So -- but Darcy can definitely give you some more information on that if that wasn't clear enough.

Q - Paul Fremont {BIO 1745706 <GO>}

And last question for me. In terms of the 9.1% that you're targeting for this year, I think what type of an improvement do you see as being necessary in order to hit the 6% to 8%? I think in the past, you've talked about needing to improve the earned ROE as part of hitting your targeted growth rate.

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

Yes. So, over our five-year plan, we look to be typically to be in a 9.5% rate. So what we're looking to do is increase by 10 basis points each year, and we think that that's achievable. And we continue to work through our regulatory outcomes to be able to close that gap.

Q - Paul Fremont {BIO 1745706 <GO>}

Great.

Operator

(Operator Instructions) And your next question will come from the line of Paul Patterson with Glenrock. Please go ahead.

Q - Paul Patterson {BIO 1821718 <GO>}

Hey, good morning.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Hey, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

How are you?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Good.

Q - Paul Patterson {BIO 1821718 <GO>}

So just it doesn't sound to me like there really is much of a change in strategy with the new chapter and the managerial change that you're looking at. Am I thinking about this correctly?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Yes. I think so. The strategy is great. We just have to execute and that's what we're keenly focused on, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. I just want to make sure I'm hearing. And then the second thing that I guess -- and I think this was asked before, but is there any timing that we should be thinking about in terms of when a new CEO would be in place?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Well, let me just say I'm committed to stay as long as it takes, so no shortcuts. But I can't see it being shorter than six months, and hopefully it doesn't take more than a year. But again, it's going to -- the process will take the time it needs to take to get the absolute right candidate in place.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then finally, when we're talking about regulatory desires and goals, having watched the various jurisdictions, there are a number of jurisdictions that I get the sense, and this isn't going to surprise you, Ben, but they want lower prices. And I'm just wondering, is there any sort of new or innovative way you're looking at the regulatory approach in terms of addressing maybe those concerns, increasing investment, but addressing those two concerns, other than obviously the general concern that I'm sure you guys have. But do you follow what I'm saying in terms of making investments and perhaps not seeing the resistance that, I think if you look at a number of the AEP jurisdictions that there just is to new investment leading to higher rates? Do you follow what I'm saying?

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Yes. I mean, I think -- I mean, I'm going to turn it over to the team, Paul, but the amount of load growth that we see in our jurisdictions. I mean, that's a great opportunity, economic development that we can be a big part of, either helping to drive it or certainly providing the infrastructure to allow it. Those are great opportunities. And that's -- everybody wants that in all jurisdictions. But again, we're going to very carefully listen to what our jurisdictions want and need and respond accordingly.

Peggy or Chuck?

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

Yes. And I'll just briefly add to that. In 2023, we landed 92 new customer load additions totaling about 5 gigs and adding additional jobs to our service territory. So I think that, that's certainly one area and aspect of how we're going to help with affordability as well.

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

Yes. And Paul, clearly, the data center load that we're experiencing is going to create an opportunity, right, to spread fixed costs, right, along a bigger base and improve the headroom opportunity there as well.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great, and I appreciate it, and good to see you back then hopeful as well.

A - Benjamin G.S. Fowke III {BIO 6023982 <GO>}

Thank you. Thank you, Paul. Appreciate that.

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. Regina, would you please give the replay information?

Operator

Today's conference will be available for replay beginning approximately two hours after the conclusion of this call and will run through 11:59 p.m. Eastern Time on March 5, 2024. The number to dial to access the replay is 800-770-2030, and for international callers, 647-362-9199. The conference ID number for the replay is 9066-570. This concludes today's conference call. Thank you all for joining. You may now disconnect.