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American Electric Power Co., Inc. Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. And our first question is from Greg Gordon from Citigroup. Please go ahead.

Greg Gordon - Citigroup

Thanks. Would you mind talking in a little bit more detail about what your next steps will be in determining whether you intent to move forward in Texas, given the PUC decision. Could you give us an update on the probability of success in getting regulatory approvals for your IGCC initiatives in Ohio and West Virginia?

Michael G. Morris - Chairman, President and Chief Executive Officer

Sure Greg. On the Texas issue we still feel very committed to the concept of building out transmission in Texas and as you know, the partnership at ETT, we'll take a hard look at the magnitude of the projects that we intended to build going forward. We think that 9.96 is of course is very closed to the 10 on equity or the 10.25 we were looking for, but still sends a signal to anyone who intends to build transmission in Texas that you might do better in other regions. You know that we like the regulatory swiftness with which capital invested turns into revenue streams, as compared to maybe a longer regulatory lag period elsewhere and we will continue to try to explain those issues to the commissioners in Texas.

I would expect that we and Mid-American will continue to review our whole cards if you will, to see what conclusion it will be and we will probably share that with the outside world in not too distant future. We very much would like to go forward, however, this years a bit of a road block.

As to the regulatory activities for integrated gas combined cycle; arguments we made before the Ohio Supreme Court as recently as a couple of weeks ago. As Jack Caine [ph], our General Counsel always reminds never read too much into the Qs and As that you hear from the bench, but I would argue that it didn't go as well as we wished that it would have, because there were a lot of questions that said, well it seems to me that the regulation for the 1990 Senate Bill, 3 Act segregated generation from distribution and here it would appears though, under this provider of last resort you are trying to pass through what clearly are generation costs on a distribution rate. That was troubling for some of the Jurists and we will just have to wait and see how they come forward.

As you know in the Ohio legislation... legislative activities to date that issue is high on the Governors agenda, it's high on our agenda and we do have a chance to perfect the legislation going forward to ensure that if one wanted to build a more traditional rate of return power plant in Ohio they could go ahead and do that, we would expect that to be an important part of whatever legislation comes out of this current cycle in Ohio.

As to the integrated gas plant in Appalachian Power it is before both, the West Virginia and Virginia commissions. There doesn't seem to be a great deal of consternation over that as you know in Virginia. It qualifies for the enhanced rate of return on equity and it was so filed, and the hearings will

commence in the not too distant future. And we will see how that goes. Maybe the underlying part of your question really circles around the whole notion that coal plants are laid across the country including our Red Rock have not done well and that is truly describing an unfortunate. I was quite pleased to see that the Ohio Power Siting Council as well as the Ohio EPA just issued the air permits for the Meigs County and Ohio project and in fact there is a story in Columbus dispatched, where the leader of Ohio EPA said, we need to go forward and build generation to satisfy the needs of the growing economy here in Ohio, and not be overly concerned about the carbon footprint associated with that, because at the end of the day that will alternatively become a federally-controlled issue and AEP Ohio American Electric Power through Ohio Product Company or Columbus Southern will comply with whatever those federal standards are.

It really demands almost that we get some answer out of the federal government on this issue as clearly as we can because these plants due in fact need to be built, or as you know Greg, because you and I have had many hours to chat about this, we will be taking the U.S. economy into an economic brownout that will cause the politicians more pain and worrying a bit how to handle the carbon and the carbon issue.

Greg Gordon - Citigroup

Thank you Michael.

Michael G. Morris - Chairman, President and Chief Executive Officer

Yes you bet.

Operator

Your next question will come from Ashar Khan from SAC Capital. Please go ahead.

Ashar Khan - SAC Capital

Mike could you just mention a little bit on Ohio I guess, where things stand I guess you're expecting an amended bill, is that the next step in the Senate Committee. And just trying to get a sense as to what's happening there?

Michael G. Morris - Chairman, President and Chief Executive Officer

Yes. I would think... Ashar I think the testimony has been as you would expect it to be. The industrials would like energy to be free. I don't blame them, but it isn't. There were some very interesting testimony yesterday, on the renewables that are, by an environmental group, who were seeking a little more clarity around, what the benefit of renewables might be, in a state like Ohio where in fact it doesn't... the wind doesn't blow very frequently, nor does the sun shine. In fact, we're all sitting here in a very, very grey day; about the fifth in a row. I'd hate to be counting on my solar machine today. But anyway, I think the testimony has been enlightening, I think the senators have been deeply engaged. I think they have learned about the complexities of the undertaking. And I think there has been some headway made on the notion, that elected officials, need to create the energy policy for the State of Ohio and they simply can't abdicate that over to an administrative agency, to sort all of that out. So, I would hope that in fact as we understand tomorrow there will be a substitute bill brought into the senate. And I would hope that it addresses, as you have heard us say many times before, a little more clarity about how one would established a market price and an equal clarity about how one would establish the base of the value negotiating point, if you will, if one were to go forward on an electric security plan, which are the two options that the governor laid out in his bill.

So I would say that it's going reasonably well in that sense it surely, is not confrontational in any way I think again the questioners and the answers given, have been reasonable and to the point. At the end of the day, we understand from the President of the Senate, that they would like to get something out before the end of the month, which is a very heavy task for them. And then it'll be taken up by the

House... yesterday the Speaker of the House made mention and as reported in the local media here that if the bill comes out of the Senate without any problems it might move along swiftly in the house. However, if there are problems and I don't know what they that means, then the House will do it's deliberation and they make certain that we aren't over reacting and creating a situation that may be worse than anyone intended, remember, when we did Senate Bill 3, it was the industrials who drove the bus, trying to get to what they thought was the freedom of an open market. And today, it's the same people who have the bus in reverse which at least is somewhat entertaining. But I expect that this will all unfold and we'll have an opportunity to be successful. And as you've heard us say before if we could simply define the upper boundary of the market price, the lower boundary of the value proposition, I am comfortable that American Electric Power can negotiate a resolution to this issue that will be good not only for our investors but our customers and equally important to the economy of Ohio.

Ashar Khan - SAC Capital

And Mike, do you expect the substitute bill tomorrow to incorporate what you are looking for?

Michael G. Morris - Chairman, President and Chief Executive Officer

I would hope that it addresses those two very important issues as to a little more flesh on the political bones of is a market option that the commission will divine. And here's a value proposition that the commission will divine. That's really the Governor's Bill released today. I hope that there's a little more clarity about, the how as we go forward with steps to go.

Ashar Khan - SAC Capital

And if I can just ask one question to Holly. Holly, I am just trying to the variances on the off system sales margin and the transmission revenue. They've been like off from I guess what the predictions... off system sales margin are doing much better than what you forecast. And then the transmission revenue is below and I am just trying to look forward to '08's guidance and trying to see, how should I look at '07 is coming off in totally different ways then what you had, initially forecasted. So how should we look at '08? Are the discrepancies going to reverse, that the margin is going to go lower on the off system side and the transmission revenue are going to pick up next year? Or how should we look at '08 versus '07 historical results?

Holly Koepfel - Executive Vice President and Chief Financial Officer

The numbers will be recast for you in January. And the principle difference for '08, from what we rolled out on October 4, is the location or how we are showing the impact of marginal losses.

Ashar Khan - SAC Capital

Okay.

Holly Koepfel - Executive Vice President and Chief Financial Officer

We...before for this quarter, on both quarter and year-to-date basis, the gross amount of marginal losses were reflected in line six transmission revenue

Ashar Khan - SAC Capital

Okay.

Holly Koepfel - Executive Vice President and Chief Financial Officer

That is not the case in what you're looking at for '08. And we will provide that update in January.

Ashar Khan - SAC Capital

Okay.

Michael G. Morris - Chairman, President and Chief Executive Officer

But I think to the specific question on the margins. As you know, we try to be conservative about our view of the market going forward, as we laid that out and your observation about '07 is that, the margins are coming in considerably higher than we thought that they would have at the started the

year. I would hope for the same kind of result because as you know, the margins that we gain on off system sales are shared both with are customers by the way of credits to the retail cost of service and some, rightfully retained for our shareholders. So, we never want to go in with a... extremely bold forecast of what we think market prices will be. But it would be very difficult for one to fathom how market prices would go down as fuel prices go up, cost of maintenance goes up, cost of natural gas goes up. I don't know how the market prices will come down.

Ashar Khan - SAC Capital

Okay. Thank you very much.

Operator

Thank you and our next question is from Paul Fremont from Jefferies & Co. Please go ahead.

Paul Fremont - Jefferies & Co.

Mike. I have a question on the rate release slide on page 16. At the analysts conference you spoke about the 2009 rate release includes some benefits from Ohio, but you want to quantify it. My question is, the version that you gave out before the analysts conference for a last year's version had rate release in '09 was about \$400 million left. Does that include any benefit from Ohio generation other than this 3% to 7% pick up?

Michael G. Morris - Chairman, President and Chief Executive Officer

Anthony, I don't...I am not sure I'm following the granularity of your question. What we gave you... what we have in the package today, is I think comparable to what we shared with you on our October 4. It may be different than the '09 number you have seen from years earlier because, we had the 3% and 7% in that and we really haven't build that into the '09 stack that you're looking at on page 16, if... I think that's the question.

Paul Fremont - Jefferies & Co.

Right. So the previous versions didn't just included the 3% and 7% pickup in Ohio. Whereas the one you guys gave out the...the one you gave out at the Analysts Conference, included some ... a different pickup in Ohio generation.

Michael G. Morris - Chairman, President and Chief Executive Officer

I think that's accurate. Yes sir.

Paul Fremont - Jefferies & Co.

Okay. Thank you.

Michael G. Morris - Chairman, President and Chief Executive Officer

You bet.

Operator

Thank you. And our next question is from Paul Patterson from Glenrock.

Michael G. Morris - Chairman, President and Chief Executive Officer

Good morning Paul. I know you are not contemplating your question that deeply.

Paul Patterson - Glenrock Asset Management

I'm sorry can you hear me?

Michael G. Morris - Chairman, President and Chief Executive Officer

Yes. We can hear you fine now Paul.

Paul Patterson - Glenrock Asset Management

Sorry, sorry about that.

Michael G. Morris - Chairman, President and Chief Executive Officer

No problem.

Paul Patterson - Glenrock Asset Management

Fuel reconciliation. I was wondering what's driving that. It was mentioned in the press release and... if you could just give us a little more flavor on that?

Michael G. Morris - Chairman, President and Chief Executive Officer

Holly?

Holly Koepfel - Executive Vice President and Chief Financial Officer

In terms of our fuel prices for the year, they are coming in more favorable than we anticipated at the beginning of the year. We expect to see coal costs up by 4% to 5% on the year, versus the 7% to 9%, that we had previously anticipated. One of the biggest drivers is the continuation of synfuel credits. As you know they'll expire at the end of this year. But that's nearly \$70 million or about \$1 a ton. In addition, we've had good performance under some contracts that are very favorably priced. And we haven't encountered some logistical challenges that we have in years past. Railways have remained in line with expectation. We are going to play a bit of catch up next year, should recall Paul, we talked about 13% of an increase for '08.

Paul Patterson - Glenrock Asset Management

Okay that's right. And then MEMCO, the weaker conditions that you guys were able to offset, was that because of contracting and what's the outlook as we go into 2008, with respect to these weaker spot market rate would indicate that maybe... what are you expecting to happen there I guess with MEMCO. I see that you guys have got about \$10 million less. I guess I am saying is what contracting impact do we see and going forward, what do you see as being sort of normalized number for MEMCO?

Michael G. Morris - Chairman, President and Chief Executive Officer

I think, a couple of things are happening. As to the third quarter, and what we would expect for the rest of calendar year of '07, the incredible grain harvest which was intended to go to ethanol machines which is yet to be built is now going to the export market and as you know, MEMCO is a four contract higher on the Mississippi river is seeing some very, very high utilization rate and some very good spot market bid rates as well.

When we go on a forward-looking basis sold '08 and '09 through the 2010 numbers that we shared with you before, we still look at consolidation on the rivers, we still look at some of the smaller folks dropping out of the equation and we still build into our MEMCO view, a continuation and an upgrade in our facilities. In fact we just had our Board down in New Orleans in the last couple of days to take them through MEMCO facilities, and we are kind of bullish on where we are.

The overall contract rates should escalate some, should surely accommodate the notion of increased costs for new equipment purchase as well as increases in fuel. So we see the margins holding up relatively well. Our goal there quiet honestly Paul is to continue the AEP tradition of being the lowest cost provider on the river. We think that will attract a tremendous amount of business and provide for some significant yield deltas in an earnings sense for our investors.

We don't expect that it will expand much beyond that footprint. We would love to during that 2008 to 2010 horizon, maybe move into some liquid transportation which we don't do yet. We see that maybe being a potential growth opportunity for us there, but really aren't that interested in giving into the marine shipping or any of the out of the Gulf of Mexico kind of transportation. But we are pleased with what MEMCO is doing, I know one of the great aces in the whole about MEMCO is our ability to move fuel at moment's notice to the station's that need it, to ensure that we have adequate generation not only satisfy our customer's needs but to take full advantage of the market demands in the PJL.

Paul Patterson - Glenrock Asset Management

Okay great. Thanks a lot guys.

Michael G. Morris - Chairman, President and Chief Executive Officer

Yes you bet Paul. Thanks

Operator

Thank you. And our next question is from John Kiani from Deutsche Bank. Please go ahead.

John Kiani - Deutsche Bank

Hi Jolly

Michael G. Morris - Chairman, President and Chief Executive Officer

Good morning John.

John Kiani - Deutsche Bank

Can you talk a little bit about... little bit more about the potentials amendments and kind of what you expect from the substitute build tomorrow. I know you touched on a little bit but I am actually looking for more color on what happened to the language that had a provision for not requiring PUCL approval to transfer or sell your Ohio generating assets?

Michael G. Morris - Chairman, President and Chief Executive Officer

Well I am not sure if that would be addressed specifically in a substitute bill again. We have raised that issue that there is a fairness requirement here that all utilities be on the same spot, some would argue that we all are that whatever Friends North did. They in fact may try to legislatively reverse. But the whole notion is, we see it John unfolding is let's not get driven on the side by arguments that would simply lead to all kinds of legal ramifications. Let's see if we can get some definition or clarity around the two major points that are important to all utilities in the state, and find some reasons to compromise in between on ESP and if you can get any SP then you implement the market a process presuming that the market process is a bit more defined than simply allowing the commission to decide if and when one would go by doing that.

John Kiani - Deutsche Bank

Okay that's helpful. And then can you talk a little bit about the benefit that the peaking assets you had acquired had on the third quarter.

Michael G. Morris - Chairman, President and Chief Executive Officer

We surely can, they came to play as you know from conversations we have had before not only in the RPM capacity up tick but also in fact came to play frequently during the quarter with energy placed into the market. So we have been quite pleased with those asset acquisitions and not only did they allow us to continue to be a free agent if you will in the RPM world to satisfy our customers needs with the savings that I spiked out earlier year on. But it also has proven to be a benefit to our customers and our shareholders by putting that capacity and energy into the PJM market where as you know the off-system sales revenues are shared between shareholders and customers. So it is really been a plus-plus for us and I am happy that my team encouraged me to buy those machines when I didn't think that was the brightest thing in the world to do.

John Kiani - Deutsche Bank

Great. Thanks Mike.

Michael G. Morris - Chairman, President and Chief Executive Officer

Yes you bet.

Operator

Thank you and our next question is from Dan Eggers from Credit Suisse. Please go ahead.

Dan Eggers - Credit Suisse First Boston

Good morning.

Michael G. Morris - Chairman, President and Chief Executive Officer

Good morning Dan.

Dan Eggers - Credit Suisse First Boston

Just thinking about the challenges with Core belt situation in given the load obligations that you have within your service territories, plus a probably a couple years realist until we get a federal decision on CO2. How are you guys thinking about some contingency planning as far as generation resources are concerned? And how quickly could you effectively shift gears away from coal maybe to gas or something like that as you look at Oklahoma and some of the other projects?

Michael G. Morris - Chairman, President and Chief Executive Officer

Well Dan as you know you will see a shift in Oklahoma very quickly to the gas that was one of the directions its interesting that Chairman Cloud also suggested may... we might want to look at nuclear for the benefit of Oklahoma and that region. He may have forgotten that we actually have the Black Fox site. We wouldn't mind going to a nuclear station in Oklahoma, but that wont fit the near term profile of what our needs are. You will see a shift to natural gas if we are going to put acids on the ground. But you will see us continue to push very, very hard for the ultimate approval of these coal stations because you heard me say it many times before, an 18, 19 throughput supply cannot not continue to satisfy a 22, 23 growing supply demand.

Dan Eggers - Credit Suisse First Boston

Not to dig into with respect to anything [ph] but on slide three earning guidance you guys showed only covers '07 and '08, we shouldn't read anything about the '09 and '10 guidance should we?

Michael G. Morris - Chairman, President and Chief Executive Officer

Oh absolutely not. No conspiracy here not before not now or none ever.

Dan Eggers - Credit Suisse First Boston

I just want to make sure and then the last one on the RPM auction color on the amount of capacity that was bit into the auction this time versus last time?

Michael G. Morris - Chairman, President and Chief Executive Officer

Well I think again there were areas that demonstrated the RPM has worked reasonably well. If you look at the far West side of the PJM where much of our activity is based there has been capacity additions and that what the RPM is supposed to do. However, because in some regions particularly in the East of the PJM are the more classic PJM no one wants anything in their backyard and they are paying mightily for the lack of capacity being there and some of those numbers were up in the mid 200's for megawatt days which is maybe if you can afford to pay it you don't want to see your see a power plant in your neighborhood that's your choice. But at least you ought to have want to have a transmission asset some where near your neighborhood, so that that American Electric Power can bring you very cost effective capacity and energy.

Dan Eggers - Credit Suisse First Boston

Okay. Thank you.

Michael G. Morris - Chairman, President and Chief Executive Officer

Yeah you bet.

Operator

And our next question is from Vikas Dwivedi from Morgan Stanley. Please go ahead.

Michael G. Morris - Chairman, President and Chief Executive Officer

Vikas how are you?

Rudy Tolentino - Morgan Stanley

Hi actually this is Rudy Tolentino.

Michael G. Morris - Chairman, President and Chief Executive Officer

Hi Rudy how are you

Rudy Tolentino - Morgan Stanley

Doing well. I think Dan was asking you, how much capacity did you guys bid into the auction, the auction just completed?

Holly Koeppel - Executive Vice President and Chief Financial Officer

As you know --

Michael G. Morris - Chairman, President and Chief Executive Officer

1300

Holly Koeppel - Executive Vice President and Chief Financial Officer

We are capped out of that number

Michael G. Morris - Chairman, President and Chief Executive Officer

Yes

Rudy Tolentino - Morgan Stanley

Okay. And then earlier on the call you have mentioned in your opening remarks that, what this New Source review settlement done that you will be able to operate... to capacity operate. Can you quantify like the demand of capacity operates that could potentially do and maybe you will like give an idea what the timing?

Michael G. Morris - Chairman, President and Chief Executive Officer

The timing will be in keeping with the capital allocation that we have on the system to make certain that we hold our debt equity ratios the way that we have before and I'd assume that not share with you exactly what we think the megawatts might be, because it could be premature and we wouldn't bet there as you know our mantra is to share with you exactly the facts as we know them and then if we can outperform that a little bit we are fine but rather than tell you X and deliver X minus I would rather avoid that.

Rudy Tolentino - Morgan Stanley

Okay. Thank you very much

Michael G. Morris - Chairman, President and Chief Executive Officer

Yes you bet

Operator

Thank you.

Michael G. Morris - Chairman, President and Chief Executive Officer

Tell Vikas we said hi anyways.

Operator

Our next question is from Paul Ridzon from KeyBanc. Please go ahead

Paul Ridzon - KeyBanc

Good Morning Mike, how are you?

Michael G. Morris - Chairman, President and Chief Executive Officer

I am well. Paul yourself?

Paul Ridzon - KeyBanc

Okay. Just a question on O&M year-to-date; are we going to have a particularly heavy quarter in the fourth quarter or is there some go into slip into 2008. Just seems that we are pretty light relative to your forecast.

Holly Koeppel - Executive Vice President and Chief Financial Officer

We are little light relative to forecast that we didn't quite catch up and as you know the fourth quarter is when those unpredictable storms come along and that can obviously move O&M quiet a bit. I think we are on-track. I wouldn't look to that as being a major contributor to anything.

Michael G. Morris - Chairman, President and Chief Executive Officer

I would only add to that the last weekend there was a series of storms that originated in the far southwest that come entirely across to our footprint, which are the storms we hate the most. But much credit to the operating companies and our structure and that we held up well customer outages, we're not that dramatic, which means that the tree trimming and the rehabilitation that we have done in those jurisdictions, where we don't have idiotic grid prices [ph], have really added to the benefit of the reliability for our customers and we'll continue to try to make those adjustments where we can. The results speak for themselves. Give us a tree trimming rider, we put the money to work and reliability goes up. Set in the middle of a rate freeze, where people argue over a \$0.02 a month per customer increase and your reliability goes down. It's really that simple.

Paul Ridzon - KeyBanc

And just, can you comment on the trajectory that you've seen on newbuild cost... what's the slope of the trajectory look like? Is it slowing down, is it continuing to increase?

Michael G. Morris - Chairman, President and Chief Executive Officer

It isn't slowing down. I don't know that it's running further a pace. But I would tell you this Paul that, any station you'd hope to build and 2012 that you build and 2013 and 2014 will cost more unless you are able to lock in the prices, which of course AEP has done in a very traditional sense. That has led to our environmental build out of FCRs and FGD across the fleet of the cheaper, on a megawatt basis and I think almost anybody else and of course the real benefit of the Turk plant, currently in front of the regulators in our Western system, screamed to that end. There are some beautiful fixed price contracts, guaranteed performances built into the current contracts. And we hope that that clarity rings true in the year of the regulator to take full advantage for the customer of those kept prices. So, year-over-year continues to increase. It isn't running out of control but, as you know much of that is controlled by the world energy demand because the United States continues to find itself in a lets not build anything now and hope tomorrow we won't need to. How that's ever going to play out is beyond me. I think, if you saw yesterday's journal, there was quite an intriguing story about the 20% renewable requirements in California which will yield some 3600 megawatts of wind or solar and require 12600 megawatts of other generation to satisfy the lack of solar and wind being capacity real. There is an equation going on here that its just absolutely idiotic and we at American Electric Power, will continue to speak out on that issue, not only in our footprint but beyond because, this is not my backyard is going to take us into an economic brown out, that will make everybody sorry that we didn't build what needed to be build in a timely sense. 34 nuclear stations being build around the world none in the United States. Coal plants being built everyday around the world, none opt but for co-ops and munis in the United States. It's just really silly. I have jumped off my soapbox real quick.

Paul Ridzon - KeyBanc

Thank you.

Operator

Thank you and our final question comes from the line of Elizabeth Parrella from Merrill Lynch. Please go ahead.

Michael G. Morris - Chairman, President and Chief Executive Officer

Elizabeth how are you?

Elizabeth Parrella - Merrill Lynch & Co.

Good. How are you Mike?

Michael G. Morris - Chairman, President and Chief Executive Officer

I am fine thanks.

Elizabeth Parrella - Merrill Lynch & Co.

A couple of question for you. One is, I want a follow-up on Ashar's questions on this transmission marginal loss impact. If I understand that correctly, the impact on gross margin in the quarter on net base was about \$20 million negative and \$5 million negative in the second quarter?

Holly Koeppel - Executive Vice President and Chief Financial Officer

Well you're in the range I would say 15 to 20 on the quarter. So, yes.

Elizabeth Parrella - Merrill Lynch & Co.

Okay. And how shall we be thinking about the annual impact or let's say a full year impact on the gross margin from this decision by PJM?

Holly Koeppel - Executive Vice President and Chief Financial Officer

It's safe to say you should not multiply this quarter by four because we have series regulatory recovery strategies that will provide more detail around in January, when we spell out our strategy for ...at both the State and Federal level getting these costs recovered.

Michael G. Morris - Chairman, President and Chief Executive Officer

We know how good you are at multiply by four, but it really would be a mistake in this regard and not only because of what Holly said at the State level and the recoverability of the delta, but we really think there just in equity and the implementation of the whole notion and we hope to redress that at the FERC. Because, when you charge it on generation and flow it back on load, you've just got a mismatch, you are to do...either you have sectionalize it as they have done with the capacity regions or you are to simply just flow the revenues, the over collections back from those who paid them on a one-for-one basis. There is very easy remedy here, but the inequities are starting to pop up and that just simply needs to be resolved.

Elizabeth Parrella - Merrill Lynch & Co.

In terms of the '08 guidance does that ...is that sort of post this decision or is it post this decision with your assumption on to what degree you recover or this with the State and Federal levels and what kind of assumptions did you put into the '08 numbers?

Michael G. Morris - Chairman, President and Chief Executive Officer

We build into '08, our view of this is it may not have been spot on but this doesn't change our view of the '08 guidance at all.

Holly Koeppel - Executive Vice President and Chief Financial Officer

All you'll see is a change in geography in terms of the amounts on the line, but the total is going to remain the same Elizabeth.

Elizabeth Parrella - Merrill Lynch & Co.

Okay. And the way you presented it right now in 2008 its kind of the pre...in terms of the transmission line, that line sets the previous decision I thank as I understood your answer to the question before.

Michael G. Morris - Chairman, President and Chief Executive Officer

Exactly

Holly Koeppel - Executive Vice President and Chief Financial Officer

Exactly.

Elizabeth Parrella - Merrill Lynch & Co.

Okay. If I could just ask one another question. Could you just remind us the Michigan depreciation decision, what's the annual impact of that and when did you start booking that?

Michael G. Morris - Chairman, President and Chief Executive Officer

It was \$10 million depreciation number and the change and it will happen in this quarter

Elizabeth Parrella - Merrill Lynch & Co.

Okay. In the third quarter, so second quarter impact for it, excuse me ...there was it happened in the fourth quarter and there was no third quarter impact for it.

Michael G. Morris - Chairman, President and Chief Executive Officer

Exactly.

Holly Koepfel - Executive Vice President and Chief Financial Officer

Yes.

Elizabeth Parrella - Merrill Lynch & Co.

Okay. Thank you

Michael G. Morris - Chairman, President and Chief Executive Officer

You bet. Thank you. Thanks a lot everybody for joining us today, as I said at the outset, we're very pleased with the quarter and have every reason to believe that the year will end up well within the guidance range.

Operator

Thank you, and ladies and gentlemen this conference will be made available for replay after 1:30 today, until October 31st. You may access the AT&T teleconference replay system at any time by dialing 1800-475-6701 and entering the access code 890875. International participants can dial 13203653844. Again the number are 1800-475-6701 and 3203653844. The access code is 890875. That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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