

AEP: Planning for a Texas load surge

Internal ID: S&F-STR-047

Topic: Customer Strategy, Operations Strategy, Growth Strategy

Industry: Electric Utilities

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Company: American Electric Power Company, Inc. (Nasdaq: AEP)

Decision setting: Constructed capital-planning exercise; no board vote or internal proposal is disclosed

Information cutoff: October 2, 2026, 4:00 p.m. ET

A larger pipeline, without a per-GW budget

On July 30, 2026, American Electric Power reported that contracted load growth through 2030 had reached 69 gigawatts (GW), after six GW of new signed agreements in the second quarter. AEP Texas separately reported 45 GW of executed Letters of Agreement (LOAs), with about 40 GW of prospective load seeking consideration in the Electric Reliability Council of Texas (ERCOT) Batch Zero process. These are measures of expected customer demand, not load already connected or consumed. [P01, pp. 3, 7; P02, lines 269-271]

The new demand sits beside a five-year capital plan of \$78 billion for 2026-2030. AEP forecast approximately \$12.8 billion of capital expenditures in 2026 and \$65.1 billion in 2027-2030. The plan includes transmission, distribution, generation and reliability work. It is not a freely movable budget: the public materials do not break out project authorization, commitments or returns. AEP also described more than \$10 billion of incremental opportunities beyond the plan. [P01, pp. 3, 36; P02, lines 257-259]

On the July 30 earnings call, CFO Trevor Mihalik said the \$78 billion plan generally assumed 13 GW of Texas interconnections. He also said the plan did not anticipate the magnitude of load now in view. The increase to 45 GW, he said, was not a dollar-for-dollar increase in capital spending; it gave the company line of sight to an increasing capital plan. He added that some Texas capital spending would rise. These were management's explanations and expectations, not project budgets or a formula students can apply to each GW. [P06; P07, lines 261-263, 307-310, 321-329]

There is a second difference in the public descriptions of customer support. The Q2 10-Q says AEP Texas had received about \$2 billion in cash collateral, guarantees and letters of credit for the 40 GW prospective tranche. On the call, management described nearly \$2 billion in cash or collateral as full required support for all 45 GW submitted to Batch Zero. The sources do not reconcile the scope or timing. Both statements should be kept with their source attribution; neither establishes final verification, interconnection or connection for AEP-specific projects. [P01, p. 7; P07, lines 261-263; P08-P09]

Growth and customer protection

AEP said large-load tariffs and agreements can include contract terms as long as 20 years and take-or-pay minimums of 80-90% of contracted demand. Five states had approved large-load tariffs and three additional filings remained pending. Management estimated up to \$16 billion in customer cost offsets supported by fully executed take-or-pay electric service agreements at vertically integrated utilities, and nearly \$1.4 billion in customer benefits from Department of Energy loans and grants. These are company estimates, not realized savings or a customer-by-customer net-cost schedule. [P01, pp. 3-4; P02, lines 262-268]

ERCOT's process moved after the Q2 filing: it delayed the expected Aug. 7 notices on Aug. 3, then said on Sep. 3 that provisional classifications had been sent to TSPs/DSPs subject to verification, cures or exceptions. On Sep. 9 it reported verification RFIs to a majority of conditionally included entities; Sep. 18/19 guidance describes verification before final classification. These were process-wide updates. Public materials examined by the cutoff do not establish AEP-specific conditional classifications, final verification or interconnection status. AEP's Q2 filing expected load-ramp information in April 2027 for eligible projects, after which customers could decide whether to proceed; that forecast is not evidence of present eligibility. The 45 GW Texas figure is not an additional amount to add to the 69 GW company-wide figure; AEP did not reconcile the scopes. [P01, p. 7; P02, line 271; P07, lines 257-263; P08-P09]

AEP had secured approximately 13 GW of gas-turbine capacity for potential deployment through 2031 and was evaluating up to 10 GW more through 2035. Turbine capacity is a potential resource, not installed generation or final approval to build. Management also described line of sight to more than \$10 billion of additional investments, including a Wyoming fuel-cell project, a Piketon transmission opportunity and incremental generation. The public disclosures do not show project-level costs, timing, financing or returns for these opportunities. [P02, lines 259, 272-275]

Financial footing

For the first half of 2026, AEP reported \$3.421 billion of operating cash flow, \$6.602 billion of net cash used in investing activities and \$3.360 billion of net cash from financing activities. Period-end cash, cash equivalents and restricted cash were \$447 million. Investing cash flow includes items beyond capital expenditures, so it is not a measure of uncommitted growth spending. AEP said it expected to fund capital requirements through operating cash flow and financing. [P01, p. 34]

AEP raised full-year 2026 operating earnings guidance to \$6.25-\$6.55 per share. Operating earnings are a company-defined non-GAAP measure and differ from GAAP earnings. The guidance and management's customer-savings estimates do not provide project-level returns, a customer-specific recovery schedule or an optimal capital allocation. [P02, lines 256-258, 350-369]

Your assignment

You are advising AEP's capital-planning leadership on October 2, 2026. Recommend a rule for sequencing the next growth-related commitments while the company continues its announced plan and serves signed demand. Specify the evidence that should unlock, slow or redesign further stages, and explain how your rule protects reliability, affordability and financing flexibility. This is a constructed decision exercise; AEP has not disclosed a board vote or uncommitted capital pool.

Consider three approaches:

1. **Advance more capacity against signed demand.** Move faster on eligible transmission, generation and long-lead equipment to support customer commitments and reduce service-delay risk.
2. **Stage commitments against evidence.** Preserve existing plan and reliability work while releasing further growth-related commitments as customer, interconnection, regulatory-recovery, cost and affordability milestones clear.
3. **Defer uncommitted expansion.** Prioritize reliability and customer work already in the plan; defer further opportunities until load ramps and cost recovery become clearer, accepting possible procurement and service delays.

These are teaching alternatives, not disclosed AEP proposals. Do not assign an invented dollar amount to a discretionary pool. Address the strongest objection to your recommendation, identify who bears the downside if load is delayed or reduced, and name the project-level data you would request before approving the next stage.

Exhibit 1. Capital plan and identified growth options

Item	Publicly stated amount	Status at cutoff
Five-year capital plan	\$78bn, 2026-2030	Management plan across transmission, distribution, generation and reliability; not a discretionary pool
2026 capital-expenditure forecast	~\$12.8bn	Forecast
2027-2030 capital-expenditure forecast	~\$65.1bn	Forecast; together with 2026 estimate equals ~\$77.9bn due to rounding
Additional opportunities	>\$10bn	Management line of sight beyond plan; no project-by-project authorization or return disclosed
Gas-turbine capacity secured	~13 GW through 2031	Potential deployment, not installed capacity
Additional turbine capacity evaluated	Up to 10 GW through 2035	Under evaluation, not a build authorization
Texas interconnection assumption in plan	13 GW	CFO's July 30 call characterization of plan basis
Texas Batch Zero/LOA measure	45 GW	Management said 45 GW did not imply dollar-for-dollar capex increase; some Texas capex expected to rise

Sources: [P01], pp. 3, 36; [P02], lines 257-275; [P07], lines 307-310, 321-329. "GW" is gigawatts. All future amounts are management plans, forecasts or opportunity descriptions.

Exhibit 2. Load and customer-support measures

Disclosure	Scope	What it does not establish
69 GW contracted load growth through 2030	Company-wide; includes six GW of Q2 additions	Connected or consumed load; does not reconcile all subsidiary measures
45 GW executed LOAs / Batch Zero submission	AEP Texas; management's call described 45 GW in the Batch Zero filing	ERCOT's process-wide provisional classifications do not establish AEP-specific status, final verification, interconnection, timing or consumption
About 40 GW prospective Batch Zero subset	AEP Texas 10-Q description of prospective load seeking ERCOT consideration	Same scope as all 45 GW submitted
~\$2bn of security	10-Q: cash collateral, guarantees and letters of credit for the 40 GW prospective tranche	All 45 GW under the filing's stated scope
Nearly \$2bn cash/collateral	Call: management said this covered required support for full 45 GW filing	A reconciled amount/scope with the 10-Q statement
Up to \$16bn expected offsets	Management estimate tied to take-or-pay electric-service agreements at vertically integrated utilities	Realized savings or project/customer-level net economics
Nearly \$1.4bn customer benefits	Management estimate from DOE loans and grants	AEP earnings or cash available for specific projects

Sources: [P01], pp. 3-4, 7; [P02], lines 262-268; [P07], lines 257-263; [P08-P09]. ERCOT process notices are not AEP-specific determinations. The separate 45/40 GW and ~\$2bn descriptions are not to be added or silently reconciled.

Exhibit 3. First-half financial context

Six months ended June 30, 2026	Amount	Definition / use
Net cash from operating activities	\$3.421bn	Reported cash flow
Net cash used in investing activities	\$(6.602)bn	Includes more than capital expenditures
Net cash from financing activities	\$3.360bn	Reported financing cash flow
Cash, cash equivalents and restricted cash at June 30	\$447m	Consolidated period-end balance
2026 operating EPS guidance	\$6.25-\$6.55	Company-defined non-GAAP measure

Sources: [P01], p. 34; [P02], lines 256-258, 350-369. These consolidated historical figures do not identify financing available for a specific growth project.

Source notes

- **[P01]** AEP, Q2 2026 Form 10-Q, accession 0000004904-26-000059, accepted July 30, 2026, 10:12:10 a.m. ET. **SEC filing**. See MD&A pp. 3-4, 7, 34, 36.
- **[P02]** AEP, Q2 2026 results release, furnished July 30, 2026 as Exhibit 99.1 to 8-K accession 0000004904-26-000055, accepted 6:59:36 a.m. ET. **Issuer release** and **SEC exhibit**. See lines 249-275 and 350-369.
- **[P06]** AEP, Q2 Earnings Webcast, July 30, 2026, 9:00 a.m. ET. **Official event archive; issuer audio recording**.
- **[P07]** The Motley Fool, AEP Q2 2026 earnings-call transcript, published Aug. 3, 2026; retrospective text locator for the July 30 live call. **Transcript**. See event time lines 139-142; load support lines 261-263; capital-plan Q&A lines 307-310 and 321-329. Transcript is third-party and may contain errors; the official audio is authoritative.
- **[P08]** ERCOT, dated **Aug. 3 M-A080326-01**, **Sep. 3 M-A080326-04**, and **Sep. 9 M-A090926-01** Market Notices. The sequence delayed expected Aug. 7 notices, then reported provisional classifications sent to TSPs/DSPs subject to conditions, followed by verification RFIs to a majority of conditionally included entities. Process-wide; no AEP-specific result.
- **[P09]** ERCOT **Large Load Integration** page and **Load Type F verification RFI reference guide**, page dated Sep. 18; PDF says published Sep. 19, 2026. The guide is for reference; RIOO RFI response controls. It describes procedure before final classification, not AEP-specific status.

The information set ends October 2, 2026, 4:00 p.m. ET. The July 30 call was public before cutoff; its later third-party transcript is used only to locate remarks made on that call. ERCOT process-wide provisional classifications and verification notices are included, but no AEP-specific final classification, verification, interconnection or load outcome was established in the materials examined. No later quarterly results or regulatory decisions are included.