Q2 2024 Earnings Call

Company Participants

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

Other Participants

- Andrew Weisel, Scotiabank
- Bill Appicelli, UBS
- Carly Davenport, Goldman Sachs
- Durgesh Chopra, Evercore ISI
- Jeremy Tonet, J.P. Morgan
- Julien Dumoulin-Smith, Jefferies
- Nicholas Campanella, Barclays
- Paul Patterson, Glenrock Associates LLC
- Shar Pourreza, Guggenheim Securities
- Sophie Karp, KeyBanc Capital Markets
- Steve Fleishman, Wolfe Research

Presentation

Operator

Thank you for standing by. My name is JL, and I'll be your conference operator today. At this time, I would like to welcome everyone to the American Electric Power's Second Quarter 2024 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

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

Darcy Reese {BIO 20391516 <GO>}

Thank you, JL. Good morning, everyone, and welcome to the second quarter 2024 earnings call for American Electric Power. We appreciate you taking 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 discussion of these factors.

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

I will now turn the call over to Ben.

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

Good morning, and welcome to American Electric Power's second quarter 2024 earnings call. Shortly, Peggy will provide a regulatory update, followed by Chuck, who will review our financial results in more detail. A summary of our second quarter 2024 business highlights can be found on Slide 6 of today's presentation.

Before I dive into our results, I'd like to start by welcoming Bill Fehrman to AEP as our new President and CEO, effective August 1. Bill brings decades of utility operational leadership, experience, and in-depth knowledge of the energy industry, most recently serving as President and CEO of Centuri Holdings, and prior to that, President and CEO of Berkshire Hathaway Energy. With Bill's expertise and diverse background, you can anticipate a smooth transition and continuity of strategic direction.

Expect more focus on execution, and Bill has the background to do just that, including capturing growth, listening and responding to our regulators and investors, and using innovation to mitigate inflationary pressures. While I will be serving as Senior Advisor for several months to ensure a smooth transition, it's been an honor to lead AEP as Interim President and CEO, and I'm proud of what the team has accomplished so far this year.

Now turning to AEP's financial results. Today, we announced second quarter 2024 operating earnings of $1.25 per share, a $0.12 increase over one year ago. Our operational execution through the first half of the year, combined with our efforts to efficiently manage the business, have put us well on track to achieve our targets. Today, we reaffirm our 2024 full year operating earnings guidance range from $5.53 to $5.73 and our long-term earnings growth rate of 6% to 7%.

Regarding data centre load, we have commitments from customers for more than 15 gigawatts of incremental load by the end of this decade, mostly driven by large load opportunities. To put this in perspective, AEP's system-wide peak load at the end of last year was 35 gigawatts. We continue to work with data centre customers to meet their increased demand while ensuring contracts and new initiatives are fair and beneficial for all of our customers.

In the fall, we will provide an update on what this large load opportunity means for our capital spend, including generation and transmission investment, and on our plan to responsibly finance this growth initiative. While we certainly encourage innovation when it comes to meeting the energy needs of our customers, data centres included, I want to emphasize that it's critically important that costs associated with these large loads are allocated fairly, and the right investments are made for the long-term success of our grid.

For this reason, we filed new data centre tariffs in Ohio and large load tariff modifications in Indiana and West Virginia. And it's the reason why we filed a complaint with FERC related to a co-located load agreement. We will know soon what FERC decides, but this is the rationale we use. Given the co-located load agreement is an active case before FERC, I don't plan on making any further comments.

I'd also like to note that large load impacts are already being felt here in AEP's service territories, primarily Ohio and Texas, as our commercial load grew an impressive 12.4% over the second quarter of last year. Looking ahead, we expect the incremental load I just mentioned to move forward in these states and others, including Indiana.

Moving to another example of capital opportunities, PSO announced an agreement at the end of June to purchase a 795 megawatt natural gas generation facility conditioned on regulatory approval. The facility, known as Green Country, is located in Jenks, Oklahoma, and will ensure PSO customers continue to benefit from reliable and affordable resources. For this resource adequacy driven capital, PSO plans to seek regulatory approval this fall, at which time the economics of this acquisition will be made public. As you know, maintaining a strong balance sheet is critical to fund increased capital spend to support our growth initiatives.

We will sensibly finance our capital needs and we're open to incremental growth equity and equity-like tools in addition to portfolio optimization. On a similar portfolio note, the sale of AEP OnSite Partners remains on track to close in the third quarter following FERC approval. Now let's move on to the federal EPA's Coal Combustion Residual rule, or CCR, which was finalized in the second quarter and expanded the scope of the rule to include inactive impoundments at existing and inactive facilities.

We continue to evaluate the applicability of the rule to current and former plant sites and have developed preliminary estimates of compliance costs. While we are working with others and looking at potential legal challenges to the revised rules, as appropriate, we do plan to seek cost recovery through new and/or existing regulatory mechanisms. Chuck will have more information on this shortly.

Before I turn it over to Peggy for additional updates, I'd like to thank all of you for your support during my time as AEP's Interim CEO. It's been a privilege to serve AEP over the past five months, and the Board and I are confident that Bill is the right person to build on the momentum underway and to lead AEP into its next chapter. On a related note, we are planning an informal meet-and-greet in New York City soon so analyst, investors can say hello to Bill in person. We are targeting something in August, so stay tuned for more information coming your way in the next couple of days.

Finally, I'm excited about what the future holds for AEP as we execute on our strategic priorities and enhance value for all of our stakeholders. Peggy?

Peggy I. Simmons {BIO 17724877 <GO>}

Thanks, Ben, and good morning, everyone.

Now let's turn to an update on several of AEP's ongoing regulatory initiatives. We are engaged in our regulatory and legislative areas, continuing to strengthen relationships, including implementation of our investment in more people and resources at the local level. And as the utility industry is changing, now more than ever, AEP's operating company leaders are staying increasingly engaged with regulators amidst this dynamic environment.

Customer bills and affordability remain top of mind for AEP in addition to system reliability and resiliency. We are focused on advancing interest in each of the states we operate, which includes economic development, work across our service territory to bring jobs and create bill headroom from a larger load perspective, and to ultimately achieve the regulatory outcomes that are good for AEP's customers, communities, investors, and employees. We continue to work through regulatory items with a focus on our authorized versus earned ROE gap, which remains flat at 8.9% for the past 12 months as of second quarter 2024.

Turning to some positive rate case development, let's start with I&M. I'm pleased to report that in May, we received an order in Indiana approving all key items in our settlement, including an improved 9.85% ROE. In June, we received a constructive order in Michigan maintaining our existing 9.86% ROE with new rates taking effect in mid-July. Just last week for AEP Texas, parties filed a unanimous and unopposed comprehensive settlement with the ALJ, increasing our authorized ROE to 9.76% with rates effective in early October, pending commission approval. As you know, earlier this year, we filed an APCo biennial rate review in Virginia and a base rate case for PSO in Oklahoma, where we received intervener testimony in the PSO case last evening.

We're at the beginning of the procedural schedules in both cases and expect commission orders in the fourth quarter. We look forward to sharing updates on our progress in the coming months. Relative to future cases, APCo plans to file a base rate case in West Virginia in the next week. While we have many trackers in place to help mitigate regulatory lag, we have not had a rate case here in a few years and look forward to working with the parties to achieve a balanced and fair result.

Looking ahead, I am proud of the progress we continue to make on the regulatory front, and I remain excited about advancing our regulatory strategies in 2024 and beyond. Let's discuss AEP's recent fleet transformation activities and the progress we made on that important initiative. In May, APCo issued requests for proposals for 800 megawatts of wind or solar-owned resources with regulatory filings anticipated in 2025.

Finally, as Ben mentioned, PSO signed an agreement in June to purchase Green Country's 795-megawatt natural gas generation facility to help ensure resource adequacy. The agreement is conditioned on regulatory approval, and we plan to make the related filings with the Oklahoma Commission in the fall. This is an example of a proactive approach by the team in meeting ever-increasing resource needs and we're enthusiastic about the opportunity as we advance our fleet transformation.

To wrap up, I'd like to thank Ben for his leadership and welcome Bill to the AEP team. This is an exciting time here at AEP, and when I think about the future, I'm motivated by the opportunities we have ahead of us, embracing large loads, advancing our regulatory strategy, and driving overall long-term success.

I'll now turn things over to Chuck, who is going to walk through second quarter 2024 performance drivers and details supporting our financial results. Chuck?

Charles E. Zebula {BIO 6231994 <GO>}

Thank you, Peggy, and good morning, everyone.

Let's jump right into our second quarter results. Slide 7 shows the comparison of GAAP to operating earnings for the quarter and year-to-date periods. GAAP earnings for the second quarter were $0.64 per share compared to $1.01 per share in 2023. Year-to-date GAAP earnings are $2.55 per share for this year versus $1.78 per share last year. There's a detailed reconciliation of GAAP to operating earnings for the second quarter and year-to-date results on Pages 13 and 14, respectively.

Let's briefly highlight a few of the non-operating items for the quarter that mostly make up the difference between GAAP and operating earnings. First, as disclosed in an 8-K in May, an after-tax provision of $126 million for customer refunds was recorded based on recent developments in the remand proceeding related to the cost cap associated with the Turk Plant that has been debated over the last decade. Secondly, we incurred a $94 million expense associated with a voluntary severance program that we completed in the second quarter.

And finally, as Ben mentioned, the final revised EPA's CCR rule became effective in May. We recorded a $111 million accrual for compliance costs largely related to our Ohio properties where generation is deregulated. We also updated our asset retirement obligations for sites in our regulated entities where we intend to seek cost recovery.

Let's walk through our quarterly operating earnings performance by segment on Slide 8. Operating earnings for the second quarter totalled $1.25 per share or $662 million compared to $1.13 per share or $582 million in 2023.

This results in an increase of $80 million or $0.12 per share, which is a 10.6% increase over last year. Operating earnings for Vertically Integrated Utilities were $0.46 per share, down $0.05. Positive drivers included favourable year-over-year weather and rate changes across multiple jurisdictions with a 2022 PSO base case and the 2023 Virginia proceeding being the most significant. These items were offset by higher income taxes, which are largely a reversal of favourable income taxes in the first quarter, lower normalized retail sales and higher depreciation.

Note the year-to-date results in this segment consolidate the income tax loss that is shown in this quarter, resulting in an immaterial year-to-date income tax variance versus last year. The Transmission and Distribution Utility segment earned $0.41 per share, up $0.11 compared to last year. Positive drivers in this segment included favourable weather, increased transmission revenue, rate changes primarily from the distribution cost recovery factor in Texas, and higher normalized retail sales. These items were partially offset by increased property taxes and depreciation.

The AEP Transmission Holdco segment contributed $0.39 per share, up $0.01 compared to last year, primarily driven by investment growth. Generation & Marketing produced $0.12 per share, down $0.01 from last year. Recall that AEP Renewables was sold in the third quarter last year, which has two impacts, a negative earnings variance due to the business being sold and removal of the interest costs for financing these assets. Additional drivers were lower retail margins, offset by higher generation margins and lower taxes.

Finally, Corporate and Other was up $0.06 compared to the prior year, primarily driven by lower income taxes and increased other operating income related to timing in the prior year. These items were partially offset by higher interest expense and lower interest income from the G&M segment. Let's turn to Slide 9, which shows weather normalized retail sales up 4% in the quarter from a year ago, headlined by a double-digit 12.4% increase in commercial sales, which is where our data processing customers are classified.

I'll note that in our T&D segment, the increase in commercial load was over 20% for the quarter. This is a trend that will continue over the coming years based on already signed customer commitments. Our operating footprint and robust transmission system position us perfectly to grow along AI and other technologies and industries in need of access to affordable and reliable power. Through the remainder of this year, data processing gains will remain mostly concentrated in Ohio and Texas. But beyond this year, we are seeing strong commitments from new customers looking to connect at some of our vertically integrated companies as well.

Outside of data processors, our industrial sales have remained resilient in the face of a slowing economy. Industrial sales were strongest in Texas, driven by an influx of new customers, mainly in the energy industry. Thanks to our success over the past few years on the economic development front, we expect to see our industrial sales continue to be resilient in the next few years as several new large customers in steel, energy, renewable energy and semiconductors come online across our footprint.

In the residential segment, we continue to see growth in customer count and load in Texas, but residential load remains weak in most of our territories, likely due to the cumulative effects of inflation. Bottom line, the amount of demand from new large loads we're seeing across our system is unprecedented. We are excited, challenged and poised to embrace this opportunity. Let's move on to Slide 10. In the top left table, you can see the FFO to debt metric stands at 14.6% for the 12 months ended June 30, which is a 40 basis point increase from the prior quarter.

Our debt to cap decreased slightly from last quarter and was 62.6% at quarter-end. We took credit supportive financing actions in the second quarter by issuing $400 million of equity under our aftermarket program and by issuing $1 billion in junior subordinated notes at the parent, which qualified for 50% equity credit at all three rating agencies. In the lower left part of this slide, you can see our liquidity summary, which remains strong at $5.4 billion and is supported by $6 billion in credit facilities.

Lastly, on the qualified pension front, our funding status is near 99%. In summary, our second quarter results provide additional momentum this year, bringing year-to-date earnings up to $2.52 per share, an increase of $0.28 or 12.5% compared to the same period last year. We reaffirm our operating earnings guidance range of $5.53 to $5.73 and remain committed to our long-term growth rate of 6% to 7%. And as we move through the balance of the year, our focus is on providing reliable and affordable service to our customers, executing our plan and embracing the growth opportunities that we have ahead of us.

Also, a quick update on the sale of AEP OnSite Partners. We expect the transaction to close in the third quarter and result in approximately $315 million in net proceeds to the company. I'd be remiss if I didn't acknowledge the skilled leadership of Ben Fowke during this time of transition at AEP. Ben told you that this company would not be in neutral during the transition, and I can say that that is absolutely true. Ben, while I know you'll still be engaged as an Advisor in Board role going forward, I want you to know that the AEP team appreciates your engagement and contributions over the past five months.

Finally, the AEP team looks forward to the arrival of our new CEO and President, Bill Fehrman. We all look forward to Bill bringing his accomplished leadership to AEP and working with him as we take on the exciting opportunities that we have before us. Thank you for your interest in American Electric Power.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions) Your first question comes from the line of Shar Pourreza of Guggenheim Partners. Your line is open.

Q - Shar Pourreza

Hey, guys. Good morning.

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

Good morning.

Q - Shar Pourreza

Good morning. Just firstly, obviously, you guys highlighted in the deck, quote unquote, the direction and strategy kind of remain on track. I guess how much latitude will Bill have to make kind of strategic changes if need be to create value, or is the plan kind of the plan and any kind of changes you expect will likely be more in the fringe given your and the Board's comfort level with the trajectory, with obviously the latter kind of being a similar situation to one of your other Ohio peers in the state when they had an incoming CEO? Thanks.

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

Yes. I think that was a lot different circumstance, Char, but Bill is very familiar with our strategy. We clearly had conversations with Bill about our strategy. So, I think it's -- I think we're on the right strategic direction. I do think Bill is going to come in and focus very much on execution. He's got a ton of experience, as we mentioned. And so, I mean, he'll take some time, assess where we are, and I'm sure he's going to make some changes, but I don't see significant changes in the strategic direction. It's not like we gave him a plan, a to-do list, and you do all these things. He's going to be a dynamic leader. But the path we're on is, I think, we're all in agreement, it's the right path, and we need to execute on it.

Q - Shar Pourreza

Okay. Perfect. And then last thing, obviously, we've talked about higher CapEx coming, driven by customer growth, data centres, et cetera. As we're kind of thinking about that incremental CapEx, potentially with a 3Q update and the funding source, the balance sheet doesn't have a material amount of capacity. You touched on this a little bit on your prepared, but maybe you can elaborate on how you're kind of thinking about incremental equity versus asset sales, and with asset sales, how you're thinking about distribution versus transmission. Thanks, guys.

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

Yes. I mean, clearly, we're going to have an update in the fall, either at or right before EEI, that incorporates what it means to CapEx to fund this load growth, both in generation and transmission, and of course, what it needs to make sure the balance sheet is strong in terms of equity and equity-like products, including portfolio optimization. Regarding portfolio optimization, you've heard me say it before, we're always open to it, but price has to be there and the ability to execute has to be there. And the regulated utility spaces, those are two hard things to put together at the same time, but we're open to it. Chuck, I don't know if you want to add anything to it.

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

Ben, the only thing I would add is, right, it's so important as we are a regulated utility and have significant capital needs, not only today, but going forward, right, to maintain investment credit ratings. And we will defend that, right, in our plan.

Q - Shar Pourreza

Got it. Perfect. Thank you. And by the way, just real big congrats on Bill. He's one of the best hires. Thanks, guys.

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

Thanks. You did mention, Shar, asked the mix between distribution and transmission. So, it's going to -- there's obviously going to be a lot of transmission needed to be built as well as distribution.

Operator

Thank you. Your next question comes from the line of Jeremy Tonet of J.P. Morgan. Your line is open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Good morning.

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

Hey, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hey. I know you're not going to give us the full details here, but I was just wondering if there's any way you could help us think through size and shaping of this incremental CapEx, as you talked about, with the incremental wires needs here. It just seems like everything is materializing quicker than expected. And so, just wondering if you could comment, I guess, any shaping there that would be helpful.

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

Yes. Well, as I mentioned, with Shar's comment, I mean, you're definitely going to see a lot of increase in transmission spent that there's got to be something to plug into. So, we're going to have generation as well. And we recognize the need to make sure we have reliable distribution grid. So, I think if I had to rate it, it would be transmission increases, followed by generation, followed by distribution.

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

Jeremy, I would say you'll note, in our materials that we raised our CapEx this year already by $500 million, that largely is in T&D, right? It's for reliability spend, also customer hookups, and storm-related capital. So, the shape of it, right, is going to be as these customer additions come online, and again, as Ben mentioned, we'll be laying all that out in the fall.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. So, it sounds like there's an opportunity for more near-term as opposed to just later dated at this point, if I understand correctly.

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

I think that that's true.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. I was just wondering if you could talk a bit more on PSO's natural gas generation purchase there. To what extent do you see the need for incremental gas generation across Oklahoma, other service territories? Just wondering if you expect to see more of this.

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

So, I would say -- this is Peggy. And I would say with the increased reserve margins that we're seeing from the RTOs and the additional load that we're starting to see across our system, we are going to need some additional generation. And this was a very proactive approach that the team took, as I mentioned in my comments earlier, to go out and find some affordable assets that we can bring onto the system. And we plan to make that filing at the commission later this fall.

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

Yes, Peggy mentioned proactive. It really, I think, was creative. It was outside of the RFP process and -- but it -- we have an RFP process to compare the pricing to and it's clearly very favourable. So, we're really excited about it. I think it'll be great for our customers.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Thank you for that.

Operator

Your next question comes from the line of Steve Fleishman of Wolfe Research. Your line is open.

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

Hey, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey. Good morning. Sorry, I've got several questions on data centre or data processing, as you called it. So, first of all, just in the quarter, you had the very strong commercial sales growth, but then your normalized sales growth between the two subs, I think, was actually down $0.04, when you kind of look at both Vertical and T&D. Could you just talk to how we should think about that?

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

Yes. In T&D, Steve, normalized sales were up $0.02.

Q - Steve Fleishman {BIO 1512318 <GO>}

Right. But then the Vertical was down $0.06, I think. So, I guess --

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

Yes. So --

Q - Steve Fleishman {BIO 1512318 <GO>}

-- just thinking, when I look at the whole picture, it's not kind of shift -- at least in that line item doesn't seem to be showing up as a benefit.

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

Yes. So, let me comment on the negative $0.06 in Vertically Integrated. That's largely due to, in Vertically Integrated, we had a -- in the quarter, we had a 4.9% decrease over last Q2 in residential sales, and that's largely what drove that number. In our SWEPCo territory, we had -- in kind of mid to late May into early June, we had a number of repeated storm activity, tornadic activity that took large swaths of customers out for significant amounts of times what drove that number down. We see -- we've seen that start to normalize back in June and July. So, I expect that to be -- to return to a more normal state.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Thanks. And then on the 15 gigawatts of committed data centre sales to 2030, could you just maybe better define what committed means when you give that data point?

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

Yes. I mean, it basically means that we have letter of agreements and those letter of agreements, you'd start the clock running, if you will, for us to do work that pretty quickly go -- can go into the millions, which that customer who signed a letter of agreement is required to pay. So, that's how we define it. We've -- as we look forward, we look at a number of filtering criteria, ownership of sites, et cetera, that we use. So, it's -- these are far from just inquiries. These are serious customers that want to get on the grid and are willing to financially commit to do what it takes to get on the grid.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And are those customers kind of committing to these new tariffs you filed, or are we not at the point where they've made the agreement that those tariffs work for them when they've kind of done this?

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

Yes, that will be going -- those tariffs, as you know, they haven't been approved yet, but they will need, to the extent -- depends where they are in the signing process as to whether or not they would be held to those tariffs or not. But going forward, customers, if approved, will all be required to step up to the tariffs.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then --

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

As you know --

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes.

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

Well, I was just going to say, it's just -- it's really important. We're going to see more growth than we've seen in maybe generations, and it's going to be really important that that growth is beneficial for all customers, and at the worst case, at least neutral. And that's exactly why we're trying to -- that's exactly why we're so keenly focused on making sure that we have these tariffs and the modifications I mentioned in Indiana and West Virginia. And it's just -- we've got to get it right.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then maybe just in terms of helping to frame the capital needs, just can you give us some rough sense of that 15 gigawatts, how much might be related to Vertically Integrated parts of AEP versus the transmission-only parts?

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

Yes, Steve. So, the way to think about it is think of it as a 50/50 split between Texas and PJM. 50% -- of course, Texas, right, is our wires company. And PJM, take that 50% and basically split it 50/50 between I&M, which is Vertically Integrated, and AEP Ohio, right, which is wires only.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. So, that would be kind of 75/25, I guess, roughly, I think.

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

Yes. That's correct.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. Okay. Thank you, guys.

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

Yes, we are seeing additional interest amongst other Vertically Integrated Utilities, but that interest is not as firm yet.

Q - Steve Fleishman {BIO 1512318 <GO>}

Amongst some of your other Vertically Integrateds?

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

Yes, that's correct.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. Okay. Great. I'll leave it there. Thank you very much.

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

Thanks, Steve.

Operator

Your next question comes from the line of Nick Campanella of AEP. Your line is open.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Nick Campanella at Barclays here. Thanks for the time.

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

I was like--(Inaudible) Did we just hire Nick?

Q - Nicholas Campanella {BIO 20250003 <GO>}

I never got the call. I never got the call, but thanks for the time. A lot of my questions have been answered, but I was just curious as we kind of try to think about the magnitude of capital that the plan can handle here. I know that there's financing considerations, but there's also kind of bill growth considerations. Just how high do you think your rate-based growth can get before you have to start thinking about customer bill impact, especially as some of this load should be able to supplement that? But just trying to see where this rate based CAGR could go at the end of the day. Thank you.

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

Yes. I think the incremental CapEx will be driven to support new load growth, and that's why we're just so keenly focused on making sure we get the rules right. And our modelling suggests that it will be good for all customers. And that's -- I mean, that's what makes me so excited about this is, is that everybody can benefit, load is good for all, and it's going to -- there's certainly pressures on the grid and the resiliency and things like that. But I think the load is going to be beneficial to mitigate cost increases.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Okay. Thanks. And then I guess since you've kind of taken over, you have kind of pulled some strings on this voluntary severance program, just where are there other opportunities in the plan to cut costs today or just things that maybe we're not thinking about that could be incremental to the positive?

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

Again, as I mentioned, you've got Bill Fehrman coming in. He's got a track record of innovation. The companies in the Berkshire Hathaway portfolio were extremely well run. Bill is extremely well respected. So, I think he is going to bring a lot of great ideas. It's a lot of blocking and tackling and also taking advantage of innovation, smart technologies, et cetera, that'll get us there. But the team has done a really good job, if you look back, in keeping O&M in check. So, again, I think the biggest way we keep costs down on our customers is to bring this new load on and bring it on in ways and rules and tariffs that are fair to all.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Thank you.

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

Thanks.

Operator

Your next question comes from the line of Carly Davenport of Goldman Sachs. Your line is open.

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

Hi, Carly.

Q - Carly Davenport {BIO 21913922 <GO>}

Hey. Good morning. Thanks so much for the time. Just a couple of clarification questions, if I could. First, just on the 15 gigawatts of incremental load by the end of the decade, could you just clarify, is all of that related to data centres or is there anything else in there? And then is there anything you can provide on how to think about the cadence of that load materializing from a timing perspective?

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

Yes. The 15 gigawatts refers to all data centres and we're not announcing the cadence of that at this time. But it's already, as you could see, it's already showing up in our numbers. So, we are hooking up folks and you'll see continued increases over the next several years.

Q - Carly Davenport {BIO 21913922 <GO>}

Great. Thank you for that. And then just to follow-up just on the earned versus authorized ROE gap. I know you mentioned the earned ROE sort of flat at that 8.9% on a trailing 12 month basis. Do you have that comparable weather normalized number similar to what you've provided in previous quarters?

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

We're looking forward to be at 9.1% for this year. As I mentioned over the past 12 months, I mean, on a rolling average right now, we're at 8.9%, which is flat to where we were last quarter, but continue to make progress on that front.

Q - Carly Davenport {BIO 21913922 <GO>}

Got it. Great. Thanks so much for the time.

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

Thank you.

Operator

Your next question comes from line of Andrew Weisel of Scotiabank. Your line is open.

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

Good morning.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hi. Good morning. First, a quick governance question. Can you please talk about the outlook for the Board and specifically what roles will Ben and Bill each have? Who will be Chair of the Board, and will it be Executive or Non-Executive, and how large will the Board ultimately be?

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

Okay. Well, I will go back -- after my time as Advisor, I'll go back to being a Board Member and I will keep my independence. Bill obviously will be on the Board. He'll be a Non-Independent Director. Sara Tucker Martinez, or Sara Martinez Tucker, will be the Chair and she will remain

Chair and she's Independent. Size of the Board, we are basically at full size. And so, that -- there won't be any change to the size of the Board. I don't know, did I get all those questions?

Q - Andrew Weisel {BIO 15194095 <GO>}

Yes, that's great. Thank you very much. And then just a quick question on the cash flow slide, Page 22. The moving parts in '24 has led to slightly higher equity needs this year by about $100 million. Can you elaborate a little bit on that? And then looking to '25 and beyond, I see no changes. Would I be right to assume that's sort of just waiting for the update in three months? And just to clarify your comment on the equity-like tools, are you referring to the junior subordinates, or could there be something else in there, like equity units, perhaps?

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

So, Andrew, first question, you also note in 2024, right, we had a $500 million increase in CapEx. And versus our plan for the year, right, we had additional asset sales, right, that were part of the original plan that ended up changing through the year. So, we, in our financing, right, in our cash, right, we received less proceeds because of that change in plan. So, that -- those two things basically drove the opportunity, right, for the increase in equity and just being opportunistic in the market as well. You're right, going forward, we have not updated those cash flows yet for our annual update, which we'll do at EEI.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Then the equity-like, was that just referring to the junior subordinates, or was there more to it?

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

Yes, that refers to the notes that we issued in June. But we would look at various forms of equity alternatives and be holistic in our approach.

Q - Andrew Weisel {BIO 15194095 <GO>}

Very good. Appreciate the details. Thank you.

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

Thanks.

Operator

Your next question comes from line of Durgesh Chopra of Evercore ISI. Your line is open.

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

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, team. Good morning. Good morning, Ben. Andrew actually asked my question on the financing slide. Chuck, maybe a little sort of more color. There were kind of more negatives to positives in that cash flow slide. I mean, the asset sale proceeds were lower, right, and the CapEx is higher. If assuming normal weather for the rest of the year, are you going to be below 14.6%, what you currently said, or should we kind of think about 14.6% as strong as going into the end of the year?

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

Yes, our plan is to be in the 14% to 15% range. I'll just note, right, that we're well above the 13 % downgrade threshold. So, yes, we plan to be in that range.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. Thank you. Appreciate the time.

Operator

Your next question comes from the line of Sophie Karp of KeyBanc Capital Markets. Your line is open.

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

Good morning.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning. Thank you for squeezing me in. If I could quickly go back to the 15 gigawatts of data centre load, I guess could you provide some color on how much of that can be connected without any incremental investment in your system versus how much would they require incremental investments to facilitate that?

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

Right now, none of that can be connected at this point in time. But as we look at our LOA process, that's why we are looking at any initial upgrades that are needed as we prepare to plan the system to connect this load over that period of time.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it, got it. Thank you. And then maybe a little bit more of an open-ended question. Your current outstanding RFPs don't have any gas in them. It's mostly renewables. And I'm just curious of how you think about the cadence of needing to add dispatchable generation there. And when it comes to gas, will you continue to have a bias towards acquiring existing assets, or will we see some new builds potentially?

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

So, our RFPs are all-source RFPs, so we're evaluating all technologies that come in. And we do believe that dispatchable resources are needed to be added to the grid as well, and they will be part of the plan.

Q - Sophie Karp {BIO 19699392 <GO>}

Okay. Thank you.

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

You're welcome.

Operator

Your next question comes from the line of Bill Appicelli of UBS. Your line is open.

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

Good morning.

Q - Bill Appicelli {BIO 23271943 <GO>}

Hi. Good morning. Thanks for taking my questions. Just want to dig into a little bit more on the sales growth trends. So, on the residential side, you commented that Texas looks strong, but that more broadly, the cumulative effects of inflation have been weighing on it. So, any more color there? Are you expecting an improvement in the second half of the year?

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

Yes. So, Bill, in Texas, right, there is customer growth as well as increase in use, or as a result, increase in usage. In Vertically Integrated, year-to-date residential is down 1.3% and T&D is actually up 0.3%, largely due to Texas. So, we are seeing, I think, in Appalachian Power, in Kentucky Power, in SWEPCo in particular, and I mentioned some of the weather occurrences that we had in the SWEPCo area, weaker residential sales in those areas, in particular.

Q - Bill Appicelli {BIO 23271943 <GO>}

Okay. I mean, I guess, as we think about the EPS activities here, right, because you've got the tremendous growth in the commercial side, right, tracking well above plan, but that's going to be lower margin volumes. And then maybe on the residential side, going back sort of four of the last five quarters, sort of as a negative, and that's obviously a bit of a higher margin, but smaller overall change. What -- how do we sort of reconcile that a little bit as we think about the EPS impact?

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

Yes. I mean, clearly the residential sales are higher margin. But, again, I think it's, in particular, the effects of inflation. So, if inflation comes in tame, tamer as we begin to -- as we've begun to see, if wage growth continues to close that gap, and as Ben mentioned, right, the opportunity to bring on large loads to spread fixed costs, right, over a much larger denominator, right, should mitigate, right, some of those customer rate impacts as well. So, the combination of those things, right, should begin to slow that decline. But clearly, the effects of inflation have hit home for a lot of customers.

Q - Bill Appicelli {BIO 23271943 <GO>}

Right. Okay. And then I guess the other question is, it's come up a little bit, but on the FFO to debt under, I guess, the Moody's methodology, do you know what that number would be?

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

Yes, it's 14.6% under Moody's.

Q - Bill Appicelli {BIO 23271943 <GO>}

Oh, it's under Moody's. Okay. All right. Thank you very much.

Operator

Your next question comes from the line of Julien Dumoulin-Smith of Jefferies. Your line is open.

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

Hey. Good morning, team. Thank you, guys, very much for the time. I appreciate it.

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

You're welcome.

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

Going back -- thank you very much. Appreciate it. Maybe going back to some of the conversation on the layoffs and severance debt, I just want to understand the extent to which this process is finalized, right? You've given very specific jurisdictional level details. And given that, how are you thinking about rebuilding and devolving some decision-making power and some of the roles to the local OpCos?

Can you speak to perhaps what seems like perhaps a strategic shift in looking at local level decision-making? And really, what level or what quantity of the roles in terms of overall layoffs will actually be ultimately recreated, if you will, at the local level here? So, both the financial question in terms of what's the sort of ongoing net savings, and B, how do you think about this fitting within the strategic question of devolvement?

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

Yes. I'm going to turn it over to Peggy in a second. But just as a recap, we did hit our targets that we laid out under that voluntary severance program. Those -- and we plan to hold as much of those gains as possible, probably have to do some hiring back, but try to keep that minimized. Remember, there was two-pronged approach for this.

One, we wanted to mitigate some of the inflationary pressures that we were seeing, higher interest rates, just overall increase in supply chain, et cetera, and take a portion of that, albeit a smaller portion, and start putting those -- some of those resource -- some of that money back into our local communities with more boots on the ground, if you will, more community leadership positions and that sort of thing. So, Peggy, do you want to --

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

Yes, Ben. So, yes, that's exactly, Julien, what we're looking to do. We are -- some of those positions were leadership positions that report to some of our presidents. We are making sure that we are getting those filled and we're adding additional resources in the regulatory and legislative space because we know that as dynamic as our industry is and as much change as is occurring, we want to make sure that we have that enhanced engagement at those levels. So, you'll see more of that.

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

Excellent. All right. Looking forward to that. And then related, you talk about these staggering levels of the 15 gigawatts of firm commitments at this point. How do you think about that marrying up, especially in your wires businesses against an effort to address generation needs? I know this has been an ongoing tension. But given what seems like yet an accelerating backdrop of generation needs, how do you think about your utilities, especially in the wires-only businesses, potentially reengaging in that narrative? And in what ways?

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

Well, I mean, I think that would take legislation clearly in Ohio. I guess it would take it in Texas, too, but I don't see that happening. I think it's probably a long shot in Ohio as well. So, we are going to have to rely on the market. But our Vertically Integrated Utilities are all going to need generation in different timeframes. But I think Peggy mentioned, we've got -- we do have more with the changes in the reserve margin requirements, for example, in SPP, it creates a resource need. And we're developing our plans to fill that, which will require increased CapEx, which I think is a good thing.

And we're really, again, excited about Green Country. The load is tremendous and it's primarily data centres. But of course, we'd be remiss if we didn't mention we've seen industrial load in Texas as well. And I think when we think about economic development, we're going to continue to look for opportunities to bring industry back on shore. And I'm right here in Columbus today, and Intel has just been an enormous success. And we're going to keep looking for opportunities for our communities. And again, all customers benefit from that.

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

All right, guys. Thank you very much. We appreciate it.

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

Thank you.

Operator

Your last question comes from the line of Paul Patterson of Glenrock. Your line is open.

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

Good morning.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning. How are you doing?

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

I'm doing good.

Q - Paul Patterson {BIO 1821718 <GO>}

Great. So, I asked this question some time ago about Chevron, and we now have a Supreme Court decision. And I'm just wondering how you guys see it potentially impacting either EPA or FERC regulation or anything else you might -- if you think it has any potential impact on AEP, I guess.

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

I think it's early, but yes, I think it could potentially be helpful as courts have more discretion not to have to rely on the agencies, which that was the whole point of that. And I just think it doesn't bind the courts as much as it probably did in the past. Now whether that -- how the courts interpret it, what the rulings are, we'll have to wait and see. But, Paul, I think in general, it's going to be helpful. And we are going to challenge a lot of these EPA rules, as you know, the CCR rule, the ELG rule, the 111 rules, I guess all of the rules that have come out we're going to challenge and for good reason.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. And then just on FERC, do you see anything happening there maybe?

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

I don't know. I think -- I know there's some thought that it would, but I think that really -- I'm not convinced it will. So, I think that remains to be seen.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. The rest of my questions have been answered. Thanks so much. Have a great one.

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

All right. Paul. Thank you.

Operator

That concludes --

A - Darcy Reese {BIO 20391516 <GO>}

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

Operator

Certainly. Our call replay will be available in two hours until August 6th at 1800-770-2030. That's 1800-770-2030 using playback ID 6645529. That's replay playback ID 6645529, followed by the pound key. This concludes today's conference call. You may now disconnect.