

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

NU - Northeast Utilities Analyst Meeting

EVENT DATE/TIME: FEBRUARY 06, 2014 / 10:30PM EST



## CORPORATE PARTICIPANTS

**Jeff Kotkin** *Northeast Utilities - VP, IR*

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

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

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

## PRESENTATION

---

### **Jeff Kotkin - Northeast Utilities - VP, IR**

Good morning and thank you for joining us here in February in Boston. We're happy that the snow is on the ground instead of in the air today. I'm Jeff Kotkin, NU's Vice President for Investor Relations. Speaking today will be Tom May, our Chairman, President and CEO; Lee Olivier, our Executive Vice President and Chief Operating Officer; and Jim Judge, our Executive Vice President and Chief Financial Officer. Also joining us today, and I think he's probably met a number of the folks here in the room, are Jim Muntz, President of our Transmission business; Phil Lembo, our Treasurer; James Daly, the man of the moment as our Vice President for Energy Supply, especially given what's going on in New England; John Moreira, our Director of Corporate Financial Forecasting and Investor Relations; John Gavin and Barbara Nieman, our Investor Relations team; and Cheryl Fastino-Silvia from our Treasury Group.

Before I turn over the presentation to Tom, I'd like to remind you, here in the room and on the webcast, that some of the statements made during this investor presentation maybe 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 this morning. If you have not yet seen that news release, it is posted on our website at [www.nu.com](http://www.nu.com) and has been filed as an exhibit to our Form 8-K. Additional information about the various factors that may cause actual results to differ can be found on our Annual Report on Form 10-K for the year ended December 31, 2012 and our Form 10-Q for the nine months ended September 30, 2013. Additionally, our explanation of how and why we use certain non-GAAP measures is contained within our news release, this Safe Harbor slide, and our most recent 10-K.

Our presentations this morning will probably carry us close to noon and then the team will be available to you for Q&A. And afterward we invite you to join us in this room for lunch.

Now I'll turn over the call to Tom.

---

### **Tom May - Northeast Utilities - Chairman, President & CEO**

Good morning. My official chore today is to welcome you all and I want to thank you for making a time in your busy schedule to come up and visit us or even to visit us on the phone, those of you that are on the phone, we appreciate it, and we're all excited to be here and talk to you about our favorite topic, Northeast Utilities. We didn't do a good job arranging the weather. We could have kept the snowstorm out a little further away from you, but I was happy -- so happy to hear that the shuttles were running this morning and a lot of you were on the 6 o'clock shuttle, so that was just terrific, and thanks for making that effort.

To us this is lovely weather, there was no ice. And as you know, ice is our enemy, so we had no ice, no outages. But this morning, we sent a whole bunch of crews off to Pennsylvania, our friends down there. They had 750,000 customers out yesterday and it's still half a million customers or so out. So, they're going to be mopping up from the ice that hit their system. Other than that, we love the cold. On the way in, I heard again that it's going to be single-digits tonight, so if you're sticking around, bundle up. We love the cold. As you know, January was one of the coldest months, so we're off to a very good start. Next time that we have you in town, hopefully we'll plan the weather a little better.

I think you all know us pretty well, Northeast Utilities, so I won't bother you with all of those details that we usually start a presentation, you know, 3.5 million customers, three states, diversity of regulatory jurisdictions. But it does seem -- Caren Byrd was mentioning to me -- I don't know if this is a subliminal impact we're trying to have on you all by always having it in the Seaport District, but I think as you walk down the streets here, those of you that are here, you see that the city is



booming, lots of new businesses popping up, buildings popping up all over the place. Just on Monday of this week, Vertex Pharmaceutical moved all of their people in the Greater Boston area, 1,300 employees, right down into a building on the waterfront a block or two from here. So this innovation district is hot and I think it reflects what's happening in Boston, which is a hot city, although those of you that are in Manhattan know that's pretty hot, too.

In a minute, Jim Judge will take you through the numbers, how we have been able to outperform the market financially and how we expect to do that with our financial outlook. Lee will also follow him and talk to you -- well, I guess, he's going first. You are going to have to wait for Jim. I guess he's mopping up. He's our David Ortiz, I guess, today. But Lee is going to tell you a little bit about our transmission and gas business, which is the fuel for Jim's financial forecast.

But what I'd like to talk to you a little bit about today is the way I look at our business and why I'm so confident that we can continue to outperform for you, and the "you" is those of you who are our investors, the smart ones of you. Our strategy is pretty clear, simple, achievable. This slide shows you what I promised my Board that we will deliver top-tier financial results for our shareholders. We'll continue to grow the transmission and gas business indefinitely into the future. We'll continue to make this company more efficient and more customer-focused, and by doing so, I expect to dramatically improve the company's image. We want to wow our customers. We are committed to delivering a level of service that no one in our industry has ever provided before and I'll talk a little bit about that.

Here are some of the commitments we made at the beginning of the year. We made it to all of you in the financial world and I also made it to my Board as elements of our 2013 operating plan. As you all know, we are very proud of our model. We lay out very tough stretch goals for our management team. We constantly focus on measuring how we're doing, plaster it all over our walls, so everybody knows how we're progressing during the year and then I believe in rewarding great performance, and we do that for our management team, just like our Red Sox do here for their players.

So how did we do last year? Well, as you can see from this chart, we grew our earnings and dividends at twice the industry rate, which we think is pretty good. We continue to prove that we can take cost out of the business, while at the same time driving our service levels up and continuing to drive them up. One of the things you'll hear about today is that we had the best ever reliability in the history of the NU system. So, we're pretty proud of that. We executed on our five-year aggressive transmission and gas expansion plans, meeting all of our objectives and goals and I think we've worked pretty well with all of the state's regulatory agencies to help advance the right energy policies for our region and I'll talk a little bit about that in a minute.

I'd mentioned before to some of you how excited I was to have the opportunity to put these two companies together and create a new, exciting Northeast Utilities, but as I got into it, I quickly realized that the opportunity was well beyond my expectations, and I'd like to explain what that means a little bit today and really I will do that in two parts. One, internally what's happening and what we're trying to achieve as we focus on the customers, and externally what's becoming a very exciting energy world around us in our environment.

So, let's start with the internal opportunities first. I call it the "Power of One Company." We had six distinctly different utility companies in the Northeast Utilities family, each doing their own thing, organized differently, different compensation and benefit schemes, different operating philosophies, different electrical system configurations, different technology, different trucks, you name it, we had it. I told the Board when I saw this that we really did have a unique opportunity, because in reality we have 3.5 million customers who all want the same thing, great service at a reasonable price. I explained to them that as I traveled around the system, talking to all the employees in the first six months, and as I like to say -- those that know me know I love analogies -- I was telling, as I traveled around and visited all of our McDonald's, I found that in the north our McDonald's were serving pizzas, in the south they were serving subs and calzones, in the east they were serving burgers and fries. I also told them that when we're through with this, all of our service centers are going to be serving burgers and fries. We're standardizing everything. And, most importantly, we are really simplifying everything for our employees and for our customers.

With four different electric companies, we actually had nine system operating centers. And this is really the heart or maybe the brain of an electrical system. It all starts with your system operating center and your operating philosophies. Every utility had a main center and a backup center and then I had to throw in a couple for training. When we are through, I think we can do this with three operating centers -- system operating centers. In fact, the one we have in Connecticut, I think we could dispatch the world off of it. It's such great technology.

And the word, dispatch, that's where it all begins. How you approach a job each and every day, and we will -- we have changed our philosophy and outage is an emergency now, it's not a job. It's: Send the ambulance out and get the patient to the hospital, or in our case, get the lights back on quickly. But as we move to a simple and consistent standard for switching and tagging, which is the way you start a job everyday across the three states, it really will make us more efficient. It really will have a major impact. But also how we configure our system, how we operate it, the equipment we use, the automation, the technology, we're putting in place a new outage management system.

Again, when I began, there were two utilities that were looking at buying separately their own outage management systems. We will have one. That will be the basis for the way we dispatch each day. But more importantly, it will be a system that will provide us with all of the information that our customers want real time. What's going on with the system? What's going on with their circuit? What's going on with their transformer? And it will allow us to communicate and message with them.



And as you know, communication is different than it used to be. They don't want a phone call, they want a message. And so, we'll message them in a way that keeps them informed of what's going on real-time when they're in a situation where they don't have power.

So, we'll change everything, including our maintenance practices, our fleet, everything will be standardized. And as a result, I'll be able to take a manager in New Hampshire and send them to Connecticut, and they won't miss a beat. They'll know where the fryolator is; they'll know where the buns are stored; they'll know how the cash registers work, because it'll all be consistent throughout the company.

As an example, when we started this process early on, we found that when we started, one of the first things we looked at was our inventories to see if we had some purchasing power. Just one example, we finally had 48 different kinds of poles in all of our utilities. Right now, we have six. And just think about that applied over transformers, capacitor banks, cross arms, wires, cables. So, the potential is incredible. But also it really makes life easier. And imagine the ability to share across state lines when there is a shortage or a problem or a storm.

Also, one of my favorite things that we're just beginning, people were asking questions about our ramp and how long our ramp can continue. We're just beginning now to optimize our service centers. And this is another fix that has very big benefits from our customers. Our service territories are just cut too small for each of our service centers. Just like banks have to optimize their branch network, we have to optimize ours. We have too many branches right now. When you have a service center that is too small, it's sub-optimal, you've got only a few towns and you're working on the system in those small towns, whether it's 6, 8 or 10 towns. When you've got five crews and someone calls in sick, they are on vacation or they've been called in the night before because of an emergency, the next day you send out three crews. And what does that do? It means that the customers that were waiting for you to come out and do a job for them gets pushed back, and the next day they get pushed back, and the next day they get pushed back. So, you can never function efficiently by planning and executing on time. We will consolidate these centers and we'll run out of 20 or 25 towns with enough resources there that we'll be able to make our commitments and keep our commitments and keep our people focused on those commitments each and every day. When we fix this, our efficiency will improve and I do believe our service levels will shoot up.

I'm a nut about customer service, as you can probably gather, and I'm very excited about a program that we just began to implement called, "Above and Beyond for the Customers." It's a program that I believe will revolutionize customer service in our industry. Imagine line workers who don't view themselves as construction workers, but view themselves as service technicians. That's what we're shooting for. Imagine a company that tests potential linemen or employees for a service orientation, the way that Disney does. Disney doesn't just take a cast member or someone off the street and throw them into a part. They test to see if they have those people skills, the people orientation that makes them extroverts. We can do the same thing in our business.

Here at NSTAR, since you're in NSTAR territory, we have a program with Bunker Hill Community College, where we really hatch our line crews. Each year, we select about 8 or 10 people into a two-year program where they go through both field training and classroom training, get an associate's degree in Electrical Technology and it forms the basis for our line crew. As our crews age out and retire, this is our feeder stock. Last year -- first year we did this, I don't know, 8 or 10 years ago, I think we had 20 applications. We had 12 in the class and I think three got through the class. Last year, we had 140 people apply for these positions. When we got down to the last 40—we had gotten rid of the first 100—we're talking about people with college degrees, with more calculus and trigonometry than I ever had, and a gang of people, many of whom wanted my job. A very, very different feeder stock. These are not construction workers. These are people who are looking for a career here. And as you know, as I've mentioned, these linemen that are down in Pennsylvania, they are going to come back with a very hefty check next week or the week after. So we're excited about that. A module of our training is going to be about our expectations. In fact, when we tried to get those 40 down to the 8 or 10 positions we have, we're going to give them a test to see whether they have the service orientation, and we will use that as our criteria to help get down to the last few.

In addition to that, we have started a program that is engaging our existing workforce in the field, asking them for their thoughts on how we can improve our image. Letting them know that they are the company, they are the ones that our customers see. And as you probably know, during storms when everybody is home, they're not at work, they love to come out and talk to our crews and our crews are very good, explaining what's going on and what they're doing and you know, they bring them coffee, tea, donuts, and everything else to try to keep them working, so they can get their lights back on. We're trying to take that same service orientation and bring it every day to the job. So we're asking them to actually, before they start a job, to knock on the door and tell people what they're going to be doing, to make sure they leave the work site the same way they came. If they break something; for example, knock down a stonewall, to hang a tag on the door that tells them that someone will call them and repair that within the next two weeks. In fact, if no one is home and they can't explain what they're doing, they will hang a tag that says, today we were in your neighborhood and this is what we did. So it's a program that our employees are excited about, but as you can gather, I'm even more excited about it.

So enough of that, as you can see, we've got our work cut out for us, but we're really excited about what our goals are and what we can achieve in the next few years.

So let me shift from our internal focus to our external focus. Lots happening in New England in the energy markets. It's an exciting time for us. And it's exciting for us, because we hope to be in a position to help, be part of the long-term solutions here as we try to figure out what we need -- what the new energy world needs here. Just a little bit of cold weather in January and our markets went wild. This is a chart that basically shows that at one point in time a kilowatt hour traded for almost \$1.25, an unheard of level. It highlights the fact that we really have tight pipeline capacity into New England. And as a result of that, gas was both short and prices spiked like crazy in the gas market. In fact, it went so high that oil became the fuel of choice. It was actually cheaper than gas. And at the peak, at some of the peak



demand times in last month, 36% of the generation was coming from oil and we were running our plants in New Hampshire that can switch to oil almost constantly. In fact, they asked us to run our peakers as base load, nine hours a day, which again, I've never seen in my career.

So, once again, with all of this, everybody's talking about energy, whether it's energy supply shortages, whether it's energy prices, whether it's diversity of supply, whether it's pipeline capacity. It seems like everything is back on the table. Here are some examples. First item, we have the New England Governors. New England Governors have been working on an energy strategy for the region, and they have had or they have asked, or they have empowered their energy policymakers to come together and work with ISO New England to figure out how the region can socialize the cost of building one to three new transmission lines to the north. And very interestingly, this is unique also, to build a new gas pipeline into the region and to put that on the electric bills, to recover that on the electric bills, because they do believe that will prevent what just happened and drive down the cost of generation by letting us run gas 12 months a year, instead of 10 months a year.

In Massachusetts, (regulators have opened) a grid modernization docket. Its purpose is to strengthen the system, reinforce the grid against all of these storms that we've been having in the last few years in New England, but also to accommodate the interconnection of more distributed generation. You know, this is something that's happening, a phenomenon around the country and our systems were built to flow one way. It's going to take not only a lot of technological ability, but a lot of investment also to change that and to be able to accommodate what they're trying to do from an energy policy perspective. And they're asking us, as part of these dockets: What are the rate mechanisms that we need to put in place to support the capital investment to make this happen? Think capital tracker, as we say.

In Connecticut, we're currently implementing the Governor's Comprehensive Energy Strategy, focused on gas expansion and Canadian hydro as a renewable resource that Connecticut will count, and I think you all know that story. It's an old story. But it's complete, it's on its way, and we're working closely with the Governor to make his goals happen.

In New Hampshire, the interest in energy policy has all of a sudden reappeared. It's escalated with the spikes in energy prices. Two things have happened. One is, important paper mills in the north, I think New Hampshire has one, Maine has two. The New Hampshire paper mill actually is a product of economic development efforts to modernize the lines, so that they could save those jobs in that employment level. Well, with the spikes in energy prices, they became uneconomic, the plants were shut down and workers were laid off. It got a lot of attention in the paper. Then on top of that, four competitive energy suppliers defaulted almost in the same timeframe that the customers, on an emergency basis, rushed back to public service, PSNH, for the basic service supply. So, you can imagine the newspapers, there are full of stories that are energy-related. This not only has the people in New Hampshire buzzing, but also the legislature is now looking at and discussing the need for new power sources.

So, all of this is good news for NU. We believe we are uniquely positioned to help solve the region's energy needs. And, of course, these needs dovetail well with our strategies, our strength and our focus. Transmission will become the story of the day. We need new sources of energy and everybody is looking to the north. We have, I believe, the premier transmission team in that region and the only project with ISO approval and a project that's well into DOE approval space. Lee will talk more about this and he'll also talk about our gas expansion strategy.

I think you can tell that I'm pretty proud of the work that we have begun on customer service. We'll complete this work. It's going to take us some time to do that, but we do believe that we can set a new standard for our industry, while continuing to drive out and reduce our operating costs.

So, I think that's enough for me for now. I know you really came here to talk about numbers and so I will give you our number guys, Lee and Jim, so I'll turn the program over to them. Thank you.

---

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

Thank you, Tom, and good morning. It's good to be here with you all this morning in Boston and hope all of you made it here safely and soundly through the snow and ice. As Tom said, this is a period of great turbulence in the New England energy markets. We've become a region that is overly dependent on natural gas, particularly during the winter time when the pipelines are most constrained. And we've seen that this winter with a whole lot of \$400 megawatt hours gas that's been anywhere on average around \$30, \$40 for a million BTUs, something we've never seen here before.

So, when we look at this winter, it's kind of a watershed. It's really probably the closest thing we've seen since the 1970's when we've had the oil embargo, in terms of how this is going to transform the marketplace. I would like to say that what I'm going to tell you will immediately make everything better, but it's not going to. What we're likely to see over the course of the next few years is things get even worse in terms of the energy markets. And if you think about that, during this winter, many of the non-gas-fired power plants, you see the coal and oil fired power plants that were the mainstay of the load in New England are going to set to be retired. The old assets, 40, 50 years old for the most part, they don't run much during the remainder of the year. And up until recently, up until yesterday, the capacity markets have



been pretty weak, and so they will exit. Along with the fact that ISO- New England is going to change their performance rules that really punish generators that can't perform during the peak periods of time and really reward those that do.

On top of this, what you're looking at is very aggressive goals for the region. In terms of the renewable energy production, you are talking about 20% of the energy in New England by 2020 being renewable and that's essentially solar and wind. You're talking about very aggressive goals around carbon reduction, reducing carbon outage by 2050 by about approximately 75%. The favor of policymakers up until recently has been to solve that through solar and wind. And, of course, as you all know, in a cold winter's night there's no solar, and the colder the weather gets there's less wind. So, it's not there for you. And that energy has to be backed up usually by fast-start or quick acting gas-fired power plants that can react when the wind dies off or the sun goes away. So what does that do? That just exacerbates the problem that we have here in the region.

I think the good news here is that the policymakers are starting to see through this. They still very much support wind and solar, and we think wind and solar are very appropriate to replace a lot of these older fired -- gas-fired power plants and oil, and the issue is that they now understand that has to be -- it has to have kind of a firm fixed aspect of it. We can't load the entire region on natural gas and of course we have nuclear power plants that are starting to retire as well. So, as Tom mentioned, with the letter from the New England State's Commission on Electricity, which is essentially a body made up of the six regulatory bodies in the region, it's asked us in New England to help to put together an RFP to get clean energy. And, I think the connotation there around clean energy is that it is the classic renewable wind, but is also Canadian, large Canadian hydro power, as well.

So, that's a little bit about what we see in this slide here, it kind of pretty much covers the boards that I have just run through. So, I think over the next 30 minutes what you'll hear, as Tom indicated, is our strategy is very much aligned around where policymakers are in the region. And in order to solve many of these problems, we're going to need new infrastructure. A lot of that infrastructure will be transmission, not only the reliability-based transmission, but transmission to connect into these new renewable resources. And, we really do have the track record in NU of getting major projects, whether they be underground, underwater, overhead, through densely populated areas, getting inside it and build it on-schedule and on-budget.

Just a quick look at some of the drivers. You know, a few years ago, we were at the end of the pipeline and along comes the Marcellus Shale gas fields and now we're really close to where the source of the gas is. And this has actually had a tremendous benefit on the region. So, if you look back five years, you would see the electric and natural gas markets in New England, they are about a \$12 billion, \$14 billion marketplace. And then along comes two things. Shale gas comes along. It starts flowing into the region, and we start building these big electric transmission projects that take the bottlenecks out of the southern part of New England, and you see prices of energy drop. So that \$12 billion market goes down to about a \$5 billion market.

So, that's real money in the consumers' pockets, that's real money that goes back into the economy, which has been great. And, in fact, that's caused a tremendous amount of conversions over to natural gas, which is what would seem has really essentially filled up the pipeline in the region. And, if you look at our two gas companies, Yankee Gas and NSTAR Gas, Yankee had its five highest send-out days ever this January. NSTAR Gas had its two highest send-out days ever in January as well. Electricity prices went down. About five years ago, just the energy was about \$0.12 to \$0.13 per kilowatt-hour; it went down to \$0.075 per kilowatt hour. All of that has caused this big influx of use of gas. So, the two big pipelines, the Tennessee and Algonquin pipeline, are essentially full. So, on these really cold days what happens is, is that the market price of gas gets set by LDC, then LDC flows down from Canaport. Thus, you've got the \$30, \$40, \$50 prices in terms of natural gas. So gas has been a good thing, but sometimes too much of a good thing. If you're not ready for it, it can be a problem.

So, looking at a little bit of background on generation, you go back to 2000, and if you look at what's happened to gas-fired capacity, from around 2000, we had about 15%; gas-fired capacity made up of about 15% of the energy mix during that period of time, and oil and gas made up about 40%. That's essentially reversed and now we've got about 52%, which is natural gas. We went down to about 3% -- approximately 3% to 4% in terms of coal and oil. And as Tom indicated, if you look at January of this year, you had a point in time where 75% of all the gas-fired power plants were shut down. They were either shut down because they either had no gas or gas was out of the market, because oil is in and once you get up around \$19/MMBTU, \$19, \$20 for an MMBTU on gas, oil comes in the market again. So, most of the plants shut down and then we had about almost 40% of the energy coming off of coal and oil.

Now, the problem here is that for the most part these are the same oil and coal plants that are going to retire over the next few years, for the scenario that I described. We had a lot of days where our combustion turbines, which are old, they are 40-year-old units, they probably would run once a year or twice a year in the summertime, were being dispatched in the day-ahead markets at base load, at \$400 a megawatt hour.

Our Newington plant, which is a 400-megawatt output plant, has very low capacity factor, normally oil and gas, which was dispatched around the clock on 100% power, \$200 a megawatt.

So, you get a sense of where these markets are going. In fact, the average price of a megawatt hour in January was \$163 a megawatt hour in New England, and that's 200% higher than it was in January of 2013 and 400% higher than January of 2012. So this is not subtle, this is very, very brash. So, again, during this period of time,



the gas pipeline is full, but it's going to the LDC customers. They've got gas on a lower differential basis, pretty close to where it is in Marcellus. So this again tees up the problem.

Now, talk a little bit about generation. This is a slide that we excerpted from ISO-New England. It shows approximately, almost 8,000 megawatts of this older generation capacity, which is going to retire here over the next few years. And, Vermont Yankee, a nuclear plant, which puts out over 600 megawatts, which was running 24/7 during this very cold period, next winter will not be there, obviously, no carbon and no natural gas. The Brayton Point plants announced their retirement. That's 1,500 megawatts of coal and oil that will retire in June of 2017. They're not going to be there. And, we're really starting to see the impact of this. If you watch what happened in New England this week in the capacity markets, which has been about a \$1 billion capacity market in the region is a result of the forward capacity auction through 2017 and 2018, is now going to be a \$3 billion market. It has gone up \$2 billion. I think the interesting thing to note is, none of that money is going to go for new hardware, okay, because you're not getting new plants being built as part of that, it's really to get more imports in. So you'll get some more imports. And then a lot of that older existing generation will get the \$7. In NEMA/Boston, which is a constrained area, (they) will get up around \$15 per kilowatt month.

So you're going to go from a \$1 billion market to a \$3 billion market, but you're not going to see a lot of new iron in the ground. The problem again just keeps getting exacerbated. So, again, many of these plants that you see on the slide are the ones that kept the lights on here this wintertime.

This slide just gives you a sense of -- I talked about the renewable energy goals of the region, the carbon reduction goals. And you see in the top half of the slide is, if you have 20% renewables by 2020, and you see the red line there basically is where we are now in terms of renewable energy. There is about a 9 terawatt-hour gap from where we need to go. Now, we have signed some contracts for wind energy in places like Maine, but again, it's intermittent wind energy. Much of it is constrained. It can't get out on most days, because there is inadequate transmission. So that could get very expensive. We could be adding another \$1 billion to the cost of doing business in New England, just by solving the problem with purely wind and solar. If you think about it, that gap, that 9 terawatt hour gap, could be 100% solved by Northern Pass, if that was counted as renewable energy. All 9 terawatt-hours would be covered by our 1,200 megawatt Northern Pass line.

So it, again, kind of gives you the sense of the benefits that you get with large Canadian Hydro, and you can see below there, pretty aggressive reductions in carbon, you can see kind of a decent drop, from 1990 out to 2010. A lot of that had to do with using more gas-fired power plants, being fired off of Marcellus and the new transmission that we built, because we didn't have to run a lot of those old plants in what we call uplift, just standing there on voltage control and frequency control.

So, even if a lot of the wind is built in Maine, you can't get it out, it's bottlenecked. And I'll talk more about that in another slide, just looking where is the renewable energy, where is the clean energy? Well, it's in two places. That's either northern New England or it's in Canada. And, of course, the requirements for that clean energy, the biggest requirements are in the southern part of the region. 80% to 85% of the load is in the southern part of New England, it's in the, essentially, Massachusetts, Connecticut, Rhode Island area.

There are really considerable constraints to get the energy down and also to get it down in a way that you can count on that is consistent, because again, any given day, it can become bottlenecked. And, of course, the two clean sources of energy are Canadian hydro and wind, and I would tell you that no one provides much more benefits than the other. It's not that we don't support wind energy, we do, and in solar, as well. But if you think about Canadian hydro, it's firm, it's fixed, it's there. You can do long-term contracts, it can be there in the coldest night of the winter and really there on the hottest day in the summer when Hydro-Quebec has perhaps about 20,000 megawatts of spare capacity.

So, we believe the region is starting to recognize that. We've seen legislation in Connecticut that would allow for 5% of their portfolio mandate of 20% renewable power to be filled by large Canadian hydro. They would have to go out through an RFP process to be there. And, of course, as we've said, NESCOE's letter talks about clean energy and the importance of having clean, not just wind, but having -- the inference there is with large Canadian Hydro.

This slide just kind of tees up some bottlenecks that we have to get renewable energy down into the region. And so, if you ask what's really actionable around NESCOE's letter, well, what would be actionable, as an example, would be to fix these bottlenecks in terms of getting these 2,000 to 3,000 megawatts of wind on an average day that can't leave the northern part of the region down into the marketplace.

So, what we are doing is, we are looking at ways that we could unlock that wind with transmission, whether it'd be our overland transmission, transmission that could go through the water down to the load centers. We have what we consider probably one of the best transmission planning organizations anywhere in the US. They've been tested and have done well over the course of the last 10 years.

So when we talk about opportunities, this is a future opportunity for us. And none of this investment is in our current investment plan, which I'll go through momentarily. And, of course, the big source of energy, a clean firm energy is in Canada. We have a great partner there, with Hydro-Quebec, our partner on obviously Northern Pass and a potential partner on other major projects that we're looking at that would get Canadian power down into the region.



So, I think the way to look at this is, every aspect of the solution space needs more electric transmission infrastructure build-out. And again, we've got the track record that knows how to do the planning, the siting, work well within the communities and get that done. And it'll take a lot more than the Northern Pass project, a \$1.4 billion, 1,200-megawatt Northern Pass project to get it done as we go forward. That's just the peaks. In fact, if you look at the NESCOE letter, they are talking about up to 3,600 megawatts of clean energy, so, probably going out early on with a large project, 1,200 megawatts. This project, our project, the Northern Pass Project, is exactly the kind of project that they envision as part of this process and the Northern Pass project indeed may be part of that solicitation process.

We are also going to need continued investment in base reliability. So, it's like you have aging infrastructure on the distribution side, you still have aging infrastructure, we still have transmission out there that's 80-years old. We've replaced a lot of it, but there is a lot more of it to do. As these oil and coal-fired power plants start to retire over the course of the next few years, load flows on the systems will change. Some parts of the system will be underutilized, some parts of the system will be over-utilized and there will be overloads that have to get solved through investment upgrades that we'll make.

And, of course, ISO New England, along with our own planners, is always finding areas that are NERC violations of low-voltage issues. That will have to be invested in. And finally, many of you I'm sure have read the article in the Wall Street Journal yesterday about security, physical security of both power stations in the US. That's a major concern for us, and it should be for every utility. It is for every utility. And, we are looking at other investments that need to be made there for physical security and cyber security, currently that are not inside of our capital pro forma for the next few years.

So if you look at where we are in our plan, this plan continues to be very strong, very robust, and we're looking at a \$4.3 billion plan, based off of 2013. That's \$600 million more than we talked to you about 16 months ago and about \$400 million here when we reset the plan at our meetings last year. So, it remains very, very strong. And if you think about it, we've been showing you a plan that's about \$3.7 billion to \$3.9 billion over a five-year plan, it's like a \$3.7 billion plan over a four-year timetable. And we placed \$641 million of capital. We actually built out \$641 million last year. That was actually over our budget and that took into consideration the fact that the Greater Springfield Reliability Project came in about \$48 million under budget.

So, what we've found is a number of smaller, what we call routine projects that could be pulled forward to fill that space. We put in service \$900 million in service. That's one of the highest years ever. A big part of that centered around the Greater Springfield Reliability Project and our SEMA Project in Southeast Massachusetts and on the Cape. What we've done is, we broke out some new headings here that you haven't seen on this slide before. One of them is a new project that will be a series of 115 kV projects in Stamford, Connecticut and Greenwich. As many of you know that area is booming. Just as Boston is booming in Massachusetts, the Stamford, Greenwich area is booming, a lot of development, mixed space, new residential dwellings, and so we see more need there to upgrade that grid. And we have our 10-year New Hampshire study and that's about \$326 million of investment over this period that ends in 2017. We're placing additional money in that project.

Last segment is the nearly \$1 billion of other projects. These are the smaller kinds of projects that are easier to sit e. They're kind of inside the right-of-way, inside the substation areas, don't need a lot of siting, equipment is readily available, and each year we've added nearly \$200 million for that and have worked that down.

You get to see in this waterfall really kind of what's changed. So, our \$4.3 billion transmission capital plan, if you move from right to left, you have the Northern Pass project. And that project was a little bit over \$1 billion, it's like \$1.5 billion, and with the addition of the new undergrounding that we have in the north, that's gone now to a little bit over \$1.4 billion. So, we added \$365 million to it.

The next segment is these other smaller projects. We work those down every year. We had more. So there is \$234 million more of these other projects, what we call Other. And our New Hampshire 10-year study, which looks at New Hampshire from the very top to the very bottom, we've added \$88 million and that's part of that approximately [\$326 million, \$327 million] for New Hampshire, which will be completed by the end of 2017. The Greenwich, Stamford adds \$73 million, and you can see the GSRP project coming in \$48 million under. And the last bar is about \$99 million associated with our Greater Boston projects. And what's happened there is, they have just switched out more of those out towards the 2017 timeframe. So, the projects that we had showed you, the nearly \$500 million of spending remains on track, it's just a timing issue.

So when you look at what all that means, it's a great plan. It's very robust. It's 11% compound average growth rate over the course of this period and that's higher than what we've showed you before, which was 10%. You can see a lot of the investments start to shift up towards NSTAR, up towards Massachusetts, towards New Hampshire and you'll see more investment there as we close out our projects in Connecticut.

I want to talk about Northern Pass, and we remain very bullish on Northern Pass and for all the reasons that we're talking about in terms of the turbulence in the region. Northern Pass has never looked so good, and could never provide more benefit than it would be after what we've seen this winter. It is 1,200 megawatts of firm power fixed. You can do long-term contracts with it. It's 5 million tons less of CO2. It's not gas, which is probably its most important aspect and it's exactly, again, the kind of project that the New England policymakers are looking for.

Some good things have happened. We've received, since we re-announced the route last year, on June 27, we received the ISO New England I.3.9. So that's the technical approval to tie that project into the grid. That's after four years of engineering, analysis, modeling study. To get a big project done like this, you're talking



four or five years of just planning on that aspect alone. So, we have that now. We know what the cost is to upgrade the AC system. That all fits inside of that \$1.4 billion, and we're making good headway from the standpoint of our DOE application that is well along the way. We expect to get an outcome later this year and after that file with the New Hampshire Siting Evaluation Committee for our construction permit and then do construction in 2016 and 2017.

We also got some good news, because we went out and we did a survey, an opinion survey in New Hampshire to the public and what that survey is showing is that there is a two-to-one support for the project. And that was done actually before this cold spell, and I can tell you, policymakers in New Hampshire right now are really starting to understand. Yes, the PSNH generation fleet operated extremely well, but it's old, it's 40 years old, it's 50 years old. It's not gas, but it's not going to last forever. It needs to get replaced and probably the best way to replace that is with a project that would go to Hydro-Quebec and bring clean fixed power down into the region. So, good progress there; the opinion about the project is starting to change in a very rapid way.

Just want to talk about the NEEWS project. We don't talk much about that. It's really been a tremendous success story laid out as a \$1.3 billion AC upgrade, both in Massachusetts and Connecticut. The first leg, the GSRP project, you know, we finished that project right on time, under budget by about \$48 million. But I think what that project does, over and over again it proves and validates that we can build good projects in densely populated areas, or part of that was in rural areas, and work really effectively with the community, with municipal leaders, with the state. So, if you talk to folks up there, they are really happy with how that came out from the standpoint of our flexibility and working in the communities.

The next project we have is the Interstate Reliability Project and we've been awaiting two things there. One, the Army Corps of Engineers wetlands permit and waiting for National Grid to get their okay on the Massachusetts side of the border from the Energy Facility Siting Board, or EFSB. That's the siting board in Massachusetts. And last week the EFSB unanimously voted to approve the project and directed their staff to write up the documents that would allow for construction of the project. That's great. And again, this project typifies why transmission is good for customers and it's good for the environment, because what ISO New England has said is when that project is complete in late 2015, then it is safe to retire the Brayton point plants. They can then retire. You will not need them for reliability. Doesn't solve the fuel diversity issue, but from reliability. So the air will be cleaner. It will be less costly to customers.

So, we actually expect to start some substation construction in the first quarter of this year in Connecticut on that project. That project has been fixed at \$218 million. All along, it has continued to be \$218 million, and it'll finish up at that cost.

The Greater Hartford project, Central Connecticut, that used to be that big Point A to Point B project. It's now a series of smaller projects. ISO New England will have their solutions no later than the first half of this year, and after that we'll go through whatever siting we need, if there is siting. And, we had scheduled those projects to be complete by the end of 2017 at \$300 million. We think that's still a good timeframe. Maybe we'll be able to pull some of those projects sooner rather than later, but good progress on that. We're very confident in the numbers. So, again, I think NEEWS has just typified what we can do in terms of getting transmission built inside complex areas.

This is a slide I put together because it really reinforces the value to the customer, the value to the economies of these states. So if you look back in the 2005 timeframe, we were spending about \$500 million a year on congestion costs. These are bottlenecks that we have, insufficient transmission, old power plants that have to run. You don't need their energy, but you need their voltage and frequency control, and we do a whole number of upgrades that you can see in the yellow, going back to Bethel to Norwalk, and the Boston underground project, and what you see is we've had about an 80% reduction in cost for the customers.

Behind all of that is that big deduction in carbon as well as well; you saw on the previous slide. So, again, good for customers, good for the economy, good for the environment, and obviously good for shareholders.

So beyond 2017, what does it look like? It continues to look strong. We've shown you \$4.3 billion, \$3.7 billion in the next four years. In 2018, we have about \$350 million to \$400 million of transmission CapEx teed up now. Much of that does not include the upgrades around physical security that I talked about, cyber security. It certainly doesn't include any of the connections to clean renewable energy in the North. So, it continues to look robust. Again, we're going to have to do more investments around the changes of load flows in the region, the increases around the importance of physical and cyber security.

And also, we've been through three bad years in terms of major storms and lots of transmission lines down. So we're working on plans that would harden our transmission system, that's everything as simple as just trimming more trees along the right-of-way, to putting stronger structures in. But that is not the inside of these cost estimates as well. And, of course, there is likely to be FERC Order 1000 kind of projects to unlock some of these bottlenecks.

Now transmission is clearly the growth story of NU. But, our gas business is a great story, a great growth story, as Tom indicated as well. When you think about it, if you've been heating your home or running your business, your bill is about 50% less if it was on oil, which is great. And if you look at the slide, you see the penetration rates in Connecticut, they're very low, about 32% penetration. This new Comprehensive Energy Strategy would like to get that up over 70% penetration. And so, when we look at the opportunities in gas over the next 10 years, we're talking about adding potentially another 150,000 customers to the gas business. I think we can add 150,000 gas customers easily. As Tom indicated, we have good regulation. The regulation in Connecticut allows us to get trackers to extend the mains out. It allows



customers to lower their cost to connect. It lowers their hurdle rate and so forth. And so for the next few years, we're going to be building up new mains to add new customers in Connecticut.

Last year was a great year in terms of new conversions and connections. We converted over 10,300 new customers. That's double the amount of gas customers that we've converted since 2009, and they're kind of fairly evenly split last year, little bit more in NSTAR than in Yankee Gas. So, the demand in both areas is very strong. In NSTAR, it has a lot of new construction, because of the economy here in the Greater Boston area. And Connecticut, it was a lot of conversions of existing units over into natural gas. So, we've seen real growth. Weather-normalized growth was 3% in 2013 and approximately 12% to 15% in 2013, including the weather impact. So, there's real growth in this business.

This just looks at our 10-year plan in terms of growing the gas business, these 150,000 customers. And you can see, over the next couple of years, in Yankee we're going to be putting mains on the ground. And that's a lot of work to put mains in the ground, just as it is if you were building a major transmission line, so we'll be putting new mains in the ground and we'll also be working off of our mains.

So, the way to look at it is, Yankee has about -- our main has about a 72% penetration rate, NSTAR Gas has about a 93% penetration rate. So, NSTAR Gas would need more new mains. And so, Yankee, it's essentially working the mains and putting in new mains to connect into load areas. We have all of those areas identified, kind of the anchored tenants of who would be the major gas customers, so that we can connect and then bring on the retail part of the business.

As I've said earlier, we've got the gas to do this. We've signed major long-term agreements. We have the Tennessee Pipeline, they have gone from pipeline -- we've got the gas. That's not an issue. It's gone through the regulatory process. It's been approved. So, there should be very little basis differential between gas in the region and outside of the region in places like Newark and Pennsylvania.

By 2018, we expect to be adding about 16,000 new customers a year, until we run out for those 150,000 customers. Now these gas companies have a potential of adding actually another 500,000 total customers. But we would probably need some more legislation to get those gas mains farther out, because that costs money to do that, but you could actually add another 500,000. You could actually add 700,000 customers with the right regulatory climate.

Just as we have growth opportunities in our electric transmission business that are not included in our numbers, we also have, we think, some opportunities here in the gas business. Again, I talked about getting some similar legislation in Massachusetts that we have in Connecticut. We're working with the other gas companies here in the region to go do that. That's making good progress. I think people see the -- policymakers see the value of that.

We also have -- we don't talk much about this, but we have a lot of LNG storage. We've got almost 4.5 Bcf of LNG storage in NU. There's about 1.2 billion of it in Connecticut in Waterbury, that's a brand new facility, about five years old. And then we've got over 3 Bcf in Massachusetts. That's all. That's equipment that's over 40 years old. On a peak day that provides about 40% of the demand here in NSTAR. That will have to be upgraded, there will be investment requirements there in the near future.

Compressed natural gas for fleets, we're seeing more interest in fleets, particularly those kinds of fleets that are in a localized area, whether it's haulage, rubbish haulage, or school buses and so forth. We are starting to see that develop; and compressed natural gas in newer pipelines. We're looking at some options where there's areas where probably it doesn't make sense to build major pipelines out now, but you can set up compressed natural gas facilities that can be refueled by a truck over the road. There's new technology there, it's being used in Maine and we're looking at that for potential to develop inside of our service area as well.

There's a lot of towns in Connecticut have no access to natural gas.

So, lots of opportunities. We believe it's a very strong strategy. And Jimmy is going to come up next and going to tell you about all of the numbers behind this particular strategy.

---

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

Thanks, Lee. And as today's clean-up figure, let me also be the fourth to thank you all for taking you time to be with us today. My comments that I'll cover today are outlined here in this slide in a discussion of our fourth quarter results and operating performance. I'll get into our expectations for 2014 and beyond, into the longer-term period, will take you out to 2017. I'll touch on current regulatory issues that I know are of interest to many of you, and I'm going to conclude with some highlights that I think really make Northeast Utilities a rare investment opportunity for you to consider and continue to invest in.



2013 marked the first full year of the new NU and it was really a great year, as these results that were released today indicate. EPS before merger-related costs increased 11% to \$2.53 of earnings compared to what was earned in 2012, \$2.28. That's an 11% growth in earnings, and my comments today are going to focus really on the quarter's results.

In the fourth quarter, as you can see in this slide, we had \$0.57 of earnings, up \$0.01 from the same period a year ago. The story is really a pretty straightforward for the quarter. Positive drivers were electric and gas distribution sales that -- on the electric side, we had sales increase of 2%, on the gas side 10%. Taken together, that sales growth provided us \$0.04 of earnings for the quarter. And even though heating degree days for the fourth quarter, actually quite normal, when you compare this year with last year, our heating degree days were up 15% from last year.

Another positive driver to the quarter, transmission revenues gave us \$0.01 of earnings. And there are some factors that offset that. The negative factors or the drags were O&M, which cost us \$0.02. That should have been no surprise. We've been telling you, guiding you, all year along that some of the maintenance work that we had planned for the first quarter was actually deferred due to the winter storms, and we did indicate that we'd catch up and we did. So, that cost us \$0.02 in the quarter. I'll point out that our O&M reductions for the year, for the calendar year, contributed \$0.05 to earnings, even though in the fourth quarter it was a \$0.02 drag. Finally, we had an expected higher effective tax rate in the fourth quarter of 2013 and that lowered our results by \$0.04 per share.

We consider total return to actually be the ultimate report card to shareholders. That combination of well-above-average dividend growth coupled with stock price appreciation has helped us really lead the way in the industry in terms of TSR. 2013 now ranks the fifth year in a row where our shareholders have realized double-digit return. Looking out at some of the longer-term cumulative returns, when you go out to 15 years, you can see that we have far outpaced the industry average, the S&P 500 and clearly puts us as a top quartile performer in terms of this metric.

Tom talked an awful lot about his passion for customer service and reliability. These are the key indicators of reliability in our business. You can see how each one is trending. 2013, as Tom mentioned in the slide, shows NU achieved its best year on record reliability, and the service level that's clearly now in the top quartile of the industry, certainly a much different place than just a few years ago.

It's important to note that we achieved these great metrics at the same time that we drove cost out of the business and continue to drive cost out of the business. It's really a model that's worked for us in the past and we expect it to be the model that we operate with in the future--improved service at the same time that we reduce costs.

Moving to this slide that I'm sure you all jumped to, which is the 2014 EPS guidance. It's a range of \$2.60 to \$2.75. The factors that are going to drive that earnings growth are higher distribution revenues. We anticipate sales growth certainly more modest on the electric side than on the gas side for the reasons that Lee talked about; increased lost base revenues due to our continued spending on energy efficiency. We are reimbursed for the revenues that we lose there. And distribution revenues are also going to be helped by the fact that we had a rate increase at PSNH in mid-2013 that we annualize it in 2014. There's a revenue uptick there as well.

We expect O&M to be down 4%. Post-merger, Tom talked about some of the opportunities that we've seen. We have recognized a lot of opportunities to standardize, to become more efficient and we're going to drive those efficiencies going forward. Also pension costs; we had an exceptionally strong investment year with our pension fund in 2013. In addition to that, with interest rates going up, discount rates rising, that too will reduce our liability and pension expense going forward.

Third leg of the stool in terms of growth is transmission which continues to be a solid and stable driver to our earnings growth and Lee covered many of the projects there that we have well underway that will fuel that growth. Obviously, when you invest like we do, there's a couple of drags to earnings. Depreciation, property taxes, interest expense, all really related to the infrastructure investment that we're making in our electric and gas business.

Looking at the longer-term earnings, we really are extremely pleased with where we are heading. Today we reaffirm the 6% to 9% earnings growth that we provided shortly after the merger. That earnings growth was for the first three years, 2013 to 2015. My message here is that we're not backing off of that commitment. That guidance continues to be valid and we will deliver those results. But I know you're interested in longer-term guidance, and we've heard some feedback that suggests narrowing the range would be a good idea as well.

So we've added two additional years here, 2016 and 2017 with top-tier earnings growth prospects. The five-year EPS growth rate off of 2012, our push here is 6% to 8%. I believe this level is among the best you are going to find in regulated utilities and probably double what the rest of our peers are expecting. So, one of the drivers to that long-term growth rate, first and foremost, is that 11% FERC transmission investment growth that Lee mentioned. We have 11% CAGR there. Also, as a result of pension expense and the other cost-cutting opportunities that we have identified, we're actually increasing the guidance in terms of what we can do from a cost reduction perspective. We're now saying that it's 3% to 4% a year that we think we can reduce O&M going forward.

We're looking at annual electric sales growth of flat to 0.5% after you recognize the energy efficiency programs that we have out there. And on the other gas side, 2% to 4% sales growth going forward, again, fueled by a lot of the accelerated gas work that's going on in Connecticut. Also, the fourth item is a modest distribution rate



relief and what's modest, or why modest? When you think about it, when you're driving costs out of the business every year, you're doing a very efficient job there. Obviously, you become more and more efficient, reducing the cost, we're a cost-based business. It certainly reduces any future rate requests that we may be pursuing. So, no surprise there. And let me also affirm, although it's not on the slide, that there are no equity issuances planned at all this in period through 2017.

Consistent with our guidance previously, we will grow the dividend consistent with our earnings growth, 6% to 8% annually, well above the average for US utilities, as you know. We've included in your packet today the press release dealing with the Board's approval of a dividend increase this year, a 6.8% increase. And you know it's evident that we have a pretty strong track record of a rising dividend and it's really a key part of NU value proposition to shareholders.

Our payout ratio is in the high 50s and I think our regulated peers probably average in the mid 60% payout. So we expect to remain at 60% or slightly below as a payout during this forecasted period. So we're reinvesting earnings. When our payout is relatively low, we're reinvesting earnings in the business each year, helps us support the growth, helps us support the fact that we don't need any additional equity issuances.

But here's a favorite slide that really shows one of the compelling reasons for the merger; really the diversity of our rate base and the notable growth of the transmission segment of our business. As you know, generally transmission earns the highest ROEs in this business and as of 2013, our transmission rate base was about 32% of our total rate base mix, and now by 2017 it will be 40% of our mix. So as transmission becomes a larger share of our asset base, NU's overall earnings should increase.

Of course, the NU transmission story is not so new anymore, but it is good to take a good look back and realize that over the last decade NU has proven to be the transmission, the premium transmission developer, I think, in the country with excellent core competencies, in terms of identifying needs, having projects sited, having them built and then maintained. Over the past decade, we have grown our transmission earnings by nearly 30% annually, and through 2017 we now expect that transmission will account for about half of our consolidated earnings growth.

Now for some specifics on O&M. Our guidance indicates a reduction of 3% to 4% annually. I think no one in the industry I would expect can match that commitment. One of the drivers that are going to help us get there, as I've mentioned, is pension expense, the combination of our excellent fund performance, along with rising discount rates. But really the opportunity that we have here has to do with a number of other O&M items and Tom alluded to the potential that's out there, really as a follow-up to our merger, the ability to standardize practices, to simplify, to implement best practices. We're doing this without sacrificing quality or reliability. What are some examples with the restructuring our IT organization to take advantage of both internal and external support for our technology solutions? We haven't done it yet, but we have a new suite of accounting HR, and outage management systems that will be put in place, all of which provides efficiencies for us.

We have facilities optimization on the come. Tom talked about the fact that our facilities designs currently are certainly sub-optimal. We're standardizing benefits across the Company, which we think are going to provide savings as well. And just work practices in general that can lead to increased employee productivity. So, all of these efficiencies will help drive our cost structure downward and improve our financial results.

As the bottom of the slide indicates, this economy is holding up well in our three states. Each of the three states is adding jobs. The housing market continues to be an important contributor in Massachusetts. New housing starts last year were up 35%. So, we're optimistic about where we're heading, both in terms of bringing efficiencies into the organization and what the service territories that we have offer in terms of growth.

Lee concluded with a discussion of our gas business. It is another contributing factor to our growth profile. The Comprehensive Energy Strategy that we have in Connecticut has led to a regulatory vehicle to allow us to expand our gas infrastructure to meet the demand that's out there from customers. In addition, we had just a major difference in terms of price points for oil and gas today. So, we're seeing more and more growth in Massachusetts as well. Lee mentioned the new customer connects in Massachusetts were significant. You have to keep in the mind that unlike gas generation, where there is a long-term transportation issue, we don't have that with our gas LDCs. We contract the transmission supply long-term, which really insulates our customers from those price spikes that the generators saw.

With this platform, we expect to increase gas segment earnings by 50% in the next five years, and we think they'll double over the next decade. So, a nice growth profile. You're adding double, while certainly adding a 150,000 customers as Lee proposed in his slide, surely will help contribute to that.

Turning to rate cases, as you know, a significant element of our merger approval was rate settlements in Massachusetts and Connecticut. We agreed to rate freezes, which provided the customers with great stability and also allowed us, as a management team, to stay focused on improving the business, and as you can see, we're well on our way to doing that. So, it's been nearly two years since we completed that merger. When we look ahead, the first of our rate cases will be Connecticut Light & Power. We're required to file that by June of this year for an effective date of December 1. Next would be Connecticut Light & Power. In 2015, also it's really prescribed by a legislative mandate that we would file that. Again, if you look at what we're doing from a cost perspective, the requests are likely to be modest.

In Massachusetts, our rate freezes end at the end of 2015. So, you can expect that the Massachusetts companies maybe in as well in the 2016, 2017 timeframe. So, during this period of time, we, as I mentioned, not only have been able to take cost out of the business, dramatically reduce costs, but as you're seeing from the performance metrics, we've improved service and reliability as well. And to me, those are pretty striking results that provide a nice backdrop for a discussion with the



regulators, they tend to be results that our regulators certainly welcome. So as I mentioned, while there will be rate proceedings, our plan, our forecast, our expectations are that the increases are modest.

There are a couple of other regulatory items of interest that we have on this slide. We await the decision on the FERC ROE complaint. It's unclear at this time when the decision will come down; we do expect it to be in the first half of the year. As a reminder, last August, the Administrative Law Judge issued the decision or recommendation, rather, I should say, of a 10.6% return for the historical period and then a 9.7% as the base ROE going forward. We're already fully reserved for that refund for the historic period, the \$25 million pretax reserve that we booked in the third quarter. If past precedent is any indication of how FERC rules here that we would expect to see an adjustment due to Treasuries movements. Treasuries have moved about 100 basis points from when that decision was made and obviously the FERC will take a look at that as a potential adjustment. So, we may see a 100 basis point to 120 basis point adjustment on that 9.7% ALJ recommendation.

On the storm cost proceedings, we've really made great progress. We had on the balance sheet a large number in terms of storm cost recovery. We first got the decisions in New Hampshire, the Public Service New Hampshire. So, rate recovery is fully in place there. In Massachusetts, we got an order in December, approving \$34 million of storm recovery for our 2011 storms. That recovery began January 1 of this year. And Monday, we received Connecticut Light & Power's draft order, on the spending there, and when you consider the provision that we had, a \$40 million write-off that we took as a result of the merger settlement, the order there is largely in line with our expectations. So, as a reminder there in Connecticut, the rate recovery will begin effective December 1 of this year and it runs for six years.

Regarding New Hampshire generation, you saw on the earlier slide, it's only about 5% to 6% of our portfolio mix right now. When you get out to 2017, it's down to about 3%. Regarding the scrubber project, we were very pleased to see the New Hampshire Commission staff position that they filed. The testimony that they filed in the case was that the PSNH was prudent in its management of the scrubber project and the costs that were incurred were prudent as well. It's unclear when these hearings will be completed, when the decision will be made here. I think it's likely to be later in the year, perhaps later this year. We hope it finishes by the end of 2014.

Also, in New Hampshire, (there's the inquiry on) the merits of divestiture. Lee pointed out the importance of the generating facilities that we have here during this difficult winter from a capacity perspective and the diversity that they provide. But, as they look at divestiture as an option, regardless of what policies the energy policymakers in New Hampshire pursue, we remain highly confident that the generation investments that were improved and made on behalf of New Hampshire customers will be fully recovered going forward.

Credit ratings, we remain very committed to credit quality. We continue to have among the highest ratings in our industry. Ratings and stable outlooks were recently affirmed by Standard & Poor's. Only Southern Company has a higher rating in this industry. And within each rating, there is a ranking and as you can see here, Northeast Utilities has the strongest credit rating within the A- category. I should note that just last Friday, Moody's upgraded the long-term ratings for Northeast Utilities' Connecticut Light & Power, Public Service New Hampshire, and WMECO.

Our strong financial condition and credit worthiness has always been a very important part -- a very important metric and will continue to be a priority for us going forward. I think we've been able to prove over the years that you can be a top performer in terms of financial performance at the same time that you are a top performer in terms of financial condition.

So, a recap slide and then we'll move to your questions. We are very excited about end-use future prospects and what we offer to investors. It's a very solid, long-term earnings growth story of 6% to 8%, nearly double the industry, and it's supported by the three key elements that you see here, unique elements really that Northeast Utilities has as opportunities; a sizable transmission, growth portfolio, sustained 3% to 4% O&M declines over a number of years, and a unique, robust gas expansion plan. And, obviously, that resulting earnings growth will contribute to dividend growth that's actually twice the industry average.

We're going to accomplish these financial objectives, always keeping an eye on improving customer service, improving reliability. And finally, as investors, maybe the top decision criteria that you have is, can they execute? And, this is a very deep management team with a very long track record of delivering, and I would suggest that that becomes a major criteria in your decision-making.

So with that I'd be happy to open it up -- I'll ask Tom and Lee and Jeff to join us. I think Jeff will lead us through the Q&A. Thank you.

## QUESTION AND ANSWER

---

**Jeff Kotkin - Northeast Utilities - VP, IR**



Okay, we'll take questions now. What I'm going to do is repeat, really summarize the question so that those who are on the webcast know what the question is that we'll be answering. So, I'll start with Julien.

Okay. So the question revolves around Northern Pass. If you look in the slide you could see that we're expecting to build it in 2015, 2016, and 2017, you could see the capex figures. If that pushes out a bit, what does that do to the 6% to 8% growth rate?

---

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

Sure. Julien, the 6% to 8% growth rate is obviously a fairly narrow range. The capex is there by year, so you can kind of model out what the impacts might be. But if the spending was pushed out, I would just say without adding more precision in giving you actual numbers by year that we would significantly outperform the rest of the group in terms of earnings growth over that time period.

---

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

I would ascribe to that, too, that there are additional projects. I went to that category, other reliability projects from \$150 million to \$200 million. There will be other projects as well by that timeframe. Plus, we'll be ready to talk more about infrastructure protection, cyber security, and so forth, which would be ready to roll into that era, if Northern Pass is extended out.

---

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

But we do not expect it to be extended out. Our base forecast is still as we shared it with you.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

Okay. Greg, you're referencing transmission specifically? Okay. So the question is when we talk about additional projects, are those projects that would raise the growth rate during the forecast period through 2017 or would they be beyond that or a combination thereof?

---

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

I think what we've seen in the market, for sure over the last couple of months, has suggested that there's even more and more need, even more and more support for Northern Pass. Northern Pass is a key part of our plan. Given the recent energy issues, given some of the other opportunities that Lee mentioned, I think the point is that there may be more opportunities later in our forecast horizon or certainly beyond that we haven't sort of identified and included in the plan. As you know, we add projects to our capital plan when we have a high degree of confidence that they're going to be executed.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

Okay. Question involves retaining O&M reductions in the past. We've said that of the savings each year 70% basically helps the bottom line, 30% gets tracked back and refunded essentially to customers.

---

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



Yeah, I would say that that relationship continues to be about the same. That 70% is non-tracked, and 30% of our O&M spending is tracked through various tracking mechanisms, whether it's a pension mechanism in Massachusetts or a transmission rate making, those sorts of things. So the relationship you can assume is the same for the forecast horizon.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

Okay. So the question is, the starting point for growth rates, either the three or the five year from the \$2.28 that we earned in 2012, do we expect that the growth going forward is more or less a certain number each year or could it be higher, or is there a lumpiness? So, could it be below the range one year and above the range another year?

---

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

Sure. Yeah. Andrew, I think we signaled early on that we wanted to use 2012 as the anchor year, the base year because there is a little bit of lumpiness reflected in the fact that we had an 11% growth year the first year. So, there's a little bit of lumpiness in the forecast of that CAGR rate that we expect is within that range long-term.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

The question is when would we find out about the new projects, just like as Lee mentioned today that the Southwest Connecticut project has now expanded, when would you find out about some of these additional transmission projects. You're talking about transmission projects? When do they come out of the RFP and end up in the forecast?

---

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

Yeah, I would just say in regards to this New England State's Committee on electricity that that process for -- these folks are working with ISO New England to pull together the framework of the RFP. They're pulling it together and I would expect that we're going to hear something in the second quarter about what that framework looks like. I would just say that I think they're on a fast track. I think what's happened over the course of this winter is reinforced that. They understand that it takes time to build pipelines and transmission lines.

So, I think we're going to have a good sense of that this year and we'll be able to advise you on that. And then there are these other projects that we talked about. They're just -- that's an output that's continuous running the model, so every time the system changes, if a major power plant retires, whether it's Vermont Yankee, which will go at the end of the year, or there is Brayton Point now plans on going. We re-run the models and load flows and so forth. We find issues that have to be dealt with. So that's like an ongoing process. This year, we didn't make any announcements, but we have returned them \$34 million to the five year plan from those other smaller projects. So, that happens in real time. But the big news, I think, would be in and around what takes place in this RFP process through NESCOE and that should be -- we should have good sense of that in the first half of this year.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

The question is about when Cape Wind will come online and any CapEx related to it on our part?



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

Is that me? I guess I have to do this one. I think it's just premature. I mean, obviously Cape Wind is still -- they're trying to work through their financing issues. As you know, it's undergoing some really major legal challenges to the process that put Cape Wind in place. So, I think it's premature for us to say when that would be. But, in any case, the end-cost that it would take to connect Cape Wind to the system will be an interconnection cost. So, it won't be anything that will in likelihood fall into our CapEx program, because that will have to be paid for by Cape Wind.

Now once it's connected and then we model the system, assuming that they do go into service, that indeed could change how we look at the system and it could require upgrades. But quite frankly, that's unforeseeable at this point in time.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

Two questions. One is on the timing of resolving FERC ROE complaint in New England, and then the other question was on -- all right, whether on their FERC 1000 transmission projects would be competitively bid?

---

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

In terms of the FERC ROE, the complaint went in, in 2011. I think what we've heard is public statements from FERC commissioners and policymakers there. I think they have it teed up as something that should reach closure first half of this year. The whole process with the Administrative Law Judge was completed in April. So I think just based upon precedent for issues like this, we would anticipate a decision in the first half of this year.

In regards to the FERC Order 1000, of course, the rules around FERC Order 1000 have not been promulgated at this point in time. We expect that they have probably sometime around mid-year. So, all of the projects that go through the approval process or approved by ISO—that won't be part of FERC Order 1000. The smaller projects that I talked about are basically system upgrades, which won't be included. These are the other smaller projects. What would be competitively bid would be these major projects associated with this RFP, this NESCOE RFP. They, in all likelihood, will be competitively bid.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

So the question is about the upcoming Connecticut rate filing this spring, which will get decided towards the end of the year.

---

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

Sure. I think the ROE testimony will be filed. Obviously, we've got rising interest rates and expectations in terms of future rates that they are going to climb. We would be hopeful that we'd be able to settle the case, if possible, especially given the fact that the request is anticipated to be modest, but at this stage, I'm not sure what the allowed ROE would be and litigated outcome at the end of this year, but we're optimistic that we'll be able to have a resolution that's reasonable for shareholders going forward.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

Question is as to whether they've been recent ROEs in terms of like some of the UI cases in Connecticut?

---

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



They have -- I don't have the exact ROE, but I think it was a 9.2% range was probably the last case.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

The question is change in the longer-term electric load growth forecast moving from 0.5% to 1% to now 0% to 0.5% and why did that happen? And then the other question has to do with, it's the -- lower O&M out through 2017 now, is that a reaction to the lower electric load growth forecast?

---

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

Sure. I'll answer the second part first. The O&M profile that we're targeting is totally related to the opportunity that we see there. So, we see more opportunity to reduce costs, again, helped by the pension expense forecast. And on the sales side, well I think the electric sales growth, the sustainability of gas is actually up a bit. So, it's just our best guess today. I would remind you that 0% to 0.5% is relatively flat obviously, but it's largely driven by the fact that we will spend \$500 million a year in terms of energy efficiency, and while most of that money is being spent, we do have an opportunity to reimburse, we are being reimbursed in terms of lost base revenue. So, I don't think you should assume that the sales growth on the electric side is indicative of revenue growth.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

Question about the RFP for electric transmission and its relationship to a project like Northern Pass.

---

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

I think your first part of your question is, would Northern Pass be part of that? Am I correct? Yes, it certainly could. I mean, obviously we have a partner with us, Hydro-Quebec. To the extent that you have other large transmission lines built that are connected to renewable energy that's a competitive issue within. So we then have to look at that and see if this indeed is the right kind of project, which we believe it is, and if it has all the right characteristics to be main part of that RFP process. But we have to understand what the framework of the RFP process is going to be first. We don't know if it's for energy, a combination of energy and transmission, all transmission, so we have to see how that plays out.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

The question has to do with the ongoing regulated generation in New Hampshire and when that might get resolved.

---

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

I do think it's a 2014 issue. I think if you look at the history here, New Hampshire like the rest of the -- most of the other states in New England was well on its path of divesting generation and then the California energy crisis came along and so the energy policymakers up there basically ordered or mandated by legislation that the generation be retained by PSNH. So, they began a process, as you know, last year to take a look at divestiture again and lo and behold another energy crisis has hit us this winter. So, it's not clear to me what direction the state takes on this issue, but again, we're highly confident that the investments that were made would be fully recovered based upon the precedent in New Hampshire.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

The question is, are there any headwinds that we know beyond 2015 that would slow down the growth rate?

---

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

No. I would say there is nothing sort of specific. Obviously, each year has its own forecast, but there is no sort of major headwind in 2016 that we see as a concern. The 6% to 9%, obviously was helped by the 2013 earnings growth of 11%.

---

**Jeff Kotkin** - *Northeast Utilities - VP, IR*

You're talking about like a lost base revenue tracker and so forth, whether anything is going in NSTAR Electric as you get past 2015?

---

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

Any trackers, is that --

---

**Jeff Kotkin** - *Northeast Utilities - VP, IR*

Yeah. I think Kevin is referring is there any revenue that you get before 2016 that you don't get in 2016 as a result of any tracking mechanisms or --

---

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

We have a safety and reliability program that's about \$15 million a year that I think ends in 2015 and if it's not per our rate settlement, if it's extended, we continue to fund the project. If it's not extended, we would look to reduce our costs accordingly.

---

**Jeff Kotkin** - *Northeast Utilities - VP, IR*

The question has to do with, I guess, the initiatives to try and get more gas pipelines built into New England beyond what's already been contracted for and what's the possibility that really could somehow be paid for by electric customers?

---

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

I think from a technical standpoint that certainly can be done. I don't think there's any issue there. I think, you know, policymakers want to see at least a Bcf of new gas come into the region. So, we've already contracted through 400,000 Mmcf. They want to see a Bcf, so they're looking at getting another 600,000 Mmcf. The real question is, is that amount. If you talk to ISO New England, ISO New England tells you, you need two Bcf, it's not enough.

But we can get the gas in there, there's sufficient right-of-ways we can get the gas. It's a cost, and currently they want to put that cost on the regional network system, so to spread that across all of the customers in the region. They have to work that out amongst obviously the states that make up NESCOE. They have to agree to what the cost sharing of that is going to be. As you know, that in and of itself could take some time in terms of getting that done.

---

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

Sure, I'll just add that I think it's highly unusual to have all six governors sign on to an initiative like this and then publicly declare in the press release and beyond. I think there is genuine concerns about reliability, about retirements in the region that are actually taking place, and the fact that it needs to be a catalyst to sort of move the dial, in terms of their carbon reduction agenda and I do think that these transmission projects solve a lot of those concerns that each of those six Governors has.



---

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

I wouldn't speculate personally. This is ISO New England's estimate of plants that would retire and they put this estimate together based upon what capacity markets were pricing out on, what these units dispatch in terms of their outputs per year in the energy market. You know, there are so many variables I could speculate, because for instance, if someone can logically say, well look, these old plants will now get \$7 a kilowatt month. That's a lot of revenue. They're doubling their revenue. Why wouldn't they stick around? But at the same time, ISO is changing their performance rules and if you stick around and you don't show up, it's a factor of 5,000 in terms of the penalty. Whatever you don't produce multiplied times 5,000. And I'll give you an example you know.

Most of these units performed extremely well in January. But what happened was is they got a warm-up in December, because December started kind of warm, got gradually cooler, and they tried to come on, they couldn't come on. These older plants had to come on and get off. So, they got to tune up, okay. If we had walked into January with a mild December, we would have had a very different outcome. Many of these plants would not have run, we would have had real risks to reliability. ISO knows this, and so by having higher capacity markets, but at the same time, a very either rewarding or punishing performance market, that should drive the older plants offline and allow for new construction to commence. It's not getting come in at \$7, it will be something higher to \$7, be the closer to the \$15. But, the whole goal here is to have units that are getting capacity payments to be able to perform when they need to. Greg?

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

Okay, the question is that we have a slide that shows the 16,000 new heating customers a year. How much of that is contingent upon the change in new rules in Massachusetts, perhaps to move to Connecticut?

---

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

It's minimal. It's minimal. You know, you're probably talking, Massachusetts 2,000 to 3,000 customers a year that would be picked up by that growth. So it's minimal change. So, should we not get favorable legislation and regulation for Massachusetts, that 150,000 stays pretty close, maybe it ends up as 140,000, as an example.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

The follow-up was under what framework could we, what would need to happen to really boost that 150,000 quite a bit higher, for that new gas heating customers?

---

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

I mean, the big nut here obviously is you got to lay new pipe in the ground. There is a cost needed for construction that we have to charge new customers, and this is kind of a unique business. This is not like the electric side of the business where everybody socializes the line that runs 100 miles to connect two customers. You want a line here that goes 30 miles to connect two customers, so they've got to pay a cost needed for construction, this makes the cost prohibitive. So to the extent that there is legislation that can pull down the cost to customers that allows them to connect, yes, you're going to end up with some socialization. You can connect more customers.

---

**Jeff Kotkin - Northeast Utilities - VP, IR**

The question is what the future is for oil-generating plants in New England?



---

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

I think the future for oil would be as a dual resource. In other words, not to be dispatched economically 99% of the time, but is to be a dual resource, because one of the changes that ISO is looking to make is that the units would have to show up. Obviously any new unit is going to show up primarily on gas, but have the dual resource, and that dual resource could be either firm gas on the pipeline, it could be oil or it could be a small LNG facility. But they're going to have to have either firm gas or dual fuel, otherwise you get into the situation with the performance penalty is so great, you can't stay in the market, the risk is too high.

---

**Jeff Kotkin** - *Northeast Utilities - VP, IR*

Question is what are the benefits to the bottom line of the pension savings or lower discount rates/good returns that we've had?

---

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

Ballpark, I would say that the O&M savings that we're experiencing in 2014 were less than half of the O&M delta is probably driven by pension expense.

---

**Jeff Kotkin** - *Northeast Utilities - VP, IR*

Question is what about the forecast of pension contributions starting this year?

---

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

Sure. I think in 2013 we put in about \$275 million, \$280 million. So, the good news is, we've benefited from the market run-up. Significantly less cash is expected in 2014. I think it's about \$75 million or \$80 million, but I think long-term, you could expect numbers approaching \$200 million a year for cash funding against the plan.

---

**Jeff Kotkin** - *Northeast Utilities - VP, IR*

Great. Anything else? Alright folks, we really want to thank you for coming up here, especially the folks who had to travel from other states and brave the snow and wind and so forth. So, lunch is over here. We're going to be around with you. So, again, thank you for joining us and we really appreciate your support and your investment.



**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2014 Thomson Reuters. All Rights Reserved.

