Q2 2018 Earnings Call

Company Participants

- Bette Jo Rozsa, Managing Director, Investor Relations
- Brian Tierney, Executive Vice President and Chief Financial Officer
- Nicholas Akins, Chairman, President and Chief Executive Officer.

Other Participants

- Ali Agha, Analyst, SunTrust
- Angie Storozynski, Analyst, Macquarie Capital
- Anthony Crowdell, Analyst, Jefferies
- Clara Sapoznik, Analyst, Merrill Lynch
- Paul Patterson, Analyst, Glenrock Associates
- Praful Mehta, Analyst, Citigroup
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the American Electric Power Second Quarter 2018 Earnings Call. At this time, all participant lines are in listen-only mode. Later, there will be an opportunity for your questions and instructions will be given at that time. (Operator Instructions) As a reminder, this call is being recorded.

I now like to turn the conference over to Ms. Bette Jo Rozsa. Please go ahead.

Bette Jo Rozsa {BIO 16484334 <GO>}

Good morning, everyone and welcome to the second quarter 2018 earnings call for American Electric Power. Thank you for taking the time to join us today. Our earnings release, presentation slides and related financial information are available on our website at aep.com.

Today, we will be making forward-looking statements during the call. There are many factors that may cause future results to differ materially from these statements. Please refer to our SEC filings for a discussion of these factors. 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 Akins {BIO 15090780 <GO>}

Thanks, Bette Jo. Good morning, everyone, and welcome again to AEP's second quarter 2018 earnings call. We just completed a very healthy second quarter financially, primarily due to weather, a continued strong economy in the regions of the country that we serve and further resolution of rate-making activities. And of course, we are not complete yet, further approvals occurring -- have occurred regarding Wind Catcher that I'll cover later. The weather has been a significant story for the quarter. In a nut shell, second quarter was bipolar with no spring. This further prove that we did not have a spring this year to get this, it's almost like a brain teaser.

The second quarter, 2018 was the fourth coldest second quarter and the second warmest second quarter in the AEP system in nearly 50 years. Because winter went well into April, then summer came early in May, so we benefited from that -- from both angles. Additionally, regarding the economy in the service territory, the AEP service territory economy and low performance continues to be a strong as it has been in years. Brian will be covering the weather and economic information in more detail later.

With that said, we are reaffirming our guidance for the year of $3.75 to $3.95 per share and or 5% to 7% growth rate. And as we have said previously, this base plan does not include Wind Catcher. We are also today giving our first signal of 2021 capital budgets assuming no Wind Catcher to reinforce that our investment thesis has a foundational benchmark is and has been our continue guidance that reflects a long term 5% to 7% growth rate.

Getting to the financials for the quarter, we had strong earnings for the second quarter 2018 with a $1.7 per share GAAP and a $1.1 per share operating, versus $0.76 a share GAAP and $0.75 a share operating respectively in 2017. So overall, a great quarter. This brings year-to-date earnings on a GAAP and operating basis to $2 per share and a $1.97 per share respectively, versus year-to-date 2017 earnings of $1.97 GAAP and $1.72 per share, operating. So overall, a strong quarter and a strong year so far.

Concerning the regulatory update, I'm sure many on this call want to hear about our thoughts on Wind Catcher. First, I'm pleased with the Arkansas, Louisiana and FERC approvals we have achieved thus far. The focus now is almost entirely on Texas and Oklahoma to complete the regulatory approvals necessary to continue towards financing and construction. We heard both commissions register their concerns about appropriate customer protection related issues, land owner considerations in Oklahoma, needed time to review and render thoughtful decisions and employment related information benefiting each day.

Most of these issues were also considered in the other state jurisdictions as well, and these values were recognized in the various state approvals, as well as settlements with the parties. AEP, PSO and SWEPCo from the very beginning have worked extensively to evaluate the risk of the project, our shareholders and our customers to deliver the important benefits of lower customer bills, valuable hedges on future energy prices and diversity of supply, while achieving substantial economic benefits to the states involved with this project.

0:04:36 Walker, and the other Commissioners in Texas asked us to review our customer protections in relation to other outcomes in a previous case involving XL [ph] and SPS and had questions regarding employment from a Texas perspective supporting the project.

We responded with a letter detailing side by side comparisons of not only the customer protection mechanisms with the previous SPS order, but also the additional whole 0:04:59 provision items that are guaranteed for the Arkansas, Louisiana and Oklahoma settlement and the outcomes. As in the other state jurisdictions we discussed the substantial employment and economic development benefits of this project as well. These provisions go well beyond any assurances provided for other types of generation, such as natural gas.

Additionally, our letter indicated that in response to concerns in Oklahoma and Texas regarding the timing required to review the case by the commissioners, we negotiated with our supplier partners a further four week time delay until the end of August to accommodate further consideration. The letter indicates our position on the deal parameters in response to commission concerns, as well as indications of the necessary timing for a decision.

I just want to be clear, this letter is meant to be supportive and responsive to commission concerns. This is necessary because we at AEP are bound by externalities that we have limited or no control to drive the need for a decision to move forward. Namely, time to construct the project, to deal with right-of-way landowners in a flexible fashion as possible to minimize potential combinations and to obtain full value of the PTCs to meet our customer guarantees and produce substantial benefits to our customers. This project started with the degree of excitement, primarily driven by our view from a strategic sense of what we can do to minimize what we call percentage of pocketbook impacting our customers.

We recognize that if we can spend capital to reduce customers' bills, it's a win-win that will not only defined the utility of the future, but ensure that we remain relevant to our customers. We are not bound by the coal lobby, the natural gas lobby or the renewables lobby. We are committed to a diverse energy portfolio that provides inherent risk management benefits to our customers. And in the case of Oklahoma, as the state of Texas is done with the CRES build out, the importance of this project is to ensure that all resources, including natural gas and renewables, indigenous of the state can produce diversity of supply and economic development benefits for the states that we are proud to serve.

We have another hearing before the Texas Commission tomorrow and we stand ready to answer any questions that the commissioners may have, and Oklahoma is contemplating its order as we speak. AEP believes the multiple negotiations and commission feedback received in these states, we have struck a balance between our shareholder, our customer and the state interest impacted by this important project and we look forward to an ultimate resolution by the end of August. Because football season is on, so I'm using a football analogy, we're deep in the red zone with time running out, third down with two plays to go needing a touchdown with both plays already called. They're called Texas and Oklahoma, get you beer and chicken wings for an exciting month ahead.

From a shareholder perspective, there have been questions regarding the time limit for a decision and the risk the company is willing to take on the Wind Catcher project. Certainly there are parameters that can be dealt with around the edges, but the deal structure and timing are embodied in the letter to 0:08:05 Walker and was also sent to the Oklahoma Commission.

We need some consistency in the approach and communications to both of these commissions to bring the decision-making to a common view. We will certainly lay out with the outcome that emerges from both the Oklahoma and Texas commissions and we will know -- we gave it our best shot with this very unique and ingenious project regardless of outcome.

Certainly we would like Wind Catcher to be approved in move forward, but to reiterate the foundation, this company remain solid and our growth plans continue to support a 5% to 7% growth rate trajectory regardless. Our investors can count on the constant earnings and dividend growth that they have come to expect from a premium regulated utility.

Brian will introduce our 2021 capital plan that further demonstrates our commitment to this growth rate. We at AEP nor others can predict what these two commissions will do to answer the question of whether AEP can move forward with Wind Catcher, but we'll know soon, we'll know soon by the end of August. And as Bob Dylan said, the answer to my friend is blowing in the wind.

Now, let's move to the equalizer chart. So as we go through the various states, overall, our regulated operations ROE is approximately 10% versus 9.5% last quarter. Overall, we generally project the ROE to be around that 10% range, given our geographic diversity. Some companies will be up, some will be down, but as we demonstrated by our historical performance we are generally in that 9.5% to 10% range.

Furthermore, as we noted on the slides, we certainly have five states, five rate cases that we recently completed, there is one in process which will help some of the underperforming companies. So I guess, as we go through these individual companies looking at AEP Ohio, the ROE for AEP Ohio at the end of the second quarter 2018 was 13.8%. Keep in mind, that includes some legacy items that are included from previous activities associated with the regulations occurred before. Those roll out primarily by the end of the year with a small portion going into next year. So we show this, the 13.8 overall with those legacy items, but the actual return on equity is 12.1% for Ohio.

Moving to APCo. The APCo ROE at the end of 2018 was 9.7 and APCo's improvement is primarily due to weather. West Virginia is earning in the high 7% range and that's why we have a rate case that's been filled for a rate increase of 115 million with rates effective in March of '19 in that state. Of course, Virginia still -- we have established tri-annual rate reviews, AEP's first review for APCo Virginia will be in 2020. And I'll cover the 2017 to '19 timeframe.

Moving to Kentucky. The ROE for Kentucky at the end of the second quarter 2018 was 8.7%. Their rate case is complete, helping drive the turnaround along with better than normal weather conditions for the first half of the year. We expect to earn near the authorized return by the end of the year in Kentucky. And of course, there continued long-term strategic plan is around economic development in that region, and certainly our present there has had a lot of success in moving that process forward, so we expect big things there.

I&M achieved a ROE of 11.9% at the end of the second quarter 2018. I&M had a positive start to 2018, primarily driven by strong sales in all segments, favorable weather, discipline OEM spending and favorable one time true-ups associated with regulatory item. So I&M continues to spend capital, of course, at nuclear station and in distribution transmission. So -- and certainly their base rates went into effect in both Michigan and Indiana jurisdictions as result of the last rate cases.

PSO, the ROE for PSO at the end of the second quarter was 6.5%. PSO's earned ROE has been slightly boosted by positive weather, but we still are challenged based on regulatory lag in that state. So, we'll be following another rate case in Oklahoma in the third quarter of 2018 to help address this regulatory lag and other matters.

As far as SWEPCo is concerned, the ROE of SWEPCo at the end of the second quarter was 6.8%. The primary reason for the increase is improved weather over last year. Results also reflect a full quarter of rate relief implemented late last year, last year in May in our Louisiana and Texas jurisdictions. And of course, the ROE continues to be burdened by the overall -- by the Arkansas, what was the Arkansas share of the Turk plant the 88 megawatt at Turk and we continue to look for home for that.

AEP Texas, the ROE there is -- for the second quarter was 9.5%, while earnings have grown year-over-year. The reason for the declining ROE is due to timing of annual TCOS filings filings as we continue to make significant transmission investments along with some timing related to O&M spend. So, still of very good -- very good opportunity there in AEP Texas.

AEP Transmission holdco. The ROE there is at 11.2%, it's lower than first quarter ROE as a result of 12 month rolling income calculations, so the second quarter 2018 had a smaller true-up reflecting the new formula rates that are now in the process of being implemented.

So, that's -- overall, things are going pretty well from a ROE perspective. We continue to work on and seeing the results of the five rate cases that we had filed last year. And of course, we have one going on now and one pending, so we'll continue with that approach to ensure that we continue to manage around that 10%.

So, second quarter and year-to-date have moved along possibly. On the third quarter we will be definitive for Wind Catcher. AEP will continue with a firm foundation to provide excellent value for our shareholders and our customers.

I'll turn it over to Brian. Brian?

Brian Tierney {BIO 15917272 <GO>}

Thank you, Nick. And good morning, everyone. I'll take us through the second quarter and year-to-date financial results, provide some insight on load in the economy, review our balance sheet and liquidity and provide detail on our 2021 base case capital expenditures and equity needs.

Once again, on slide six, which shows that operating earnings for the second quarter were a $1.01 per share or $498 million, compared to $0.75 per share or $370 million in 2017. Most of this year-over-year growth came from weather and the recovery of incremental investment to serve our customers.

Looking at the drivers by segment, earnings for the vertically integrated utilities were $0.56 per share, up $0.31. Weather was a large driver in this quarter with most of the $0.12 increase driven by warmer than normal temperatures in the late spring. Rate changes were also favorable due to the recovery of incremental investment across multiple jurisdictions and formula rate true-up.

The box for this segment was other smaller impacts. The transmission and distribution utility segment earned $0.23 per share comparable to last year. As anticipated, AEP Transmission Holdco segment was unfavorable to the second quarter last year due to the minimal formula rate true-up this year compared to the larger one in the second quarter of 2017.

This was expected due to the change in methodology to fully forward-looking test years. This impact was partially offset by increased investment, which has growing by $1.7 billion since last June. Generation and marketing produced earnings of $0.05 per share, up a $0.01 from last year and corporate and other was down a $0.01 due to higher interest.

Let's turn to slide seven and review our year-to-date results. Operating earnings through June were $1.97 per share or $972 million, compared to $1.72 per share or $845 million in 2017. Our regulated segments experienced growth for the year and as expected, our competitive generation and marketing business was down due to last year's asset sales.

Let's look at the earnings drivers by segment. Operating earnings for the vertically integrated utilities were $1.03 per share, up $0.34 with the single largest driver being weather, which added $0.24. Successful implementation of rate changes added another $0.14. Other favorable items, included higher transmission revenues and normalized load. Offsetting these drivers were anticipated decreases in our wholesale load, as well as increased O&M and depreciation expenses. Through June, the transmission and distribution utility segment earned $0.49 per share, up $0.02 from last year. Favorable drivers, included higher rate changes, normalized load and weather which were partially offset by higher depreciation. The AEP Transmission Holdco segment contributed $0.42 per share, up a $0.01 from last year.

This growth in earnings reflected our return on incremental rate base and small non-recurring items which were mostly offset by the larger prior year formula rate true-up. Generation and marketing produced earnings of $0.13 per share, down $0.05 from last year. Again, mostly due to the sale of the assets.

Finally, corporate and other was down $0.07 per share from last year, due to higher interest and tax expenses and the prior-year investment gain. Overall, we are pleased with our results and confident reaffirming our annual operating earnings guidance.

Now, let's turn to slide eight for an update on normalized load growth. The load story has been positive through the first half of 2018. Starting in the lower right chart, our normalized retail sales increased by 2% for the quarter and were up 1.7% year-to-date, both of which are above expectations for the year. In both comparisons, we experienced normalized load growth across all three retail classes.

Moving clockwise, industrial sales increased by 3% for the quarter and grew by 2.8% compared to the first half of last year. Industrial sales have been strong for over a year now, with growth spread across most industries and operating companies. The sectors that posted the strongest growth in this quarter were all energy related, which is consistent with rising oil prices.

In the upper left chart, normalized residential sales were up 2.1% for the quarter and 1.7% for the year. The chart shows consistent improvement in residential sales over the past year. Once again, growth was spread across nearly every operating company. Through June, customer counts were up 0.5% compared to last year, which is the strongest we've experienced since 2015. Weather normalized usage was also up 1.7% this quarter and 1.2% year to date, which correlates with the recent improvement in household incomes, which I'll discuss in more detail on the next slide.

Finally, in the upper right chart, commercial sales increased seven tenth of a percent in the second quarter and increased six tenth of a percent through June. The growth in commercial sales was not as strong in other classes, but still positive.

Now, let's move on the slide nine and review the status of our regional economies. As shown in the upper left chart, GDP growth in AEP service territory exceeded the US by one tenth of a percent for the second quarter. In fact, the economy in AEP service territory has been growing at a faster pace than the US since the second quarter of 2017.

The upper right chart show the gap in employment growth is narrowing between AEP service territory and the US. While US job growth has been stable over the past year, AEP's job growth has continued to improve. For the quarter, job growth in AEP's territory was 1.1% with higher growth in our Western territory. Another key indicator for measuring the health of the labor market is the unemployment rate. While the US unemployment rate is the lowest it has been since the early 2000's, unemployment in AEP service territory is currently at its record low and is expected to fall further. One key driver of the tightening labor market has been changing demographics. As more baby boomers retire, businesses are looking to fill those positions from the available labor force. In some industries businesses are struggling to find qualified labor. As the competition for labor has increased, wages have finally started to rise.

The bottom chart, on this page shows growth in personal income. Through the first half of 2018 income growth within AEP service territory has exceeded the US. For the quarter AEP customer incomes were 4.6% higher than last year. The increase in income is a key driver for the higher residential usage this year. Overall higher energy prices and incomes and a relatively healthy global economy have combined to create a positive environment for sales through the first half of 2018. However, tightening labor markets, higher inflation and escalating trade tensions are items with potential headwinds for the second half.

Now, let's turn to slide 10 and review the company's capitalization and liquidity. Our debt to total capital ratio increased two tenth of a percent during the quarter to 56.8%. Our FFO to debt ratio was solidly in the Baa1 range at 19.3%, and our net liquidity stood at about $1.4 billion supported by our revolving credit facility. Our qualified pension funding improved to 103% and our OPEB funding improved to 134%. For both plans, the funded status improved due to rising interest rates, driving a decrease in liabilities that more than offset asset losses.

Now, let's turn to slide 11 and review some detail about 2021 CapEx and capital needs. As Nick mentioned, and as we talked about before, AEP has a solid organic growth plan that supports our 5% to 7% growth rate. In particular, we have robust transmission and distribution, capital expenditure opportunities for the foreseeable future, exclusive of Wind Catcher. To demonstrate this conference we are introducing our 2021 plan, which includes $6.3 billion of capital expenditures, of which 100% is allocated to our regulated businesses and contracted renewables and 75% is allocated to wires.

In the appendix of our presentation on page 34, we show the pinwheel detail for where the capital will be spent. Similar to 2020 an incremental $400 million of equity above our DRP is required to support that spend and maintain our capital metrics.

Let's try and wrap this up on slide 12, so we can get to your questions. We will obtain clarity on the Wind Catcher project and continue working with regulators to provide the best solution for customers regarding tax reform. Our base plan is robust and supports our 5% to 7% growth rate even before the addition of Wind Catcher. Our year-to-date performance and the stability of our regulated business model give us the confidence to reaffirm our operating earnings guidance range of $3.75 to $3.95 per share.

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

Questions And Answers

Operator

(Operator Instructions) Your first question is from line of Julien Dumoulin. Please go ahead.

A - Nicholas Akins {BIO 15090780 <GO>}

Good morning, Julien.

Q - Clara Sapoznik

Hi, good morning. This is Clara for Julien.

A - Nicholas Akins {BIO 15090780 <GO>}

Hi, Clara.

Q - Clara Sapoznik

Hey, good morning. Good morning, team. Thanks for taking my question. My first question is recognizing that you guys will continue to work on regulatory approvals for Wind Catcher. Can you give a little more color for what other configurations or what other projects you could replace it with that will still take advantage of the when one PTCs and the other PPA contracting structure as well. Just curious about any options there? Thank you.

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah. So, Clara, we continue to look at other opportunities as well. We have the renewables projects in Ohio, for example. We obviously continue that process. There will be other opportunities, but tax reform is certainly -- has certainly changed some of the economics of some of these projects, particularly with lower capacity factors. So, we'll continue to look for opportunities to replace. But remember, Wind Catcher was incremental to our base plan. So our base plan obviously supports 5% to 7% growth rate in the investment, in transmission and in other areas in our regulated companies.

So with Wind Catcher, obviously, we'll continue to look at not only options if Wind Catcher were not to happen, there is still be opportunities for those kinds of resources to be applied, do our resource plans in those particular states. So -- but, obviously, don't want to miss the opportunity for Wind Catcher, because it's a great way to deal with the resource plans in all the states at one time rather than independently with perhaps less efficient projects. So we'll continue to take a look at it.

Q - Clara Sapoznik

Great, that's really helpful. And my second question is, this is a little earlier I think for your CapEx update. Can you give a little more color as to why you're doing it before November. And potentially any color around --more than just the 75% wires, how you're increasing about your 2020 run rate?

A - Brian Tierney {BIO 15917272 <GO>}

Yeah. So, let me answer the first one Clara. We keep getting questions about how solid our go-forward plan is. And what's the ability to keep investing it organically in our own businesses and we wanted to provide some clarity to that to show that we have plenty of runway to invest organically in our own system, primarily in the wire side of the business with some regulated and contracted renewables as well.

So, people are asking, how long can you keep doing that for? And we wanted to provide some clarity, it's out there and we have plenty of runway to keep doing that and felt that the disclosure at this time might be helpful to people as they think about our stock.

A - Nicholas Akins {BIO 15090780 <GO>}

There seems to be some confusion about whether Wind Catcher was required for us to continue with our 5% to 7% long-term growth rate. The answer to that is, no. It's not required to do that. Our base plan is built around 5% to 7% and Wind Catcher was incremental.

We just want to make sure that that was abundantly clear and that people weren't looking across the cliff and expecting something different regardless of the outcome. Now if we get it, that's great. But if we don't, well, okay, we'll move forward with our plan.

Q - Clara Sapoznik

Got it. That's helpful. I'll drop out of the queue. Thank you so much.

A - Nicholas Akins {BIO 15090780 <GO>}

Thanks.

Operator

Now we have a question from Ali Agha. Please go ahead.

A - Nicholas Akins {BIO 15090780 <GO>}

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning. First on Wind Catcher. Nick, to be clear, if either Texas or Oklahoma does not approve can the project still go forward or do you need both of those approvals for this project to happen?

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah. My going-in assumption is, we need both of those approvals, because these are regulated jurisdictions, and that's where the needs are. And so our -- certainly our strong preference is for that project. It is sized based upon the ind farms, that's an existence with the transmission line and to do something different and that would be suboptimal. So we're really focused on making sure that all of the jurisdictions approve it.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And then secondly, we've seen it now few times the sort of what I would call the drop-dead date keeps getting shifted back now you are telling us it's end of August. So in reality, when you look at the physical aspect of having it all built by the end of 2020, when exactly do you need to have this started. And I guess, related to that I'm sure you've been observing, your stock has been under a fair amount of pressure, while this uncertainty is out there. So at what point do you make the call that -- the base plan is so strong, that we are may be better off getting this uncertainty off the table and walk away here?

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah, Ali. Already -- we've already started with the right of way. We have also done other construction related activities, because we don't have time. And so, your question is a very fair question though from an investor standpoint. We cannot afford to continue to allow this thing to languish given construction has started, the company is incurring expenses associated with it. Our supply contracts I think that is probably know now that the target dates for ordering long lead time equipment and that kind of thing through these major contracts was around that August 6 timeframe and we were able to negotiate and look at the project plans and do a deep dive in terms of what we could possibly do. And that's where the end of August came from.

So -- and in deference to the commissions -- and those commissions are certainly appeared -- Chairman Murphy wanted to take more time and Chairman Walker wanted to take more time, which they had more time. We tried to accommodate that by the additional time necessary to get passed. I know, there is a lot going on with election season and all kinds of things occurring. So, we're saying the end of August, and that's where we're at. And for us to go beyond that is going to be -- going to be extremely difficult with major commitments of these large capital items and that's just not going to happen without the approvals necessary.

So -- and it is not because we're trying to be -- just trying to make sure the commissions are pushed in a very hard fashion. That's not what we're trying to do, because we are getting pushed. And it's unfortunate that we didn't have several years to evaluate this project, but the PTC is the 100% value. The PTC's we're trying to secure for the customer benefits and we've got to be able to finish the project in time to enable that to happen. I mean, it's a 60% off sale. And if you don't want to take advantage of it then just tell us.

And I think that's basically what I've been saying to the commissions. We've offer this opportunity and it is a real, distinction and positive opportunity, but we need an answer. And we need an answer by the end of August and certainly from the -- it bring up the elements of risk as well from a deal parameter perspective. We've been in negotiations with parties in all of these states and you're seeing the combination of multiple sets of negotiations with varied parties. And I think we'll round up with the best balance we possibly could.

So I'm hopeful that the commissions will look at that and look at the track record and look at what we're trying to do. And keep in mind, we're spending money to get an answer to help customers. And so, we're fine with doing that because it's a really -- it's a really great opportunity in our opinion. And we're intent on trying to provide as much benefit as we can to our customers and that's what we're focused on.

So, I hope that answers the question.

Q - Ali Agha {BIO 1509168 <GO>}

Yes. I really appreciate that. Brian, one quick one for you. Can you just remind us, of the rate increases that you had budgeted for 2018 in your guidance, how much are now locked in for you?

A - Brian Tierney {BIO 15917272 <GO>}

So we recon for a little bit over 300 million and we're about 80% or so locked in.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. Got it. Thank you.

A - Nicholas Akins {BIO 15090780 <GO>}

Thanks.

Operator

We have a question from Steve Fleishman. Please go ahead.

A - Nicholas Akins {BIO 15090780 <GO>}

Hi, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi, good morning. Couple of questions. Hi, Nick. So, I guess first, just to clarify the 5% to 7% growth rate. I think officially you've only given that for 2019, but should we interpret that with this capital plan it would extend through this 2021?

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah. So we've given that -- we have given the detail around it through '20. Now we're giving an incremental year, but we see that 5% to 7% growth rate as far as we can see.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Okay. And then secondly on Wind Catcher. So one, there's a reasonable chance that one outcome can be approval with conditions, so that then it leads to another process do two conditions work or not. So, when you're giving this kind of end of August deadline is that -- you just need to make a go, no go call by then or --

A - Nicholas Akins {BIO 15090780 <GO>}

-- Yeah, that's right. That's right. And it also -- it also means and -- you're exactly right. On the deal parameters we saw the sense of urgency, so when we send a letter into the commission, it was really responsive because really the discussion is been around the 103% on the cost GAAP, while SPS was 102.5, so we change it to 102.5. I mean, those things that Chairman, John Walker [ph] was bringing up. Okay. We said, we were going to match up the SPS then we had the hold harmless provisions, it went even beyond. And I think the -- and that was really responsive to her and her concerns and the other commissioners as well.

And, of course, the Oklahoma commissioners too. So, we put our best foot forward to say, this is the parameters of what a deal would look like. And I would say that, and I mentioned this earlier in my comments, and I guess it was on purpose. But there is -- you can play around with the edges, but the main parameters of a deal have been discussed for - -really for a year now and with multiple parties. And those provisions are pretty well defined.

So for us, to take on more risk beyond those parameters is not likely to happen either. So, I guess, I'm just saying, we sort of cut to the chase and we cut to the chase based on the responses of what the commissioner's were telling us. And we put our best foot forward. So our best foot forward is there from a parameter perspective, our best foot forward is there from a timing perspective. And what I said all along, we need an answer and back to Ali's question of --

Ali's question of we've had pressure in our stock, well, because no one knows exactly where we're taking this. I guess, I'm just reinforcing to you that we're about to take this to a closing one way or another. Because we've got to get on with other decisions to be made relative to enhancing our shareholders' value and that's what we're going to do.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then, I guess one other question I like. So if you go back about, I think, 6, 12 months, you had talked about concern about the Oklahoma regulatory environment. I don't think you are that happy with the rate order early this year and then we'll see what happens with Wind Catcher, but just -- is that still kind of an issue that's in play based on the outcome here?

A - Nicholas Akins {BIO 15090780 <GO>}

I think, actually -- I think we've made a lot of progress from an Oklahoma standpoint, just because of the dialog that we've been having relative to the Wind Catcher case. And the dialog that we've had post rate case environments and pre rate case environment. I think the issues are becoming more known from an Oklahoma perspective. And I think we've done a really good job of trying to do the best we possibly can for Oklahoma customers. And I think that's starting to get recognized and I really believe that we have the real potential of being on an upward trajectory as it relates to PSO, because of -- And I can tell you that there has been a lot of discussion post rate cases and that kind of thing.

But the kind of discussions we've had relative to Wind Catcher and really the stretch that we've put in here to try to do the best we can for Oklahoma customers has not gone unrecognized. And so -- and as I mentioned earlier, there will be another rate case filing in the third quarter in Texas and in Oklahoma and that will be -- I think, that will be sort of a new beginning and one where we can really look at the issues in Oklahoma. I think there is a better understanding of the issues. And I think we have some great commissioners there, they really understand what the issues are. So, we're hopeful that we can make progress there.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Thank you.

Operator

We have a question from Paul Patterson. Please go ahead.

A - Nicholas Akins {BIO 15090780 <GO>}

Hi, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Hi. How are you doing? Just procedurally what should we expect, I guess. What procedurally is expected to happen on Thursday in Texas. I know you guys have lengthen the period for decision making, but I was just wondering what -- is it possible to get a decision on Thursday?

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah, I don't know the answer to that. I think it's probably, in my mind, a couple of options. One is, the commission does decide to vote on the arrangement based on the input that we provided. The other option probably could be more likely would be that Chairman Walker had talked about, coming up with a list of questions and we respond to one's we knew of, there may be other questions. So there could be questions answered in the nearest two weeks. I think 2 weeks from then is another commission hearing. So whether we are on the dock or not, I don't know, but there is opportunities now that we've given to the end of August for that kind of thing to occur.

So that's up to the Commission. But that's sort of the way that the two alternatives that I see. I'd rather (inaudible) Thursday, that will be great.

Q - Paul Patterson {BIO 1821718 <GO>}

Get some closure here. And then also, just to clarify on Ali Agha's question. There is really, I guess, no sort of Wind Catcher light or I mean, basically, it's kind of -- you guys like to do other things, obviously, you are always looking for things and other opportunities, but it sounds like, essentially, it's kind of -- this deal is kind of -- is kind of a pretty much not really given to any significant modification. If this doesn't happen -- if there is a rejection or something like that, we shouldn't think of there being sort of Wind Catcher light opportunity per se with respect to the project. Is that correct?

A - Nicholas Akins {BIO 15090780 <GO>}

That's correct. I think you can see -- I mean, obviously, with the integrated resource plans that we filed, you may see smaller projects develop in some fashion, but they could be renewables, may not be renewables. So you really -- but you won't see another Wind Catcher light project, because that one has -- that one is very unique in its scope and scale and the benefits provided. And so, you're probably moving to either less efficient type of opportunities. And there certainly will continue to develop those kinds of options. So keep in mind, you look at AEP as a 5% to 7% foundational growth stock with all these little incremental opportunities.

Q - Paul Patterson {BIO 1821718 <GO>}

Awesome. Thank you so much.

Operator

We have question from Angie Storozynski. Please go ahead.

A - Nicholas Akins {BIO 15090780 <GO>}

Hi, Angie. How are you?

Q - Angie Storozynski {BIO 15115714 <GO>}

Hi. How are you? So I got a bigger picture question. So, I mean, the utilities -- the electric utilities industry is clearly evolving and I'm trying to have some lessons learned from what has happened in Europe. And I'm asking this because, about 60% of your CapEx plan is transmission spending through 2021. And yet, we have seen it in Europe that transmission CapEx or transmission investments have been falling because utilities are choosing instead to go with distributed generation sometimes back by batteries. And we're are hearing the same type of ideas now coming up from Midwestern utilities.

And so my question is, one, do you think that you need to do some how diversify your growth plan. And two, was the Wind Catcher basically an attempt to become less dependent on transmission spending or was it somewhat completely independent? It's a big question.

A - Nicholas Akins {BIO 15090780 <GO>}

Angie, you should be involved with our strategy sessions, because there is no question that this industry is changing dramatically and we recognized that at some point in time transmission will essentially saturate in some fashion, but that horizon is really a decade out, because in the US which is -- I really talk a lot to the people that RWE Energy, Anil, other areas of Europe as well. And they are much more compartmentalize, but they're also from a renewable perspective, the renewables are starting to slow down somewhat, at least largely renewable. But in the US that's still developing. And what we have to think about though and you're exactly right.

As you bridge from the transmission related investment, we see the incoming growth strategy around the innovation on the distribution side. So, in the past, if you think about the way we've been investing a huge amount of what we invested five, 10 years ago was generation related, then it became transmission related. Now you're seeing the continued development of transmission and then eventually that will saturate. But the growing part of it now is the distribution investment at the operating companies focused on bringing about the -- effectuating the new technologies and development associated with even distributed resources, big data analytics, all the optimization activities going on.

Those are clearly opportunities for us in the future and that's why we're so focused on the customer and focused on making sure that we are able to deliver those types of technologies. We're part of -- we're the only US utility that is part of a international consortium that does essentially a shark tank around the world. And I just got back from California where there were 2000 startups that were evaluated and was called down to a list of 15. We're doing pilots with four of them at least at this point and that's where the future is starting to develop.

So you're exactly right. And the way we see is, bending the O&M curve is a big part of what we're doing, because obviously with optimization, efficiencies, digital experiences, all those types of things we are near to that benefit, but the capitalization will continue to be transmission and then you'll see an emerging distribution component of it as well. So, so far as the eye can see we're in a great shape from an investment standpoint because of that transition.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. That's all I have. Thank you.

A - Nicholas Akins {BIO 15090780 <GO>}

Thank you.

Operator

We have a question from Praful Mehta. Please go ahead.

Q - Praful Mehta {BIO 19410175 <GO>}

Thank you so much. Hi, guys.

A - Nicholas Akins {BIO 15090780 <GO>}

How are you doing?

Q - Praful Mehta {BIO 19410175 <GO>}

Good. So, thanks for all the color on Wind Catcher. I guess -- and you're reiterating five to seven growth. I guess my question is, if Wind Catcher does go through, is the right way to think about it is that, Wind Catcher will be all incremental growth to the five to seven or will there be some capital allocation limitation where you say, the five to seven doesn't all add up with incremental Wind Catcher, but it's somewhere in between. How should we think about that kind of mix if you did get Wind Catcher?

A - Nicholas Akins {BIO 15090780 <GO>}

So, think of it is incremental, what we've announced today some of that could be pushed out in time, but still within the 5% to 7% growth rate. Does that makes sense?

Q - Praful Mehta {BIO 19410175 <GO>}

Okay. But there is a little bit of room of something getting pushed out just to kind of Wind Catcher CapEx in there. Is that right?

A - Nicholas Akins {BIO 15090780 <GO>}

Absolutely.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. All right. And then given the strong quarter and the weather helped, I guess in Q2. Is there any reason why a kind of guidance was maintained right now at the same level?

A - Brian Tierney {BIO 15917272 <GO>}

Yeah. So, you know what a big swing for us the third quarter is. And they're big items that will be ins and outs. I think Nick talked about some of the expenses that we're having with Wind Catcher as we go forward in time. It doesn't make sense for us to change the guidance at this point. The way we see it, we're still inside that range that we've identified and if there is any change to that we would likely be making that after the third quarter.

A - Nicholas Akins {BIO 15090780 <GO>}

And there are things that we -- we usually use whether as an opportunity to move O&M. So you could see some O&M move, that was 19 to 18 or that kind of thing. We typically do that on a regular basis, because we do want to show that certainty and consistency around 5% to 7% in our earnings guidance. Now you can only do that to a certain extent. Right. So if you do wind up for the rest of the year like the first part of the year, than who know how much you can -- you can absolutely -- that you can do.

But our view is really that credibility around the guidance that we put out and making sure that we can deliver on that regardless of what's going on with weather as we demonstrated last year. And then continue that as we go forward. So we will -- and as Brian said, typically we wait for third quarter to determine what the future holds in terms of guidance.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. That's super helpful color. And then finally just -- now that -- you'll soon have some form of decision on Wind Catcher and tax reform kind of is done and or at least mostly known in terms of what the play out scenarios are. Is there any strategic review that we should be thinking about that you guys are looking at in terms of your business mix or just anything that needs to be cleaned up internally or do you think currently the kind of combination of businesses or utilities you have is the right fit and there is nothing really to be done on the strategic side?

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah. We've already done it. We already done sort of a major housecleaning. So, we're pretty pristine stock. And when you -- now that being said, we're always looking at ways to optimize our portfolio and -- but you also have to look at the uses. Right. So we have a lot of sources, we have a lot of uses. And so -- and certainly our balance sheet is strong, so we can do a lot of things. But obviously, they are all centered upon ensuring that we are able to deliver on the guidance and the growth rates that we've -- that we've laid out. And that's why we show -- you can -- that sort of comes and goes. I mean you can have a jurisdiction or a state jurisdiction that says, okay, it's suffering and maybe we should be something.

Well, it takes a little time to really figure out, is that a -- just a systemic problem or do we need to do something about it, but that's really the way we look at it. I mean, it is Portfolio Management, but it's smart portfolio management around the delivery expectations around our growth rate in our guidance.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thank you so much. Super helpful.

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah.

A - Bette Jo Rozsa {BIO 16484334 <GO>}

Operator, we can -- we have time for one more question.

Operator

Okay. We go the line of Anthony Crowdell. Please go ahead.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hi. Good morning.

A - Nicholas Akins {BIO 15090780 <GO>}

Good morning.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hi, Nick, I direct you to give Brian a little break from doing all the talking. Just quickly any agreement that you reach or the details that you reach in Texas or Oklahoma, but is there a most favored notion that hold harmless guarantee will apply to the other two jurisdictions?

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah. So all the jurisdictions have a hold harmless provisions. So -- and that's really the key part of it. I mean, every adjustment we make is not just an adjustment in that jurisdiction, it's a adjustment across the board. So that's why we had to be particularly careful from a risk perspective and that's why we've laid out in the letter what our expectation is. And then, FERC customers are obviously treated differently because of their own arrangements, but that's really the way it works.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Is that a biggest hurdle you believe for the Oklahoma and Texas commissions. It just hold harmless or are there other details that or what's delaying it in those two states?

A - Nicholas Akins {BIO 15090780 <GO>}

Well, I think certainly election season in Oklahoma is pretty distracting and also you have some parties in the states like the attorney general in Oklahoma that -- they did a settlement -- they call it a settlement deal, I don't know what it is. But with the staff that had provisions that were way off base. So a lot of discussion about that.

I think there is just a lot of confusion out there and sometimes you focus so much on the margins of what could happen to this and could happen to that. It's almost like finishing up the contract versus looking at the amazing benefits across the board that are out there. So you are getting it hung up in a lot of that kind of dialog. And then in Texas, you've got industrials and other there will see attorney for the industrials that are using different gas forecast and all that kind of stuff and it sort of confuses the parties that are listening. So when you get past all that and you get just to the facts, then I think we'll be in much better shape.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. (inaudible) family wasn't selling Chevy's [ph] in other parts of SWEPCO, it was probably one of the easier state for Louisiana.

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah, my dad used to be used car salesmen, sold Chevy's in Louisiana.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Maybe you should have rethought about Texas or Oklahoma. Thanks for taking my questions.

A - Nicholas Akins {BIO 15090780 <GO>}

Yeah. Thanks.

A - Bette Jo Rozsa {BIO 16484334 <GO>}

Okay. Well, thank you, everyone, for joining us on today's call. As always, the IR team will be available to answer any additional questions you may have. Paul, would you please give the replay information?

Operator

Ladies and gentlemen, this conference will be available for replay after 11.15 AM Eastern Time today through midnight Eastern Time on August 2, 2018. You may access the AT&T Teleconference Replay System at any time by dialing 1800-475-6701 and entering access code 451306. International participants dial 320-365-3844. Those numbers, again, are 1-800-475-6701 and 320-365-3844, access code 451306. And that does conclude our conference for today. Thank you for your participation and for using AT&T Teleconferencing service. You may now disconnect.