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NU - Q1 2012 Northeast Utilities Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Northeast Utilities first-quarter earnings conference call. My name is Christine and I will be your operator for today's conference. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Please note today's conference is being recorded. I will now turn the call over to Jeffrey Kotkin, Vice President Investor Relations. You may begin.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

All right, sorry to keep you waiting here. We were having an audio problem back in Hartford. But let me start and good afternoon and thank you for joining us today. I'm Jeff Kotkin, NU's Vice President for Investor Relations.

Speaking today will be Tom May, NU's President and Chief Executive Officer; Lee Olivier, NU Executive Vice President and Chief Operating Officer; and Jim Judge, NU Executive Vice President and Chief Financial Officer. Also joining us today are Jay Buth, our Controller, and Phil Lembo, our Treasurer.

Before we begin, I'd like to remind you that some of the statements made during this investor call may be forward-looking as defined within the meaning of the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risk and uncertainty which may cause the actual results to differ materially from forecasts and projections.

Some of these factors are set forth in the news release issued yesterday. If you have not yet seen that news release, it is posted on our website at www.nu.com. Additional information about the various factors that may cause actual results to differ can be found in our annual report on Form 10-K for the year ended December 31, 2011. Additionally, our explanation of how and why we use certain non-GAAP measures is contained within our news release and in our most recent 10-K. Now I will turn over the call to Tom.

Tom May - ***Northeast Utilities - President & CEO***

Thanks, Jeff and thanks, everyone, for joining us this afternoon. Here I am excited to be the new CEO of NU; three weeks on the job and I can tell you I'm more excited now than I thought I'd be. We really do have a great opportunity here and hopefully I can share some thoughts with you on why I am so excited about this.

This merger between the two largest New England-based utilities ensures that 3.5 million electric and gas customers are going to be served by a company whose only roots are here in New England. And as many of you know, I'm a nut about customer service.

It means the policymakers in Boston, Hartford, Concord will only have to look in their backyards to find the management of the largest regulated utility and it means that the 3.5 million customers that we serve won't have to look too far to see a Northeast Utilities employee since we all live right here in New England.

In fact, I've been spending a lot of time going out to the field with town hall meetings, talking to my linemen, talking to employee groups to make sure they recognize that we are in the customer service business. That's my focus, but I need every one of those 9,000 strong to focus on the customers for us to be successful and I think we're making some great progress.

But this company is much more than a regional energy provider. We're going to have the scale to manage a highly effective and efficient company. And I think you know I'm a nut about efficiency also and as an $11 billion to $12 billion market cap company, we're going to be able to access the capital markets on very attractive terms, better than we could do individually, so we can continue to make investments in wires and pipes that our customers and our communities need.

We've married one of the nation's most reliable operators of electric distribution systems with probably the most preeminent planner, designer, builder and operator of electric transmission systems. We also will operate two natural gas systems serving 500,000 customers, but when we look at those franchises in those communities, we think there's probably twice that number of homes and businesses that we can serve in the future.

In an era when economic and environmental benefits of converting from heating oil to natural gas have never been greater, we hope to expand our pipeline infrastructure to really save a whole bunch of New Englanders tens of millions if not hundreds of millions of dollars annually so that we can put that back into the economies of our states. With gas at $1.25 a gallon versus $4 heating oil, I think you can appreciate how many of our customers are begging us to expand our infrastructure.

To our investors on the call, I think we offer a very attractive value proposition from two companies that have provided some attractive total returns over the last five to seven years. We formed one larger cap utility with a singular focus on energy delivery in New England, a market we know and understand.

Over the past 10 years, NU and NSTAR have offered one of the most compelling dividend growth stories in the industry. And as you noticed yesterday, the dividend growth is continuing as we've promised at the beginning of this transaction to align the two companies' dividends and so we've provided the legacy NU shareholders with a 16% to 17% increase.

And yet, our payout ratio is still low for the industry, especially for someone who is a predominantly delivery company and preserves the potential for pretty attractive dividend growth in the future. Also, it will allow us to reserve considerable capital to reinvest in accretive projects that our customers need regarding their reliability.

Earlier today, the newly formed Board of Trustees of Northeast Utilities completed two days of meetings. Members of the Board who unanimously endorsed our merger when it was brought to them in October 2010 were again even more excited, just like me, as we talked about this great combination and the potential we have going forward.

We believe that state policyholders and utility regulators share our views on how this can benefit the region. The settlements that produced this merger were announced enthusiastically by the governors of Massachusetts and Connecticut. Participation in the negotiations of those settlement agreements by the state's attorneys general and high-level energy policy makers was a key to their success.

We're thankful for their hard work in achieving a balanced outcome that treat all parties fairly, and over the next several weeks, the consumers will see the first of that in the form of $46 million of rate credits that flow out of these negotiated rate settlement.

Additionally, we will begin and we have focused on the fact that we will now live through multi-year rate freezes that are in effect for most of our utilities, but do allow us to keep the benefits of our good work. To offset the impact of rising costs and fixed delivery rates, we understand we need to implement efficiencies in our business processes commonly referred to as synergies.

But we also are immediately benefiting from reduced financing costs and lower costs of purchasing equipment and services. When NU and NSTAR shareholders overwhelmingly approved this transaction back in March of 2011, we had a vision of how attractive a merged company could become. Now it's up to us, and we are in the process of delivering on those commitments, and we're ready and excited about the opportunity.

So that's all I wanted to say to open this up. And now let me turn it over to Lee to talk a little bit about our capital programs and some of our big projects.

Lee Olivier - ***Northeast Utilities - EVP & COO***

Thanks, Tom. Allow me to start by reviewing our transmission investment initiatives beginning with our NEEWS project. With extremely favorable weather that we have had to date, we're about 64% complete with the Greater Springfield Reliability Project.

The project will provide an important new 40-mile pathway to move power reliably between Western Massachusetts and Connecticut. We continue to expect the project to be completed by late 2013 at a cost of $718 million. Of that sum, $426 million was invested as of March 31.

Turning to the Interstate Reliability Project, you may recall that we filed our application with the Connecticut Siting Council in December. Last month, we completed three days of field reviews in three evenings of public hearings in Northeastern Connecticut on the project. ISO New England and we are updating the planning studies to reflect the latest available data and are scheduled to submit testimony in support of the project later this month. Evidentiary hearings are scheduled to begin in June and we continue to expect a final decision in 2013.

While we are building the 40-mile, $218 million Connecticut section of this project, National Grid will build the Rhode Island and Massachusetts sections. After receiving updated planning studies from ISO New England later this month, we expect National Grid to file its siting application later this quarter and to receive final approval in late 2013. We continue to expect the project to enter service in late 2015.

The final major element of NEEWS is the Central Connecticut Reliability Project. As we mentioned earlier, ISO-New England will review this project as part of a comprehensive study known as the Greater Hartford Central Connecticut Study. We continue to expect ISO to issue a preliminary needs analysis and related transmission solutions next year.

Turning to NSTAR Electric, the most significant project in 2012 is a new 18-mile, 345-KV line to be built to Cape Cod. The project received final Massachusetts Energy Facilities Siting Board approval in April, and we expect to complete the approximately $110 million project in the first quarter of 2013. Overall, we expect NSTAR Electric to invest approximately $190 million in transmission infrastructure in 2012.

When we consummated the merger last month, we also brought together the two owners of the Northern Pass Transmission Project. As a result, we have consolidated NSTAR's 25% investment in Northern Pass; so when we discuss the project's costs going forward, they will reflect 100% of the project.

Our Northern Pass project, a $1.1 billion, 180-mile, primarily high-voltage DC project to move 1,200 megawatts of clean power out of Quebec and into southern New Hampshire continues to make progress. You may recall that 140 miles of the project would be built along existing rights of way. The other 40 miles in northern New Hampshire is where we need to secure a new right of way.

We continue to make good progress on securing the additional 40 miles and plan to present a new route to federal regulators in the third quarter of this year. That would support the start of construction in 2014 and completing it by the end of 2016.

Earlier this year, Governor Lynch signed legislation that would prohibit the use of eminent domain for transmission projects that are not subject to regional cost allocation, but we continue to believe we can secure a right-of-way without using eminent domain.

This line remains the most innovative proposal now before regulators to appreciably lower both the cost of electricity and the amount of carbon emissions in New England. It also would provide Hydro-Quebec with an important new pathway to move power into New England from its generation now under construction in Central and Northern Quebec.

NU's transmission capital expenditures totaled $137 million in the first quarter of 2012 as compared to $68 million in the first quarter of 2011. For the year, including NSTAR's expenditures, we project approximately $675 million of transmission capital expenditures included in work on Northern Pass.

Turning from transmission to generation, PSNH is near completion of the secondary wastewater handling facilities associated with the Clean Air Project at Merrimack Station. This is the last major segment of the project. We continue to project the total expenditures of $422 million, about $35 million below budget.

The wet scrubber has been operating well since last September and the results have been excellent. We have seen a 97% to 98% reduction in mercury emissions and a 96% to 98% reduction in sulfur dioxide emissions, well beyond our initial projections.

On April 16, 2012, we began collecting a significant portion of the carrying costs on the clean air project through Public Utilities Commission approved temporary rates, and we expect New Hampshire regulators to review the prudence of the project over the balance of this year.

Given the fact that we are completing the project well below budget and with very favorable emission reduction results, we believe the Public Utilities Commission review will reach a favorable conclusion and the scrubber costs will be fully recoverable with our allowed 9.81% return on equity on our generating assets.

Our electric distribution reliability was strong across all three states in the first quarter due to our continued investment, ongoing preventative maintenance and the lack of storm activity. CL&P, PSNH and WMECO invested a combined $125 million of distribution capital in the first quarter of 2012, compared with $98 million in the first quarter of 2011. For the merged company, we expect to invest a total of approximately $1.7 billion in our infrastructure in 2012.

Turning to our natural gas distribution business, we saw two impacts in the first quarter. The first and most apparent impact was a decline in sales due to the very mild winter. Yankee Gas firm sales were off by 13.2% in the first quarter 2012 compared with 2011.

The continued fuel switching among all classes of customers meant that weather-adjusted Yankee gas sales continued to rise by 5% annually as they have over the past several years. Between Yankee Gas and NSTAR Gas, more than 4,000 residential units were converted to natural gas in 2011, more than double the previous year.

We continue to see significant opportunities ahead. Together, Yankee Gas and NSTAR Gas have approximately 500,000 customers. About 38,000 of our residential customers have gas in their home, but do not use it for space heating. Another 90,000 customers are located within 150 feet of our gas but and they are not connected to our system.

With natural gas priced at less than half the cost of oil on a BTU basis, we expect solid growth going forward as customers switch to a much less expensive and more environmentally friendly fuel source. Now I'd like to turn the call over to Jim.

Jim Judge - ***Northeast Utilities - EVP & CFO***

Thank you, Lee. Let me start by saying how pleased I am to speak to you all today as Northeast Utilities' Chief Financial Officer. Before beginning my formal remarks, I want to reiterate earlier comments about how pleased we all are that we're able to merge these two companies into the new NU. We have tremendous opportunities available to enhance the benefits we can bring to our customers and our region while simultaneously creating very attractive value for our investors.

There are several areas I want to focus on before we turn to your questions. The first area involves the settlements we reached in Massachusetts and Connecticut that moved us to the regulatory approval. The second will be our financial results for the first quarter, the expected impact of the merger on our second-quarter results and the state of our region's economy. The third area involves financings we have accomplished thus far this year and what we project for the balance of the year. And lastly, I want to discuss the work we are now undertaking to create a high-performing customer responsive and cost-efficient merged organization.

I'll start with the merger settlements that Tom touched on a little earlier. In Massachusetts, we reached two comprehensive settlements, one with both the Attorney General and the State Department of Energy Resources and the other exclusively with the DOER. The three-party settlement incorporated several key provisions.

First, it freezes base distribution rates through 2015 for NSTAR Electric, NSTAR Gas and Western Mass Electric Company. Second, it provides a $21 million rate credit to customers in the current billing cycle. That's $15 million for NSTAR Electric customers and $3 million each for NSTAR Gas and Western Mass customers.

While base delivery rates are frozen, the settlement continues to allow NSTAR Electric's recovery of lost base revenues that result from energy efficiency programs. It also allows all three companies pension trackers to continue functioning and for Western Mass Electric Company, revenue decoupling mechanism that was approved in its most recent case will remain in place.

NSTAR Electric's 2011 major storm costs, which total $38 million, will be recovered over five years beginning January 1, 2014, while Western Mass' storm costs will be subject to the recovery mechanism allowed in its rate case. As is typical, these storm recoveries are subject to DPU approval.

Under the other Massachusetts settlement with the DOER, NSTAR Electric will execute a 15-year contract with Cape Wind for up to 129 megawatts of power which equates to 27.5% of Cape Wind's projected output. Costs associated with that contract will be recovered from customers and, as permitted by statute, NSTAR Electric will be allowed a 4% remuneration to offset any balance sheet impacts.

NSTAR Electric also agreed to increase energy efficiency targets, procure up to 10 megawatts of new solar generation, and implement an electric vehicle pilot program. These initiatives will contribute significantly to meeting the state's energy policy goals.

Connecticut's settlement was similar to our Massachusetts settlement in some ways and different in others, both support each respective state's priorities. Under the Connecticut settlement, CL&P will provide a $25 million rate credit to customers in the current billing cycle and will freeze base distribution rates until December 2014.

CL&P also agreed to fund $15 million of state energy initiatives and forego recovery of $40 million of deferred storm costs from Tropical Storm Irene and the devastating October snowstorm. Importantly, the agreement will allow CL&P to recover storm costs following a prudence review over a six-year period beginning December 31, 2014. We believe having a known recovery period over a reasonable number of years was a positive outcome for the settlement.

Separately, CL&P agreed to propose a multi-year $300 million system resiliency program to regulators, about $100 million of which we expect to spend between 2013 and 2014. We will recover the full revenue requirements associated with this program through a tracking charge on customers' bills. Up to $25 million of the associated revenue requirements will be recovered during 2013 and 2014. We believe this is an important and positive condition in the settlement.

Our two operating utilities that are not covered by these rate settlements, Public Service in New Hampshire and Yankee Gas, are currently operating under multi-year rate case decisions. PSNH's rate plan goes through mid-2015. Under last summer's rate case decision, Yankee Gas will implement a rate increase of approximately $7 million this July 1.

The impact of all these settlements is that as we undertake the significant task of merging our operations and, as we do that, we can do so without the distraction and cost of preparing, filing, testifying at and otherwise supporting distribution rate cases. This will be very helpful as we create a merged organization that can instead totally focus on providing significant benefits to New England's energy consumers and a very attractive value proposition to our investors.

Many on this call know that during the hearings in both Massachusetts and Connecticut David McHale and I testified that our net benefit analysis indicated that there would be nearly $1 billion of savings over the first 10 years of the merger. Our focus now is to realize these savings and potentially more.

The work that will underlie future financial projections is underway and we expect to provide you with a comprehensive update either at an analyst day or at our traditional EEI breakfast during the fall. As we stated during the merger hearings, we believe that the savings estimates will prove to be conservative.

So what does that mean for 2012? I will discuss the first-quarter results in a moment. Second-quarter results which have traditionally been the weakest of the year for both NU and NSTAR this year will also include the delivery occurring impact of the merger settlement agreements that I noted earlier.

In addition, we will recognize other merger-related nonrecurring costs such as financial advisory fees and costs related to change of control agreements affecting a number of offices. As a result, we believe that the second half of 2012, rather than the first half of the year, will provide you a more representative basis from which you will be able to measure our financial progress in the years to come.

Turning to the first quarter, I will briefly discuss NU's stand-alone results. NU earned $99.3 million or $0.56 per share in the first quarter of the year compared with $114.2 million or $0.64 per share in the first quarter of 2011. Distribution earnings declined by $21.5 million, or $0.12 per share, from $78.2 million in the first quarter of 2011 to $56.7 million in the first quarter of 2012.

Connecticut Light and Power, Public Service of New Hampshire and Yankee Gas all experienced distribution earnings declines due to the exceptionally mild weather and higher pension costs. Of that $0.12 decline, about $0.07 were due to the weather. Compared with the first quarter of 2011, heating degree days in 2012 were down 23.4% at Bradley Airport in northern Connecticut and down 19.2% in Concord, New Hampshire.

In fact, the first quarter of 2012 was the warmest on record in Hartford, in Boston and in Concord. In Hartford, the average temperature was 38.2 degrees in the first quarter of 2012 compared with an average of 31.3 degrees and the previous record from 1998 which was 36.3 degrees. So weather records were absolutely shattered in this first quarter with the extremely mild temperatures.

Another $0.03 of the earnings decline from 2011 was due primarily to higher pension and other employee benefit costs. And that impact is very consistent with the comments David McHale made in February when we projected that higher untracked pension and healthcare costs would result in an annualized $0.10 decline in NU's standalone earnings in 2012.

It's worth noting that WMECO, which has both revenue decoupling and a pension tracker, experienced a modest $400,000 increase in first-quarter earnings. Offsetting these negative items was a $7.2 million decline in merger-related costs from the first quarter of 2011 to the first quarter of 2012.

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Additionally, transmission earnings rose by $1.6 million, or about 3.6%, due to a near doubling of WMECO's transmission earnings related to the construction progress on the Greater Springfield Project that Lee referenced earlier.

Based on my comments, I'm sure you can surmise that we view 2012 as a transition year. From an earnings perspective, it's a year when we record almost all the costs related to the merger and, due to the timing of the closing, it's a year when the benefits of the merger on recurring earnings will only be modestly apparent.

Although we're not ready to provide you with 2013 guidance at this time, there are a number of factors that we believe will provide significantly better results next year.

First, we estimate that a return of normal first-quarter weather in 2013 should restore $0.06 per share to NU's earnings.

Second, we continue to expect much of the incremental 2012 pension costs to fully reverse in 2013 as a result of increased pension contributions, asset performance, a similar discount rate and lower amortizations of prior year actuarial losses.

Third, as the Greater Springfield Reliability Project and Cape Cod line are built out, we expect strong transmission earnings growth in 2013. On the merged company basis, we had about $3.8 billion of transmission rate base at the end of 2011. We expect that to rise to $4.1 billion by the end of this year and $4.4 billion by the end of 2013.

Fourth, as I mentioned earlier, we expect to be able to reduce our operating costs as we implement cost efficiencies and merger synergies.

Finally, we expect to see the benefits of an improving economy. Overall, I would characterize our economy as improving, and still better than the rest of the country. Boston area unemployment rate is now 5.5%; New Hampshire rate is down to 5.2%. Connecticut's unemployment rate of 7.7% and Western Mass' rate of 7.3% are somewhat higher, but they're still well below the national average of 8.2%.

Both initial and continued unemployment claims are down in all three states and building permits in the first two months of 2012 were up by more than 125% in both Massachusetts and Connecticut over 2011 levels, helped somewhat by the mild weather this year.

We saw some of that economic impact in our first-quarter sales. PSNH weather adjusted sales rose 0.5% in the first quarter compared with last year and CL&P and WMECO's weather adjusted sales were essentially flat compared with sales declines in most recent years. Yankee Gas' weather adjusted sales rose 5%, similar to the increases Yankee has experienced for the past several years.

Turning to financing, NU had a significant amount of activity just prior to the merger closing. In March, NU parent sold $300 million of 18 month floating-rate notes to refinance $263 million of 10-year notes that matured April 1. The initial rate on those NU notes is 1.22%, so interest costs will be about a third of what we had been paying on that series.

CL&P remarketed $62 million of tax exempt pollution control bonds, locking in an attractive 1.55% rate for the next three years. Over the balance of the year, the most significant refinancing involves $400 million of NSTAR Electric notes that mature this fall. The current coupon on those notes is 4.875%. We also expect smaller new debt issuances at WMECO and Yankee Gas.

You may have also seen that all three credit rating agencies completed their comprehensive reviews of NU and its subsidiaries around the closing of the merger. Some ratings on our system rose, some fell, but all ratings are now stable. Only one electric utility family, Southern Company, has a higher rating credit than NU, and we will continue to enjoy very strong access to low-cost capital. NSTAR Electric continues to have a very highly rated economical commercial paper program.

We currently have about $1.9 billion of credit lines, along with attractive, active commercial paper programs at NSTAR Electric and NSTAR LLC. Over the coming months, we will begin analyzing our capital requirements to determine where further savings can be realized, as a result of the economies of financing a much larger, stronger, and more liquid company.

We will also move ahead steadily on our integration work. While the merger was pending, we engaged 11 teams and 175 subject matter experts to focus on both day-one requirements and develop a deep understanding of each company's operations and organizations. During the week before the merger, we announced the next level of leadership, primarily at the officer level, and the next level beyond that will be announced in a few weeks.

We are very encouraged by the quality of the team, by the teamwork that they are showing. We're confident that this merger will work and deliver the value to customers and investors we have discussed for the past 18 months.

Now I'll turn the call back to Jeff for your questions.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

And I'll turn the call back to Christine to remind you how to enter questions. Christine?

QUESTION AND ANSWER

Operator

(Operator Instructions).

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Thank you very much, Christine. Our first question this afternoon is from Greg Gordon of ISI. Greg?

Greg Gordon - ***ISI Group - Analyst***

Thank you. First I wanted to say congratulations. I know how long and hard of a road this was to get to this point and I'm sure you guys will do a great job.

Jim Judge - ***Northeast Utilities - EVP & CFO***

Thanks Greg.

Greg Gordon - ***ISI Group - Analyst***

And Jim, the question is for you. I know you're attempting via this call to sort of give us verbally a lot of the puts and takes that you're looking at in what's going to be a very unique year because of all the transition costs and the weather and all the other things that are happening.

At some point, are you going to be able to, A, give us what you see as sort of a normalized earnings number for this year; and B, confirm that you still believe that this is a company that can grow at the 6% to 9% earnings growth rate that was articulated when the deal was announced off of what would otherwise be a normal base level of earnings.

Jim Judge - ***Northeast Utilities - EVP & CFO***

Yes, Greg, as I indicated, we're not prepared to sort of talk specifically about 2012's guidance or the long-term rate. I think you get a sense from Tom, Lee and my comments that we're bullish on the company. We think we've got great opportunity ahead.

When you look at both of these companies, NU and NSTAR, and their track record, certainly over the past five or 10 years, the performance has been well above industry average in terms of earnings growth, in terms of total shareholder return. So the new NU offers a very long track record of notable consistent success for investors.

What we'd like to do is make sure that we have the team in place, that we develop a plan that we have broad consensus upon, that we review that plan and get the endorsement of our Board. And at that point in time, we will provide guidance to Wall Street of a plan that we're very confident and that we'll be able to achieve. So we will provide guidance, but it's not going to be on this call.

Greg Gordon - ***ISI Group - Analyst***

I appreciate that. But if we look as a starting point, would it be fair to go back to all the structural drivers that have been in the presentations to date and just think about how those things have changed for better or for worse I guess?

So the one thing that I know has just come up has been this FERC order that just came out today. I know it was probably not the best timing given the earnings call, but can you comment on what you think next steps will be in your relationship with the Massachusetts AG around the FERC's proposal that you enter settlement talks?

Jim Judge - ***Northeast Utilities - EVP & CFO***

Yes, you're right. It just did come out. I think I got to see it about 30 minutes before this call. I haven't had any discussion obviously with the advisors, FERC counsel or senior team, even. I still feel that our position is sound and our existing rate is fair and reasonable and apparently, Commissioner Moeller, who dissented, actually agreed.

I'm certainly not going to speculate on our response. It's too early to predict an outcome. It could be a litigated outcome that would take 15 months or it could be a settlement prior to that. What I would point out is that we have a very good track record in both arenas of litigated cases as well as rate settlements. So I think I'm confident at the end of the day we'll have a reasonable outcome.

Greg Gordon - ***ISI Group - Analyst***

Okay. Thanks, guys. Congratulations again.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Thank you, Greg. Next question is from Travis Miller from Morningstar. Travis, good afternoon.

Travis Miller - ***Macquarie Research - Analyst***

Hi, good afternoon again. Another congratulations on getting the deal done. I'm concerned about your ability to integrate the sports teams you guys root for, but good luck with that.

I have a question on Yankee Gas. The CapEx spending that you've laid out in the past, how could that be affected if you sustain this kind of 5% plus type normalized growth? And is that baked into the loan growth portion that you've laid out?

Lee Olivier - ***Northeast Utilities - EVP & COO***

Travis, this is Lee Olivier. The current budget that we have at Yankee, it really looks at spending about $565 million over the course of the next five years. When we put that together last year, we kind of baked in the current growth rates that we have now which is about a 5% growth in gas sales. So I think we will be well equipped to stay within that.

I think we have flexibility in and around other work we can do at Yankee Gas. So I think that currently is a good number. Now, should there be legislation that gets passed in Connecticut that spurs, shall we say, conversions as a result of subsidies that the state is willing to provide, then that's a different story. Then we'd have to go back and take a look at what that does to our capital program.

Travis Miller - ***Macquarie Research - Analyst***

Does that 5% get you to the allowed ROE or does that get you well above your -- meaning you're allowed ROE, based on those projections?

Lee Olivier - ***Northeast Utilities - EVP & COO***

That would get us to the allowed ROE right now.

Travis Miller - ***Macquarie Research - Analyst***

Above? Sorry, I didn't catch that.

Jim Judge - ***Northeast Utilities - EVP & CFO***

I think there are obviously a number of variables in there. This is Jim. What are the O&M synergies that we're able to achieve? So I think we obviously have sales growth opportunities that should allow us to continue to have a very favorable ROE.

If you look at the ROEs that the NU family of companies produced last year, they were all approaching the allowed ROE numbers. So, I think there's reason to believe we can continue to maintain that kind of performance going forward.

Travis Miller - ***Macquarie Research - Analyst***

Okay, great. Thanks a lot.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Thank you, Travis. Next question is from Ashar Khan. Ashar, good afternoon.

Ashar Khan - ***Visium Asset Management - Analyst***

Hi, good afternoon. How are you doing? Can I just ask, just for reference purposes, what it is the -- I know I had it for NU, but what is for the combined company as we have now? What do 100 basis points on transmission variance equal positive or negative delta on earnings? Is there a number that you can share with us with the combined entity and the new share count?

Jim Judge - ***Northeast Utilities - EVP & CFO***

Yes, Ashar, I think we actually disclose in our 10-Q a rule of thumb there and I think a 10 basis point change is worth $2 million of net income.

Ashar Khan - ***Visium Asset Management - Analyst***

That's for the combined company?

Jim Judge - ***Northeast Utilities - EVP & CFO***

That's for the combined company.

Ashar Khan - ***Visium Asset Management - Analyst***

Okay, thank you. And then can you just a little bit tell us where we stand on this transmission line, how the process is going along and when can we hear some more definite information on the routes and everything from you guys?

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Ashar, I assume you're referring to Northern Pass.

Ashar Khan - ***Visium Asset Management - Analyst***

That's correct.

Lee Olivier - ***Northeast Utilities - EVP & COO***

Ashar, this is Lee. Where we are right now procuring the last 40 miles of the right-of-way and I can tell you we're making very, very strong progress in lining up that right-of-way. I think we're on tap for the middle of the year, approximately the August time frame, to have the right-of-way secured and then to be prepared to file with the DOE the route and then start the environmental sampling process that is required. It's a two season process so it's kind of a spring and fall process, spring/fall/winter.

So, we'll be ready to go and should we stay on that schedule, we would be ready to have the project go in service in late 2016. So we continue to work with HQ around the issues and technical aspects of the project, continue to line up the land. We continue to do outreach in the communities, particularly in Northern New Hampshire. We continue to meet with other key stakeholders in New Hampshire to continue that influencing process around the project.

Ashar Khan - ***Visium Asset Management - Analyst***

Thank you. And if I can ask one more question, the pension that you mentioned for NU standalone, which would be kind of like something like $0.10 or something, does that reverse next year or is it just -- it's going to reset this to a lower base of earnings? I'm a little bit confused.

Jim Judge - ***Northeast Utilities - EVP & CFO***

Yes, it's a $0.10 increase this year that we think goes away next year. So that the pension cost estimate for 2013 is going to look more like 2011.

Ashar Khan - ***Visium Asset Management - Analyst***

Okay. Thank you so much.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Thank you very much, Ashar. Our next question is from Jay Dobson from Wunderlich. Jay?

Jay Dobson - ***Wunderlich Securities - Analyst***

Hey, congratulations. I'll add to the parade of folks and comments. Great job getting the merger done. Jim, I was hoping you could talk about the cost reductions and I know you were alluding to that in some of the drivers to earnings, but just how that ought to flow. Obviously interested in 2012 but maybe even '13-'14. And I know it's early, but how should some of those cost reductions flow? Meaning how fast can we achieve them? I guess is what I'm getting at just for clarity.

Jim Judge - ***Northeast Utilities - EVP & CFO***

Yes, we had in our net benefits analysis that was filed with regulators it was essentially a four-year ramp up in savings, largely driven by attrition opportunities in terms of staff reductions based upon retirements and not back filling positions. So it was a slow ramp up and then continued escalating at a lower rate beyond there.

I think we're looking long and hard at that issue. I think we recognize that we've had a very conservative approach to that study and I think we have an opportunity to actually accelerate some of those savings that we had targeted in that regional plan.

So, we have in the past done a merger, if you go back 10 years, in terms of NSTAR's experience, the Boston Edison Commonwealth merger. We were able to extract costs out of the Company. And we did it steadily over a number of years so that the earnings impact tended to be progressive as we went out in time after the merger. So we hope to have the same opportunity here.

Jay Dobson - ***Wunderlich Securities - Analyst***

Got you. No, that's great. And I'm not sure who to address this to, so I'll address it to you, Tom, and maybe you could throw it out to whoever you think, and I'm back to the FERC issue. Can you just talk a little bit about how you're seeing FERC right now?

Obviously, we're short a commissioner, how that plays into what they announced today. And appreciate -- I'm not sure who made the comment -- but that Commissioner Moeller was dissenting on what they released today. But just play into sort of how you're looking at FERC right now.

Tom May - ***Northeast Utilities - President & CEO***

That's a tough one. As you say, it is in flux. They're waiting for a new commissioner. It will result in a full commission so that you can get a majority instead of a hung jury. But this obviously came out before that and, on the surface, it just simply sets us up for a rate proceeding, if you will, on the issue of what is the right return.

And as Jim said, it's new to us. It caught us a little off guard. We weren't expecting it today and we're still sorting through it. But we at this stage aren't reading anything into it other than, as Jim said, we believe we have a strong basis for our position and we're just going to take the next steps.

Jay Dobson - ***Wunderlich Securities - Analyst***

Okay, great. Thank you very much.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Thank you, Jay. Our next question is from Michael Lapides from Goldman Sachs. Good afternoon, Michael.

Michael Lapides - ***Goldman Sachs - Analyst***

Good afternoon, guys. Thank you for doing this. A couple of questions. One, on rate increases or rate changes, I just want to sanity check some of the things you said regarding New Hampshire and Connecticut. In New Hampshire, can you walk us through both the distribution rate changes expected over the next year or so and how much the Merrimack-related one would be?

Jim Judge - ***Northeast Utilities - EVP & CFO***

I don't have that information readily available, Michael.

Michael Lapides - ***Goldman Sachs - Analyst***

Okay. Well then just real quick on the Merrimack one, is that rate change dedicated to that project? Is that not something that's already a known amount?

Jim Judge - ***Northeast Utilities - EVP & CFO***

Yes, we get temporary recovery of about two-thirds of our costs of the scrubber and the PUC out there will have a final order that will determine the prudent cost recovery amount and what will be in rates going forward. So it's a preliminary estimate to be decided with the final order at some point later.

Lee Olivier - ***Northeast Utilities - EVP & COO***

And I would just add in two, Michael, that we have overcollections at PSNH as a result of forecasted rates around energy and the actual rates around energy, in terms of our procurement costs being significantly under that. So, although there will be an impact, we don't think that will be a huge impact on PSNH customers.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Michael, I think also Jim mentioned earlier that there was the rate increase that was due to additional construction of distribution facilities. That was dialed into that five-year rate decision. We estimate right now that's about $6 million to $7 million in the middle of the year. There will be storm true-ups and everything.

So we don't have that full number for you right now, but you're looking at a change in the middle of '12 and also, for what Lee was talking about, once the generation docket is over, once the prudence docket is over, you're probably looking at another reset at the beginning of next year. But that rate, not only will it reflect the scrubber, but all the other purchase power that goes into that energy rate for PSNH. So it's sort of tough to answer question exactly how you produced it.

Michael Lapides - ***Goldman Sachs - Analyst***

But if I just do back of the envelope, you said you've got about two-thirds of the cost of the scrubber in rates and recovery right now. So if I just do one-third times the cost times your WAC, that directionally gets me there?

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Yes.

Michael Lapides - ***Goldman Sachs - Analyst***

Just kind of thinking 50,000 foot level?

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Seems fair.

Michael Lapides - ***Goldman Sachs - Analyst***

Okay. Second, Connecticut, can you touch a little bit about the infrastructure tracker, how much you'll spend per year, when the revenue change to that will go into effect?

Jim Judge - ***Northeast Utilities - EVP & CFO***

You can think of it as $300 million roughly, $50 million a year for six years. Our base case right now is to think of it as $50 million for 2013 and 2014 and we'll have to propose it at the PURA for recovery.

Lee Olivier - ***Northeast Utilities - EVP & COO***

We'll have a docket in midyear, we'll have a docket -- we'll propose an infrastructure hardening, as Jimmy said, and the agreement limits that by about $25 million of rate revenue recovery.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

So you'll see something filed mid-year.

Michael Lapides - ***Goldman Sachs - Analyst***

Okay. So if you file it mid-year it probably goes into effect sometime early 2013. If you spend $50 million and if I just apply kind of high level 10% pre-tax WAC, that's roughly a $5 million a year rate change?

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Michael, we can take some of the numbers off-line and look at what actually is being filed and what may be filed in New Hampshire.

Michael Lapides - ***Goldman Sachs - Analyst***

Sounds great. Thanks, guys.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Next question is from Paul Patterson, from Glenrock Associates.

Paul Patterson - ***Glenrock Associates - Analyst***

Hi, a lot of my questions were answered, but -- and I apologize if I missed this. Did the quarter include a leap year due to the sales growth?

Jim Judge - ***Northeast Utilities - EVP & CFO***

Yes, it did.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. And so we just back out, what, about 1%?

Tom May - ***Northeast Utilities - President & CEO***

Roughly, yes, 91 days, one day.

Paul Patterson - ***Glenrock Associates - Analyst***

So when we look at this, I know it was a strong quarter, but you guys have had some pretty anemic growth really, right? I mean any change in your forecasts or any thoughts about that -- for sales growth?

Jim Judge - ***Northeast Utilities - EVP & CFO***

It's all about the weather, Paul. When you look whether adjusted, the numbers look pretty good. I mean, as I indicated, the temperature in Hartford was 2 full degrees milder than the all-time record that they've had here for that quarter. January was 5 degrees milder than normal, February was 6 degrees milder than normal. And March was 9 degrees milder than normal. So it's tough just sort of draw any conclusions about any anemic sales with that as the catalyst for the numbers.

Paul Patterson - ***Glenrock Associates - Analyst***

Well, I mean when I'm looking at weather normalized on the -- and maybe I'm looking at the wrong thing -- it looks like it's 0.1% for weather normalized growth. And that includes a leap year, right?

Jim Judge *- Northeast Utilities - EVP & CFO*

It does.

Paul Patterson *- Glenrock Associates - Analyst*

Okay, just was wondering. Okay, hope all is well. Thank you.

Jeffrey Kotkin *- Northeast Utilities - VP of IR*

Thank you, Paul. Next question is from Steve Fleishman from Bank of America. Good afternoon, Steve.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Yes, hi gentlemen. A couple questions. First on Northern Pass, I guess, Lee, what's your conviction level on third quarter being kind of the right time to have this new route? It obviously has been tough to pin these things down.

Lee Olivier *- Northeast Utilities - EVP & COO*

Steve, I'm actually very confident third quarter is a good time frame. Obviously because we're out in the real estate markets procuring land, I can't be terribly specific of just how much land we have left, but I can tell you we're closing on that. I think we're very optimistic. So I think as we speak third quarter is a good time frame. I'm very confident in that.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Okay. And is it possible or likely that the overall size of -- the overall cost of the line ends up going up given some of the changes?

Lee Olivier *- Northeast Utilities - EVP & COO*

Actually with the work that we have done right now in terms of the studies we have to do for ISO New England, the so-called I-3-9, the studies we need to do around capacity markets which is called the overlapping impact study to determine how much capacity HQ would be paid for -- I do not see a significant increase in the cost of that line, which is good because it's obviously very important that HQ has a project which is profitable for them as well as us. So I'm pretty confident that $1.1 billion, give or take, we'll say $100 million, is a pretty good number.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Okay. And then one last question, Tom, I think you noted the low dividend payout of the company and I know you're still working on kind of putting your full plan in place. But do you think over time given the mix of assets of the company you'll be targeting kind of a higher overall dividend payout ratio than the old Northeast Utilities has been?

Tom May *- Northeast Utilities - President & CEO*

Don't know yet. As Jim said, we are in the throes of a planning process that just yesterday we promised the Board we would bring back to them. It's a new Board that is excited about the future, but also interested in being part of the decision-making process.

So we do intend to vet that with them and they are excited. As we said, we're happy that even though we bumped NU's dividend by 17% or whatever, we're still in a low range versus companies that tend to be pure delivery companies. So we've got room to move and it gives us great comfort that we can still be considered a growth company rather than a yield company. And we hope that our yield reflects that.

Steve Fleishman - ***BofA Merrill Lynch - Analyst***

Thank you.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Next question is from Jonathan Arnold from Deutsche Bank. Good afternoon, Jonathan.

Jonathan Arnold - ***Deutsche Bank - Analyst***

Good afternoon, thank you. My question -- you talked about you're either going to give this outlook at an analyst meeting or potentially not until the full EEI conference. Is it safe to assume that fall EEI is the latest this would come?

Jim Judge - ***Northeast Utilities - EVP & CFO***

I think that's a safe bet.

Jonathan Arnold - ***Deutsche Bank - Analyst***

And how much sooner than that might it come, Jim, in sort of generalities if you can't be specific?

Jim Judge - ***Northeast Utilities - EVP & CFO***

Well, I do think that we -- as I said, we want to be certain and sure of what we're providing for guidance and we have a process where we just had our first Board meeting, as Tom mentioned, yesterday and today. We just named the vice president level just before the merger closed three weeks ago.

We're moving forward with the next level of management. We have an offsite for that executive team in about a month. So I can see us doing a lot of work during the summer and coalescing on a plan that we have some consensus on the end of the summer into September potentially.

So I'd consider maybe the options would be a September Analyst Day where we could provide some insight as to the new Company's prospects potentially, EEI is not far behind that. So that's sort of the window I'm thinking of right now, Jonathan.

Tom May - ***Northeast Utilities - President & CEO***

Jonathan, I think you know our track record and one of the reasons we've been so successful is that I'm a big believer in not top-down planning, but really having everybody involved, everybody owning the plan. And so as Jim said, we're putting the team together. We're having our first leadership team meeting where we're going to be talking about the importance of this three-year plan on whatever it is, May 24 and 25.

And we like to drive it down so that people agree on the assumptions, agree on the goals, agree on the strategies and priorities and then they own it. And when they own it, they commit to deliver it, and we haven't missed too many estimates because of the process that we use. So, that's why we don't want to seem like we're too cautious.

We're just in a mode here where we initially thought that we would have our management team all picked and in place and up and running by now. But because we had so much trouble getting this merger through the different gates, we sort of held off so that we wouldn't be in a situation of selecting certain executives which meant you unselected others. And as a result, if it didn't go through we would have had some broken china in the process.

So we're a little bit behind. You have to be patient with us. But we're confident that now that we get the team in place we'll create a plan that you'll all be proud of.

Jonathan Arnold - ***Deutsche Bank - Analyst***

Tom, I appreciate the extra color as to how the circumstances are different, that's very helpful. Did I just hear you correctly that you're planning on giving a three-year outlook?

Tom May - ***Northeast Utilities - President & CEO***

Well, that's what we're working on internally. As to what we provide long-term, we still haven't figured that out and, as Jim said, we've got to vet that through our new Board, the new NU Board.

Jonathan Arnold - ***Deutsche Bank - Analyst***

You'll do a three-year plan, and how much you share of that with us we'll find out when you share it?

Tom May - ***Northeast Utilities - President & CEO***

That's correct.

Jonathan Arnold - ***Deutsche Bank - Analyst***

Okay. Thank you.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Thank you, Jonathan. It looks like we have one last question from Ashar Khan again. Ashar, are you there?

Ashar Khan - ***Visium Asset Management - Analyst***

My question has been answered. It was about the payout. Thank you.

Jeffrey Kotkin - ***Northeast Utilities - VP of IR***

Okay, thank you very much. One more, Michael Lapides from Goldman. Michael, you're going to wrap us up today.

Michael Lapides - ***Goldman Sachs - Analyst***

Thank you very much, guys. Real quickly, what do you view as the biggest hurdles or the biggest risks in terms of achieving some of the cost savings outlined in the planning documents when you first filed the merger? And the biggest opportunities to where -- given your history 10 years ago where you could beat those levels?

Jim Judge - ***Northeast Utilities - EVP & CFO***

I think the biggest challenge is making sure that the cuts are happening in the right places. I mean, we are committed to improvements in reliability and customer service. So, across-the-board cost reductions that impact customer facing operations are unlikely to be the case.

So, I think the fact of the matter is we have a track record of taking costs out of the business and actually improving reliability and customer service at the same time. They're not mutually exclusive. So, the challenge is to keep that in focus as you develop your plan.

Michael Lapides *- Goldman Sachs - Analyst*

Got it. Okay, thank you, guys. Much appreciated and congrats on closing the merger.

Jeffrey Kotkin *- Northeast Utilities - VP of IR*

Thank you, Michael. And we want to thank you all for joining us this afternoon. If you have any follow-up questions, please give us a holler. Have a good afternoon and evening.

Operator

Thank you for participating in the Northeast Utilities first-quarter earnings conference call. This concludes the conference for today. You may all disconnect at this time.