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ES - Q2 2018 Eversource Energy Earnings Call

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OVERVIEW:

Co. reported 1H18 EPS of \$1.61 and 2Q18 EPS of \$0.76. Expects 2018 EPS to be \$3.20-3.30.



AUGUST 01, 2018 / 1:00PM, ES - Q2 2018 Eversource Energy Earnings Call

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the Eversource Energy Second Quarter 2018 Earnings Conference Call. My name is Paulette, and I will be your operator for today's call. (Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to Jeffrey Kotkin, Vice President for Investor Relations. You may begin.

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Thank you, Paulette, and good morning, and thank you, for joining us. I'm Jeff Kotkin, Eversource Energy's Vice President for Investor Relations. During this call, we'll be referencing slides that we posted last night on our website. And as you can see on Slide 1, some of the statements made during this investor call maybe forward-looking as defined within the meaning of the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and 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.

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, 2017, and on Form 10-Q for the 3 months ended March 31, 2018.

Additionally, our explanation of how and why we use certain non-GAAP measures is contained within our news release and the slides we posted last night and in our most recent 10-K.

Speaking today will be Phil Lembo, our Executive Vice President and CFO. Joining us by phone for Q&A is Lee Olivier, our Executive Vice President for Enterprise Energy Strategy and Business Development. Also joining us today are Jay Buth, our VP and Controller and John Moreira, our VP of Financial Planning and Analysis.



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Now, I will turn to Slide 2 and turn over the call to Phil.

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Thank you, Jeff. This morning, I'll summarize our second quarter and year-to-date results, recap recent regulatory proceedings, discuss our updated capital plan and affirm our long-term growth rate.

So overall, we're very pleased with results through the first 6 months of the year. Our mid-year results are consistent with our expectations, and we continue to target full year EPS of between \$3.20 and \$3.30 a share. We made good progress on the number of our initiatives and our regulated businesses that will enhance service to customers and support our 5% to 7% long-term EPS growth rate.

I'll provide more specifics on those initiatives shortly. But I'll start with Slide 2 and a review of our financial results.

We earned \$0.76 per share in the second quarter of 2018 compared to \$0.72 in the second quarter last year. Our electric distribution business earned \$0.32 per share in the second quarter of '18 compared with earnings of \$0.38 per share in the same quarter of '17. And just a reminder that historically, we reflected both our distribution and our Public Service of New Hampshire generation in this electric distribution segment. So year to year comparisons will be impacted by the divestiture of these assets in January.

So the quarterly decline was expected and primarily due to lower electric distribution margins come, I'll talk about that in a minute as well as the lower generation earnings from New Hampshire generating assets. Also had some higher property tax expenses in the quarter.

Together, those factors more than offset the benefits of distribution rate adjustments in Connecticut and Massachusetts.

The lower distribution margins in eastern Massachusetts primarily reflect the timing of revenues from NSTAR Electric's new decoupling mechanism, that was approved in the recent rate proceeding. This mechanism is more reflective of a seasonal usage pattern than NSTAR Electric's former lost-base revenue recovery mechanism, which was reflected ratably over the year. So the new mechanism is more seasonal; the old mechanism was ratably over the year.

As a result, compared with past years, we'll see high revenues in the peak-usage quarters. In other words, really the third quarter, and lower revenues in the other quarters.

So simply put, the electric distribution segment is impacted by the generating asset sales and timing of the new decoupling mechanism, both as expected.

Our electric transmission business earned \$0.35 per share in the quarter of '18 compared to \$0.30 per share in 2017.

Improved results were due largely to increased level of investment in our transmission facilities.

Our natural gas business earned \$0.02 per share in the second quarter of '18 compared to about \$0.01 a share in the same period of '17.

Improved results were due primarily to much colder weather in the month of April, resulting in increased heating-related sales of Yankee Gas, which is not yet decoupled.

Our new Aquarion Water Company subsidiary earned \$0.02 per share in the quarter, consistent with our expectations.

And finally, the parent and another segment earned \$0.05 per share in the second quarter of '18 compared with \$0.03 in the second quarter '17. And earnings in both years benefited from investments we've made in certain renewable energy facilities that we discussed in the past, the impact of which is recorded in the second quarter of each year.

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Turning to year-to-date results, we earned \$1.61 per share in the first half of '18 compared to \$1.54 in the first half of '17. Our electric distribution business earned \$0.65 per share in the first half of '18 compared with \$0.74 per share in the same period last year. Again, lower results were primarily due to our New Hampshire generation divestiture as well as the timing of decoupling revenues versus the previous lost-base revenue methodology.

Our electrical transmission business earned \$0.69 per share in the first half of '18 compared with earnings of \$0.60 in the same period of '17. This was also due to a higher level of investment in our transmission facilities.

Natural gas segment earned \$0.20 per share in the first half of '18 versus \$0.17 in '17. The primary driver was higher sales resulting from cold weather in the months of January and April. So our natural gas sales were up about 6.6% year-to-date compared with the same period in 2017.

Our water distribution business earned \$0.03 per share. And our parent and other earned \$0.04 per share in the first 6 months of the year.

I should note that the most profitable quarter for Aquarion's typically the third quarter since water usage peaks during the summer time period.

From results, I'll turn to Slide 3 and some recent regulatory developments. Regulatory decisions for our core business have been constructive and supportive of our utility's capital plans, design to meet the ever-increasing expectations of our customers.

We've increased the rate of infrastructure investment to modernize our electric grid, enhance electric reliability, accelerated the replacement of older natural gas and water distribution pipes and increase investments to meet our states environmental and clean energy goals.

On May 1, Connecticut Light & Power's new 3-year rate plan took effect with an initial distribution rate adjustment of about \$64 million. 2 smaller increases will follow in May of '19 and May 1, 2020.

In addition, the base rate adjustments for CL&P regulators approved the capital tracker for investments in our system above the base amount of \$270 million per year. And these investments are aimed in making the grid more resilient such as smart switches, enhanced tree trimming, upgrades to our poles and their integrity and substation security, and these totaled about \$75 million a year. Recovery of the costs associated with these investments will go through the reconciliation mechanism.

Currently, a PURA sponsored process for identifying top-priorities for grid modernization is underway, and we expect to file a separate grid modernization plan before the end of this year.

We have not yet reflected any potential Connecticut grid mod investments in our distribution capital forecast.

I believe though, our proposal could be meaningful as we work to enhance grid automation and two-way communications with our customers about real-time grid conditions as well as consider investment in electric vehicle infrastructure and battery storage.

Shortly after we wrapped up our CL&P rate review in Connecticut this spring, we filed our first Yankee Gas rate case in about 8 years. Hearings in the case are scheduled to begin this month with a draft decision due on November 14, and the final decision on December 5.

The new rates would take effect in January of 2019. The rate application includes a proposal for revenue decoupling, which we expect PURA to implement since Yankee Gas is the only one of our Connecticut utilities without the decoupling rate structure.

We've also proposed to increase capital expenditures, particularly investments related to replacement of our cast iron and unprotected steel pipe. Acceleration of these important capital projects will provide great service reliability and safety as well as continuing to improve the performance of leak-prone infrastructure. Truly sophisticated environment will help to lower O&M costs, ultimately benefiting customers.

In our rate application, we highlighted the significant improvement in key performance metrics over the past 4 years, with no increase in base distribution rates. This includes a 45% reduction in Class 2 leaks since 2014.

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Additionally, Yankee Gas is actual non-fuel O&M. In 2017, was 3% lower than it was 7 years earlier in 2010, another excellent story for customers.

Turning from Connecticut to Massachusetts, we continue to move forward with our resiliency investments at NSTAR Electric. This past spring, the DPU approved \$133 million of additional grid modernization investments for NSTAR Electric over the next 3 years.

This is in addition to the \$100 million authorized by the DPU in 2017, for two battery storage initiatives and initial electric vehicle infrastructure.

As a result, we'll be investing a total of \$233 million in grid mod projects, which will be recovered through a capital cost recovery mechanism.

In addition, the DPU instructed NSTAR Electric to file a 3-year rate plan for continued grid modernization efforts for the years 2021 through 2023. We expect to file that plan in sometime in 2020.

Turning to Slide 4, I just want to pause a minute to discuss our capital forecast. Every year at this time, we commence our process for updating our long-term operating and capital plan. This effort concludes at the end of the year with the subsequent years operating plan, the earnings guidance that we provide to you in February as well as the long-term capital investment forecast we include in our 10-K.

Since we published our most recent forecast, we've seen continued focus by state energy policymakers to enhance the electric grid, accelerate the replacement of aging infrastructure and construct facilities to meet growing customer needs.

We will provide you with a full update again in February. But at this time, we believe our capital expenditures in the next 3 years, and that's the period, 2019 through 2021, will increase by a total of \$600 million. This brings our total core business CapEx to \$7.1 billion from the previous estimate of \$6.5 billion.

This incremental capital will be split between \$300 million for Electric transmission, \$200 million for electric distribution, and \$100 million for natural gas distribution infrastructure investments, all to benefit our customers.

The primary driver of this increased level of expenditure will be investments in resiliency and reliability that will allow us to continue to enhance our customers' experience.

And as I said, this \$600 million of expected increase in CapEx does not include any potential initiatives that may emerge from the grid mod reviews in Connecticut or Massachusetts.

For electric operations, we need to accelerate resiliency investments, and this was underscored by the very harsh March and May weather we referenced in our news release.

To be more specific, on the electric transmission system, we now plan to accelerate the upgrades of aging wooden transmission structures and expect to replace thousands of them with new steel poles over the next several years.

We're also focused on upgrades to certain substation equipment. On the electric distribution side, we're seeing additional customer growth in the immediate Boston and Cambridge area, which is resulting in the need to upgrade several key substations to accommodate this ever-increasing demand.

On the natural gas side, most of the additional spending is at NSTAR Gas as we accelerate the replacement of leak prone, bare steel, cast iron and unprotected coated steel pipe, which accounts for about 33% of our mains.

We are now also planning additional upgrades in our Hopkinton LNG facility, which is critical to maintaining adequate supplies of natural gas for our customers during extended cold spells like the one our region experienced this past winter.

At this time, we're not anticipating incremental investments in our water segment beyond what we disclosed in February.

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And Slide 5 shows that our current forecast envisions average annual rate-base growth for Aquarion of greater than 7% through 2021, compared with about 3% during the periods prior to our acquisition, and this estimate is only from organic growth projects.

Turning to Slide 6, that relates to our CapEx revision. These investments, the \$600 million combined with our normal strong cost management focus, will continue to benefit customers through improved reliability and service.

We are confident that we'll be able to achieve our long-term earnings growth around the midpoint of the 5% to 7% growth rate, and that's without the Northern Pass, Access Northeast or off-shore wind projects or without any share repurchases for that matter.

To be clear, assuming we're successful and we execute our current capital plans, continue to manage our O&M cost where we've always excelled, we can grow earnings around the middle of our 5% to 7% projected EPS growth rate, even without the large projects.

And I should add that our forecast does not assume that any of our states move forward with widespread advanced metering technology which provides customers greater information for managing their energy consumption, and which would involve substantial capital investment.

In our grid modernization decision earlier in the year, Massachusetts regulators said that the advanced metering technology was not yet timely for implementation. But they did express a commitment to reviewing advanced metering as a means to meet grid modernization objectives, and intend to kick off this project to evaluate the next steps for cost effective deployment.

Additionally, Connecticut regulators are considering advanced metering component in their grid modernization review, I mentioned earlier.

As we've done in the past, we'll provide you with a new year-by-year capital investment forecast when we report year-end results in February.

We are confident in our ability to operate, maintain and invest in our core business to provide the reliable, responsive cost effective and technologically advanced service that our nearly 4 million customers expect and deserve from us. So that concludes my remarks.

As Jeff mentioned, Lee is off site this morning but joining for the Q&A. And now I'll turn the call back to Jeff.

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

And I'll turn the call back to Paulette, just to remind you how to enter questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Thank you, Paulette . Our first question this morning is from Shar Pourreza of Guggenheim.

Shahriar Pourreza - Guggenheim Securities, LLC, Research Division - MD and Head of North American Power

So just a couple of questions on CapEx here. So obviously, somewhat of a fairly healthy jump in CapEx. Just -- as far as we think about recognition, should we assume the spend was, sort of, incremental to plan? Or this -- or more, sort of, a pull forward of spend?



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Philip J. Lembo - Eversource Energy - Executive VP & CFO

No, this is incremental to plan, Shar. As I said, we identified a lot of this just as a result of the harsh winter and the storms that occurred in the region over the first part of the year that really highlighted the need for incremental investment in our infrastructure.

Shahriar Pourreza - Guggenheim Securities, LLC, Research Division - MD and Head of North American Power

Got it. And then obviously, you've displayed a very strong level of confidence in, sort of, your growth trajectory without these binary risky projects, right? Is there any reason that we shouldn't assume sort of that same level of confidence as we move beyond your current trajectory of 2021?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

There's no reason. You shouldn't expect the same level of confidence.

Shahriar Pourreza - Guggenheim Securities, LLC, Research Division - MD and Head of North American Power

Okay, got it. And then just lastly on sort of the grid mod, you guys sort of -- you're in the midpoint of your range, as we think about your base spend. As you think about grid mod, would -- assuming a fair outcome or sort of a base outcome, is that enough to get you, sort of, to a top end of your range? Or is -- will that, sort of, clearly still support the midpoint and so?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Yes. Well, it's difficult to speculate because those proceedings are just -- in Connecticut, so they're just beginning, there's a smaller docket in -- or another docket in New Hampshire. They're all, sort of, at the beginning phase and beyond our current grid mod in Massachusetts. As I said, we're filing another 3-year plan, but that's not going to be for another year. So it really -- it would be difficult to speculate how much or what kinds of initiatives we would be expected to focus on. So I need a little bit more clarity before being able to push you to a point in a range.

Shahriar Pourreza - Guggenheim Securities, LLC, Research Division - MD and Head of North American Power

Got it. Got it. And then just on buybacks, just obviously, given the higher capital outlook today and, sort of, incremental upside, we're going to likely see around grid mod. Are buyback, sort of, off the table at this point?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Well, as I said, the growth rate, the confidence we have in the midrange of that growth rate does not assume any share repurchases.

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Next question is from Angie Storzynski from Macquarie.

Angie Storzynski - Macquarie Research - Head of US Utilities and Alternative Energy

So -- okay, so two questions. So the updated growth plan does look strong. And so in the context of that, could you comment on how should we think about your continued interest in water M&A? And also separately, what happens with those bulky projects, like Northern Pass, like off-shore wind? Should we assume that you will continue to work on these or are these basically now completely canceled?



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Philip J. Lembo - Eversource Energy - Executive VP & CFO

Yes. On the second point, there's certainly activities that are going along on the projects in terms of either siting or analysis to position us for success in the future. But as I said, there's nothing in the existing forecast period for significant investments or projects in that time period. In terms of water, again, we're interested in pursuing the Connecticut Water transaction, that we have a superior and compelling proposal, that benefits customers, communities, shareholders, employees. It's really highly complementary and it's locally situated. It's in a territory of familiarity with us in terms of the region. We feel that the transaction will be accretive in the first year of any kind of transaction. So that's the transaction that we're interested in at this time.

Angie Storzynski - Macquarie Research - Head of US Utilities and Alternative Energy

Okay. So the -- I mean, that transaction still has to be EPS accretive in the first full year after the closing, right? So this is basically the best flexibility as far as any potential higher offers for Connecticut Water that it has to be accretive?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

That's correct. We believe our proposal is full and fair proposal. And it would have to be accretive in the first year.

Angie Storzynski - Macquarie Research - Head of US Utilities and Alternative Energy

And then lastly, on Aquarion. So the 7% rate-base growth is actually really pretty healthy. But when, if at all, can we expect any update to your growth plan for that business?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

We expect that it would be pulled into our normal operating and capital plan update. And if there is any change or an update, we'll provide you with that information in February when we give our full update.

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Next question is from Mike Weinstein from Crédit Suisse.

Khanh Nguyen

This is Khanh for Mike. Just wanted to see if there're any updates on the FERC ROE complaint at this point in time given the recent commissioner departure?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Unfortunately, there is no update at this time. Really we're in the same situation that we were at the end of the first quarter.

Khanh Nguyen

Okay. And so can you remind us on the -- in the Connecticut, what you mentioned a couple of filings, it's just the second half of this year? And these all recovered through writers mechanism?

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Philip J. Lembo - Eversource Energy - Executive VP & CFO

Yes. Few things that I mentioned going on in the regulatory arena in Connecticut as we filed for new rates at our Yankee Gas subsidiary first time in 7 years. So that process is going on. I also discussed in Connecticut that there is a grid modernization. So this has been initiated by the Connecticut regulator to look at what types of activities in terms of resiliency and other Clean Energy objectives could be implemented in the state. And that process would be ongoing through this year and possibly ending this year or early next.

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Next question is from Praful Mehta from Citi.

Praful Mehta - Citigroup Inc, Research Division - Director

Thanks for the clarity on the CapEx. It was really helpful to see the organic kind of CapEx plan, and really just a question on that, which is, is this a real change of art in terms of how you pursue growth and look at growth given the difficulty you've had with the larger projects? Is that what we should expect now as the new normal? The majority of your growth would be driven off of these kind of more stable internal kind of driven projects and then you have the potential for bigger projects, but that's outside your 5% to 7%. Is that how we should think about it longer term as well?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Yes. I think our focus has always been on providing outstanding service to our customers and running, operating, growing our core business. And the strategic projects that relate to energy policies that exist from time to time in various states, but our core growth, our focus has been and will be on our core business running that successfully and providing great service.

Praful Mehta - Citigroup Inc, Research Division - Director

Okay, fair enough. That's helpful. And I guess in the context of those kind of strategic initiatives, on the Off-Shore Wind side, as of now, you've not had the RFPs kind of going away. Where do you see the gap and from your perspective in terms of the Off-Shore Wind RFPs? And where do you think it takes -- and do you actually see this as a big opportunity, as an upside opportunity for you growth story longer term? Or how do you kind of see that offshore wind thing up?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Lee, you want to answer that?

Leon J. Olivier - Eversource Energy - EVP of Enterprise Energy Strategy & Business Development

Yes. In terms of off-shore wind, we see the potential over the next 7 to 8 years for probably somewhere between 5,000 megawatts to 7,000 megawatts of additional off-shore wind between New England and New York. We see the long term off-shore wind to become a major component of the bulk power inside New England. So as you've got in Massachusetts, you have additional 800 megawatts of authorization that will likely come in to an RFP early next year. We will participate in that. You've got a bill in the Massachusetts legislature that would authorize another 1,600 megawatts of off-shore wind. And so we see the potential for off-shore wind to be large. Yesterday, there was a kind of a zero carbon RFP that was issued in Connecticut. The RFP has the authorization for 12 terawatts of clean energy. So it could be Class 1 energy, but also could be existing nuclear and hydro. So we see that as a potential opportunity for off-shore what it bid into. As well as in New York, they've authorized essentially 2,400 megawatts of off-shore wind, that's kind of a specific RFP to off-shore wind and probably the first 800 megawatts will come up late this year or early 2019. So, we do see off-shore wind as a great potential investment. Clearly, we were not successful in the Massachusetts RFP. I believe we put in a very



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compelling bid with the world's premier builder of off-shore wind, Ørsted. We've told you very consistently we would not dilute the earnings of a company and win for the sake of winning. We put in a compelling bid with returns that were consistent with the current returns we had in transmission, and that was risk-adjusted. Now clearly others took a different view of that, perhaps took more risk and lower returns. But we're not in this thing to win for the sake of winning. We're in to win for providing shareholder value as well as the certainty around signing on with the company like Ørsted to have a source to get this wind built on time and on budget and deliver to customers.

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Next question is from Paul Patterson from Glenrock.

Paul Patterson - Glenrock Associates LLC - Analyst

Can you hear me?

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Yes. So if apologies if I miss this, crazy morning, but the Massachusetts legislation that I think passed yesterday?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Yes.

Paul Patterson - Glenrock Associates LLC - Analyst

The metering, I think that was taken out. It wasn't taken out, excuse me. The provision was left in that, sort of, took out how the DPU treats, could you go over that a little bit and just how you see impacting it?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Yes. I think Paul, to be honest, I think they finished the session at about 1:00 this morning. So some of the information is filtering out today. But I think the overall assessment is that the -- what came out of the legislatures kind of neutral. And I think, it -- there's nothing in it that is really problematic or -- and from that standpoint, there are some increases in RPS provisions but some of the other details, I think we still have to kind of go through line by line to assess what's in there.

Paul Patterson - Glenrock Associates LLC - Analyst

Okay. And then over the -- just if you could, sort of, update us, sort of, what are the normalized numbers for the first half of this year? And over what you project them for being for the 2019 through 2021 period?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Well, before I answer that, I will say that most of our subsidiaries now Paul, decoupled. So whether another, are you there, Paul?



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Paul Patterson - *Glenrock Associates LLC - Analyst*

Yes, I'm here.

Philip J. Lembo - *Eversource Energy - Executive VP & CFO*

Okay. Most of our subsidiaries are now decoupled. And as I mentioned earlier, Yankee Gas, when it emerges from the current rate proceeding then it will be decoupled. So really Public Service of New Hampshire would be the only subsidiary that is out there that's not decoupled. So weather impacts less and less for us. So for '19, to answer your last question first, I would expect minimal impact because essentially, we'll have fully decoupled rates across our companies. Specifically, the answer to your question, we had -- for weather-normalized sales on the electric business for the quarter, we're down about 1.5% and same year-to-date for gas, weather-normalized sales were up just over 10% and 8.3% year-to-date.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. And then -- so when we're talking about the forward outlook, I understand that you guys are decoupled mostly, but I guess I'm just, sort of, wondering in general, when you're looking at the, sort of, full-demand picture and rate base growth, et cetera, I'm just sort of trying to get a sense as to -- I mean, I realize that a lot of this has nothing to do with demand growth, it's got to do with grid modernization, et cetera. But I'm just trying to get a sense as to what you see, sort of, just underlying fundamentals in terms of electric demand are over the next 3 years? Do you guys have that?

Philip J. Lembo - *Eversource Energy - Executive VP & CFO*

Yes. I think that -- I'll start by saying, we are the #1 utility in the U.S., #1 rated for energy efficiency programs. And really, our energy efficiency efforts have really removed a lot of the energy demand and peak demand from the system. So our programs are very effective, helping customers lower their energy cost, including lower demand. In terms of general outlook, we see, sort of, sales being flat in our region over that -- over the next few years. The Boston-area of this, you probably have been into the city, see all the cranes, and so we expect pockets. I think the best way to look at it, that's when I talked about our capital plan, there's pockets of growth that require investment. So it may not be that the overall system growth is there, but certain areas of the city are growing significantly and require investment. So I think it's more on a pocketed basis, Paul, that we see the big growth. But overall, it's probably flat over the next 2 to 3 years.

Jeffrey R. Kotkin - *Eversource Energy - VP of Investor Relations*

Next question is from Andy Levi from Exoduspoint.

Andrew Levi - *Exoduspoint*

I think I'm all set. But just to make sure that I understand so you're basically saying that your firmly in the 6% growth range, is that correct?

Philip J. Lembo - *Eversource Energy - Executive VP & CFO*

Yes. In the middle of the 5% to 7%, correct.

Andrew Levi - *Exoduspoint*

Right, right. So basically 6%. And just understand whether it's the pole replacement or AMI, or some other CapEx opportunities, that's what would get you above the 6%?



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Philip J. Lembo - Eversource Energy - Executive VP & CFO

Well, there's a lot of factors, obviously. One of them is control of cost, right. O&M is a driver moving in the range one way or the other, constructive regulatory decisions are another factor that may move you in the range one way or the other and more CapEx is another factor. So there's probably -- a few factors, Andy, that could move you around in the range of it. But certainly, if there is incremental CapEx that comes out of the grid modernization, dockets that I've alluded to, that could enhance that number. Correct.

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Next question is from Joe Zhou from Avon Capital.

Joe Zhou - Avon Capital

My Off-Shore Wind question has been answered. Since I've got you here, just a follow-up on Andy's question, just to clarify, on your long-term EPS guidance, the 5% to 7% based on '17 actual or midpoint of '18 guidance?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

No. '17.

Joe Zhou - Avon Capital

'17 actual. Okay. Great.

Jeffrey R. Kotkin - Eversource Energy - VP of Investor Relations

Next question is from Julien Dumoulin-Smith.

Julien Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

So I just wanted to follow up. In terms of 6% that you guys are talking about, how do you think about the earned ROEs across the subsidies maybe from today through that forecast period, just -- versus the baseline here. I just want to understand how much is capital versus ROE improvements and piecing it out? And then secondly, just to go back to an earlier question on the grid mod side of the equation for Connecticut, can you give us a sense of the magnitude, the capital contemplated in maybe the low and high points? I know it's early on, I know it's difficult to comment earlier, but maybe just follow up on that?

Philip J. Lembo - Eversource Energy - Executive VP & CFO

Yes. In terms of the ROEs, we just come from two very constructive rate reviews in Connecticut and in Massachusetts for the electric business. So those, I contemplate, they will be earning at those allowed returns and in Massachusetts and at NSTAR Electric and at CL&P. We are in for a rate review at Yankee Gas. Now we're earning below our allowed return there, that's creating the need to go in. As I said, it's been 7 years plus since we've been in for new rates there, so probably not a surprise. So I see that we could have some uplift there to get to a new allowed return level. And same in New Hampshire, we haven't been in for rates in New Hampshire. And as you know, we've divested our generating assets there and we kind of have a little different business model in New Hampshire. So we now are in a position to move into New Hampshire for a rate review and expect to do that later this year. And again, it's another one of the subsidiaries that's under earning it's allowed return so I think there's some ROE



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uplift from those two subsidiaries, the others are off of recent rate reviews and expect to be earning at their allowed rate of return ROE levels. In terms of grid mod, as I said, it really is hard to say, it could be a few hundred million, it could be more than that, depending on the extent to which the regulator wants to advance EV infrastructure or storage technologies. So it depends on, sort of, what the basket of initiatives would look like that would advance that -- what the stage is looking for. But I'd say, it would be few hundred million, anyway.

Julien Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

And maybe just to clarify the timing on the grid mod here in Connecticut relative to your usual planning process. I mean should we basically be interpreting this midyear update is pretty much a draft version of the 4Q update. So perhaps borrowing a meaningful upgrade in grid mod in Connecticut, it should be largely similar? Or I don't want to put words in your mouth, either.

Philip J. Lembo - *Eversource Energy - Executive VP & CFO*

No, I don't think you should look at it like that at all. I think that what we've been trying to do over many years is that, as new information becomes available to us and we identify changes to our plan that we would let you know. So that I would look at this more as an ongoing process that we're just at the beginning stages of and we still have another several months in our operating plan review to go. So I would say that likely, you will see other items included in that by the time we get to February.

Julien Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Got it. And to start, just clarify -- cleanup a little bit on Andy's question earlier on the water side, just to clarify real quickly. Your commitment to a cash and equity deal, does there need to be a stock component here ultimately? And just to go back to make sure I heard this right. It needs to be accretive in the first full year, whatever the composition is of leverage and, I suppose share for share exchange.

Philip J. Lembo - *Eversource Energy - Executive VP & CFO*

To answer your -- second part of your question, absolutely that, we have and we continue to have a disciplined approach on looking at transactions. I could highlight the previous deals that we've done in terms of Aquarion or the NSTAR-NU deal or previous deals, all accretive in the first year and that would be the focus. The shareholder can elect cash or other. It's sort of an election in the offer to the Connecticut Water at this stage.

Julien Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

And you're committed to keeping that election open.

Philip J. Lembo - *Eversource Energy - Executive VP & CFO*

That's at this time on the table, yes.

Jeffrey R. Kotkin - *Eversource Energy - VP of Investor Relations*

We don't have any more questions this morning. So we want to thank you very much for joining us. Good luck with the other calls this morning. If you have any follow-up questions, feel free to send me an e-mail or give me a call. Take care. Paulette?



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Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating, and you may now disconnect.

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