Q1 2022 Earnings Call

Company Participants

- Julie Sloat, Executive Vice President and Chief Financial Officer
- Nicholas K. Akins, Chairman, President and Chief Executive Officer
- Unidentified Speaker

Other Participants

- Durgesh Chopra, Analyst, Evercore ISI
- Jeremy Tonet, Analyst, JPMorgan
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Michael Lapides, Analyst, Goldman Sachs
- Shar Pourreza, Analyst, Guggenheim Partners
- Sophie Karp, Analyst, KeyBanc Capital Markets
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Nicholas K. Akins {BIO 15090780 <GO>}

(Technical Difficulty) fourth quarter, we are maintaining that momentum and delivering strong results for the first quarter of 2022 with operating earnings for the first quarter coming in at $1.22 per share or $616 million.

Earlier this year, we made a number of refinements to our strategic initiatives and financial targets. We raised our 2022 operating earnings guidance range and increased our long-term earnings growth rate and we have hit the ground running in 2022. Today we are reaffirming our 2022 full-year operating earnings guidance. As a reminder, we are guiding to a range of $4.87 to $5.07 per share for 2022 with a $4.97 midpoint and we also reaffirm our long-term earnings growth rate of 6% to 7%.

As you'll recall, we announced several significant developments in connection with last quarter's earnings. In addition to lifting our 14% to 15% FFO to total debt targeted range, we announced on the decision to sell all or a portion of contracted renewable assets within the unregulated business. The announcement of this strategic divestiture allowed us to recalibrate our five-year capital plan of $38 billion with a $1.5 billion shift to transmission and the elimination of growth capital in the contracted renewables business. We are already seeing the positive impacts of these initiatives in quarter one, and we look forward to continue to execute in these important areas throughout the course of the year.

We also expect to maintain positive momentum in our economic outlook as we work collaboratively with states to drive economic expansion in our service territory. There is more to come on all that, but I first want to take a step back and highlight some of the other proactive work our team has done. As macro trends continue to affect our industry in the economic landscape at large, we are focused on de-risking our platform and elevating our strategy to enhance shareholder value. For example, given lingering global supply chain issues, we are diversifying our mix of suppliers in order to reduce the impact on our capital investment plan. As a result, AEP has experienced minimal customer or business disruptions to-date. With these significant initiatives underway and a track record of thinking creatively, it is truly a team effort and we are lucky to have one of the most talented teams in the business.

Regarding Kentucky, we expect to complete the sale of Kentucky Power and AEP Kentucky TransCo to Liberty in the second quarter of this year. A regulatory timeline of the sale is on Slide 7 of today's presentation. In 2021, we announced a comprehensive strategic review of our Kentucky operations resulting in an agreement to sell those assets for $2.846 billion enterprise value. Both parties have been steadily working to obtain the necessary approvals to complete this transaction, which is in the public interest. The Kentucky Public Service Commission hearing was held on March 28th and March 29th. We know that Liberty is well positioned to serve Kentucky customers and are confident our employees in Kentucky will continue to thrive within an organization that prioritizes safety and operational excellence.

Based on the statutory requirements, we continue to expect to receive a decision from the commission on the sale transfer no later than May 4th. FERC approval on the sale transfer is also in process. Earlier this week, FERC notified us of a need for more information in the 203 transfer application. This request is not unusual as FERC looks to ensure its record is complete by seeking additional information. We do not believe this request will impact the closing of the deal in the second quarter. Once a decision is made by the state level next week, we will provide the requested information back to FERC, we'll plan (inaudible) to abide by the original approval timeline to ensure Kentucky customers receive benefits from this transaction in a timely manner.

Another significant regulatory milestone for the transaction is gaining approvals on the Mitchell operating agreement, which were the condition of the final sale transfer. Both Kentucky and West Virginia are aware that updated Mitchell operating agreement approvals are needed to put in place the commission orders on environmental compliance issued 2021. The Kentucky Public Service Commission hearings were held on March 1st and March 30th and the West Virginia Public Service Commission was held on April 7th. Parties providing options allowing flexibility for both states to collaborate and reach a common agreement as Kentucky continues to wind down interest in Mitchell plant post 2028.

We expect to receive commission decisions on the Mitchell agreements on an expedited basis in May of this year. We plan to file the related FERC application after State Commission approvals. Throughout this process, we have established a strong record of benefits of this transaction. Most notably, the clear and measurable customer benefits that we see.

Okay. Now, moving onto the contracted renewable asset sale. During our fourth quarter earnings call in February, we announced the decision to sell all or a portion of our unregulated contracted renewables portfolio to simplify and de-risk the company and allow us to focus on our regulated business. Our portfolio consists of 1,600 megawatts of unregulated contracted renewables, the sale of which will help facilitate the investment of 16,000 megawatts of regulated renewables through 2030.

In the last couple of months, we have made significant progress on this opportunity, including working with an advisor preparing outside consultant reviews of the technical and market aspects of our portfolio and evaluating our sales strategy and timing. Interest in the sale of the portfolio has been robust. The sale provides a unique opportunity to acquire large operating wind portfolio complemented with some solar operations as well. We expect to launch the sales process sometime during the second half of 2022, likely in the August-September timeframe and can be accelerated or deaccelerated as needed.

Additionally, we are pleased to announce that we assigned a term sheet to sell most of our wind and solar development portfolio including five sites which are located in the Southwest Power Pool. We have also executed an agreement to sell a solar development site here in Ohio. Financial details of these upcoming sales are confidential and will not be disclosed, but demonstrate our commitment toward that execution. The reallocation of contracted renewables capital is assumed in our guidance, but utilization of proceeds is not yet reflected in guidance or our multi-year financing plan.

We will seek to maximize transaction proceeds in the sale, avoid dilution and direct the proceeds to investments in our regulated business as we continue to enhance the transmission infrastructure and move forward with our generation fleet transformation. Looking ahead, we will continue our track record of optimizing the portfolio and reallocating capital to our regulated business where we continue to see a meaningful long-term opportunity for growth.

AEP is making significant progress as well in our transition to a clean energy future. In fact, we already have several initiatives underway in line with our sustainability goals and through our regulated renewables execution. Details can be seen on Slides 8 and 9. In March we commissioned our third and final North Central Wind site Traverse Wind Energy Center, which is the largest single wind farm built at one time in North America and one of the largest wind facilities worldwide completing the $2 billion trifecta investment that includes Sundance and the Maverick Wind Energy centers. Combined, they are providing 14,084 megawatts of clean energy to our customers in Arkansas, Louisiana, and Oklahoma. North Central will save customers in an estimated $3 billion in electricity costs over the next 30 years.

In March, we also issued a request for proposal at I&M for 800 megawatts of wind and 500 megawatts of solar. Additional RFPs are in process simultaneously at APCo, PSO and SWEPCO with expected in-service dates of 2024 to 2025. We expect to make a regulatory filing in the second quarter of this year related to the SWEPCO's June 2021 RFP. These are long-term investments, not just for our business in our local communities, but for the global environment as well.

Through our current state of coal retirements, we are progressing towards our target of an 80% carbon emissions reduction rate by 2030 and net zero by 2050. Achieving this goal is an integral part of our long-term strategy to prioritize regulated investment opportunities and transition our generation portfolio. Our plans are a very well thought out, continue the movement to a clean energy economy, but remain firmly grounded in the principles of resiliency, reliability and affordability while recognizing the value of diverse portfolio of resources, particularly given today's world of energy related volatility.

Last year we set regulatory foundations in a series of rate cases across multiple jurisdictions. Regulated ROE as of March 31st, 2022, is it a steady 9.2% as we continue to work through regulatory cases and focus on reducing authorized versus actual ROE spreads. I&M obtained Commission approval in February on our Indiana base case settlement. Ohio oral arguments of APCo's 2020 Virginia base case appeal were held in March at the Virginia Supreme Court with anticipated final decision this year. We expect to see Commission decisions as well on SWEPCO's rate cases this year in both Arkansas and Louisiana and look forward to keeping you informed on that progress too.

Related to FERC, we command the commission for moving forward with proposed reforms to transmission planning and cost allocation. First proposed rule making aligns with our goals of developing a more robust reliable and flexible grid of the future that ultimately reduces cost to customers and strengthens economic development in the communities in which we serve. We believe many of these reforms are needed to build the infrastructure necessary to transition our generation fleet in the most efficient and cost-effective way possible and achieve our carbon reduction goals. We look forward to continuing to work collaboratively with the commission on this, and any subsequent rule makings and with the RTOs on implementing any new requirements.

At the conclusion of our fourth quarter call, I told you all that AEP stood poised to make even greater headway in 2022 and I think it's fair to say we are making good on that promise. Capitalizing on our momentum from 2021, we have continued to execute against our strategic objective steadily and successfully. As we think about what's next for this year and beyond, we hope to further modernize our energy grid in order to supply a reliable cleaner low cost resources for all the communities we serve.

We will also consider further asset rotation through the lens of de-risking and simplification and we'll evaluate any and all value additive potential activities as we focus on our regulated business. As I've said before, AEP is in a very unique position, the largest transmission system, one of the largest renewables build outs and the diverse territory to adjust from the risk of supply chain, load forecast, regulatory risks et cetera, AEP is the very definition of consistency and opportunity.

We at AEP, as well as our shareholders and customers hold ourselves accountable on the continual execution of all of these strategic objectives. To paraphrase a big hit by the police, every breath you take, every move you make, every step you take, we'll be watching AEP, and as our CFO would say, we've got this, Julie?

Julie Sloat {BIO 6462741 <GO>}

Thank you Nick, thanks Darcy. It's good to be with you this morning. Thanks for dialing in everyone. I'm going to walk us through our first quarter results, share some updates on our service territory load and finish with commentary on our credit metrics, liquidity, as well as some thoughts on our guidance, financial targets and recap our current portfolio management activities underway.

So let's go to Slide 10, which shows the comparison of GAAP to operating earnings for the quarter. GAAP earnings for the first quarter were $1.41 per share compared to $1.16 per share in 2021. There is a reconciliation of GAAP to operating earnings on Page 16 of the presentation today.

Let's walk through our quarterly operating earnings performance by segment on Slide 11. Operating earnings for the first quarter totaled $1.22 per share or $616 million compared to $1.15 per share or $571 million in 2021. Operating earnings for the Vertically Integrated Utilities were $0.59 per share, up $0.05, favorable drivers included rate changes across multiple jurisdictions, normalized load and O&M. These were somewhat offset by increased depreciation, lower off-system sales and wholesale load.

I'd like to take a second to talk about O&M and depreciation in particular because of a change in accounting related to Rockport Unit II lease at I&M, we'll see approximately a $0.05 contribution of favorable O&M consequence offset by $0.05 of unfavorable depreciation in each quarter of 2022, but no consequential earnings impact. And to be clear, this is entirely consistent with the 2022 guidance details we posted in our investor presentations earlier this year. I have more to share on load and load performance here in a minute, so hang with me on this.

The Transmission and Distribution Utilities segment earned $0.30 per share, up $0.07 compared to last year, favorable drivers in this segment included rate changes in Texas and Ohio, normalized load and transmission revenue. Offsetting these favorable items were unfavorable O&M and depreciation. The AEP Transmission Holdco segment contributed $0.34 per share, down a $0.01compared to last year. Investment growth was favorable by $0.03, offset by $0.02 of mainly property taxes, driven by the increased investment and a penny of income taxes. This is in line with the guidance that we provided to you earlier this year.

You'll recall that our 2022 guidance had this segment down by $0.08 year-over-year as a result of the $0.12 of investment growth being more than offset by the annual true up that will occur in the second quarter and some unfavorable comparisons on the tax and financing side. As you know, this segment continues to be an important part of our 6% to 7% EPS growth. Generation and marketing produced $0.03 per share, down $0.03 from last year. The improvement in wholesale margins was more than offset by lower retail margins and reduced generation. You may recall that storm Yuri had an unfavorable impact on wholesale margins in the first quarter 2021.

Finally, Corporate and Other was down a $0.01 per share, driven by increased O&M, lower investment gains and unfavorable interest. These were offset by favorable income taxes, the lower investment gains are largely related to charge point gains that we had in the first quarter of 2021.

Turning to Slide 12, I'll provide an update on our normalized load performance for the quarter. In a general sense the AEP service territory is extremely fertile for economic growth right now, in fact as of the first quarter, our load has officially fully recovered from the pandemic recession and has now transitioned into the expansionary phase of this business cycle.

Starting in the upper left corner, normalized residential sales increased by eight tenths of a percent, compared to the first quarter 2021. This growth was composed of growth in both customer counts and weather normalized usage for the quarter. While results were mixed by operating company, the strongest residential growth was at the AEP -- was in the AEP service -- AEP Texas service territory, which was partially influenced by the year-over-year comparison, given the customer outages driven by storm Yuri in the first quarter of 2021.

A final data point to share regarding residential sales is that our first quarter sales were still 1.1% above their pre-pandemic levels, over two years after the pandemic began. This is driven by number of factors including higher numbers of people who are able to work remotely that used to work in offices prior to the pandemic.

Moving to the right, weather normalized commercial sales increased by 4.2% compared to the first quarter of 2021, while growth in commercial sales is spread across every operating company and most industries, the largest increase in commercial sales is coming from data centers whose load was up 33% compared to last year. In addition, we continue to see strong recovery in the sectors most impacted by the pandemic such as hotels, schools, and churches, while real-estate has been booming throughout the entire pandemic. AEP normalize -- AEP's normalized commercial sales in the first quarter were 2.5% above their pre-pandemic levels which shows that we've gone beyond recovery and are now in full expansion mode across the territory.

If I can now focus your attention on the lower left corner, you'll see that industrial sales posted another very strong quarter up 5.6% compared to last year, industrial sales were up, at most operating companies and many of our largest sectors in the first quarter. We experienced double-digit growth in a number of key industries this quarter, including chemicals, manufacturing, oil and gas extraction, petroleum and petroleum products, we also saw robust growth in primary metals manufacturing, coal mining and food manufacturing.

Having said that, first quarter industrial sales are still 1.6% behind their pre-pandemic levels. However, we have a large number of customer expansions that are expected to come online later this year and still fully expect to eclipse our pre-COVID industrial sales levels in 2022. We can continue to be confident in our full-year 2022 guidance for normalized retail load. While we certainly did not anticipate the Russian invasion in Ukraine when we developed the 2022 forecast. I'd like to remind you that AEP's service territory is uniquely positioned to benefit from higher energy prices, given the concentration of energy production that is located throughout the AEP footprint. Energy producers in our footprint have responded to higher energy prices, which has resulted in increased economic activity throughout this service territory.

Finally, when you pull it all together in the lower-right corner, you'll see that AEP's normalized retail sales increased by 3.2% for the quarter. As I mentioned earlier, our load has gone beyond recovery mode and is in full expansion mode. For the quarter, every operating company posted higher normalized sales than last year. Furthermore, our first quarter retail sales were up, were 1.5% above their pre-pandemic levels. So 50 basis points above pre-pandemic levels.

To use a sports analogy, I would say our load performance in the first quarter was in the zone. While there are many factors outside of our control that could influence our results, I want to stress that the positive load story we shared with you today is largely the result of intentional efforts by our employees to promote economic development as a part of our long-term strategy to strengthen the communities that we serve. We're fully aware of the increased uncertainty that exists in the macro economy, but if put into work that it takes to ensure that we continue to see growth in our service territory going forward.

So let's go to Page 13 to check on the company's capitalization and liquidity position. On a GAAP basis, our debt to cap ratio increased 60 basis points from the prior quarter to 61.5%, primarily due to an increase in equity from our issuance of AEP common stock in March, which is consistent with our 2022 guidance as the $805 million -- or the $805 million of equity units we issued three years ago converted to equity.

Let's talk about our FFO to debt metric. Taking a look at the upper right quadrant on this page, you'll see our FFO to debt metric stands at 13.7% on both the Moody's and a GAAP basis, which is an increase of 3.8% and 3 9% respectively from the prior quarter. The metrics are calculated off of the 12 month rolling FFO Total, so the increase in FFO to debt is mainly a result of the fact that the cash flow drag from February 2021 winter storm Yuri has now dropped off the cash flow from operations calculations. This improvement has significantly narrowed the gap toward achieving our FFO to debt target range of 14% to 15%. As we stated on the last earnings call, we anticipate trending toward this target range as the year progresses.

Let's take a quick moment to visit our liquidity summary on the lower right side of Slide 13. Our five-year $4 billion bank revolver and two-year $1 billion revolving credit facility support our liquidity position, which remained strong at $3.8 billion. Switching gears, our qualified pension funding increased 1.6% during the quarter 106.4%. The rise in interest rates, the decreased plan liabilities was the primary driver for this quarter's gain and funded status.

Let's go to Slide 14. This quarter has provided a solid foundation for the rest of 2022 and we're reaffirming our operating earnings guidance range of $4.87 per share to $5.07 per share. We continue to be committed to our long-term growth rate of 6% to 7% that we updated on our last earnings call. We're working through the Kentucky Power sale to Liberty and expect to close in the second quarter. And as Nick mentioned, we've signed an agreement to sell a solar development site in Ohio and have entered into a term sheet to sell five additional wind and solar sites in SPP on the unregulated side of the business.

Additionally, we're preparing to market the unregulated contracted renewables portfolio in the second half of this year and are receiving a significant amount of interest on this. Beyond the portfolio optimization activities underway, we remain focused on the fundamentals, which are executing on the regulated renewables plan, disciplined capital allocation, and securing positive regulatory outcomes. Before we break, I want to mention one last thing before we get to your questions. And that's to remind everyone that while we have not yet set the date, we will be hosting an Investor conference sometime in late September, early fall timeframe to give you a broader AEP update.

We truly do appreciate your time and attention today. With that I'm going to ask the operator to open the call, so we can hear what's on your mind and answer the questions that you have.

Questions And Answers

Operator

Certainly. (Operator Instructions) Your first question comes from Julien Dumoulin-Smith at Bank of America. Please go ahead.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Maybe let's start with this, just in terms of the timing of the renewable sale here. Can you talk a little bit about how the AD/CVD steps could impact that. I mean is that (Technical Difficulty) on just your sense of the ability to get it done. Just any comments on that, and or implications? Again I assume (Technical Difficulty).

Separately related, how do you think about the timing of proceeds here, admittedly this is a little bit faster than what we had perceived, just looking at the proceeds from Liberty and this coming in perhaps little bit faster than perhaps the equity issuances in your forward plan (Technical Difficulty) suggest?

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

Yeah Julien. So most of our assets are wind assets, so -- and as we go forward with the transactions, we don't see any issues with that. And as a matter of fact, even on the regulated side, the timing of which we actually need assets for solar and that kind of thing comes later. So it's a 2024, 2025 timeframe. So on both sides of the ledger we're in good shape from that perspective and these assets, obviously we're going to try to time it appropriately as we talked about the large portion of the 1.6 gigawatts or the 1,600 megawatts, they will be marketed in the third quarter. And I'd say, we're getting very robust. It's amidst very robust interest on -- really on both sides, strategics and in terms of any type of private equity that kind of thing. So, it's really to us, the process will continue and there is nothing stopping us. So, we're in good shape from that perspective.

And then your second part of your question, Julie, did you have that part?

A - Julie Sloat {BIO 6462741 <GO>}

Yeah, and Julien, let me know if I'm not answering this directly or if you need a little more granularity. Specifically as it relates to dollar flows associated with any type of transaction that we enter into, so today you're going to talk about the fact that we've had a term sheet in place for five development sites, those dollars are still small. And so, we'll see those show up eventually priced second quarter or third quarter in operating earnings, but obviously not even disclosing those, not a needle mover for us and not going to change the earnings guidance or anything like that, so not to worry on that front.

And then as it relates specifically to the broader unregulated renewables contracted portfolio, we'll start the marketing effort in the second half of this year. Obviously, we'll continue as we have a little more detail to share. We do have an upcoming investor conference, so stay tuned for that, and then we'll be able to navigate any potential proceeds from transactions. As you know, we don't even know exactly how that's ultimately going to look, do we sell them as an entire portfolio? Do we sell them in different pieces? So that's to be determined, so standby on that.

And then obviously, we continue to work through the Kentucky process. We had expected to close that -- we're trending toward the second quarter. As Nick mentioned and I mentioned in my opening remarks, that's already reflected as it relates to Kentucky bringing dollars in, in our plan. You may recall that we eliminated about $1.4 billion of equity that we originally had in our 2022 guidance. So I think we're moving on track. Let me know if there is something I didn't address there.

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

Yeah and since we're really moving on the universal scale assets, they're project specific. So we can go through that process and time at anyway that we wish to do it, so that's -- and actually they are actual pretty quickly. So, we'll go through that process and will define that better and that will be part of our Analyst Day discussion.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Now speaking Analyst Day discussion, just super quick if I can, an important point. How do you think about just approaching your customers directly, with energy prices environment, doing well on industrial and C&I sales growth, presumably your customers are interested. We heard this from Entergy, can you kind of elaborate how you're thinking about that opportunity here in this elevated environment as a further angle to your renewable aspiration?

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

Well, certainly the renewables are a key part of being able to really mitigate cost to consumers going forward. So, from an industrial standpoint and manufacturing standpoint, we're going to see a lot of that movement to our territory, because when you think about onshoring, when you think about strategic reviews of supply chain actions that need to occur within this country, that's going to occur within our territory. So our focus will be, I think from the renewable side, particularly the regulated renewable side to be able to continue to progress on that is a benefit because a clear benefit for customers and certainly North Central showed that, but I think from an industrial standpoint, it's going to look very good for us. We have the resources for capacity and when you layer in the renewables for the incremental needs of capacity, it's really the best of both worlds to provide reliable secure supply to our industrials and really at a competitive price. So I think we're in great shape from that perspective going forward.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Yeah, sure thing.

Operator

Next we'll go to Steve Fleishman with Wolfe Research.

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

Morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey, good morning. Can you hear me okay?

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

You sound enthusiastic.

Q - Steve Fleishman {BIO 1512318 <GO>}

That is enthusiastic for me, sorry, (inaudible). So, just on the Kentucky process, there does seem to be a decent amount of people that want different things on the Mitchell operating agreement. Can you just talk to your confidence in resolving those issues by the second quarter and just because -- and just maybe frame the issues and how you think they can get resolved?

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

Yeah, obviously there has been a lot of focus on the Mitchell agreements themselves and we've certainly tried to accommodate the multiple parties that are involved and made as flexible as possible and obviously the issue is 2028 and how you reconcile that going forward. And from a state perspective, I think we're in a good place, because it does provide the flexibility to find whatever value proposition there is at that point and there also is optionality around the ability to potentially separate the units to allow each individual commission to make their own decisions relative to these units. So, I think it's positioned very well. There's been a lot of dialog, lot of settlement discussions associated with that and a lot of -- of course there's a lot of varied opinions, but at the end of the day, we have to do this because we have two commissions that are going in different directions relative to the life of the Mitchell plant.

And I think what we've arrived to is a very credible balanced view that allows the optionality that the parties need going forward, so. And of course we certainly will continue to focus on the ELG and CCR expense associated with that in the appropriate manner, and that will improve the optionality going forward to where decision is going to be made at the appropriate time. But I would say we're in a good place as we expect, we expect the Mitchell approvals to occur very quickly after the transaction approval.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. Thank you. And then just, you've been pretty good and right about Federal, the BBB legislation kind of to get done or whatever you want to call it these days, just curious if you have any latest thoughts and updates there? Has anything changed?

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

I'll say, I'll say this. Certainly, Senator Manchin is at the center of all of this, but there also is, I think from their original infrastructure package, a group of senators who were coming together to try to focus on some pretty substantial issues and really when you think about Senator Manchin being on both the Armed Services Committee and the Energy Committee and knowing the Ukraine situation and the focus on energy as it relates to it. I think you're going to see at least an attempt to a lot of focus on how to support natural gas, LNG, expansion for pipeline capability, and then of course he has also talked about the climate provisions, and I think there'll be a lot of interest too in the technologies of the hydrogen hubs and particularly in West Virginia.

And then there is obviously Murkowski, Barrasso, there is others that they are engaging in that discussion. The ITCs, PTCs, the climate provisions that the industry is looking for, I think there is some bipartisan level of support for that. So the question really is, can they get together before -- really before Memorial Day. And if there is still talking after Memorial Day it's probably a positive indication. My own personal belief is, if it's not successful, we'll probably see in the 11th hour type of -- at the end of the year relative to ITCs and PTCs and perhaps Steve, an expansion of those.

So I think you'll see us attempted a smaller bill, you'll still get hung up with the pay for's, particularly with Manchin wanting to get it paid for and it's obviously a different, different view on that. So, but there is probably some element of recognition that something has to be done to have this country focus on the security of supply, not only for our sales that the Ukraine situation is demonstrated, but also for Europe and the rest of the world. So that's probably the impetus of getting something done and will define the framework of whether something gets done or not. If it doesn't after the election, I think like I said, it's the 11th hour or perhaps the RS and Treasury make adjustments based upon what's happened relative to supply chain activities. So, I think that would be my view of where things are going.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great, that's super helpful. Thank you.

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

Yeah.

Operator

Next we will go to Shar Pourreza with Guggenheim Partners. Please go ahead.

Q - Shar Pourreza

Hey, good morning guys.

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

Good morning.

Q - Shar Pourreza

Just -- Nick, I just want to question on sort of the renewable comments. As we're looking kind of at your current RFPs that are in progress, there sort of a fairly healthy mix between wind and solar and storage. As we're thinking about kind of the upcoming 2021, 2022 RFPs, how are you sort of thinking about the potential tail risks around solar with circumvention investigation as pricing uncertainties, there is a lot of constraints. I guess these tail risk impact the mix for 2021 and 2022 and do you see any risk to the $8.2 billion you've allocated to renewables. I mean, we've already seen two peers provided some warnings around this and one this morning, as well as delays. So I'm just curious how this fits in with your plan?

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

Yeah. I don't see a lot of risk and the reason why is, because ours is more 2030, a lot of these projects will come into play in the 2024, 2025 timeframe. So, we have time for not only for the reviews of solar that's occurring with the administration, but also in terms of the supply chain activities just to level out somewhat before we're actually out back in the market acquiring these types of resources. So, we have a little bit of time, I think probably by first quarter next year we want to see things start to levelize so that we can get that process rolling. In the meantime, we got the resource planning filings that are being made.

And keep in mind too, I made this point originally. These plans are really fungible from year to year based upon what we see in terms of the value proposition of each type of resources. So a lot of its wind, some of it's solar, solar picks up in the later years from a resource plan perspective, so there is time for the solar thing to get resolved. But even if it doesn't, that sales is probably going to be more wind or other types of resources that are put in place to support these objectives, because remember, they're driven by capacity requirements and we'll continue to evaluate that process.

And I'll take a step further too on this is, we've always said that if something were they happen relative to the renewables build out, we've got transmission and transmission we can soak up a lot of capital from that perspective because of the focus on providing better customer service, more resilient and reliable grid. So we have that optionality, but I'm not, I'm not even there yet. I think we're -- we may be because the $8.2 billion we have in there assumes a certain percentage of those types of resources that we would own. That could be higher, transmission could be higher. So we have optionality around all of that. So I'm not concerned from an AEP perspective.

Q - Shar Pourreza

Sure. The current gas price environment helps the economic argument.

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

Absolutely, absolutely because the $3 billion for North Central was down on our previous gas forecast and if you look at that today, it's probably much larger. I think it's really looking good for customers.

Q - Shar Pourreza

Got it, got it. And Nick, just from a financing perspective is, we're thinking about incremental spending that's going to come from these future RFPs. Can you just be a little bit more specific on your prepared comments around further asset sales, I mean, you look at all your OpCos that remain, I guess what could a structure look like, what remains?

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

Yeah, so -- and the point I'm making is obviously we're going through the process step by step with the unregulated contracted renewables parts, so there is different parts of that business. And then of course, just -- I think Kentucky was the first shot at it. There is a lot of optimization that can occur. We'll just have to evaluate against what the opportunities look like. And if we're -- if we have, I mean, if we have underperforming utilities that don't figure prominently into the, into the clean energy transformation where we're actually attracting capital and being able to provide higher levels of return, then we have to look at it, so.

So I'm just saying that, that process will continue regardless, not saying and actually we're already too deep, and I've talked about the number too deep. In terms of sales, Kentucky, we still have to get across and then the contracted renewables, we still get across. And then we'll see where we're at that point, based upon what we're getting in terms of the feedback of the RFPs because when these RFPs are ultimately get approved, they will know exactly what the ownership looks like, what the financial requirements are and we'll do what we've always done. We'll make sure that we're going through this process, making to invest in the right places and we will look at the portfolio and see what makes sense and what doesn't make sense for us to continue to optimize that for shareholder benefit.

Q - Shar Pourreza

And then just one quick follow-up from Steve's question is, obviously we appreciate the confidence around the operating agreement in the Kentucky sale and reiterating the timing of the deal, but just to book ended, assuming there is maybe an adverse ruling or something that's not palatable. Can you just remind us, I think does Algonquin have a material adverse change clause? Is there a timeframe when they could walk away from the deal as we're just thinking about a book end?

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

It's typical to have those kinds of provisions in that kind of agreement, but I can tell you that we and Algonquin are arm-in-arm getting this thing across the finish line. They very much want to own this property and they've actually -- they've actually stepped up in a considerable way to provide customer benefits to make this transaction attractive to the policymakers and to the customers. So, and of course -- I think a seminal event here obviously is May 4th where the commission will come out with an order and we will look at that order, we will make determinations on what conditions are in place and at that point in time, we'll make decisions on what it looks like.

But I think from the public interest standpoint, the things that the commission also be looking at, this transaction is very, very good for Kentucky customers and if there are -- I think everyone has to be sort of level headed about all of this because when you get through this process, you actually have a -- you have a timeframe now for customer benefits to occur, substantial benefits and that's really a driver to get this thing done as quickly as possible, particularly in this energy related environment. So, I really don't anticipate that happening, but if it did, we'll do what we always do, we'll figure out what the options are and what the possibilities are and go from there. But right now we're not planning on that.

Q - Shar Pourreza

Terrific. Thank you, guys. Congrats on the results. I appreciate it.

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

Yeah, sure, thanks.

Operator

And next we'll go to the line of Jeremy Tonet with JPMorgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just want to pivot a little bit towards transmission here, and given the MISO planning makes a little bit outside of you guys footprint, but also as you mentioned the FERC transmission planning and AEP stepping up CapEx towards Transmission here. Just wondering if you could dive in a little bit more as far as what's -- which specific areas projects might materialize or any other color you can provide on specific transmission opportunities incremental at this point?

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

Well, typically, and we've done this, we actually plan for around 130% of the budget for transmission. So we have 30% more projects that are occurring that we already have planned scoped ready to go. So layering in these multiple projects is a way for us to not only as opportunities arrive, as the metrics for financials continue to improve, we can layer in more of that, we can adjust to that based on projects that go one way or another.

And then also, recently we were awarded in Texas -- a large project in Texas that's also incremental. So, it was like $1.3 billion or so, but that -- those are the kinds of things that will come to pass and we have every bit of opportunity related to transmission not only within our own system, but also in terms of the incremental systems around us, and that's why -- and you asked about FERC and transmission, FERC obviously is taking the right steps relative to long-term planning, getting the framework for long-term planning put in place. That's an important part of the process to speed up some of the planning aspects to ensure that we are making the right investments at the right places.

We continue and I think FERC will continue to look at, even in parallel, these issues of cost allocation of even the incentive mechanism, but also in terms of - and the regional planning which AEP will bode well in terms of that because just about everyone interfaces with us. So, as you look at some of these aspects, the more renewables that are needed, certainly the more retirements that are occurring across RTOs is all going to bode well for transmission investment. And we -- what we see today is not we're going to see tomorrow. And then if FERC is doing the right thing, which we think they are, is going to bolster the ability for us to have a more consistent, congruent, clean-energy type system across this nation and you can't do that without AEP.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it, thank you for that. And just shifting gears towards O&M, just wondering what trends you're seeing there? It looks like it was a nickel benefit and Vertically Integrated a little bit of a headwind in transmission and distribution, and just wondering if you could dive in a little bit more as far as what different trends you're seeing in O&M across the business?

A - Julie Sloat {BIO 6462741 <GO>}

Yes, happy to, Jeremy, this is Julie. I did call specifically out, the O&M trend in Vertically Integrated Utilities. There's a little bit of a flipping and twitching going on between O&M and depreciation associated with the Rockport Unit II lease. That's included in that 2022 guidance that we had provided to you back in February, we've updated that page for your, so entirely consistent. Yeah, and we're absolutely watching O&M as we continue to navigate inflationary pressures, et cetera.

At this point, I would tell you, I think we're right in line with where we thought we'd be. So we're keeping our fingers crossed and the team is working like heck to make sure that we've got supply chain and supply chain is being addressed et cetera. But at this point, that guidance that we gave to you stands pat. So nothing new to report other than the fact that the team is working really hard to make sure that those numbers coming in line to the extent that we have many new developments, we will surely keep you apprised.

Q - Jeremy Tonet {BIO 15946844 <GO>}

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

A - Julie Sloat {BIO 6462741 <GO>}

Perfect.

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

Thank you.

Operator

And next we'll go to Durgesh Chopra with Evercore ISI.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Congrats, this is a solid print here. Most of my questions have been asked and answered. I just had a quick clarification as it relates to the Kentucky sale. The May 4th is when we get the order for transfer and control. Do we need to get sort of the Mitchell operating plan agreement before then or how does that play into the May 4th order?

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

No, that will likely come after shortly thereafter and the way we've looked at it is that, obviously you want the transfer agreement done. But as far as the Mitchell agreement approval, we expect that to occur shortly thereafter with both commissions because it's an important aspect of it and something I think that really helps for the transaction side as well.

Q - Durgesh Chopra {BIO 20053859 <GO>}

I understand. So they can actually issue an order, the Kentucky commission can before actually -- on the trend or before resolving the Michelle sort of ongoing dates of different things.

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

That's right, that's right.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Understood. Thank you so much, guys.

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

Yeah.

Operator

And next we will go to Sophie Karp with Keybanc.

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

Good morning Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

Good morning. Thank you for including the names here at the end.

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

Yeah, sure.

Q - Sophie Karp {BIO 19699392 <GO>}

I have a couple of questions here. So, first on the load growth, obviously very healthy numbers here. Above other industrial regions in the country, probably at this point. I'm not sure if two quarters is a trend, but let's say, how long do you need to see those numbers in this range that it would be enacting for maybe your reset in the long-term expectations for what this load should, does it make sense?

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

Yes, it's great question, because you're right, two quarters doesn't, it doesn't make a trend. But when you look at the economy within our service territory, we're seeing some very positive indicators for continued expansion and continued economic development. We are -- our economic development people are extremely busy with multiple opportunities that are coming throughout our territory actually.

And so we look at that, we look at the sort of -- if you were to look at our pipeline of potential opportunities, it is extremely robust and that gives us confidence in terms of where we think the economy is going to continue to go within our service territory. And of course, we don't see an end to the work from home environment. So we're feeling much better about the prospects of a more robust residential side of things.

And then on the industrial, like I said, the onshoring, the security aspects, the energy play within our service territory. The other aspects of what's going on within the territory with chemicals manufacturing and so forth, that pace has picked up markedly with expansions and new developments and some of them are still years away, like the NTL manufacturing here in Ohio in our territory. It's substantial there'll be 20 to 40 more companies associated with that. It will be locating.

So you see those types of prerequisites that are being put in place, that gives us a lot of positive views about where we think the economy is going. We'll watch it, we'll continue to evaluate it. If we go to the third quarter, see the same thing and fourth quarter, the same thing, then you'll probably see some adjusting going on relative to the 2023 forecast, but that's -- our load guy will have to tell us that, he is very objective and he's is a professor at one of the universities and he -- usually he is -- let me put it this way, he is probably more optimistic now than I've ever seen him and that's a good thing.

A - Julie Sloat {BIO 6462741 <GO>}

Nick, if I can just jump in there with a finer point or two as well. And Sophie as I made comments in my opening remarks, we are still about 1.6% behind pre-pandemic levels on the industrial side of the house. But as I mentioned and as Nick mentioned, we do see expansions that are going to allow us to not only get pass that 1.6%, but to go beyond that. So we do expect to be beyond the pre-pandemic levels. And as a matter of fact, what we've seen so far this year in the first quarter is that six of our top 10 sectors were up. So that's a good indication.

And then looking forward, we expect to see strong growth in oil and gas as new LNG operations ramp up in Texas and that began a few quarters back. So we're going to start to see the fruits of that efforts as well, but stay tuned. As you know, we typically, if we're going to revise guidance, we've historically done it once we get past our peak season, which is summer, but to be perfectly candid, we're looking at this constantly. So we will be back to you if there is anything that requires us to get new information in front of you, because we'll definitely want to take advantage of that.

Q - Sophie Karp {BIO 19699392 <GO>}

Perfect. Thank you. My other question is on the RFPs, not to beat the dead horse, I guess, but I can appreciate the fact that the projects are expected to be commissioned in 2024, 2025 timeframe, which is a couple of years away to sort out the physical disruption of equipment availability, et cetera. But in terms of pricing, what should be -- typically bid into those RFPs, like what do you think they should be coming in terms of pricing. Does that make it difficult with volatility in the pricing of equipment, particularly solar, and unpredictability really where we are with the solar market or storage market might be a year from now. Does it make the, I guess, the process more complicated or addressed with it.

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

Yeah, I think it will make it more complicated, but not insurmountable, because whatever increases you may see from a solar perspective, the overall project benefits will still be part of it. Now it may change the relationship between wind and solar in the integrated resource plan. Solar may come later than what we thought because if wind continues to continues to progress as you go in our resource plan, a lot of it was when to start and then eventually it's based on pricing and everything else, solar would start to pick up and at some point overcome the wind asset and then you move into other technologies. That condition may change based on that, but you also, I mean, you'll probably see that in the framework of increased gas prices too. So really the renewables will be relative to each other not in terms of relative to whether they'll get done or not. So, and I really think we'll be in good shape from that perspective.

The other part two is that, when you look at the other resources, really what you're doing is, you're putting in renewables and you're also layering in some natural gas in the plan to really give it 24/7 supplier. Natural gas also is a placeholder for other types of resources, whether it's hydrogen, whether it's small modular reactors, whatever that comes about with new technologies and the grid optimization itself will be a major part of that as well with transmission. So there is a multitude of answers there that will occur. But, yes, you're right, you would suspect solar, there'll be some short-term perturbation from an increase perspective that we'll have to deal with. But in the overall scheme of things, when you look at long-term, it will still be positive.

Q - Sophie Karp {BIO 19699392 <GO>}

All right. Thanks so much.

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

Yeah.

Operator

And our last question comes from Michael Lapides with Goldman Sachs.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, Nick, thanks for taking my questions. I have two and they are a little bit unrelated. I'm going to the appendices of your slide deck. I'm looking at what you used to call kind of, I don't know, the money chart, the ROE chart for trailing 12 month, the equalizer chart, thank you. And one of the things that stands out as public serve Oklahoma, just curious if you can talk a little bit about PSO and a little bit about maybe SWEPCO in APCo where the earned ROEs are decent bit below 8% and just kind of how you think about the trajectory of quote-unquote fixing the split between earned and authorized.

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

Yeah, so at SWEPCO we have rate cases there in two of the jurisdictions and PSO, we will have a rate case as well. And, but keep in mind too, we just brought in all of the renewables in play, particularly a large chunk of it for PSO and SWEPCO. So that's now rolling through rates and so we expect that to continue to pick up, those are -- and really when you look at the industrial and manufacturing economic development part of what's going on in those jurisdictions, they are still very positive. So, and of course we continue to invest heavily in those jurisdiction so, and that's why we have equalizer chart that some of the peer lower until we file rate cases and when the investment changes itself, so we're not concerned by that at this point and actually we see PSO and the SWEPCO jurisdictions with Arkansas, Louisiana, in particular, very favorable.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it, okay. And then one follow-up and this may be just a checking in on what was in our original guidance, but just curious, for the transmission segment, how much do you think (inaudible) down a little bit on a net income and EPS perspective year-over-year for the first quarter. Can you remind me what you think the earnings growth trajectory is for the transmission segment in 2022 relative to 2021 and kind of the drivers behind that?

Q - Shar Pourreza

Yeah, Julie.

A - Julie Sloat {BIO 6462741 <GO>}

Yeah, and so, Michael, I don't have my guidance sheet in front of me for 2022, it's in our presentation that we put out there and our fourth quarter call, but effectively and actually somebody is going to hand it well, and going to hand it to me. But effectively, what we were anticipating was that year-over-year we'd be up about $0.08 and that was driven by investment growth being up $0.12. I mentioned this actually in my opening comments as well and then we had a true up that would occur and we knew that was going to be embedded. That's why we have it in the guidance, that's associated with the fact -- The true up was positive the previous year, and yeah, sort of double count. It would -- so it's flipping back and forth so. So we had two reasons for that true up. I mean, we had spent just a little bit under our budget for the prior year and as you know, we got forward looking rate. So that's a catch up there and then we had higher load, so we had a catch up there too, so we get a little bit of a double-counting there. But that's why we had the 11% reduction in that true up. And then we had other financing and income taxes that kind of brought that number back down to, flip it to a negative $0.08. So in aggregate, for 2022, we assume that we'd have about $1.27 from that particular segment, again driven by investment growth, offset by a couple of these other bucket items that I threw out there. We are on that trajectory. And that's why I specifically called that out in my opening comments, because if I was trying to model this, that's exactly what I'd be asking.

Q - Michael Lapides {BIO 6317499 <GO>}

So then the growth would be more into the year --?

A - Julie Sloat {BIO 6462741 <GO>}

It's, I guess, it's priced fair enough. We're a little short on the first quarter. But yeah, I would just expect that we'll continue to see transmission investment continue to plug along through the remainder of the year, at this point, we don't have any changes as it relates to that specific guidance. And we have it out there year-by-year in our guidance forecast and assumptions pages in our traditional Investor Relations materials. Happy to walk through with you offline, if you'd like to do that too.

Q - Michael Lapides {BIO 6317499 <GO>}

I appreciate it. Thank you guys. Super-duper helpful and much appreciated you taking the time to get to my questions.

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

Sure thing. Thanks Michael.

A - Unidentified Speaker

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. Katie, would you please give the replay information.

Operator

Ladies and gentlemen, this conference will be available for replay after 11:30 Eastern Time today through May 5th at midnight. You may access the AT&T replay system at any time by dialing 1866-207-1041 and entering the access code 2732671. International participants dial 402-970-0847. Those numbers again are 1866-207-1041 and 402-970-0847, access code 2732671. That does conclude our conference for today. Thank you for being patient and for using AT&T Conferencing Services, you may now disconnect.