



# Standard & Poor's

*September 5, 2014*

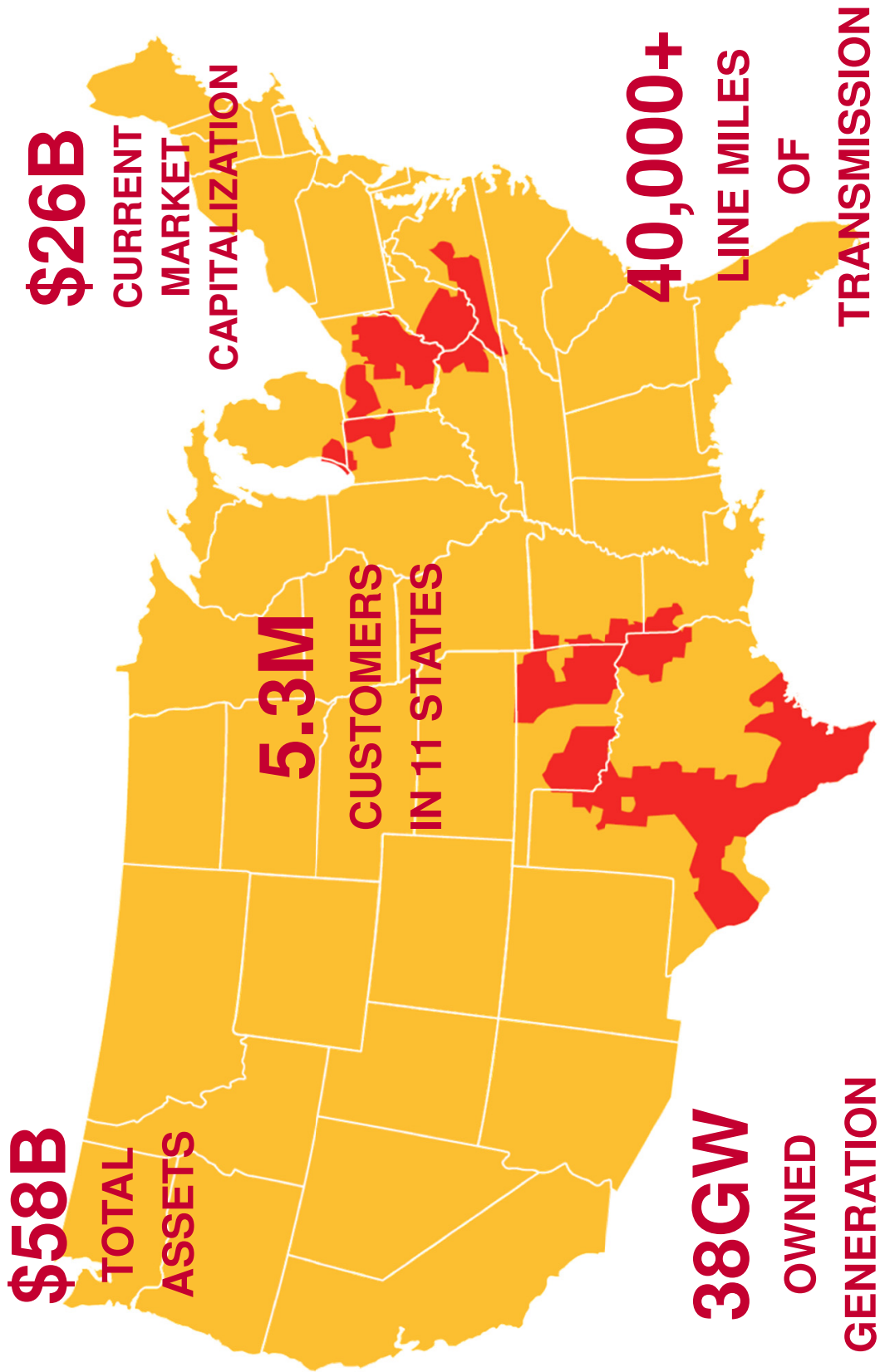
Contains Confidential Information

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## American Electric Power Company Overview



## Management Focus

### 2014 Focus

- ↑ Deliver operating earnings within the guidance range of \$3.35 - \$3.55/per share
- ↑ Execute on continuous improvement plan and continue fiscal discipline around O&M and capital allocation
- ↑ Committed to delivering 4-6% earnings growth off 2013 guidance
- ↑ Continued growth in the Transmission segment
- ↑ Obtain constructive rate outcomes in Oklahoma, Ohio, Virginia, West Virginia and Kentucky
- ↑ Optimize competitive businesses
- ↑ Improve the customer experience





# 2014-2016 Capital Spending Forecast

## Capital & Equity Contributions

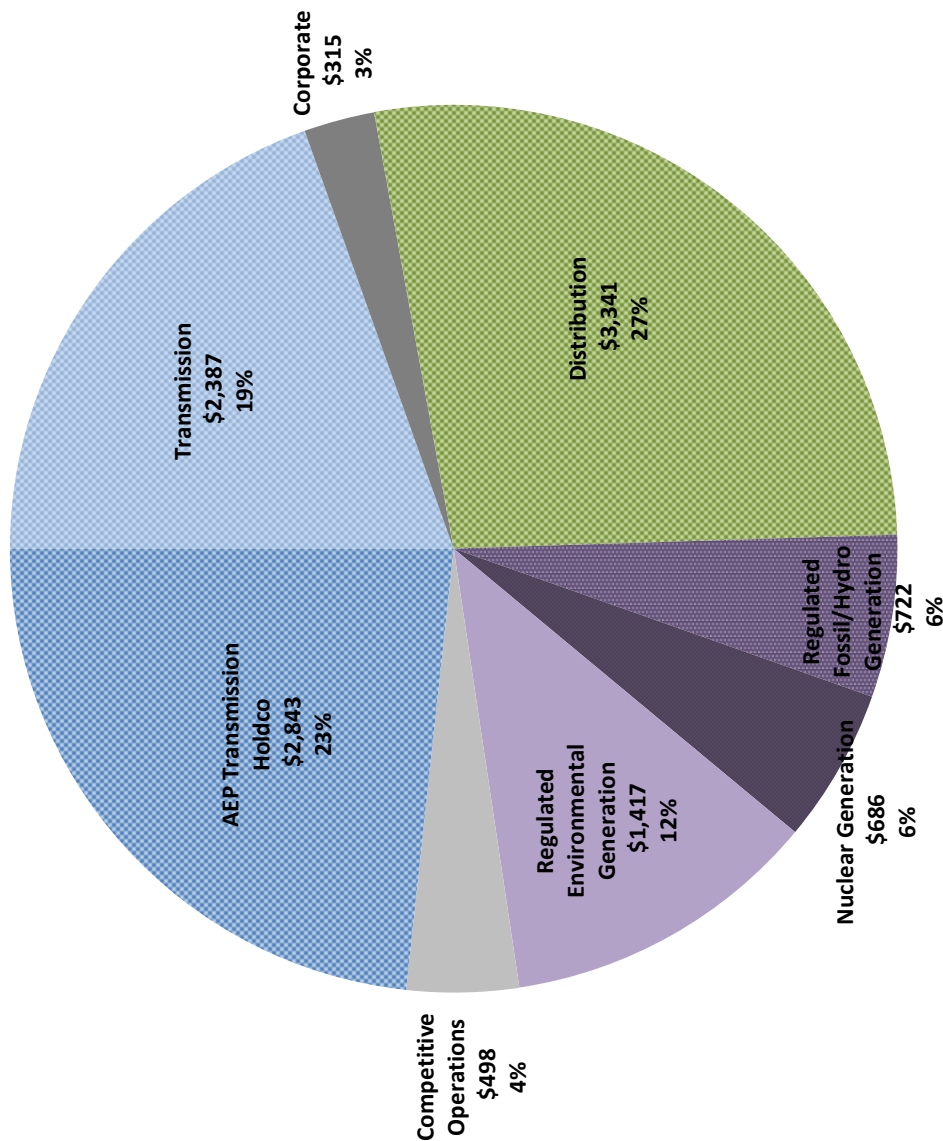
\$ in millions, excluding AFUDC

2014: \$4.1B  
 2015: \$4.1B  
 2016: \$4.0B

## Regulated Generation Investment - \$2.8B

Regulated Distribution Investment - \$3.3B

Regulated Transmission Investment - \$5.2B



**CONFIDENTIAL**

**96% of capital allocated to regulated businesses**



## 2014-2016 Capital Forecast by Subsidiary

	2014	2015	2016	Total
Appalachian Power Co.	527	565	532	1,624
Wheeling Power Co.	14	34	35	84
Indiana Michigan Power Co.	469	491	505	1,465
Kentucky Power Co.	105	97	96	298
Ohio Power Co.	428	442	393	1,263
Public Service Co. of Oklahoma	347	344	312	1,003
Southwestern Electric Power Co.	485	534	386	1,405
AEP Texas Central Co.	392	402	369	1,163
AEP Texas North Co.	109	130	132	370
AEP Generating Co.	53	48	58	159
AEP Transmission Holding Co.	919	899	1,024	2,843
Competitive Operations	190	138	170	498
Other	12	12	10	34
<b>Total Capital &amp; Equity Contributions</b>	<b>4,050</b>	<b>4,136</b>	<b>4,022</b>	<b>12,207</b>



# Regulated Rate Base Growth

Cumulative change from 2012 base



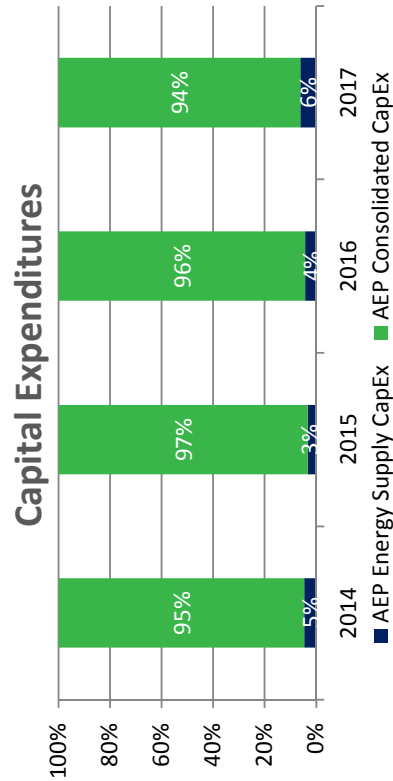
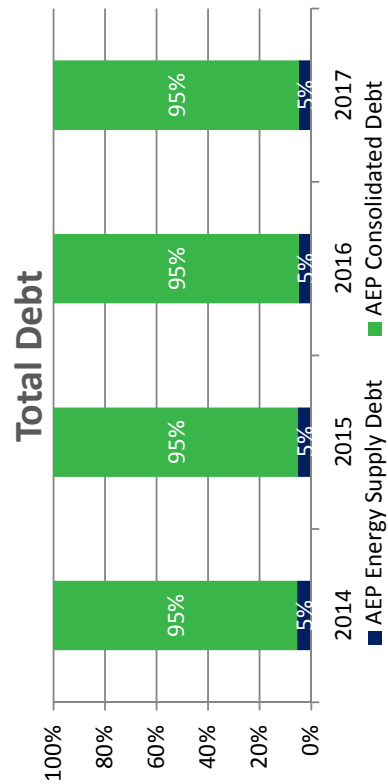
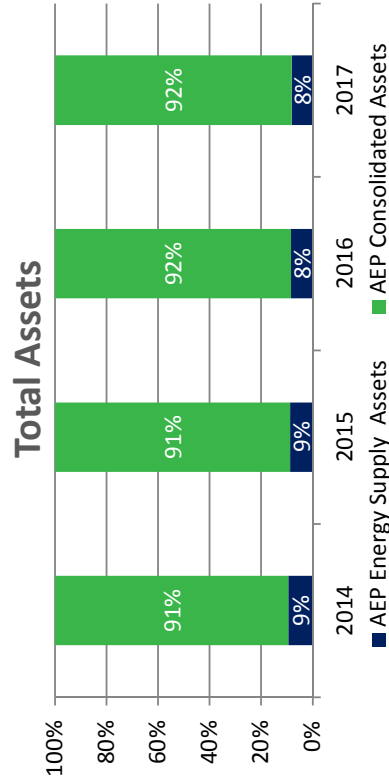
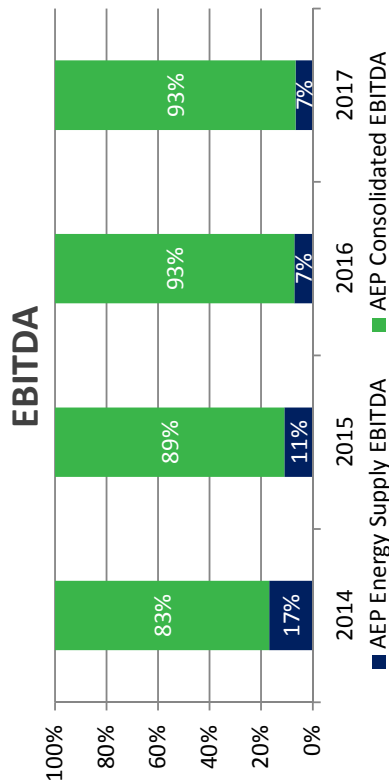
2012 Net Regulated Plant = \$33.2B





## Focus on Regulated Operations

*Continued capital discipline and investment in our diverse regulated platform reduces the overall AEP Consolidated risk profile*



Note: AEP Energy Supply represents the Generation & Marketing segment shown in Company filings. Assumptions: AEPES includes Lawrenceburg; 50% of Mitchell transferred to Wheeling Power on 1/1/2015



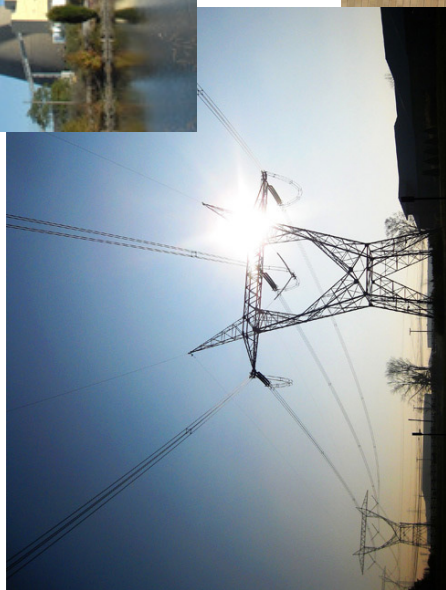


## Forecasted Growth in Operating Earnings Per Share

4 – 6% Forecasted  
Annual Earnings  
Growth Rate

2014E: \$3.35 – \$3.55  
2015E: \$3.30 – \$3.60  
2016E: \$3.45 – \$3.85

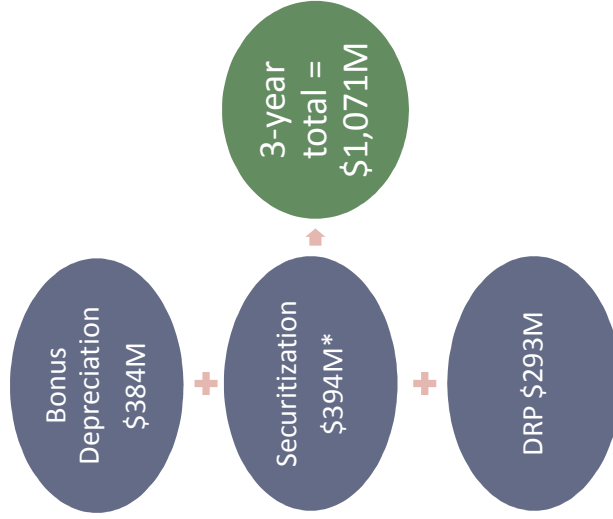
Earnings growth  
achieved through  
capital investment  
and rate recovery,  
identified sustainable  
cost savings and  
O&M spending  
discipline





# 2014-2016 Financing Plan & Credit Metrics

\$ in millions	2014E	2015E	2016E
Cash from Operations - (before adjustments below)	4,453	3,754	3,818
Impact of Bonus Depreciation	384	-	-
Federal Cash Taxes Paid	(823)	(857)	(855)
Cash from Securitization*	-	394	-
Capital & Equity Contributions	(4,098)	(4,200)	(4,072)
Other Investing Activities	(217)	(209)	(196)
Common Dividends**	(992)	(1,046)	(1,065)
<b>Excess (Required) Capital</b>	<b>(1,294)</b>	<b>(2,164)</b>	<b>(2,370)</b>
<b>Financing (\$ in millions)</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Excess (Required) Capital	(1,294)	(2,164)	(2,370)
Debt Maturities (Senior Notes, PCRBs)	(1,261)	(1,671)	(877)
Securitization Amortizations	(315)	(341)	(336)
Interim Credit Facility***	(500)	(500)	-
Equity Issuances (DRP/401K)	88	100	105
<b>Debt Capital Market Needs (New)</b>	<b>(3,282)</b>	<b>(4,576)</b>	<b>(3,478)</b>



Financial Metrics	Mid 50s	Mid -to- Upper teens
Debt to Capitalization Target		
FFO/Total Debt Target****		

\*Comprised of \$394MM OH deferred fuel (subject to regulatory approval)

\*\*Assumes \$2.03/share in 2014; \$2.13/share in 2015; and \$2.16/share in 2016 (all subject to board approval)

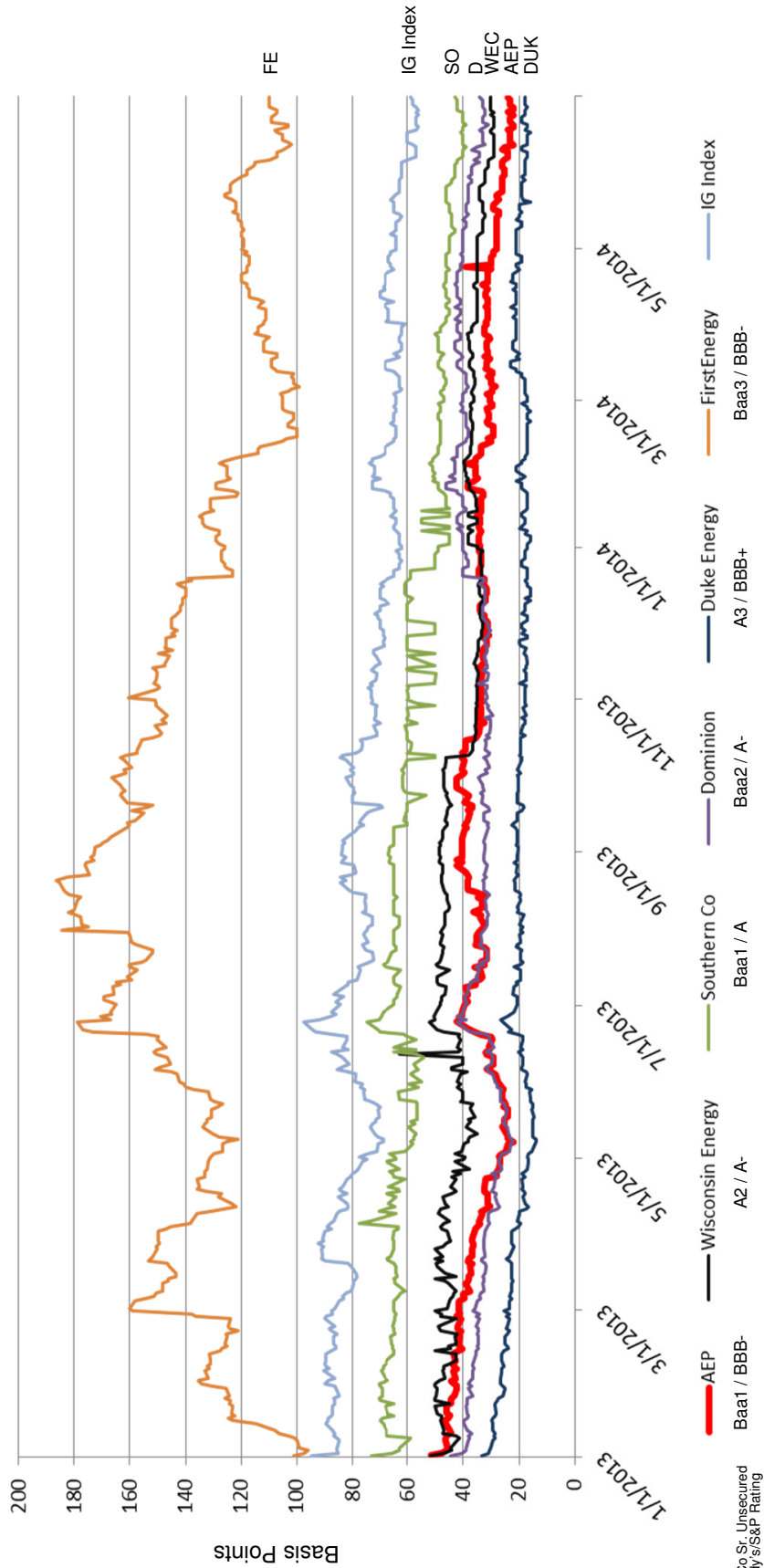
\*\*\*\$1.0B interim credit facility matures May 2015; \$300MM of the facility was repaid in May 2014. \$120MM will be repaid in Sep 2014 and \$80MM in Dec 2014. The remaining amount will be repaid in 2015.

\*\*\*\*Excludes securitization debt



# Credit Default Swap (CDS) Update

## Historical 5YR CDS Contract Prices



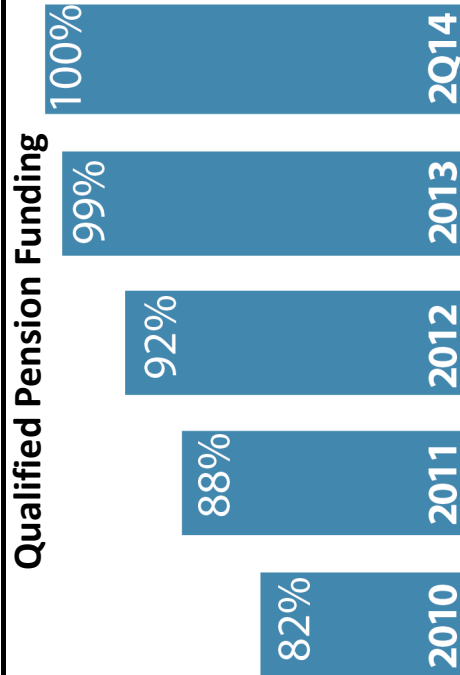
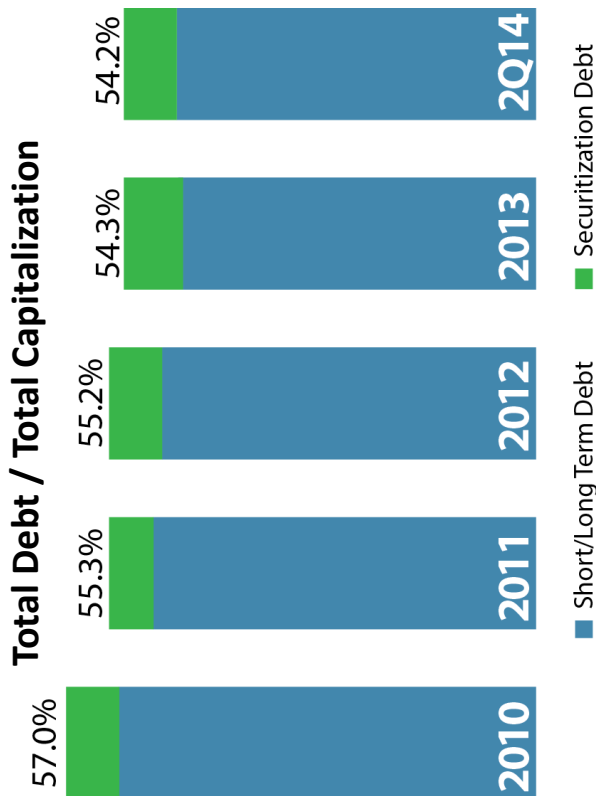
**Notes:** The IG Index is composed of 125 equally weighted credit default swaps on investment grade entities, distributed among 6 sub-indices: High volatility, Consumer, Energy, Financial, Industrial, and Technology, Media & Tele-communications

CDS prices are quoted on a \$10M notional contract

**AEP's 5yr CDS contract currently trades at 23.5 bps.**



# Capitalization & Liquidity



## Credit Statistics

	Actual	Target
FFO Interest Coverage	5.0	>3.6x
FFO to Total Debt	20.3%	15%-20%

Note: Credit statistics represent the trailing 12 months as of 06/30/2014

## Liquidity Summary

(unaudited)	06/30/2014 Actual	Maturity
(\$ in millions)	Amount	
Revolving Credit Facility	\$1,750	Jul-17
Revolving Credit Facility	\$1,750	Jun-16
Total Credit Facilities	\$3,500	
<b>Plus</b>		
Cash & Cash Equivalents	\$190	
<b>Less</b>		
Commercial Paper Outstanding	(732)	
Letters of Credit Issued	(49)	
<b>Net Available Liquidity</b>	<b>\$2,909</b>	

Strong balance sheet, solid credit metrics and adequate liquidity

## Long-term Debt Maturity Profile

	2014	2015	2016	2017	2018
AEP, Inc.	-	-	-	\$550	-
AEP Generating Co.	-	-	-	\$45	-
Appalachian Power Co.	\$100	\$386	\$170	\$375	-
Indiana Michigan Power Co.	\$5	\$301	\$118	-	\$100
Kentucky Power Co.*	-	\$200	-	\$390	-
Ohio Power Co.	-	-	\$350	-	\$350
Public Service Co. of Oklahoma	-	-	\$275	-	-
Southwestern Electric Power Co.	-	\$304	-	\$250	\$382
Texas Central Co.	-	-	\$100	\$41	-
Texas North Co.	-	-	\$75	-	\$30
AEP Generation Resources	\$89	\$579	\$125	-	-
AEP Transmission Co.	-	-	-	-	\$50
<b>Total excluding Securitization</b>	<b>\$194</b>	<b>\$1,770</b>	<b>\$1,213</b>	<b>\$1,651</b>	<b>\$912</b>

Texas Securitization	-	\$136	\$152	\$188	\$437
Ohio Securitization	-	-	-	\$165	-

**Total including Securitization\*\***      **\$194**      **\$1,906**      **\$1,365**      **\$2,004**      **\$1,349**

\* \$200MM maturity in 2015 reflects term loan facility. KPSC has closed a private placement with delayed fundings of \$120MM in Sep 2014 and \$80MM in Dec 2014 and plans to repay its term loan borrowings at that time.

\*\* Securitization show the outstanding balance as of June 30, 2014 with maturity date as final maturity. Amounts will amortize down prior to maturity.

Includes Mandatory Tenders

Data as of June 30, 2014



# 2014 Regulatory Update



## Oklahoma

### Settlement filed June 17, 2014

- ▶ Rate increase related to AMI Rider - \$7M in 2014; \$17M in 2015; \$27M in 2016
- ▶ ROE for AFUDC purposes of 9.85%
- ▶ Order expected early October
- ▶ Rates effective November 1, 2014



## West Virginia

### Base rate case filed June 30, 2014

- ▶ Requested increase of \$226M
- ▶ Requested ROE of 10.62%
- ▶ Rates can be implemented nine months after filing of case

## West Virginia

### Mitchell Transfer case filed March 4, 2014 with WV PSC

- ▶ AGR's ownership of Mitchell to be transferred to WPCo
- ▶ WPCo & APCo-WV customers rates impacted by addition of rate base to WPCo
- ▶ FERC already approved transfer on June 2, 2014
- ▶ Transfer expected by year-end 2014



## Virginia

### Biennial review filed March 31, 2014

- ▶ Two-year earnings test period ended Dec. 31, 2013
- ▶ No rate increase requested; Earned ROE of 10.8% for two year period; within allowed earnings band
- ▶ Class revenues maintained; rate elements modified, i.e., higher residential customer charge and lower energy charge
- ▶ Staff testimony argues APCo achieved a 12.85% ROE thereby supporting a refund to customers of \$22.5M; the recommended prospective ROE is 9.3% (range of 8.8% to 9.8%)
- ▶ The hearing is scheduled to begin on Sep. 16<sup>th</sup> and new rates are expected to be effective Feb. 2015, if any change in rates occurs.

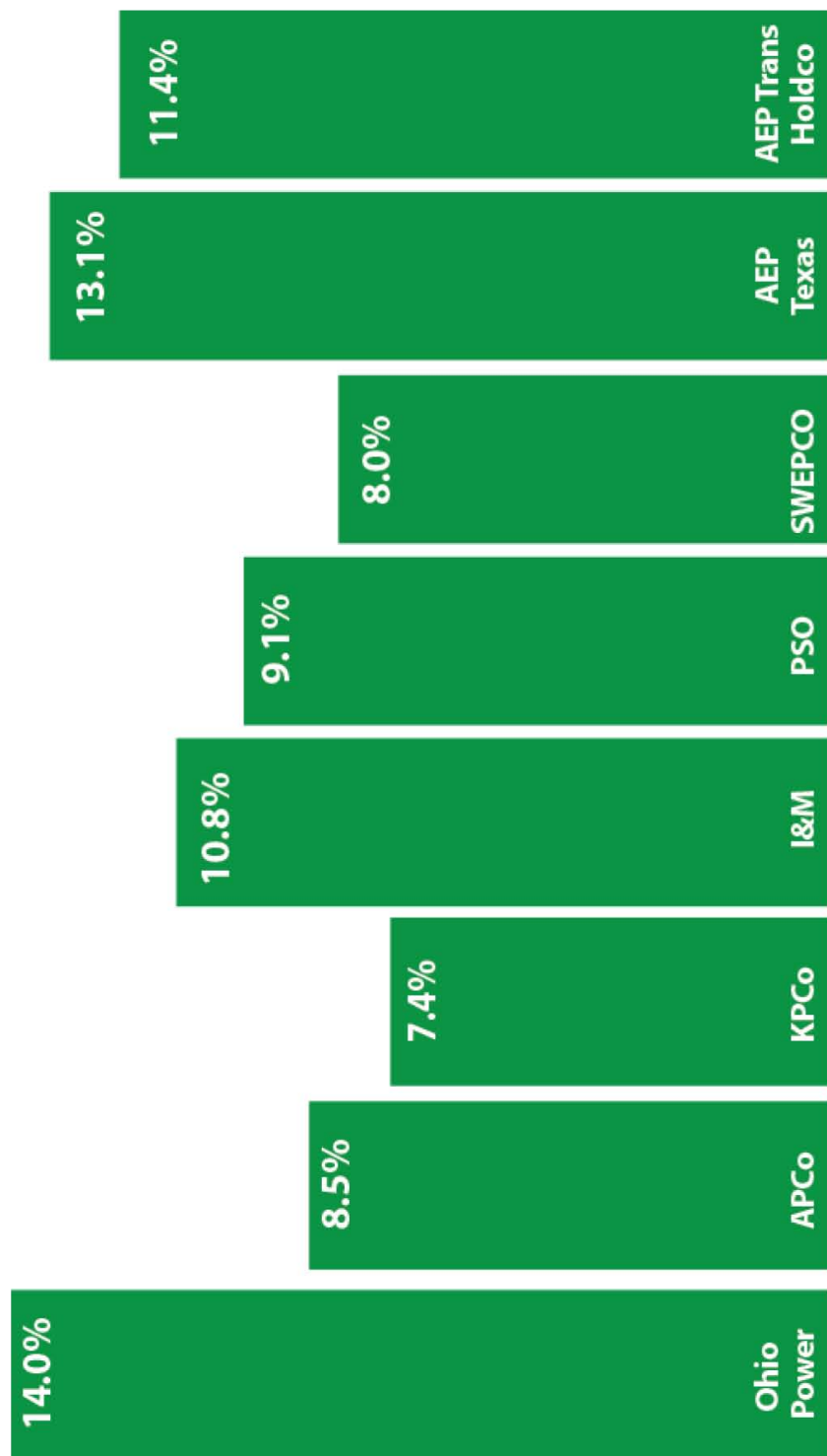


## Kentucky

### Base rate case due to be filed no later than December 2014

- ▶ Rates can be implemented subject to refund six months after filing of case

## Earned ROEs – 12 Months Ended 06/30/2014



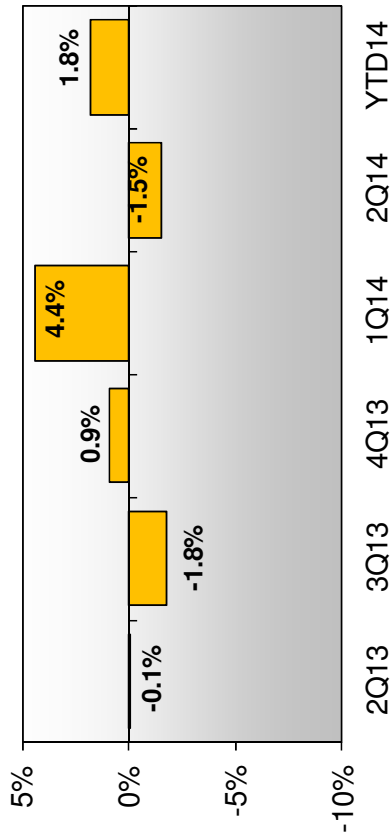
**Regulated Operations ROE of 10.1%**  
as of June 30, 2014

ROEs are based on operating earnings (GAAP excluding special items) and are not adjusted for the impacts of weather

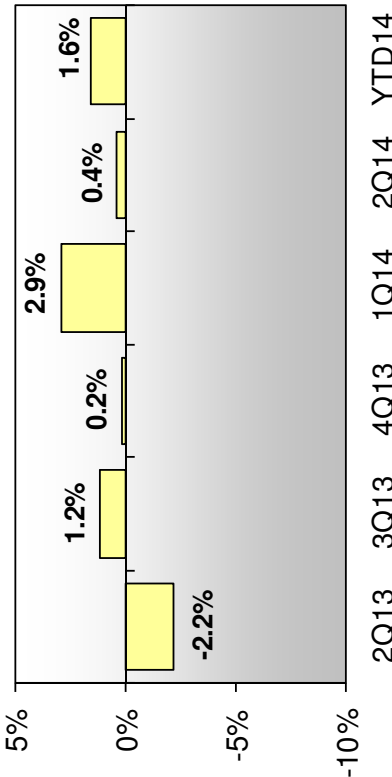
# Normalized Load Trends



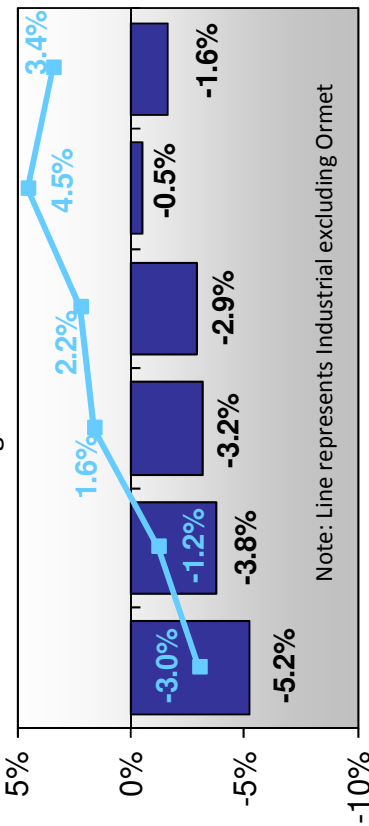
**AEP Residential Normalized GWh Sales**  
 %Change vs. Prior Year



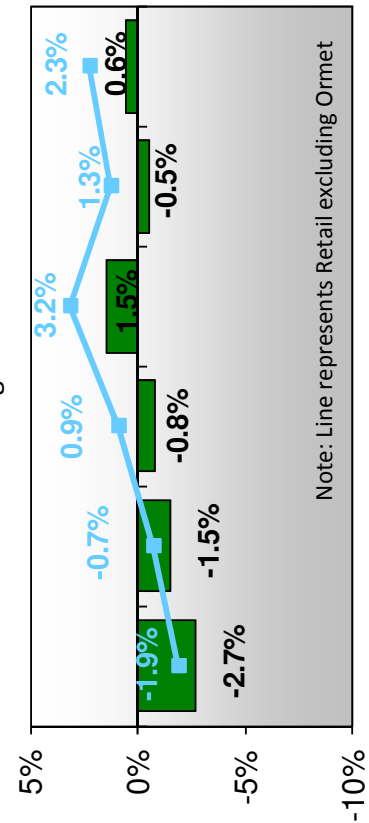
**AEP Commercial Normalized GWh Sales**  
 %Change vs. Prior Year



**AEP Industrial GWh Sales**  
 %Change vs. Prior Year



**AEP Total Normalized GWh Sales**  
 %Change vs. Prior Year



Note: Line represents Industrial excluding Ormet

Note: Line represents Retail excluding Ormet

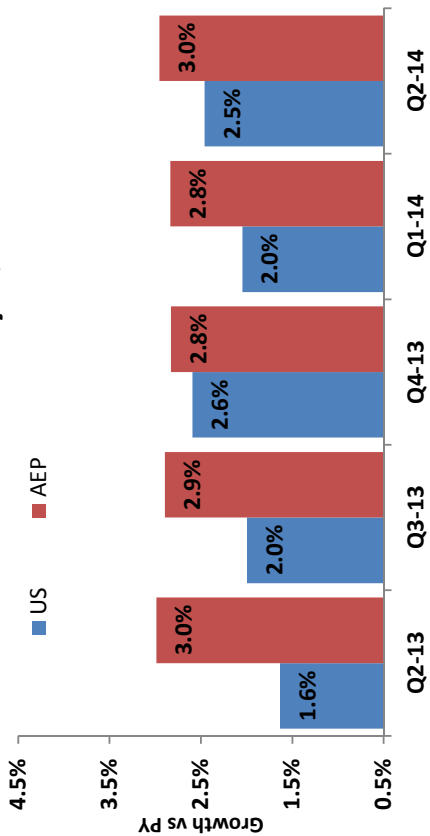
Note: Charts reflect connected load and exclude firm wholesale load & Buckeye Power backup load.



# Economic Data



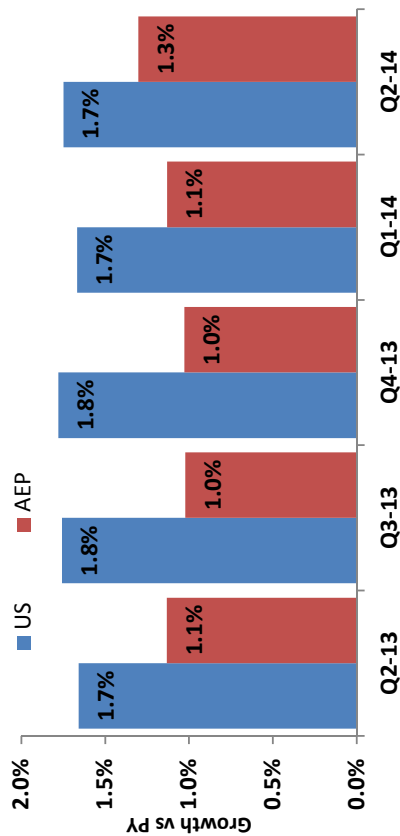
### GDP Growth by Quarter



### GDP Growth by Geography



### Employment Growth by Quarter



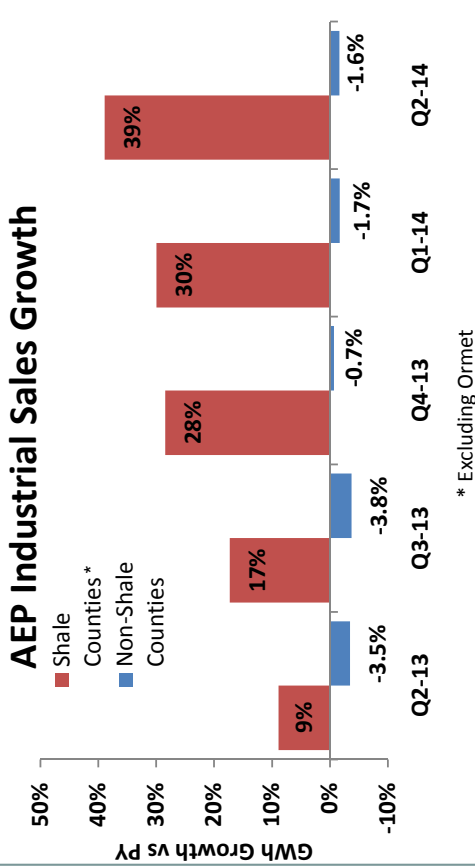
### Employment Growth by Geography



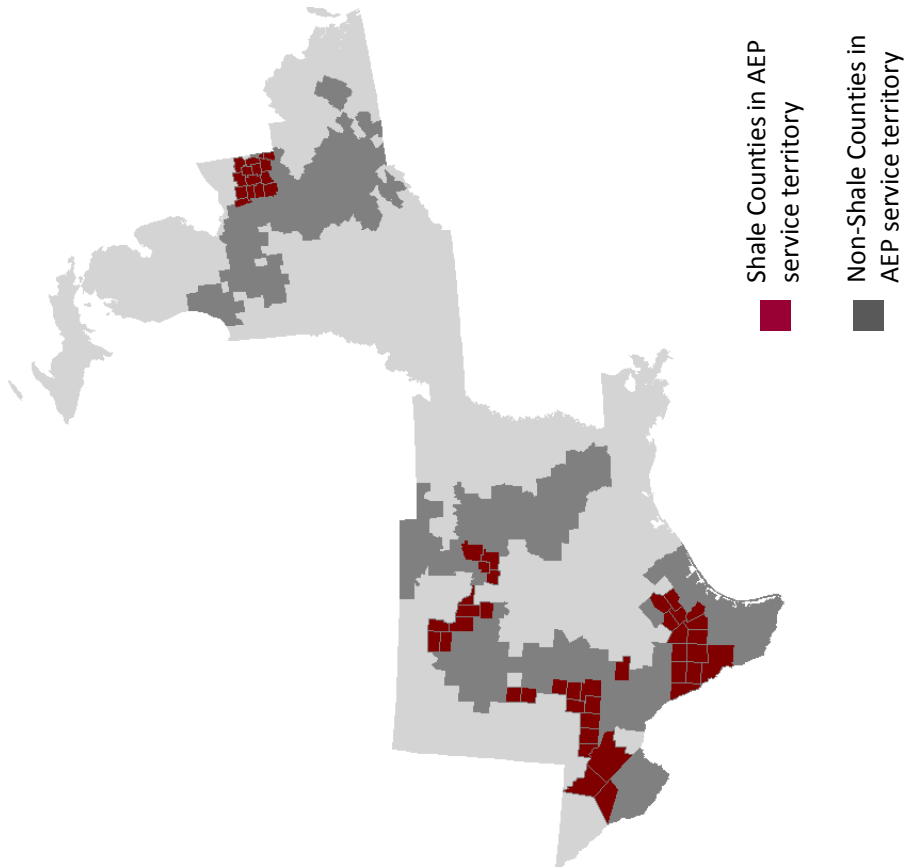
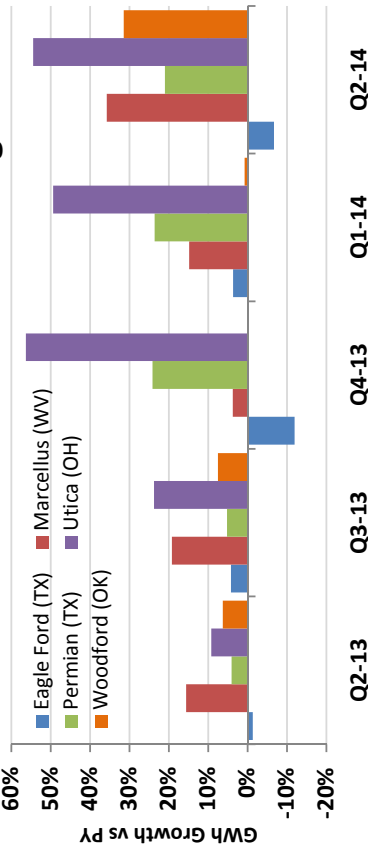
# Industrial Class Data



## AEP Shale Gas Counties

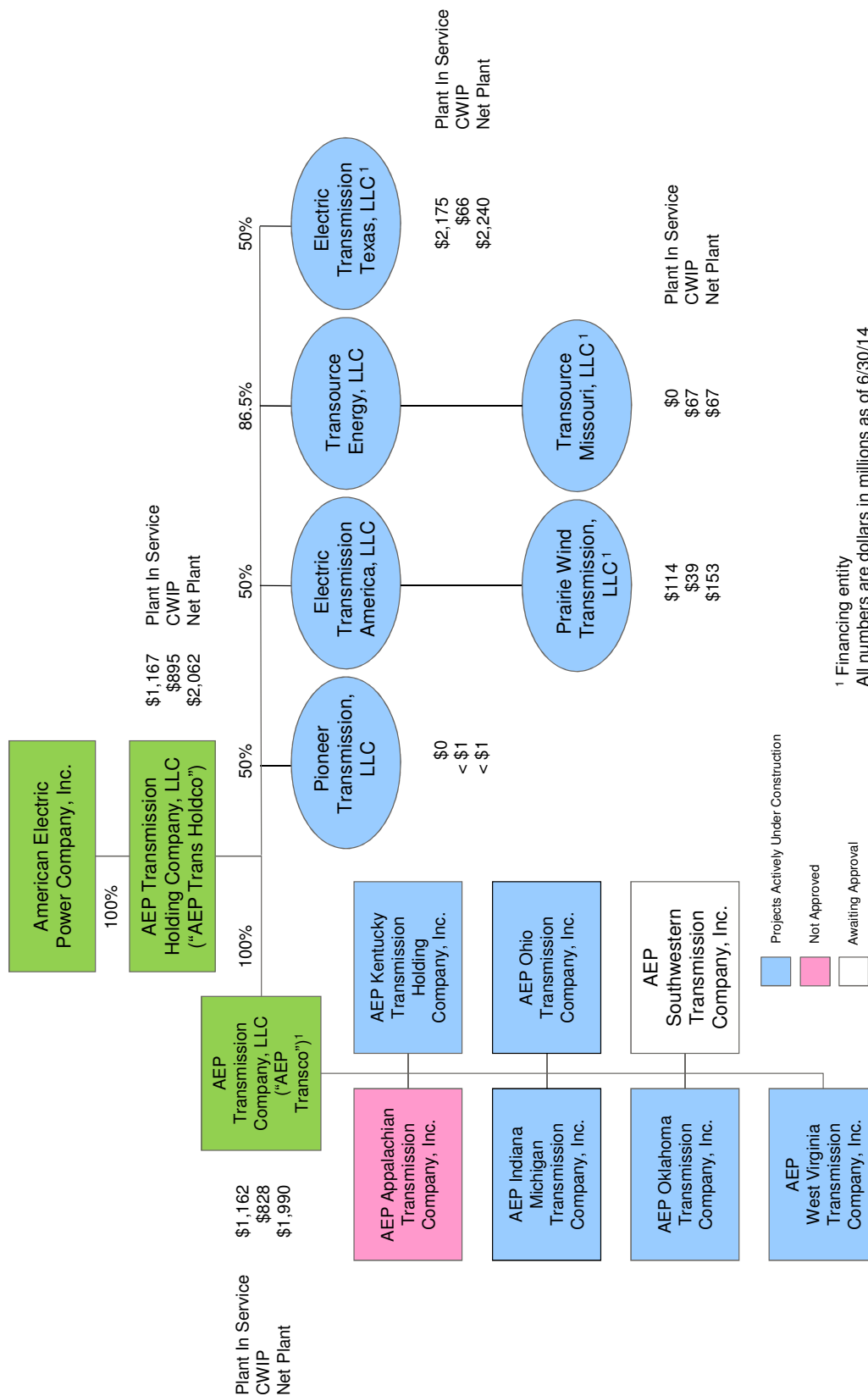


### Industrial Sales Growth in Shale Regions





# AEP Transmission Holdco Organizational Structure



<sup>1</sup> Financing entity  
 All numbers are dollars in millions as of 6/30/14



# AEP Transmission Holding Company

## 4 types of projects:

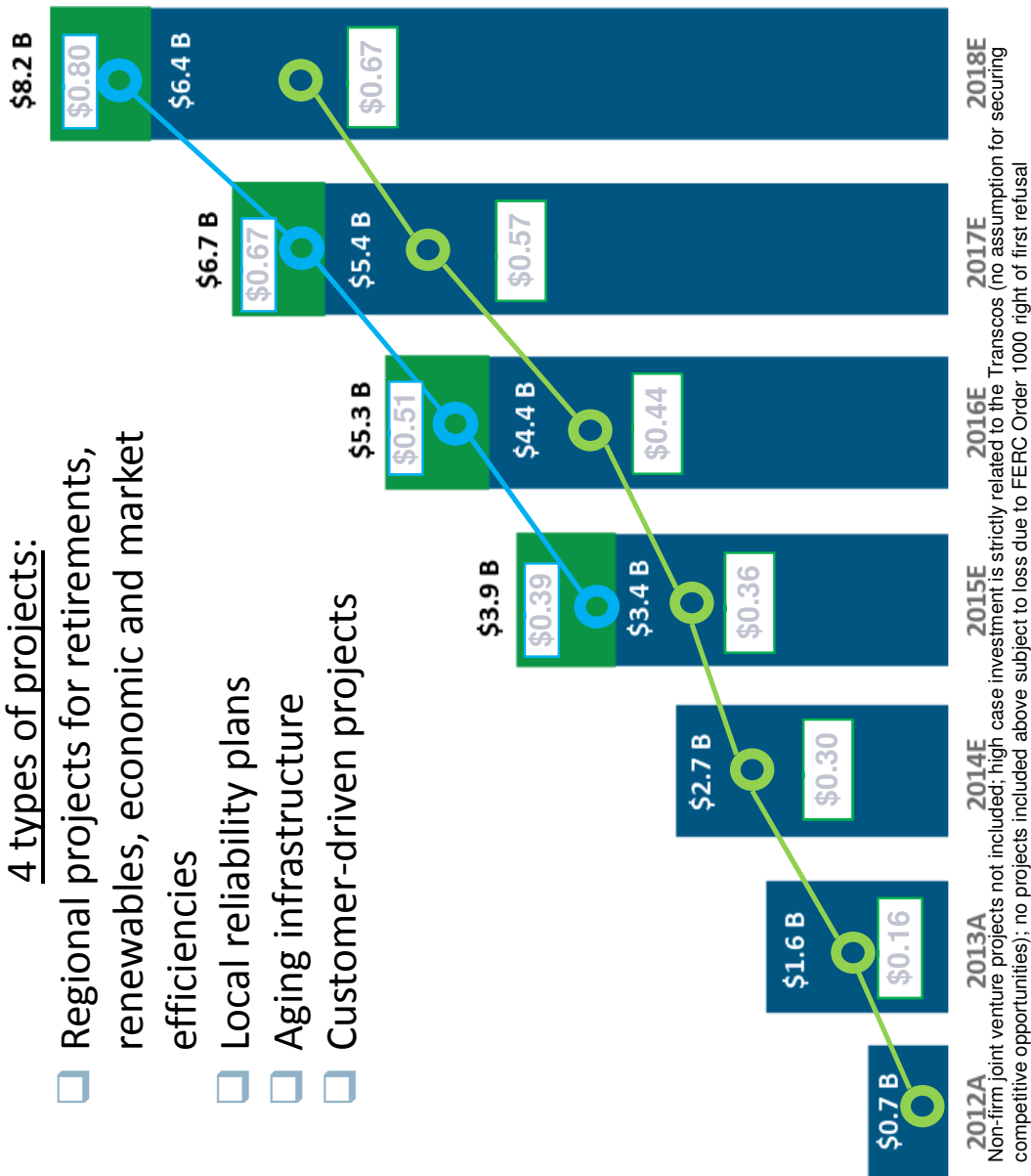
- Regional projects for retirements, renewables, economic and market efficiencies
- Local reliability plans
- Aging infrastructure
- Customer-driven projects

Cumulative Base Case Capital Investment

High Case Incremental Capital Investment

EPS Base Case Contribution \$/share

EPS High Case Contribution \$/share

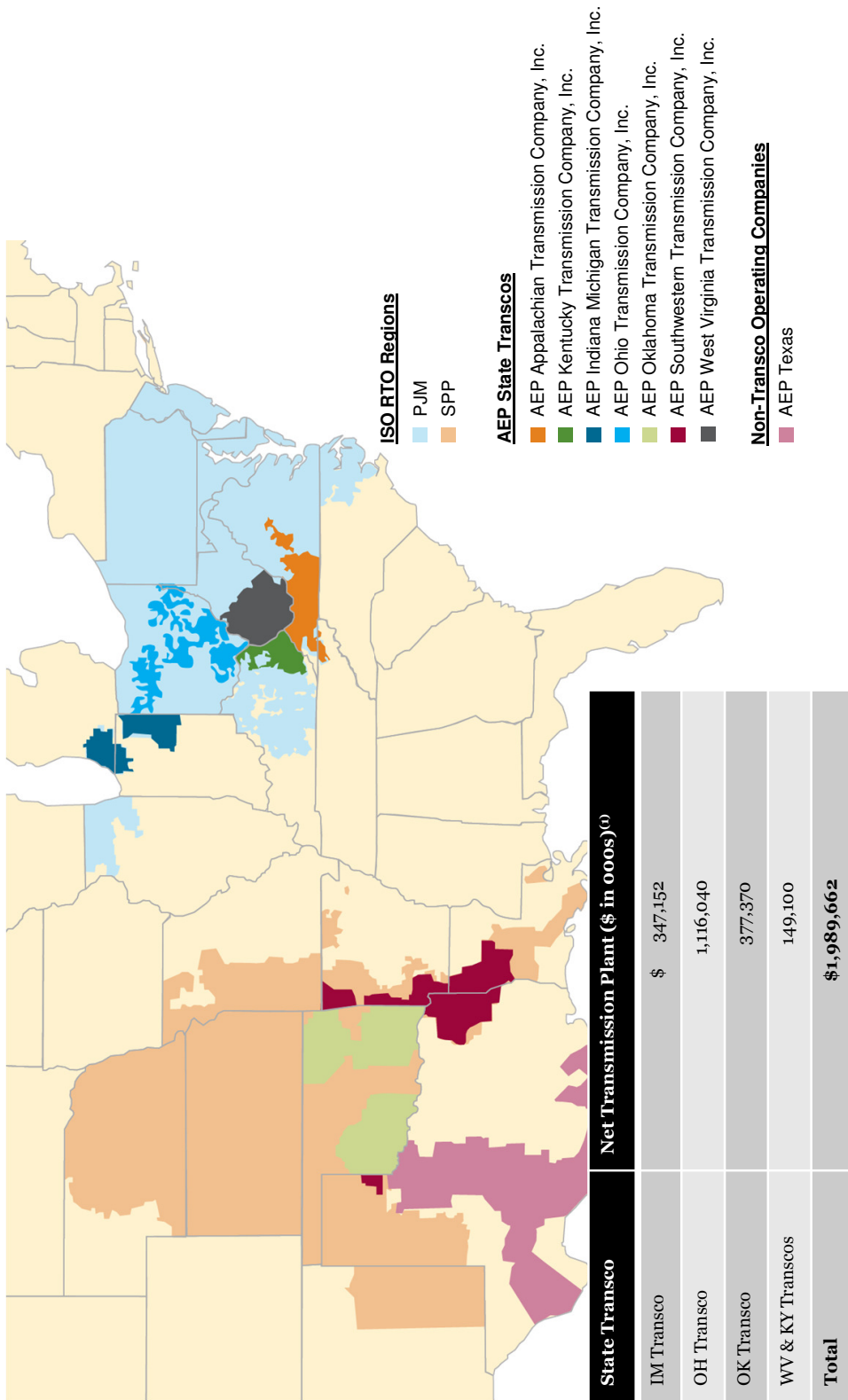


2012A Non-firm joint venture projects not included; high case investment is strictly related to the Transcos (no assumption for securing competitive opportunities); no projects included above subject to loss due to FERC Order 1000 right of first refusal



# AEP Transco Has a Large, Diverse Footprint

The State Transcos exist within the expansive service territories of AEP's distribution companies, operating across two RTOs and 10 states



Note: The table above shows net transmission plant including CWIP, as of June 30, 2013.  
 1. Source: Company Financial Statements



## State Transco Rates are Regulated by FERC

### Constructive FERC regulation results in timely recovery of costs

- ▶ In April 2011, the FERC approved a formula rate mechanism for the State Transcos
  - The FERC order dictates how the State Transcos determine their rates, including the recovery of all authorized expenses and the return on and of invested plant
- ▶ The approved formula rate mechanism established an annual revenue requirement for transmission services over the facilities of the State Transcos under the PJM and SPP OATTs, as applicable, and implemented a transmission cost of service formula rate
  - Annual rate settings provide a highly predictable and stable source of revenues and income
- ▶ Each State Transco's annual transmission revenue requirement ("ATRR") is reset in July based on the prior year's financial activity plus the current year's projected plant balances, thus establishing rates for the one-year forward period of July to June ("Rate Year")
- ▶ The revenue requirements are derived from the following capital structure limitations and authorized ROEs:

Company	RTO	Capital Structure % Equity Cap	Authorized ROE
AP Transco	PJM	50%	11.49%
IM Transco	PJM	50%	11.49%
KY Transco	PJM	50%	11.49%
OH Transco	PJM	50%	11.49%
WV Transco	PJM	50%	11.49%
OK Transco	SPP	50%	11.20%
SW Transco	SPP	50%	11.20%



## Project Selection Guidelines

### AEP Transco makes needed transmission investments which will help improve local reliability and grid stability

- ▶ A Project Selection Guideline (“PSG”) is used to determine which facilities are developed by the State Transco and which are developed by an AEP Operating Company
- ▶ All AEP projects developed go through an internal process that requires approval by AEP management and ensures compliance with proper strategic and financial controls
- ▶ The following projects are eligible for development by a State Transco:

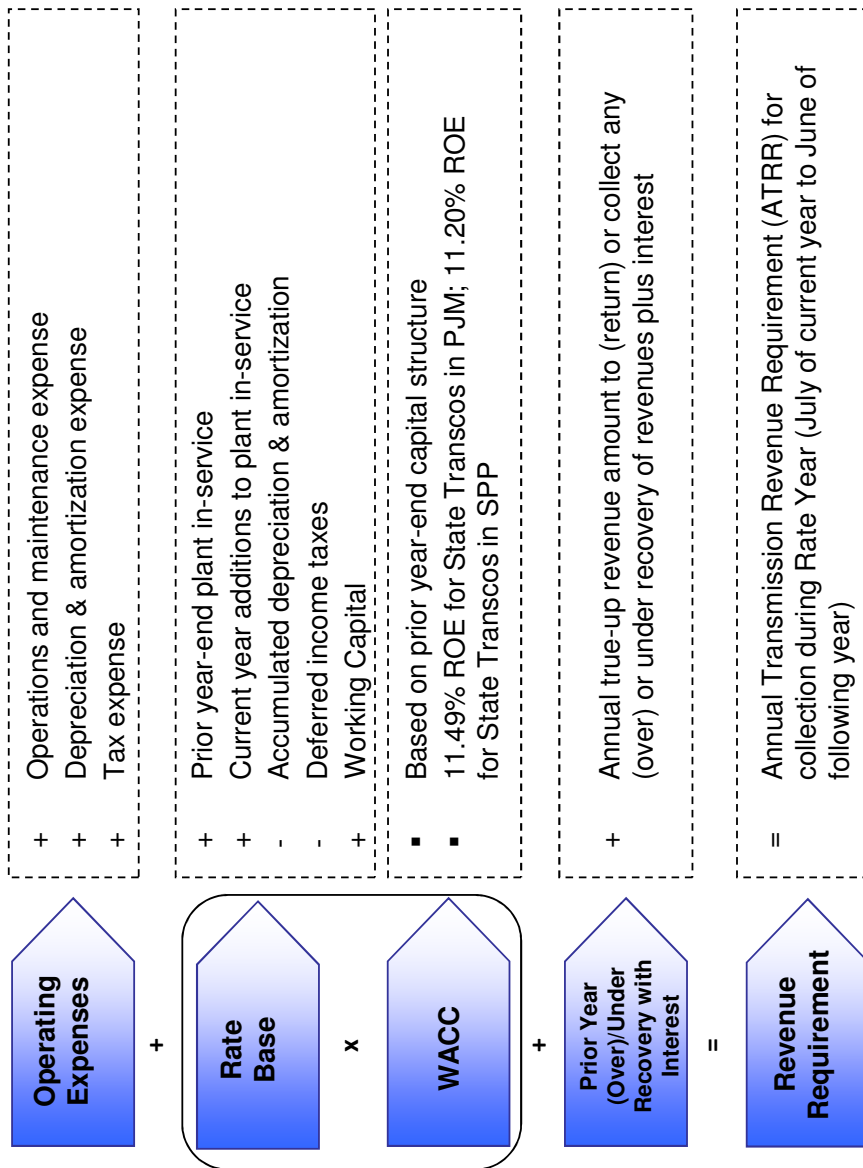
Type of Project	Definition
<b>Greenfield</b>	New transmission assets that do not require replacement or modification of existing facilities or components
<b>Facility Additions</b>	New transmission components installed at existing AEP Operating Company-owned transmission or distribution facilities
<b>Facility Replacements</b>	Replacement of an entire existing AEP Operating Company-owned facility with a new AEP Transco-owned facility
<b>Component Replacements</b>	An apportioned replacement of an existing AEP Operating Company-owned transmission facility or replacement of component(s) within a transmission facility
<b>Spare/Mobile Equipment</b>	Purchases of major transmission equipment as capitalized spares or mobiles used to supply any of the Transco companies

- ▶ Projects developed as part of an RTO-driven process are subject to approval by the RTO Board of Directors, and certain high-voltage projects must meet state siting requirements



# FERC Formula Rate Mechanism

State Transcos benefit from a transparent and forward-looking formula rate mechanism, as authorized by the FERC



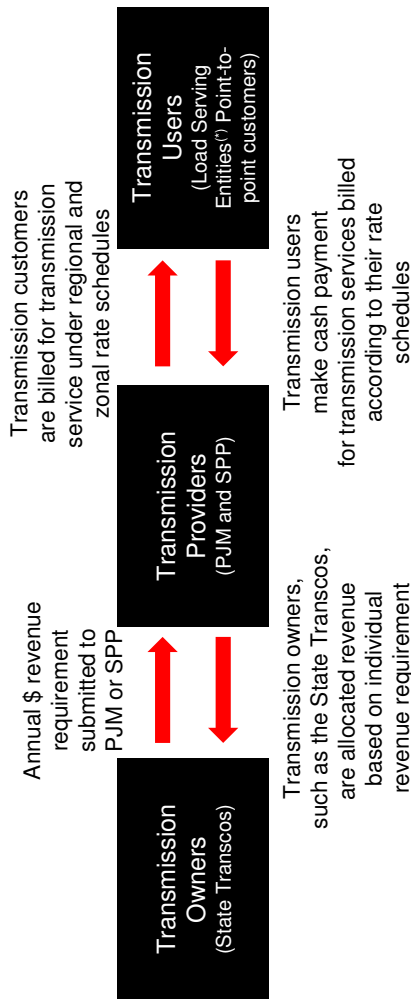
Formula rate mechanism provides strong recovery support





## Revenue Collection

- ▶ As transmission owners, the State Transcos submit their ATRRs to their respective RTO (PJM or SPP)
- ▶ As transmission providers, PJM and SPP then charge their respective transmission customers under their respective OATT to collect the revenue requirement of all transmission owners
  - As such, the RTOs serve as a clearing house for the State Transcos
  - In the event of a customer default, the uncollected revenue is allocated to non-defaulting RTO members
- ▶ The revenues collected from transmission customers are distributed by PJM and SPP to the applicable State Transcos based on their individual OATT revenue requirement
- ▶ PJM Interconnection LLC is rated Aa3 by Moody's, and Southwest Power Pool, Inc. is rated A by Fitch



\* Load Serving Entities include wholesale purchasers of electricity and include the AEP Operating Companies, municipalities, electric cooperatives and other entities

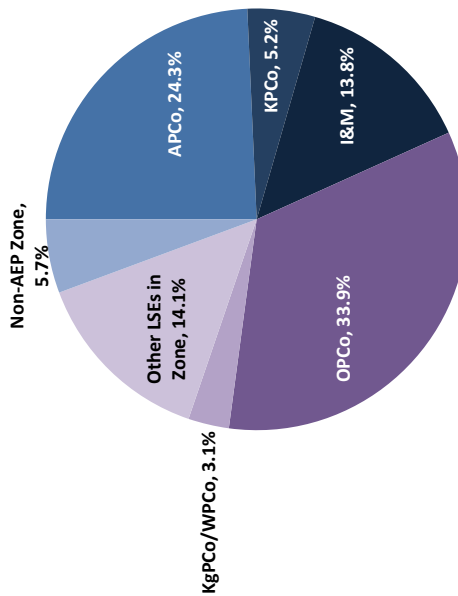
**Revenue collection process mitigates counterparty risk and lowers cost for transmission owners**

## Zonal Revenue Collection

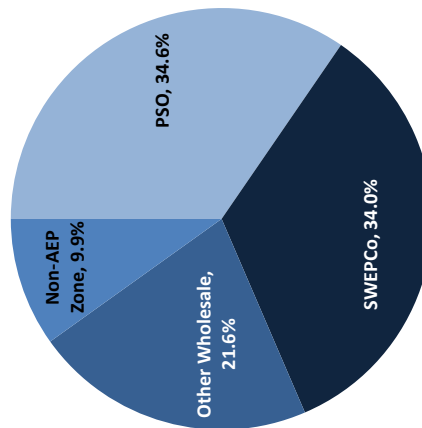
### To date, most State Transco projects have been allocated zonally with AEP's vertically integrated utilities as ultimate customers

- ▶ Revenue requirements are allocated to transmission customers either by zone and/or region on a load share basis, depending on the underlying investment (i.e. project)
- ▶ The revenues collected from transmission customers are distributed by PJM and SPP to the transmission owners (i.e. State Transcos) based on their individual OATT revenue requirement
- ▶ The charts below depict the current load share ratio in the PJM and SPP zones

**PJM - AEP East Zone Load Ratio Share**



**SPP - AEP West Zone Load Ratio Share**





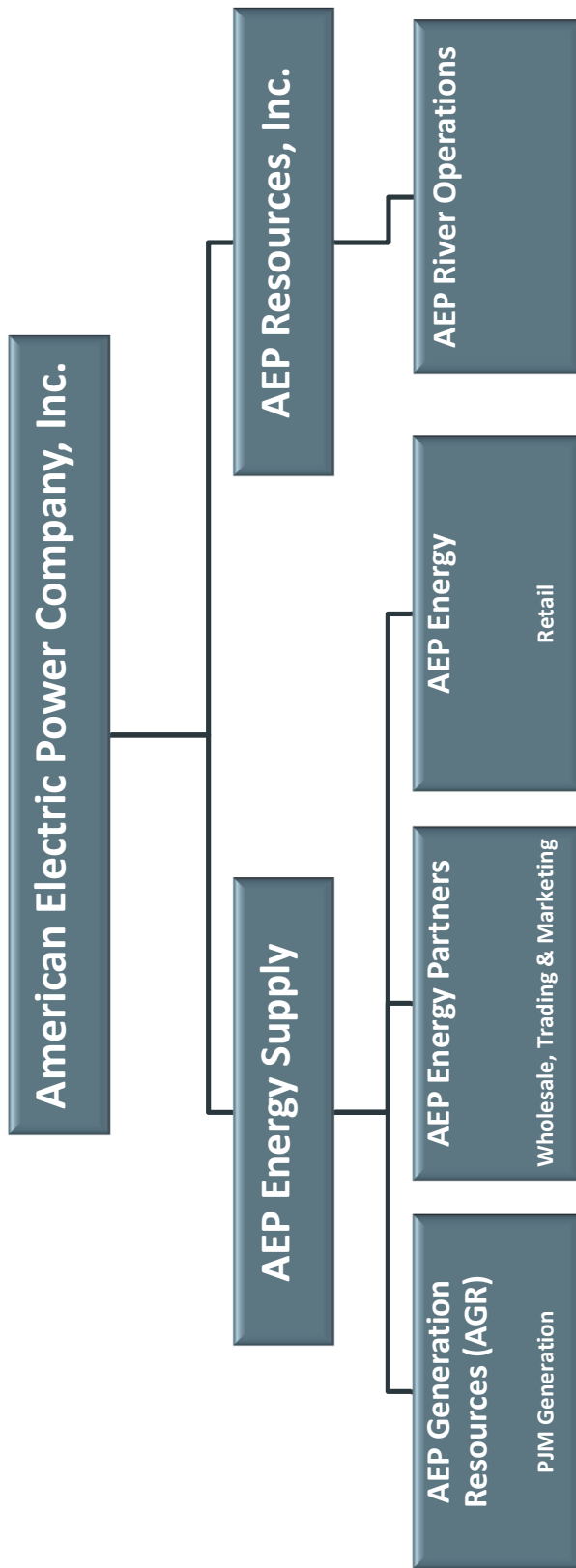
## Electric Transmission Texas, LLC

- ▶ ETT is a rate-regulated transmission-only electric utility that builds, owns and operates transmission assets solely within the Electric Reliability Council of Texas under the regulation of the Public Utility Commission of Texas
- ▶ ETT is owned 50% by a subsidiary of AEP and 50% by Berkshire Hathaway Energy Corp.
- ▶ ETT's authorized return on equity is 9.96% with a 60/40 debt to equity capital structure
- ▶ ETT has over \$2 billion of in-service transmission facilities and is currently forecasted to add almost \$1 billion in new in-service transmission assets over the next ten years
- ▶ On May 12, 2014, Moody's assigned ETT a new Baa1 rating with a stable rating outlook. Moody's states the rating reflects the low business risk nature of a transmission company operating within a transparent and constructive regulatory environment with supportive strategic sponsors
- ▶ On June 27, 2014, ETT began paying a dividend to its owners. Its inaugural dividend was \$14.25 million split between the two partners



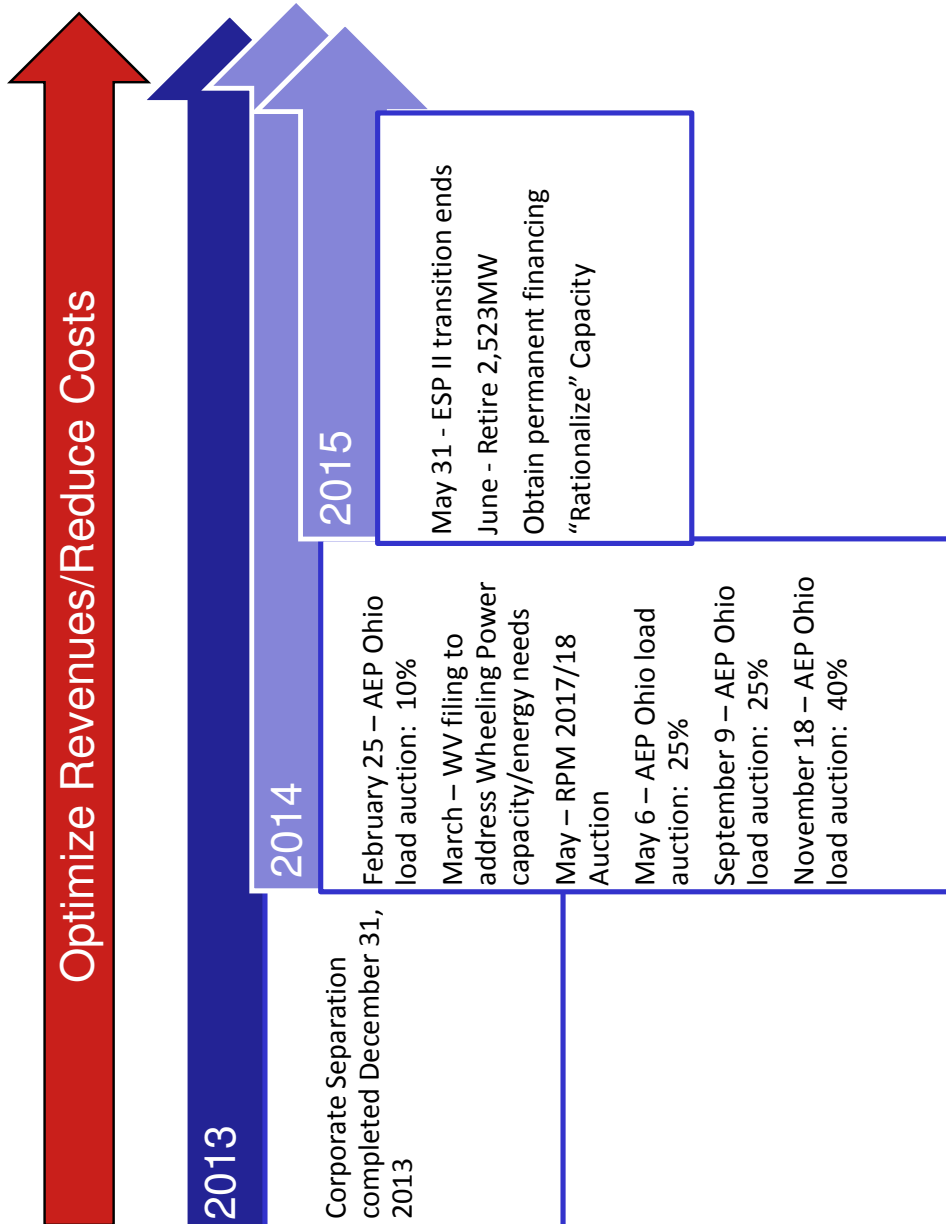


## Competitive Business Organizational Structure

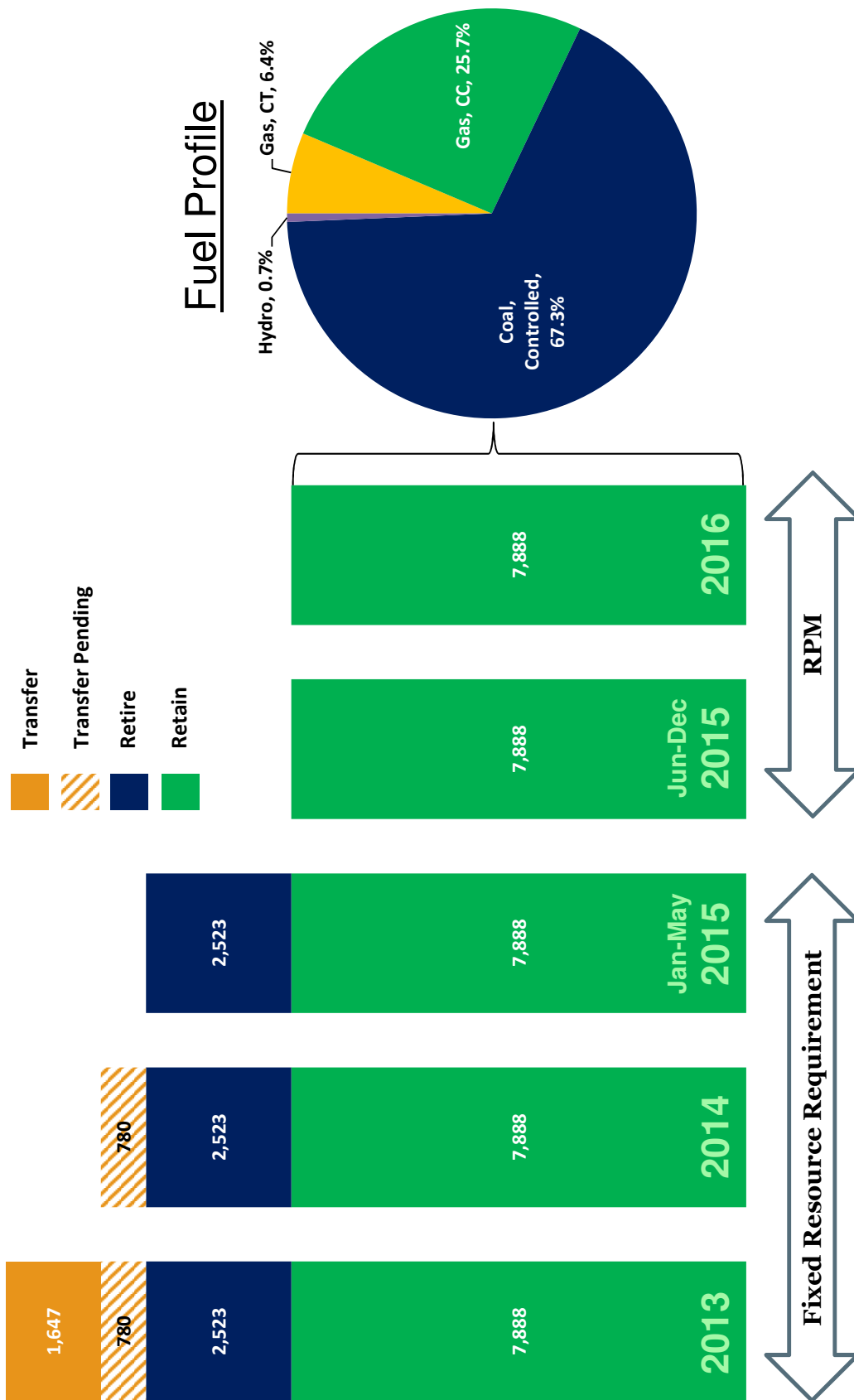




## AEP Energy Supply Timeline



# AEP Generation Resources: PJM Fleet Profile



AGR has the competitive advantage of fuel and operational diversity