

# American Electric Power: a just transition case study

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The just transition continues to be a major theme in global climate policy, with COP30 witnessing the agreement of the Bélem Action Mechanism, a dedicated framework to address this subject.[1] Furthermore, social concerns now feature more prominently in fossil-fuel phase out discussions.[2]

Whilst companies' transition plans often focus on decarbonisation pathways and environmental targets, this paper highlights one example where social concerns can complicate the execution of a firm's transition and is therefore relevant to investors. This will be done through a case study exploring one the largest US utilities, American Electric Power (ticker AEP).

AEP is involved in the generation, transmission and distribution of electricity in 11 US states. The company generates a significant share of electricity from coal, particularly its subsidiaries in the eastern states, meaning some workers and operational areas depend on coal for employment.

The shift away from coal is likely to have considerable impacts on these communities, making just transition concerns salient. Coupling this with AEP being a frequent bond issuer, with subsidiaries that have varying exposures to coal, makes it a useful case study to explore whether transition risks have been priced in and whether social risks could affect AEP's entities in different ways.

This paper offers the following key takeaways of this case study:

- **Speed and effectiveness of transition is credit-relevant for US utilities**. Delays or uncertainties can therefore be of relevance for fixed income investors.
- **Social concerns present execution risk to AEP's transition.** AEP has historically acknowledged the importance of a just transition in its corporate publications; however, recent communications on the subject have been more limited.
    - Managing the impact for employees and local communities will be key for the pace of executing its transition plans.
    - Communicating the benefits of lower energy bills is a potential mitigant and highlights the breadth of just transition interpretations.
- Market pricing shows that for subsidiaries of the same rating, the bond curves of the more coal-exposed are currently steeper, suggesting investors may assign a higher risk premium.
- **AEP may soon issue a new bond,[3] and this would present an opportunity for investors to engage directly with the company on these issues.**

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[1] "Belém Action Mechanism on Just Transition: A breakthrough for workers amid major failures at COP30", International Trade Union Confederation, 24 Nov 2025.
[2] "What is the just transition and what does it mean for climate action?", Grantham Research Institute on Climate Change and the Environment, 20 Feb 2024.
[3] AEP currently ranks 14th on AFII's "Bond Horizon" tool, which predicts primary market issuance.

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# Introduction

American Electric Power (ticker AEP) is one of the largest investor-owned US utility companies, serving 5.6mn customers in 11 states. The company is involved in electricity generation, transmission, and distribution, with around 30 GW of generating capacity and a transmission network of 40,000 miles, the largest in the US.[4]

AEP is a sizeable bond issuer, with c.USD45bn of bond debt outstanding across the parent and its subsidiaries. Table 1 below shows AEP's bond issuing entities and the extent of their involvement in coal-generated electricity.[5]

*Table 1. AEP & bond issuing subsidiaries. Source: Bloomberg Finance L.P., accessed 21 Jan 2026.*

| | Senior unsecured debt ratings | | | | | | |
|---|---|---|---|---|---|---|---|
| Issuing Entity | Moody's | S&P | Fitch | Total Debt to Total Assets | Bonds outstanding | Amount Outstanding (USDmn) | Coal % of Generating & PPA Capacity |
| AEP Co (parent company) | Baa2 | BBB | BBB | 44.4% | 14 | 9,675 | N/A |
| Kentucky Power Co | Baa3 | BBB | BBB+ | 36.6% | 2 | 450 | 73% |
| AEP Ohio / Ohio Power Co | Baa1 | BBB+ | A- | 32.4% | 10 | 3,750 | 67% |
| Appalachian Power Co | Baa1 | BBB+ | A- | 34.4% | 13 | 4,725 | 64% |
| Indiana Michigan Power Co | A3 | BBB+ | A | 26.2% | 7 | 2,875 | 50% |
| Southwestern Electric Power Co | Baa2 | BBB+ | BBB+ | 35.7% | 8 | 3,675 | 32% |
| Public Service Co of Oklahoma | Baa1 | BBB+ | A- | 37.7% | 6 | 2,925 | 8% |
| AEP Texas (transmission only) | Baa3 | BBB+ | BBB+ | 42.8% | 14 | 6,075 | N/A |
| AEP Transmission Co | A2 | BBB+ | A | 35.3% | 12 | 5,450 | N/A |

# Credit impact of successful transition

Given AEP's involvement in key stages of the energy value chain, 'transition' covers a range of developments and strategies. Here though, we will focus on the company's transition away from coal for energy generation. AEP aims to reduce its coal-fuelled capacity by 4.1 GW by the end of 2028,[6] whilst adding 15 GW of renewable capacity by 2032.[7] In terms of transmission, AEP is looking to invest USD30bn between 2026 and 2030 to improve system performance and increase reliability, whilst USD17bn has been designated for investment in distribution, to modernise the grid.[8]

A successful energy transition must address all these areas, and while this paper focuses more on energy generation and coal exposure, the important role of transmission and distribution should not be understated.

AEP's connection to large parts of the energy value chain, particularly coal generation, makes it highly exposed to transition risk. Failure to decarbonise successfully creates financial risk for the company, in the form of potentially stranded assets, higher insurance premiums, and/or significant capex.[9]

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[4] Pg 4, "Investor Meetings Handout", AEP, 8 Jan 2026.
[5] Excludes entities with less than 2 bonds outstanding (AEP Transmission Holding Co, SWEPCo Storm Recovery Funding, Kentucky Power Cost Recovery, Ohio Valley Electric Corp, Transource Energy).
[6] Pg 21, "2024 Corporate Sustainability Report", AEP, 1 May 2024.
[7] Pg 21, "2023 Corporate Sustainability Report", AEP, 17 May 2023.
[8] Pg 8, "Investor Meetings Handout", AEP, 8 Jan 2026.
[9] Pg 4, "Climate Risks in the Power Generation Sector", United Nations Environment Programme, May 2024.

This could negatively impact the company's credit profile, and thus may have implications for fixed income investors. As noted by S&P in its latest research update: *"environmental factors are a negative consideration in our credit rating analysis of AEP, namely because of its exposure to fossil fuels, the ongoing cost of operating older units in the face of disruptive technology advances, and the potential for increasing environmental regulations that require significant capital investments"*. [10]

Another rating agency, Fitch, states that one of AEP's subsidiaries, Kentucky Power Company, operates in an area *"primarily driven by coal mining, which has contracted significantly in recent years"*, whilst AEP overall faces the *"risk of stranded assets if there is a retrenchment in the sector"*. [11]

Therefore, bond investors are exposed to AEP's transition journey and should be incentivised to support the company's shift away from coal, given a successful decarbonisation is likely to have credit positive impacts in the long term.

## Social concerns present execution risk to AEP's transition

Although a successful transition could positively impact AEP's credit profile, failure to address social concerns puts this outcome at risk and could affect its overall creditworthiness over time. In this context, social or just transition concerns refer to the effects on people and communities caused by the transition itself, as opposed to social factors more broadly.

Given AEP's heavy involvement in the coal industry in the eastern US, a significant proportion of its own workforce may be negatively impacted by a move away from coal towards renewables, through loss of employment and a lack of retraining. As well as AEP's direct workforce, local communities that depend on the coal industry for employment could be affected, as the closure of coal plants may have wider economic and social ramifications.[12]

By not considering these social impacts, AEP's transition plan could falter, through project delays and potential strike action. This in turn could lead to reputational damage and increasing credit risk. Therefore, no comprehensive analysis of AEP's alignment with a just transition can afford to neglect labour-related concerns.

Indeed, the coal-dependent workforce of the eastern states has already borne significant social and economic from the coal industry, including high levels of poverty, worker health problems, and lower income growth.[13] For example, the coal-rich Appalachian Basin of the US has been referred to as an *"internal colony"* or a *"sacrifice zone"*, which was *"created to provide cheap resources to fuel the rest of the country"*.[14] Given AEP's operations in Appalachia, Kentucky, and Ohio, the risk of a swift transition away from coal could perpetuate the injustices these workers have experienced for many years.

The consequences of a company failing to account for social concerns has been observed elsewhere. The Komati coal-fired power plant in South Africa, operated by major public utility

[10] "Research Update: American Electric Power Co. Inc., Subsidiaries Outlooks Revised To Stable; Ratings Affirmed", S&P Global, 10 Jul 2025.
[11] "Fitch Affirms American Electric Power Company and Subsidiaries; Outlook Stable", Fitch Ratings, 7 Nov 2025.
[12] Pg 6, "AEP Sustainable Finance Framework", AEP, Jul 2021.
[13] Pg 177, "Coal in Net Zero Transitions", International Energy Agency, 15 Nov 2022.
[14] Pg 301, "Just Transitions", Southern California Law Review, Jan 2019.

Eskom, was decommissioned in 2022, as part of the World Bank's USD497mn Eskom Just Energy Transition Project.[15]

However, reports suggest the closure was handled poorly, causing significant job losses and damage to local communities.[16] Disbursement of the World Bank funding has been delayed, with only USD2.3mn spent by end of 2024 (of the USD497mn),[17] whilst the Komati experience has contributed to Eskom postponing commitments to shutter at least three power stations before 2030,[18] delaying its transition. The company also received notable negative press coverage for its failure to consider social concerns. [19]

Further examples can be observed in the legal cases launched globally by workers, communities, and Indigenous Peoples, who claim their human rights have been infringed via the transition. Bond issuers such as Enel, Vale, and First Quantum have all seen major, transition-related capex projects halted as a result of litigation from communities claiming harm, resulting in financial and operational consequences.[20] These show that if social concerns are not addressed as part of the transition, there can be repercussions not only for workers, but for companies and investors too.

## The scope of just transition

Thus far, we have examined just transition from the perspective of labour. However, solely analysing the social impacts on AEP's employees would not provide investors with a holistic view on whether the company's transition is just. As noted by the Just Transition Finance Lab, the 'scope' of the just transition can refer to "*how broadly or narrowly the social dimensions of climate action are defined*".[21]

In this case, a narrow scope might only consider the labour and human rights issues that emerge from AEP's transition away from coal. However, a broader scope focused on social justice could include the impacts of the transition on vulnerable groups and local communities, while the widest scope might also consider the just transition in the context of sustainable development objectives.

### AEP's attempts to address social concerns

The inclusion of just transition sections in AEP's 2021 Sustainable Finance Framework and 2022, 2023, and 2024 Sustainability Reports suggests the company is aware of the social risks it faces. These sections have mainly focused on the narrower scope of employment-related concerns, which AEP has previously acted upon — in 2021, AEP subsidiary Southwestern Electric Power Company (SWEPCO) worked with the Pirkey Power Plant in Texas to develop a Just Transition model for plant retirements, in partnership with the Just Transition Fund. The Pirkey Transition Task Force successfully ensured nearly 90% of the 106 plant employees either took a new job

[15] "Factsheet: Eskom Just Energy Transition Project in South Africa", World Bank Group, 5 Jun 2023.
[16] "What happened at Komati power station? Lessons for a public pathway to a just energy transition", Amandla, 17 Dec 2024.
[17] "Funding of just transition projects slows at Komati power station", Business Day, 23 Jun 2025.
[18] "S.Africa in talks with climate backers over delaying coal plant closures", Reuters, 21 May 2024.
[19] "Komati Power Station — the cautionary tale of the Just Energy Transition and lessons to be learnt", Daily Maverick, 26 Mar 2024.
[20] "Unjust transition on trial: Communities and workers litigate to shape corporate practice", Business and Human Rights Centre, 10 Jul 2024.
[21] Pg 12, "Mapping the scale and scope of just transition finance in private credit and equity funds", Just Transition Finance Lab, 5 Jan 2026.

within AEP, or were able to retire, evidence that the company has been able to consider social factors as part of its transition journey.[22]

However, this social focus appears to have diminished in recent years. Just transition is hardly addressed in AEP's 2025 Sustainability Report, with only a short paragraph discussing the challenges of decommissioning a coal plant included.[23] Much of the wording in this section mirrors that of AEP's previous Sustainability Reports, while the lack of available detail implies just transition concerns may no longer be a priority for the company. The 2024 report also seems to suggest that AEP has developed a set of initial metrics to monitor progress on the just transition, and that this progress would be reported in its annual Corporate Sustainability Report and on a dedicated website.[24] However, the 2025 report shows no evidence that this reporting is taking place, whilst the dedicated website simply leads to AEP's homepage.

### Transition to renewables

Viewed through the wider lens of social justice, AEP's transition to renewables may benefit the wider community in which it operates more broadly by bringing down energy bills in the long term, particularly in regions with high coal dependency such as West Virginia. Half of this state is served by AEP subsidiaries Appalachian Power Co and Wheeling Power Co. Indeed, AEP revealed to West Virginia regulators that ratepayers would be USD27mn per year better off from 2028 if the company's Mitchell Plant was retired and alternative energy sources were used, highlighting the possible wider social benefits of a shift away from coal.[25, 26]

With renewable energy now significantly cheaper than coal,[27] failure to transition could result in long term higher bills for the communities of eastern US, which could lead to consumers switching supplier, or regulatory complaints and reputational risk (especially where switching isn't possible, as can be the case with utility suppliers). This presents financial risk for AEP, and so may be a consideration for bond investors.

To conclude, when incorporating just transition concerns into investment decisions, the scope of analysis is important. Applying a narrow, labour-focused scope to AEP highlights how employment-related social factors present execution risk to the company's transition, creating long-term credit risk. Widening the scope to include vulnerable communities more broadly suggests there could be social benefits from AEP's transition in the form of lower energy bills for consumers, benefits which investors may also want to factor into a just analysis of the company.

Communicating the benefits of lower energy bills could act as a potential mitigant to labour-related concerns and highlights the breadth of just transition interpretations.

## AEP curve and spread analysis

Here, we explore the current bond curves of AEP subsidiaries to investigate how the market is currently pricing some of these factors. We will analyse where highly coal-exposed entities are

[22] Pg 32, "2023 Corporate Sustainability Report", AEP, 17 May 2023.
[23] Pg 26, "2025 Corporate Sustainability Report", AEP, 21 May 2025.
[24] Pg 31, "2024 Corporate Sustainability Report", AEP, 1 May 2024.
[25] Pg 15, "Clean Energy Isn't Driving Power Price Spikes", Energy Innovation, 9 Jul 2024.
[26] "The Failure of the West Virginia Public Service Commission to Serve the Public", West Virginia Highlands Conservancy, 2 Dec 2022.
[27] "91% of New Renewable Projects Now Cheaper Than Fossil Fuels Alternatives", International Renewable Energy Agency, 22 Jul 2025.

currently trading relative to those less exposed, and unpack the possible implications of the failure to consider social concerns during the company's transition.

Table 1 earlier in the paper shows that Kentucky Power Company, Ohio Power Company, and Appalachian Power Company are the most involved in coal power generation among AEP's subsidiaries. This contrasts with Public Service Company of Oklahoma, which only produces 8% of its energy from coal. Given the range of subsidiaries with outstanding bonds, it is possible to investigate the relative pricing between entities which may have different levels of exposure to the transition and its associated social risks.

## Curve steepness

To understand whether coal exposure has an impact on an entity's bonds, we plotted the bonds of Ohio Power (OPCo), Appalachian Power (APCo), and Public Service Co of Oklahoma (PSO), together with a linear trendline to analyse the steepness of each curve (Figure 1). These three entities have an identical credit rating and similar total debt/total assets ratios, making it a potentially comparable group. Kentucky Power was excluded, given it only has two bonds outstanding (one of which is only USD75mn in size), and is rated two notches lower.

*Figure 1. Curve steepness of selected AEP subsidiaries. Source: Bloomberg Finance L.P., accessed 22 Jan 2026.*

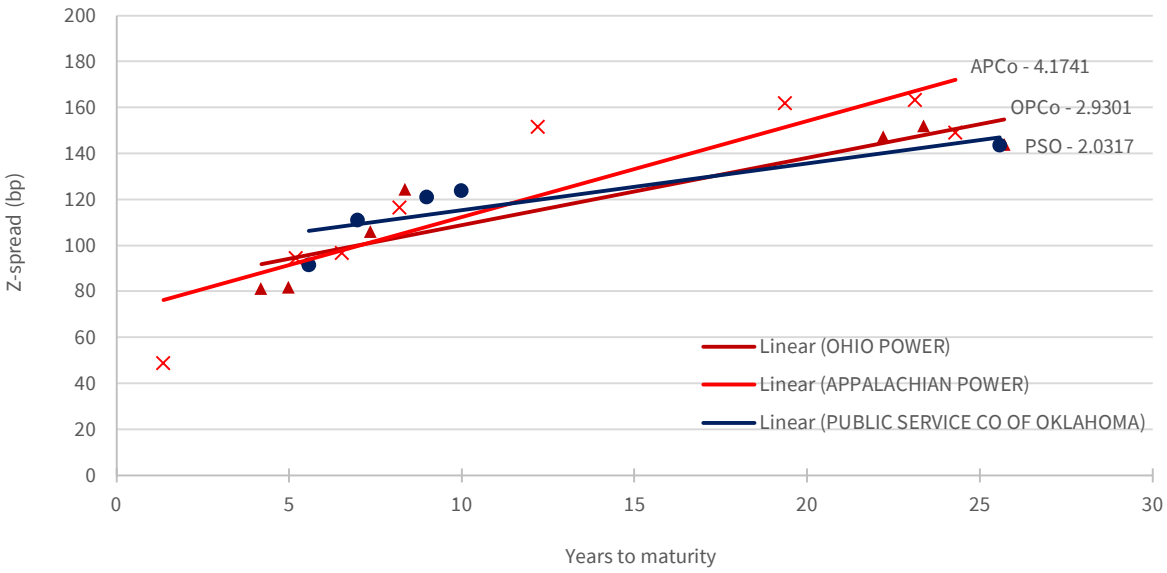



Figure 1 shows that the two entities more heavily involved in coal power generation, OPCo and APCo, have steeper bond curves compared to PSO. This suggests that despite holding the same credit rating, OPCo and APCo's long-term debt is considered riskier.

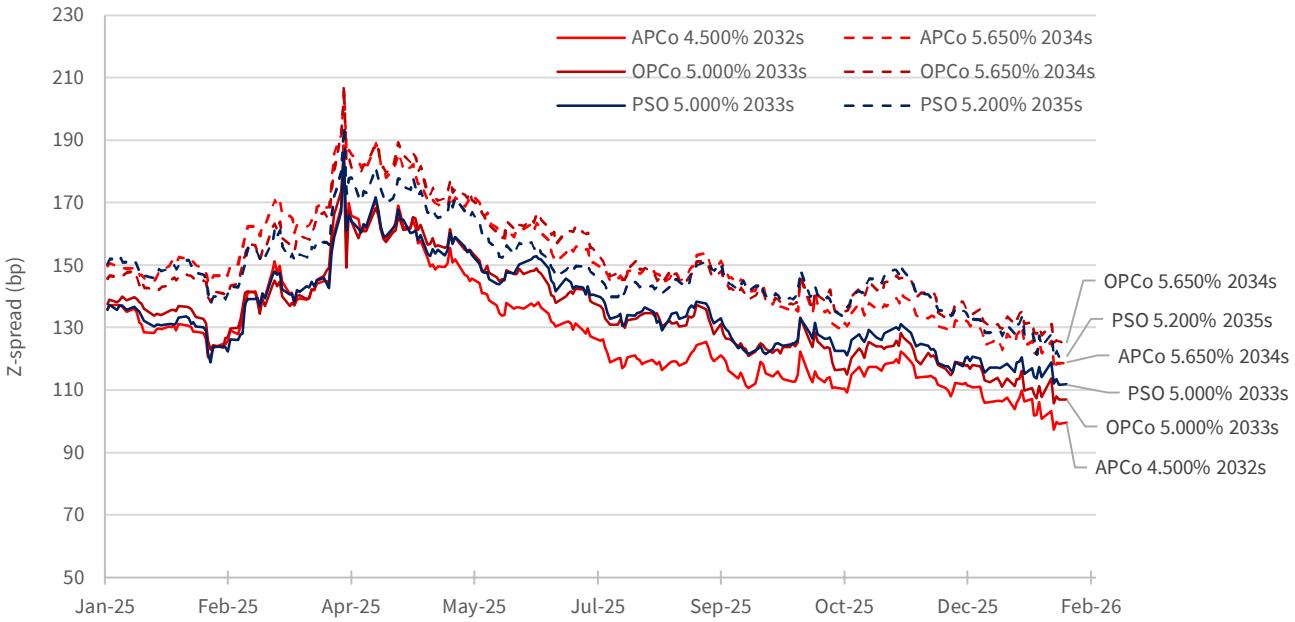
This gives one potential indication that the market is pricing the transition risks facing coal assets.

## Historical performance

We also investigated the recent credit spread performance of the same three entities, comparing bonds of similar maturities (2032-2035), to investigate if the shift in AEP narrative regarding just transition has impacted performance. As shown in Figure 2, bonds from all three subsidiaries have traded in line with each other over the past year, regardless of coal exposure.

In contrast to the analysis of curve steepness, this does not suggest that the market priced the entities differently in this period, despite the company's apparent move away from considering social concerns.

*Figure 2. Spread performance of select APCo, OPCo, and PSO bonds, 2025-2026YTD. Source: Bloomberg Finance L.P., accessed 26 Jan 2026.*




## Engagement strategies

Investors have a range of options available to them when it comes to encouraging AEP to addresses the social aspects of its transition plan. AFII's recent paper on tools for bondholder engagement showcases a number of these, ranging from bondholder collaboration to hybrid equity-loan-bond strategies.[28]

We hold that the 'choice of timing' engagement strategy is the most pertinent in this case. Bond investors often have most leverage at financing or refinancing points, when a company is live in the market seeking investment in a new issuance.[29]

The likelihood of AEP accessing the market is measured by AFII's Bond Horizon tool, which assesses the probability of issuance in the next quarter, based on a fundamental, market, and news-based analysis.[30] AEP currently ranks 14th, which suggests the company could come to market in the near future.

In recent years, AEP (or a subsidiary) has typically accessed the market multiple times per year, with the most recent transaction being in September 2025. AEP has yet to issue in 2026, and with Q4 earnings scheduled for February 12, there is a relatively high probability the company issues after this, subject to market conditions. Indeed, as per AEP's most recent investor handout, the company plans to issue approximately USD5.5bn this year.[31]

A potential issuance provides investors with the opportunity to engage with AEP on the social concerns outlined in this paper, assess the company's latest progress, and influence the bond structure and pricing.

[28] "Finding your voice: tools for better bondholder engagement on climate and nature risk", AFII, 5 Dec 2025.
[29] Ibid, Pg 18
[30] "Bond Horizon", AFII, accessed 22 Jan 2026.
[31] Pg 23, "Investor Meetings Handout", AEP, 8 Jan 2026.

## Conclusions

AEP, one of the largest utilities in the US, is significantly involved in coal power generation. This means it is heavily exposed to transition risk, which negatively impacts a credit analysis of the company.

A failure to address social concerns could derail the company's transition plan, creating further credit risk. By not considering employee concerns or the impact on local communities, AEP's transition could be beset by project delays, employee litigation, and reputational damage.

While there is some indication of steeper curves in the market for entities with greater coal exposure, recent spread performance has been similar between coal and non-coal exposed subsidiaries. If AEP fails to account for social factors in its transition plan, this could mean greater risks for longer-dated bond investors.

AEP has acknowledged the need for a just transition, but recent progress and communications on the topic appear to be limited. This provides an opportunity for bond investors to engage and request an update, perhaps timed for AEP's next bond issuance.

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