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ES - Q1 2016 Eversource Energy Earnings Call

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## CORPORATE PARTICIPANTS

**Jeff Kotkin** *Eversource Energy - VP of IR*

**Jim Judge** *Eversource Energy - President & CEO*

**Phil Lembo** *Eversource Energy – SVP, CFO & Treasurer*

**Lee Olivier** *Eversource Energy - EVP for Enterprise Strategy and Business Development*

## CONFERENCE CALL PARTICIPANTS

**Mike Weinstein** *UBS - Analyst*

**Travis Miller** *Morningstar - Analyst*

**Caroline Bone** *Deutsche Bank - Analyst*

## PRESENTATION

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### Operator

Good morning, and welcome to the Eversource Energy first-quarter earnings conference call. My name is Brandon, and I'll be your operator for today.

Please note, this conference is being recorded. And at this time, I will turn it over to Jeff Kotkin. You may begin, sir.

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### Jeff Kotkin - Eversource Energy - VP of IR

Thank you, Brandon. Good morning, and thank you for joining us. I'm Jeff Kotkin, Eversource Energy's Vice President for Investor Relations. As you can see on slide 1, if you've gone into our slides which are on our website, 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 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, 2015. 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 on the website under Presentations and Webcast, and in our most recent 10-K.

Turning to slide 2. Speaking today will be Jim Judge, who yesterday became Eversource Energy's President and CEO, and Lee Olivier, our Executive Vice President for Enterprise Energy's Strategy and Business Development. Also joining us today are Werner Schweiger, our Executive Vice President and Chief Operating Officer; Phil Lembo, our new Senior Vice President and CFO; Jay Buth, our Vice President and Controller; and John Moreira, our VP of Financial Planning and Analysis. Now I will turn to slide 3 and turn over the call to Jim.

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### Jim Judge - Eversource Energy - President & CEO

Thank you Jeff, and thank you all for joining us this morning. I also want to thank many of you on our call today for the notes you've sent me since our announcement last month of Tom's retirement. Tom's record of providing value and service to customers and investors as CEO first of Boston Edison, then at NSTAR, Northeast Utilities and Eversource Energy was unsurpassed in our industry. I was both honored and tremendously excited by being our Board's choice to succeed him.

This company has a tremendous future ahead. We continue to identify investment opportunities to enable our region to successfully implement the state and federal energy policies that continue to shape our region. We also have what I consider to be the best group of 8,000 employees in the industry, and a very talented and very experienced management team. I look forward to continuing to work closely with our investors as our Company continues to deliver to you attractive returns by providing the highest level of service to customers.



As Jeff mentioned, I'm pleased to share with you that yesterday the Eversource Board of Trustees elected Phil Lembo as the Company's Senior Vice President, Chief Financial Officer, and Treasurer. Most of you know Phil well. He's been a key contributor for us for years. So congratulations, Phil. I would like you to say a few words.

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**Phil Lembo - Eversource Energy - ASVP & CFO**

Thank you, Jim. I would echo Jim's thank you for those notes and congratulations and calls I received. So thank you very much. I know -- I've known a lot of you for many years, going back to the investor relations days several years ago. But I'm looking forward to meeting those of you who I haven't had a chance to meet yet and working with you closely over the weeks and months ahead. I know I have some big shoes to fill, but I'm excited about the opportunity. I just also want to close it and say I'll be part of the Eversource team at the AGA Conference down in Naples. And I hope that I'll get to meet you in person down at that event. Thank you, Jim. And I'll turn it back to you.

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**Jim Judge - Eversource Energy - President & CEO**

Great, Phil. Today I will cover our first-quarter financial results, our strong operating performance results for the quarter, and update on certain transmission projects and regulatory dockets. Starting with our financial results in slide 4. We earned \$244 million, or \$0.77 per share in the first quarter of 2016 compared with earnings of \$253 million, or \$0.80 per share in the first quarter of 2015. Both of those are GAAP numbers since we are no longer separating out merger integration costs in reporting our results. These results represent a solid start to 2016, despite the very mild weather in the first quarter. These results also support our full-year EPS estimate of \$2.90 to \$3.05 per share, as well as our long-term earnings growth rate of 5% to 7%.

Our transmission segment earned \$0.27 per share in the first quarter of 2016 compared with \$0.21 per share in the first quarter last year. The first of two principal drivers of that increase was the absence of a \$0.04 charge we recorded in the first quarter of 2015 after FERC issued its final decision in the first New England Transmission ROE complaint. The second factor was the earnings growth we are experiencing as a result of our continued investment in the reliability of the New England power grid. That rate base growth added \$0.02 per share in the first quarter of 2016.

On the electric distribution side, we earned \$0.34 per share in the first quarter of this year compared with earnings of \$0.41 per share in the first quarter of 2015. Three principal factors contributed to this \$0.07 reduction in earnings. The primary driver was the absence in 2016 of about \$0.09 of benefits we realized in the first quarter last year from settling several long-standing dockets at NSTAR Electric. Milder weather in the first quarter of 2016 reduced earnings at NSTAR Electric and PSNH, where distribution revenues are not fully decoupled. And that cost us about \$0.02 per share. Partially offsetting those impacts were lower O&M and other items, including our second-quarter 2015 accumulated deferred income tax settlement at Connecticut Light and Power. All together, those factors added about \$0.04 per share in the first quarter.

On the natural gas distribution side, we earned \$0.16 per share in the first quarter this year compared with earnings of \$0.18 per share in the first quarter of 2015. Warmer weather was the principal factor, with lower gas revenues costing us \$0.05 per share, despite a nearly \$16 million annualized rate increase at NSTAR gas. We had a very cold first quarter in 2015 and a very mild first quarter in 2016. Heating degree days in the Boston area were 21% above normal in the first quarter of 2015, when NSTAR gas did not yet have decoupling. In Connecticut, where Yankee Gas is not yet decoupled, heating degree days were about 10% below normal in the first quarter this year compared with 18% above normal in the first quarter of 2015. The weather impact was partially offset by lower O&M, a rate increase at NSTAR Gas, and other factors that together added \$0.03 per share to earnings.

Turning from our financial results to operations, our transmission investments totaled \$140 million in the first quarter of 2016. And we continue to target transmission capital investments of \$911 million for the full year. As you can see on slide 5, we continue to move ahead on our major reliability transmission projects across the system. We are making solid progress on our two large families of reliability projects, the Greater Boston Reliability Solutions and the Greater Hartford Central Connecticut Solutions. We have now invested more than \$130 million in those projects, with many elements now completed, under construction, or before regulators for approval. By 2019, we expect to invest \$900 million in these comprehensive solutions to our region's energy long-term reliability challenges.

The New Hampshire Site Evaluation Committee has a number of projects before it, including our Northern Pass. Last month, we filed application with the Site Evaluation Committee to build the \$77 million Seacoast Reliability Project in southeastern New Hampshire. We expect a decision on our application by mid-2017, and to complete the Seacoast project by the end of 2018.

We also continued to expand our natural gas delivery system in the first quarter. We've added about 2,500 natural gas heating customers in the first quarter, up about 20% from the 2,050 we added in first quarter of 2015, and very consistent with our full-year 2016 goal of 12,500 new heating customers. We added a 72nd town to the Yankee Gas service territory, the town of Bozrah in Eastern Connecticut. And despite the mild winter, we did have one frigid weekend around Presidents' Day, when



both Yankee Gas and NSTAR Gas set all-time records for the amount of natural gas delivered in a single day. On February 14 NSTAR Gas delivered over 8.5% more natural gas to our customers than the previous record set back in January 2014.

Now, I will turn to our regulatory calendar on slide 6. We are awaiting a decision from the New Hampshire PUC on our comprehensive settlement with numerous state officials and other parties to divest PSNH's generating assets. To remind you, PSNH generating rate base, including undepreciated plants, fuel and inventory, totals approximately \$700 million. Any investment we have in our generation business that is not recovered through the plant sale process will be recovered through securitization. We continue to expect the entire sale and securitization process to be completed by this time next year.

Moving from New Hampshire to Washington, on March 22, the administrative law judge at FERC handling complaints number 2 and complaint number 3 involving the ROEs earned by all New England transmission owners issued his initial recommendation. For the 15-month refund period ended in March 2014, the 400-page recommendation called for a base ROE of 9.59% and a cap of 10.42%. For the 15-month period ending October 2015, the decision called for a base ROE of 10.9% and a cap of 12.19%.

Our currently allowed ROE is 10.57% and our current cap is 11.74%. So if the FERC were to adopt the ALJ recommendation, we would find ourselves under-reserved for the earlier refund period by \$34 million after-tax and over-reserved for the later refund period by \$8 million after-tax. Because we cannot be certain how FERC Commissioners will ultimately decide the case, we didn't book any charges this quarter due to the ALJ recommendation. We will re-examine the issue as this process moves forward. If FERC were to adopt the ALJ recommendation, we would have a one-time net charge of approximately \$0.08 per share. Going forward, however, we would earn a higher ROE of 10.9% compared with the current base of 10.57%.

Parties to the case filed comments on the ALJ recommendation on April 21. We continue to expect a final FERC decision around the end of this year or early 2017. I should note that after six months of no additional complaints, a fourth complaint was filed this past Friday by eastern Massachusetts municipal electric companies. We await FERC action on this fourth complaint.

Turning to financing. Eversource parent issued \$500 million of senior notes in March, \$250 million of 5-year notes with a coupon of 2.5% and \$250 million of 10-year notes with a coupon of 3.35%. Proceeds were used to pay down short-term debt. The issuances were several times oversubscribed. And we're very pleased with the rates we received. Now I'll turn the call over to Lee.

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**Lee Olivier - Eversource Energy - EVP for Enterprise Strategy and Business Development**

Thank you, Jim. I'll provide you with a brief update on our major investment initiatives and then turn the call back to Jeff for Q&A. Let's start with Northern Pass on slide 8. The review process for Northern Pass continues to move along according to schedule. March was an important month from the standpoint of receiving public input on our project. A total of seven public meetings were held around the state in the month, three by the New Hampshire Site Evaluation Committee, two by the US Department of Energy, and two jointly between these two primary permitting agencies. The Site Evaluation Committee will hold two additional public meetings on some follow-up items, one later this month and another in June. April 4 was the deadline for the written comments on the draft Environmental Impact Statement, and we expect a final Environmental Impact Statement from the DOE in the fourth quarter of this year.

On the state side, the New Hampshire SEC recently established a near-term schedule through the end of June, providing for commencement of the discovery process in mid-May. The dates are similar to what we had proposed. Under the state statute, we would expect the New Hampshire SEC to hold evidentiary hearings and issue a decision before the end of the year. We are aware that some interveners have requested a more prolonged review period, and we expect a ruling soon on those requests and establishment of a firm schedule. Assuming the final schedule is consistent with the statutory deadline, as you can see on slide 9, it would support the issuance of a presidential permit from the Department of Energy early next year and the commencement of construction shortly thereafter.

We continue to see support for the project building in New Hampshire. And we were gratified by the number of favorable comments in the public meetings, particularly from the labor and business communities of New Hampshire. We believe this is a sign of growing public support for the project and the billions of dollars of benefits it will bring to New Hampshire.

As stated in our February earnings call, we bid both Northern Pass and the Clean Energy Connect into the three-state electric RFP. Clean Energy Connect would allow 600 megawatts of carbon-free energy to flow from New York into New England. The review process for our projects, and the other approximately 20 that were bid into the process, continues. And we expect the states involved in the RFP—Massachusetts, Connecticut, and Rhode Island—to announce the winning bids this summer.

I'll now turn to slide 10 and the Access Northeast project we plan to build with our partners, Spectra Energy and National Grid. To remind you, Access Northeast is a \$3 billion project to upgrade the existing Algonquin Pipeline and add 6.8 billion cubic feet of LNG storage in Acushnet, Massachusetts to bring firm natural gas supplies to power generators in New England. Our share of Access Northeast is 40%, or \$1.2 billion.



The project is designed to provide 900 million cubic feet per day of additional natural gas supplies to serve the region's power generators during cold winter periods. That will allow up to 5,000 additional megawatts of the region's most efficient, low cost units to remain online when winter temperatures drop, saving New England customers approximately \$1.5 billion to \$2 billion in a typical winter and approximately \$3 billion in an extreme winter, such as the 2013 and 2014 period.

Access Northeast builds up the existing Algonquin footprint, which already touches 60% of the power generation in New England, a percentage that will soon grow, as nearly 2,600 megawatts of new proposed plants are built and connected to the project. Access Northeast allows direct last-mile deliveries to the power plants to ensure greater reliability and cost benefits.

The business model is that electric utilities sign long-term contracts with Access Northeast and then retain an independent capacity manager to market that capacity to generators at a market price. Without Access Northeast, those generators are frequently without fuel to run their units during cold winter weather when the region's existing pipeline capacity is used, primarily to heat homes and businesses. If a large amount of new pipeline capacity is set aside to meet the fuel supply needs of natural gas generators, we can depend less on more costly and higher emitting coal and oil plants that typically operate when the region's natural gas supplies are short. We continue to make significant progress on securing and seeking approval of contracts with New England electric distribution companies.

The current status of the state reviews is on slide 11. You will recall the following RFP this past fall, NSTAR Electric, Western Mass Electric, and two National Grid electric distribution companies filed with the Massachusetts DPU seeking approval of contracts for pipeline and storage capacity with Access Northeast. Our two utilities asked for a decision by October 1 of this year. The DPU has established a schedule to review that filing that would support a decision in the early falls. Evidentiary hearings on all of the contracts are scheduled for this summer. Once approved by the Department of Public Utilities, these contracts will account for more than 40% of Access Northeast targeted capacity.

In Connecticut, we expect the State Department of Energy and Environmental Protection to issue a request for proposals for natural gas capacity shortly. We expect this process to be complete, with approved contracts, late this year or early in 2017.

In New Hampshire, you may recall that the Public Utilities Commission issued an order on January 19 in which they accepted a staff report that concluded that the Public Utility Commission had sufficient authority to approve electric distribution contracts for natural gas supplies, if those contracts were shown to be in customers' interest. On February 18, Public Service of New Hampshire filed with state regulators a natural gas contract with Access Northeast that was similar to what the four Massachusetts electric utilities filed in their state. If the New Hampshire Public Utility Commissioners agree with the staff that they have sufficient authority to approve such agreements, they would then determine whether the specific contracts submitted were in the customers' best interest. A technical session on the docket schedule was held yesterday. We are optimistic that the commissioners will agree with the staff that they have authority to approve a contract with Public Service of New Hampshire and Access Northeast. The PUC's consideration of whether the contracts provide benefits to customers would follow its legal ruling on the issues.

In Maine where regulators have been engaged in natural gas contracting issue for some time, state regulators are scheduled to reach a decision on recommended solutions by the early fall. In Rhode Island, National Grid issued an RFP in the fall with bids received November 13, around the same time as the Massachusetts electric distribution companies had their RFP. We expect National Grid to make a decision and file with Rhode Island regulators by early this summer. In Vermont, the state has expressed support for additional natural gas infrastructure, but its level of participation is yet to be determined.

We expect that the state processes will be sufficiently advanced by the end of this year so that we can promptly file our formal application with FERC and bring additional natural gas supplies into New England for the winter of 2018 to 2019. We continue to believe that Access Northeast offers an excellent near-term and long-term answer to the region's intensifying energy challenges. Now I would like to turn the call back over to Jeff for any Q&As.

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**Jeff Kotkin - Eversource Energy - VP of IR**

And I'm going to turn it back to Brandon, just to remind you how to enter questions.

**QUESTION AND ANSWER**

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**Operator**

(Operator Instructions)

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**Jeff Kotkin - Eversource Energy - VP of IR**



Our first question this morning is from Mike Weinstein from UBS. Good morning, Mike.

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**Mike Weinstein - UBS - Analyst**

Good morning. I was wondering if we could talk about whether the current status of the RFPs and expected approvals for gas contracts support beginning construction in 2017 for getting major sections of the pipe online for the winter of 2018 and 2019, generally speaking, broadly?

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**Lee Olivier - Eversource Energy - EVP for Enterprise Strategy and Business Development**

Mike, this is Lee Olivier. The construction period would start for the project in 2018, in early 2018, approximately the April/May timeframe. And then the first sections would go in on the piping for the winter of 2018. So you're talking about the November timeframe of 2018. I would say right now we're still on schedule. We will be prepared to file the comprehensive filing at FERC in the November/December timeframe. We believe the timing in and around the other states, including Connecticut, even though Connecticut is late, built inside their process they have 90 days to negotiate precedent agreements with the EDCs. We think that could be done in approximately 30 days or 35 days. Their approval process through their regulatory body, PURA, is a very short term. It's about 60 days. So we think all of these schedules line up right now for conclusion by the end of this year, and filing with FERC and start of construction in the spring of 2018 for the first phase of the pipeline.

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**Mike Weinstein - UBS - Analyst**

Are you seeing more support for the project, just broadly speaking, as a result of the cancellation of Northeast Energy Direct?

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**Lee Olivier - Eversource Energy - EVP for Enterprise Strategy and Business Development**

I would say, although the two projects were designed somewhat differently—we were designed to supply gas to generators, to firm up 5,000 megawatts, and they ostensibly, the Kinder design with NED, was all around providing LDC power supplies. I think the fact that they are not going to be there obviously puts more pressure on the overall gas supplies of the region. I believe that there is more support for firming up around Access Northeast, both in the business community and with policymakers as well.

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**Mike Weinstein - UBS - Analyst**

And just one last one. Can you give us an update on Massachusetts legislation and for renewables in the state? How that might impact things like the Clean Energy Connect project, things like that?

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**Jim Judge - Eversource Energy - President & CEO**

Sure, Mike. This is Jim. We had solar legislation that was approved in Massachusetts that increases the net metering cap and actually extends the opportunity for utilities to consider a utility-owned solar. There is also proposed legislation that the Governor is endorsing which recommends hydroelectric commitments, as well as offshore wind is being discussed as well. Those are only in draft form or proposed. It's only the solar legislation that's passed to date.

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**Mike Weinstein - UBS - Analyst**

Okay. Thanks a lot.

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**Jeff Kotkin - Eversource Energy - VP of IR**

All right. Thanks, Mike. Our next question this morning is from Travis Miller from Morningstar. Good morning, Travis.

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**Travis Miller - Morningstar - Analyst**

Good morning. Thanks. I was wondering, just on the demand, electric demand in particular, what -- how much of that was weather, do you estimate? I know that's tough to do.

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**Jim Judge - Eversource Energy - President & CEO**

Travis, it's a tough question because you have such an extreme change from one year to the next—a very, very cold winter in the first quarter, a very mild winter this quarter, resulting in a sales decline on the electric side of 8.5%. I would say that virtually all of that is weather-driven. If we had had normal weather, I think the sales would have been close to flat, my estimate.

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**Travis Miller - Morningstar - Analyst**

Okay, and is that -- remind me what your outlook is for this year in terms of electric sales growth?

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**Jim Judge - Eversource Energy - President & CEO**

Flat is the estimate that we provided.

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**Travis Miller - Morningstar - Analyst**

Okay, and is that -- if we look out, call it five years or something, what kind of trends are you seeing in terms of what would keep electric demand flat or 0.5%, something well below what we've seen historically? Are there particular specific trends and programs perhaps that you would see depressing that type of demand?

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**Jim Judge - Eversource Energy - President & CEO**

We're estimating the long-term growth rate on the electric side to be flat as well. As you know, we are decoupled in a number of our franchises. And as we have future rate cases, we'll be decoupled everywhere, I expect. But we are forecasting flat on the electric side. But because of the gas conversions going on, we think there will be 2% to 3% growth in gas sales annually.

And really I think the primary driver to that flat growth has got nothing to do with the economy. In particular in the Boston area, the economy's booming. There's lots of construction going on. But we as a Company spend \$500 million a year, \$0.5 billion a year, on energy efficiency. And I think that has a significant impact, 2% impact on the sales results for the Company.

Now, fortunately, the rate-making mechanism for energy efficiency spending makes us whole, either decoupling or lost base revenues reimburses us if we actually do a good job on the projects we're able to earn an incentive. And at the same time we're recovering our costs as we incur them each year. So, the cash flow is positive as well. So, were it not for energy efficiency, I think we would be looking at 2% or higher sales volume growth.

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**Travis Miller - Morningstar - Analyst**

Okay, great. Appreciate the thoughts. Thanks.

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**Jeff Kotkin - Eversource Energy - VP of IR**

Thank you, Travis. Our next question is from Caroline Bone from Deutsche Bank. Good morning, Caroline.

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**Caroline Bone** - *Deutsche Bank - Analyst*

Good morning. First of all, congratulations, Jim and Phil. That's wonderful news.

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**Jim Judge** - *Eversource Energy - President & CEO*

Thank you very much.

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**Phil Lembo** - *Eversource Energy - SVP, CFO & Treasurer*

Thank you.

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**Caroline Bone** - *Deutsche Bank - Analyst*

You're welcome. So, I just have one question. Last call I believe you guys discussed the possibility of share buybacks. And I was just wondering if you could kind of review with us the circumstances in which we might see such a program?

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**Jim Judge** - *Eversource Energy - President & CEO*

Sure. We have a lot of positive cash flow items, right? Our fundamental business is strong to begin with. We've got bonus depreciation that's been extended. We have \$700 million of cash coming in the door next year from the divestiture and securitization. And what we have said in the past is that to the extent that we can't find additional projects to pursue to redeploy that cash, ultimately it's shareholders' monies, and so obviously we pay off some debt as well. But we would consider a share buyback if there wasn't a better use of the proceeds. That being said, I wouldn't expect any announcement this year. I mean, we are certainly executing to our plan for 2016. As we reaffirmed guidance today, we continue to believe that we're going to be able to achieve those results. And those results for 2016 do not assume a buyback is in place.

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**Caroline Bone** - *Deutsche Bank - Analyst*

Okay. Thank you. That's very clear.

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**Jeff Kotkin** - *Eversource Energy - VP of IR*

Thanks, Caroline. We don't have any other questions this morning. So we want to thank you for joining us. We look forward to seeing you at the many conferences over the next couple of weeks. And have a good rest of the day.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.





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