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EDITED TRANSCRIPT

ES.N - Q2 2022 Eversource Energy Earnings Call

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OVERVIEW:

Co. reported 2Q22 GAAP EPS of \$0.84. Expects 2022 non-GAAP EPS, excluding acquisition and transition costs, to be \$4.00-4.17.

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Richard Sutherland JPMorgan

PRESENTATION

Operator

Good morning. Thank you for attending today's Eversource Energy Q2 2022 Earnings Conference Call. My name is Alexis, and I will be your moderator for today's call. (Operator Instructions)

I would now like to pass the conference over to our host, Jeff Kotkin with Eversource. You may proceed.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Great. Thank you very much, Alexis. Good morning, and thank you for joining us. I'm Jeff Kotkin, Eversource Energy's Vice President for Investor Relations.

During this call, we'll be referencing slides that we posted yesterday on our website. And as you can see on Slide 1, some of the statements made during this investor call may be forward-looking as defined within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and are subject to risk and uncertainty which may cause the actual results to differ materially from forecasts and projections. These factors are set forth in the news release issued yesterday afternoon. Additional information about the various factors that may cause actual results to differ can be found in our annual report on Form 10-K for the year ended December 31, 2021, and our Form 10-Q for the 3 months ended March 31, 2022.

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

Speaking today will be Joe Nolan, our President and Chief Executive Officer; and John Moreira, our Executive Vice President and CFO. Now I will turn to Slide 2 and turn over the call to Joe.

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

Thank you, Jeff, and thank you, everyone, for joining us on this call this morning. I hope that our investors on this call are having a good summer and have plans for some time off after earnings season concludes in another couple of weeks.

We are enjoying a glorious summer so far in New England with many sunny days along our shoreline and our mountains. If you haven't made a trek here this summer, we urge you to do so and support our hundreds of thousands of businesses.

Over the past few weeks, with the longest sustained heat wave in Eastern Massachusetts in about a decade, our electric system has operated very well, and it has all year. Through June, the average number of months between power interruptions continues to place our reliability in the top decile of the electric industry, and our relatively short average duration of outages continues to place us in the top quartile. This is strong evidence that our investments in infrastructure to enhance reliability have been a significant benefit to our customers.

Response time to natural gas service calls, a key safety and performance metric for our gas distribution business, continues to be excellent.

Turning to Slide 3. About 2 weeks ago, we posted our 2021 Sustainability Report and linked it to our Diversity, Equity and Inclusion Report. Our DEI report is new this year. Over the past year, a number of our investors requested that we provide additional transparency about our diversity, including providing more detail about statistics around hiring, promotion and retention rates, areas of our organization that are a high focus for us. We decided that the best way to provide investors and others with this information is to create a separate report that highlights the significant and increasing diversity among our employees, our management and our Board. We welcome your feedback on both the DEI and our Sustainability Reports.

The new Sustainability Report highlights our successful accomplishments last year in a variety of areas. We continue to enhance the report and, again, have third-party validation of our Scope 1 and Scope 2 emissions. The report focuses, to a major extent, on Eversource's very significant efforts to support our state's goals to reduce greenhouse gas emissions by 80% to 85% by 2050.

From a clean energy perspective, Slide 4 captures 3 of our initiatives in this area. Our battery storage project in Provincetown on Cape Cod was commissioned in the second quarter of 2022 and almost immediately showed its value when it helped avert an outage for approximately 5,000 NSTAR Electric customers.

We have filed our first application under the most recent legislative authorization for regulated company solar generation investment. We are seeking approval of 3 different projects, all of which would combine solar with battery storage. They would be located in Brockton, Lawrence and Yarmouth in Eastern Massachusetts. And altogether, it's expected to cost an estimated \$31 million to build.

We continue to progress on our unique geothermal network project that Massachusetts regulators approved in the most recent NSTAR gas rate review. The project will be located in Framingham, Massachusetts and will connect 140 apartments, homes and businesses to a geothermal system that will provide both heating and cooling. Customer receptivity to the project has been very strong, with nearly 85% of those along the route signing up for the pilot. We continue to expect the project to be operational in 2023.

Turning to offshore wind and Slide 5. I want to update you on the progress we have made on our strategic review of our offshore wind investments. We've been working closely with Ørsted on developing the marketing materials that will be disseminated to potential buyers for our 50% interest in our joint venture. We continue to target an outcome for this review by the end of this year. Thus far, we have had very high level of interest and expect a robust sales process.

We recently kicked off our buyer outreach and have had preliminary discussions with potential buyers and expect that process to continue. Key materials have been developed, including a teaser, nondisclosure agreement, confidentiality memorandum, independent engineering document and other materials.

In the meantime, we continue to make steady progress on our three projects. South Fork is the first project to enter construction. We are virtually complete with the sections beneath the public roads in East Hampton, New York. We are now progressing rapidly on the onshore sections in the railroad right of way on the substation where the 130-megawatt project will connect. As a reminder, the offshore portions of South Fork will be built in 2023. We continue to expect the two larger projects, Revolution Wind and Sunrise Wind, to be fully permitted in 2023 and to be in service in 2025.

On July 8, the Rhode Island Energy Facilities Siting Board issued to Revolution Wind a decision and final order approving the project and granting a license to construct and operate. As a reminder, Revolution will supply a total of 704 megawatts to Rhode Island and Connecticut and tie into the New England grid in North Kingston, Rhode Island.

As you can see on Slide 6, we've also made progress on the procurement side with 82% of the three project costs locked in, up from 80% in May.

The demand for offshore wind generation continues to grow in our region. Rhode Island just recently enacted legislation that requires a solicitation by October of this year for an additional 600 to 1,000 megawatts of offshore wind. Another much larger offshore wind RFP for up to approximately 4,600 megawatts was issued this week by New York. Including projects already awarded, we are now looking at approximately 18,000 megawatts of offshore wind authorizations from New York and the states of Southern New England.

We are confident that this level of procurement will attract wide interest in our wind investment since we continue to believe that the ocean tracts that we share with Ørsted are about the most attractive in North America due to the high average wind speeds, moderate depths, proximity to load and an incredibly deep public policy support.

New legislation that passed in Massachusetts House and Senate last week should also further support a robust sales process. As you can see on Slide 7, there were several elements in that bill that should help solidify Massachusetts' effort to stay in the forefront of offshore wind development in the United States. They included an affirmation of the state's commitment to contract for 5,600 megawatts of offshore wind by mid-2027, modification of the bidding process to encourage more competition among developers and incentives to increase the manufacturing and assembly of offshore wind components in Massachusetts.

There were also provisions to enhance the sale and leasing of electric vehicles in the state, build more energy storage and develop grid modernization plans that would support electrification as a key path to decarbonization. There is also a pilot program that would allow up to ten communities in the state to restrict fossil fuel installation in new buildings. Health care and research facilities, which have proliferated across Massachusetts, would be exempt from the pilot, as would certain communities with housing affordability challenges.

Thanks again for your time. I will now turn over the call to John Moreira.

John M. Moreira - Eversource Energy - Treasurer & CFO

Thank you, Joe, and good morning, everyone. This morning, I will review our results for the second quarter of 2022, discuss recent regulatory developments and review our 2022 financing activity.

I will start with Slide 8. Our GAAP earnings were \$0.84 per share in the second quarter of 2022 compared with earnings of \$0.77 in the second quarter of 2021. Second quarter results for both years include \$0.02 per share of an after-tax cost associated with acquisitions, primarily related to the assets acquired from Columbia Gas of Massachusetts. Excluding those costs, we earned \$0.86 per share in the second quarter of 2022 compared with earnings of \$0.79 per share in the second quarter of 2021.

For the first half of 2022, we earned \$2.13 per share on a GAAP basis compared with earnings of \$1.83 per share in the first half of 2021. Excluding charges related to the acquisition and a Connecticut storm penalty last year, we earned \$2.16 per share for the first half of [2022] (corrected by company after the call) compared with earnings of \$1.94 per share in the first half of 2021.

Looking at some additional details on the second quarter earnings results by segment, starting with our electric transmission segment, which earned \$0.44 per share in the second quarter of 2022 compared with \$0.40 per share in the second quarter of '21. Improved results were driven by a higher level of investment in our transmission facilities.

Our electric distribution segment earned \$0.37 per share in the second quarter of 2022 compared with earnings of \$0.35 per share in the quarter of 2021. Improved results here were driven largely by higher revenues, lower pension costs and storm restoration costs, partially offset by higher costs related to property taxes, depreciation and other employee-related expenses.

Our natural gas distribution segment earnings were \$0.02 per share in the second quarter of 2022 compared with earnings of \$0.01 in the second quarter of '21. Improved results were largely due to higher revenues and lower pension expense, partially offset by higher operating and maintenance costs, property taxes, interest expense and depreciation.

Our water distribution segment earned \$0.03 per share in the second quarter of 2022, the same level as we earned in the second quarter of '21. Results for our Eversource parent and other companies improved by \$1 million in the second quarter of 2022 compared with the second quarter of 2021. Excluding the acquisition and transition costs I mentioned earlier, the results include after-tax gains on clean energy investments which increased by \$0.02 per share from last year's levels and were largely offset by higher interest costs on long-term and short-term debt.

Now that we have the first half of 2022 behind us from an earnings perspective, and have a bit more line of sight on the second quarter of 2022, we have narrowed our non-GAAP earnings guidance for the full year to \$4.04 to \$4.14 per share from our previous range of \$4.00 to \$4.17 per share.

Before moving on, I'm pleased to announce that, as of the end of June, we have fully transitioned the remainder of Eversource Gas of Massachusetts business systems off of the legacy NiSource system and onto the Eversource platform. Overall, we cannot be more proud of the conversion process.

It has gone extremely well since we closed the transaction in the fourth quarter of [2020] (corrected by company after the call). We have converted approximately 300 business processes over to Eversource, including the most recent move on to a new customer information system.

Feedback from both EGMA customers and employees have been very positive, and our operating and financial metrics have consistently met or exceeded our expectations. As a result, transition-related costs for this transaction will be minimal next quarter.

We are very appreciative of the great support we have received from the NiSource team during this transition period.

Turning to longer-term earnings. As you saw in our news release, and you can see on Slide 9, we are reaffirming our long-term EPS growth rate in the upper half of 5% to 7% range.

On Slide 10, we also reaffirm our \$18 billion five-year regulated capital program that we discussed during our February earnings call, including our \$3.9 billion regulated capital investment projected for this year. As Joe mentioned, we expect that by 2026, the last year of our current five-year forecast, our incremental investments required to offset the loss of the offshore wind earnings contributions that would have been in place, we estimate that, that will require approximately \$3 billion of investments. More to come on this front soon.

In both February and in May, we noted a couple of additional areas where we expect the need for incremental investment over our current five-year forecast period to enhance reliability, customer experience and efficiently connect clean energy resources.

Turning to Slide 11. We have provided a status update on AMI for both NSTAR Electric and CL&P. At this time, regulators in both Connecticut and Massachusetts are actively working through dockets, with decisions expected later this year.

Briefing has been completed in Massachusetts, and we expect a decision towards the end of the year. In Connecticut, PURA held hearings earlier this month to address further questions that the commission posed about an AMI rollout. We also expect PURA's AMI review to be completed by the end of the year.

Separately, as we mentioned on our first quarter earnings call, NSTAR Electric filed an application with FERC in March on an innovative recovery structure to help promote offshore wind development off Massachusetts. The application involved Park City Wind, which is an 800-megawatt Avangrid project that was selected a couple of years ago as the winner of Connecticut's most recent offshore wind RFP.

Park City will connect into the 345 kV system, where we are already planning some upgrades to meet rising electric load requirements.

By working on the two projects together, we were able to reduce costs for customers. In total, the incremental upgrades would be about \$200 million, of which, about \$150 million of it will be collected from Park City with FERC-based returns. FERC approved our application at its June meeting. We expect there will be other opportunities to emulate this type of offshore wind transmission interconnection agreement going forward.

ISO New England is already reviewing another project that expects to tie into the New England grid through Cape Cod. We have discussed previously that, including Park City, there are probably about \$500 million of regulated transmission investment needs on Cape Cod to efficiently connect offshore wind that is reflected -- that are not reflected in our current \$18 billion capital forecast. We expect other significant investment needs to arise in the near future in both electric distribution and transmission segments since our states view renewable power as a critical means of reducing greenhouse gas emissions related to space heating and transportation.

On the regulatory side, we have one general rate review well underway and another one about to be filed. A summary of those cases is shown on Slide 12. Hearings in the NSTAR Electric rate review concluded just last week, and we will be entering the briefing phase soon with a decision expected December 1 of this year and with rates effective January 1, 2023.

We feel very good about the strength of our case as well as our proposals to enable the Commonwealth's clean energy goals. Briefing will take place through the month of September.

On July 1, Aquarion Water of Connecticut filed a letter of intent for its rate review in about 10 years. Key elements of the three-year plan are shown on the slide. We expect to file the actual application in August. Aquarion Connecticut's regulatory ROE was about 7.8% during the 12 months ended March 31, 2022, and the company's infrastructure investments have significantly increased over the past several years to enable water service reliability for its customers.

Turning to recent financings. We issued \$1.5 billion of two-year and five-year parent debt in late June. Proceeds were used to reduce short-term debt. The relatively short average maturity of these senior notes is due to our anticipation of a successful sale of our offshore wind interest.

In terms of the equity issuances. As you can see on Slide 13, we launched our \$1.2 billion at-the-market program in the second quarter of this year, and to date, have issued nearly 1.4 million shares at a weighted average price of \$91.98.

Through July, we also have issued approximately 640,000 treasury shares this year to fund our dividend reinvestment and employee plans. We have received a number of inquiries from investors regarding our pension obligation. Let me start with an overview of our plan's performance last year.

Our retirement plans earned approximately \$1.25 billion, which amounts to a 24% return on plan investments, and we have contributed about \$180 million into the plans last year. This resulted in the funded status of our pension plans increasing over the course of 2021 from about 79% to nearly 100%.

The impact of pension expense on our earnings is mitigated by the fact that we have adopted a smoothing of actuarial gains and losses over the average participant future years of service. It's further mitigated by our pension trackers in place at our three Massachusetts electric and gas distribution companies, and for our transmission segment.

Additionally, much of our pension expense is capitalized into our capital projects and doesn't affect our earnings. And lastly, our qualified pension plan has been closed for new participants for well over a decade.

Less than half of our pension expense actually affects earnings. The expense is lower this year due in large part to the strong returns we realized last year and a slightly higher discount rate. At this time, it is unclear whether pension expense will be a positive or a negative factor for our 2023 earnings. While it is unlikely that in 2022, we will -- excuse me, in 2023, we will experience the same returns as we realized in 2021, the discount rate that we will use for 2023 is expected to be significantly higher than the rate we are using currently, and that could help lower pension expense next year. As a reminder, our expected long-term rate of return assumed in our pension investments is 8.25%.

Thank you very much for joining us this morning. And now I will turn the call back over to Jeff.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Great. Thank you, John. And I'm going to turn the call back to Alexis to remind you how to enter your questions. Alexis?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We may now begin.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

All right. Thank you, Alexis. Our first question this morning is from Shar from Guggenheim.

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

Joe, I appreciate sort of the color on the process, but can we maybe dig a little deeper into where we are right now? Did you get any inbounds since the first quarter update?

And I know it's early, but what's kind of your preferred structure? So, if the leases and projects do get split up, would you kind of be willing to do a COD and take the construction risk for Sunrise and Revolution? So, like a build on transfer? Or when you're thinking about an exit, you really want to exit and not take any development risk at that point?

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

So a couple of pieces of your question. First off, we've had twelve additional inbounds, folks that are interested in the properties. I will tell you that initial discussions, folks are not afraid of construction risk. There's no concern of that. There's a very healthy, excited atmosphere for wind, as you might imagine. And since the start of this year, it's been nothing but positive things for wind. We started with the New York Bight leases, then the recent Rhode Island RFP news, the New York RFP news and obviously now this Washington deal, which is very exciting.

So, we feel really good about it. We don't think we're going to have to do anything different in this -- in the sale process. It's been very, very well received.

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

Got it. Perfect. And then, Joe, just lastly, there's been some healthy amount of debating around how you sort of think about inorganic opportunities. Can you maybe just provide some thoughts around how you think about diversifying outside of New England, whether there is really any interest around acquiring electric operations? Or are your strategic priorities outside of your footprint really around the water business?

Joseph R. Nolan - *Eversource Energy - President, CEO & Trustee*

Yes. Great. So, first of all, just so you understand, we are laser-focused on this wind, the wind piece right now. That's what we're focused on. That's where we're spending our time. The water business, we love the water business. It's extremely fragmented. I think you know that. When we were making acquisitions there, they're in the 10,000-customer range, 5,000 to 10,000. That's what we feel very, very good about. But there are really virtually no independent publicly traded water companies in New England that really are left. So, the focus has been on municipally owned water systems.

Aquarion has a phenomenal reputation in the water space. We think we have a great platform for us to grow. And also, some of these municipal systems in the region are facing some capital constraints as they have to look at upgrading their systems.

I just want to make it very clear that we have no interest in expanding our natural gas footprint. That is not on our radar at all.

And with regard to -- on the electric side, while there are potential customer benefits from a larger footprint, it would be very difficult for an acquisition to compete with investments in our own systems in Massachusetts, Connecticut, New Hampshire. There's no question that increased electrification will necessitate significantly increased investment in our distribution and transmission systems and our substations to handle increased heating and electric transportation loads. Those investments will require significant capital.

I think you know that our company history indicates that M&A is infrequent but highly effective when it occurs. Mergers that created NSTAR about 25 years ago, Eversource ten years ago and added Eversource Gas of Massachusetts assets two years ago were beneficial to customers, accretive to our shareholders in the first twelve months after closing, increased our EPS growth, and lowered our risk.

And that's what I want to emphasize. We are about derisking. Lower risk. So, we would apply all these same principles to any future opportunities that we would pursue, Shar.

Jeffrey R. Kotkin - *Eversource Energy - VP of IR*

Next question is from Neil Kalton from Wells.

Neil Kalton - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst*

So Joe, you mentioned the news out of Washington, and you guys have had the advantage over others having a day to kind of evaluate this. So would love to get to take on what you see in there that could be helpful to Eversource, particularly on the offshore wind side.

And is this something, as you're looking to kick off the sale process, would you need to wait and see this actually pass before moving forward with that?

Joseph R. Nolan - *Eversource Energy - President, CEO & Trustee*

Yes. I don't think we need to wait for it to pass. I think it will move. We feel very confident that the Inflation Reduction Act will move. I think you see a lot of support in Washington, a lot of discussions around it.

I think that some of the things around it, the enhancements of the renewable energy tax credits are going to create substantial value for our projects. This bill is 725 pages long, and it's very detailed that we're going through each and every piece of it. But I will tell you that all indications that we have surfaced in that bill is very, very favorable for our business and for the wind business, actually for all renewable businesses, quite frankly. So, we're optimistic that this will help us. But we don't need it -- this is not going to have us pause our efforts around our wind exit.

Neil Kalton - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Analyst

Okay. And one quick follow-up. And I don't know if you mentioned this in the remarks, so I apologize if you did. But any sort of sense on how long this process will take to play out? It seems like there's a pretty healthy interest. I mean, does that suggest that this could be fairly quick? Or just any thoughts on that.

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

Yes. And I feel very strongly that we will have answers in this year, in 2022. I would expect in the fourth quarter we would be able to share a lot more color around it and hopefully execute shortly thereafter.

But realistically, we wouldn't execute in 2022, but we will have a lot of clarity around the buyer.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Our next question is from Nick Campanella from Credit Suisse.

Nicholas Campanella - Crédit Suisse AG, Research Division - Research Analyst

So I guess just in your prepared remarks, you kind of just talked about you issued some Holdco debt that had a little bit of a shorter tenure. And it sounds like the offshore proceeds will go towards potentially paying down that first, if I'm hearing you correctly. So that's about like, I think, \$1.5 billion of debt.

And how do you just think about use of proceeds in excess of that? You talk about replacing offshore earnings in the out-years? Is there kind of further debt paydown in the near term with capital deployment in the long term? Can you just kind of help us understand that more?

John M. Moreira - Eversource Energy - Treasurer & CFO

Sure, Nick. This is John. So, if you look at some of the upcoming maturities that we have at the holding company, we have pretty sizable maturities that will kick in, in early, mid and late '23 in the billions of dollars. So those will mature around the time that this transaction will happen. So, there's more debt that is on our doorstep.

Nicholas Campanella - Crédit Suisse AG, Research Division - Research Analyst

Okay. And then I guess just on the Inflation Reduction Act, just sounds great for the industry in general. Just how are you thinking about the potential impact of like an alternative minimum tax to your business?

John M. Moreira - Eversource Energy - Treasurer & CFO

Sure. I mean, the Bill has only been out 24 hours, literally. So, we're going through that. The team is looking at what that really means. It's a little unclear right now on the surface. But we'll look at that. Certainly, if it's a big check that we have to write from a minimum tax perspective, that has to weigh in. But we're still reviewing that.

Nicholas Campanella - Crédit Suisse AG, Research Division - Research Analyst

Got it. Yes. I appreciate it's really early.

And then one more if I could just squeeze it in. The NSTAR rate review. Just how do you feel about kind of ultimately being able to bring a settlement to the table? Is that something you're actively trying to work towards? Or -- and if you could, what's the timing there?

John M. Moreira - Eversource Energy - Treasurer & CFO

Sure. I mean, we just completed the hearings. And you always need to have enough information on the docket in order to raise any settlement discussions. But I guess I'm not ruling it out. I feel that settlement is certainly an option. And I think if you look at our track record, we always gravitate to settlement versus a fully litigated proceeding. So I feel very good about that.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Thanks, Nick. Next question is from Jeremy Tonet from JPMorgan.

Richard Sutherland - JPMorgan

This is actually Rich Sutherland on for Jeremy. Maybe starting off with the Massachusetts climate legislation. Can you speak to some of the distribution system upgrades that might come out of that legislation? Or any other enhancements you're looking at on the distribution side?

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

Yes. Thanks, Rich. We've got, as you know, a significant capital plan around that. We have been working towards these investments, whether it's AMI or other upgrades in interconnection. So that legislation really dovetails nicely with what our existing plans are, so it's nothing but positive from our standpoint in terms of dollars. Again, that is also heading to the governor's desk. We're hoping that gets signed, and there's no changes before Sunday, Sunday is the deadline. So again, these are very new, and these are only days old.

Richard Sutherland - JPMorgan

Understood. Appreciate the color there. And maybe a similar question, but on the transmission side. You're thinking about the coming offshore wind in the region. You spoke about the Park City upgrades. How do you think about the timing to scope out some more of these opportunities? Is this something that could evolve over the next year or 2? And particularly thinking about all the wind kind of coming down the runway here that you spoke to in the script.

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

Yes. I will tell you, I've been pleasantly surprised. One of the reasons we've had this kind of point of inflection around our wind business is the fact that there's such significant need for interconnections on our -- in our service territory. And this is right in our regulated business, which is our sweet spot.

So, I think every year or every six months, you're going to begin to see greater and greater clarity around folks that want to interconnect. We are in a, what I would say, the crown jewel of service territories. We are in the load centers here, whether it's in Connecticut, Massachusetts. This is where folks want -- this is where the load is and that's where folks want to interconnect.

So, I think that every time that we get on this call and we are talking with you and meeting with you, I think we're going to have more and more clarity and more information around transmission opportunities that are taking place for renewable projects.

Jeffrey R. Kotkin - *Eversource Energy - VP of IR*

Next question is from Steve Fleishman from Wolfe.

Steven Fleishman - *Wolfe Research, LLC - MD & Senior Analyst*

First question is just, Joe, I think on the first quarter call, you said that you'd be able to ultimately get back to the earnings you were going to get from the offshore wind with the proceeds from this sale. Are you still confident that, that is the case?

Joseph R. Nolan - *Eversource Energy - President, CEO & Trustee*

Yes. We are very confident, Steve. Yes.

Steven Fleishman - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. And then secondly, just the -- on the pension, John, I think you mentioned something of kind of a -- for 2023, not sure if you'd be plus or minus -- is that versus 2022 pension expense? Or is that pension expense or income overall?

John M. Moreira - *Eversource Energy - Treasurer & CFO*

Steve, it would be a comparison to 2022. Obviously, our returns right now are lagging behind what we earned in 2021, which is a basis for '22 expense. But the significant change is the discount rate. So, if I were to size the funded status of that plan today, we would move from 100% to something north of closer to 120%. So even though returns might come down a bit than what we earned in 2021, the movement in the discount rate could far exceed that impact.

Steven Fleishman - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. And then one last question, just to be clear on the use of proceeds. So, when we look at the likely use of proceeds from the outcome of the offshore wind sale, how should we think about the likely use of debt pay down versus regulated investments versus something else?

John M. Moreira - *Eversource Energy - Treasurer & CFO*

Sure, sure. So immediately, when you get that cash, we're going to focus and pay off some short term. And as I mentioned in the earlier comment, we do have quite a bit of maturities that mature in 2023. So that's where we will deploy. But certainly, it gives us the capacity to redeploy into incremental regulated wind investments that are needed, as Joe has mentioned, for transmission interconnections and to address the load concerns that our infrastructure is faced with to accommodate electrification. So, we're going through that analysis now. And we'll update you kind of the normal course of business. As you know, we typically will update our forecast in February. So, the team is working on that analysis as we speak.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Next question this morning is from Insoo Kim from Goldman.

Insoo Kim - Goldman Sachs Group, Inc., Research Division - Equity Analyst

First question on the ATM equity within amounts you issued so far. Any additional color on roughly how much more you're contemplating issuing in 2022? Or do you think like this might be kind of it until we get clarity on the offshore wind stuff?

John M. Moreira - Eversource Energy - Treasurer & CFO

Right. So, it's not a race to the finish line. So, we will continue to be very opportunistic and take advantage of our stock price. And that's exactly what we did. I mean, we issued the 1.4 million at close to \$92 a share. So it's difficult for me to answer that question without knowing where we'll be. But if we have an opportunity to go to market for the next five months, we'll do so.

Insoo Kim - Goldman Sachs Group, Inc., Research Division - Equity Analyst

Okay. Got it. And then going back to the question on the M&A side. You've made it pretty clear that the focus is probably on water. Obviously, a lot of municipal acquisition opportunities, I think, exists, but would you also potentially be open to looking at publicly traded water companies as well, if they warrant?

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

Yes, absolutely. If it was a strategic fit. We're not going to go across the country. It's going to have to make sense for us. It's going to have to be in the general area. So yes, we'd absolutely look at that, as they're far and few between, as you know, but certainly, water is very, very attractive to us.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

All right. Next question is from Durgesh from Evercore.

Durgesh Chopra - Evercore ISI Institutional Equities, Research Division - MD and Head of Power & Utilities Research

Just on the water M&A topic, Joe, just wanted to pick your brain on this. Like -- so one of your peer water utilities, I guess, announced an agreement here north of \$1 billion, or close to \$1 billion in Bucks County, Pennsylvania. I mean, you have an experience running the Connecticut water system for several years now. So, are you -- outside of the publicly traded water companies, could we see you get into the municipal market in neighboring states on the water front?

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

Absolutely. But they would be in neighboring states, just like you said. They would be states that we're doing business in. And we feel that, that really is going to be the next road traveled. I think you're seeing municipalities and some of these water systems that are facing some capital constraints, and I think they feel it's probably best to turn it over to a professional operator. And that's what I think you're saying.

That's what I think happened down there in the one you were talking about in Pennsylvania, that they thought it would be best to turn it over to a fantastic operator. I think that Essential is a fantastic operator. And I think the municipalities recognized that, and that's why they did it.

But I think the same thing is happening in this region, that we're seeing opportunities where municipalities do approach us and are looking for our expertise in the space. So that will continue.

Again, these are small opportunities. I mean, when you're doing transactions that are in the \$80 million to \$100 million range to pick up 9,000 to 10,000 customers or even a municipal treatment, they are there a lot of work. But again, they're also very attractive to us because we have the platform. We have an incredible management team at Aquarion that has the expertise needed to really turn things around. And I think that our record stands for itself.

Durgesh Chopra - *Evercore ISI Institutional Equities, Research Division - MD and Head of Power & Utilities Research*

Got it. Appreciate that color. And then, John, I had a quick clarification. In your comments, you mentioned the \$3 billion in investments in offshore. That's sort of the current plan. Is that what you were referring to on the offshore front? Or was that sort of the regulated CapEx hole you needed to fill to kind of sort of make you square on the offshore earnings. Can you just clarify that?

John M. Moreira - *Eversource Energy - Treasurer & CFO*

Sure, sure. The \$3 billion, it would be the incremental investments that we would need to replace the earnings that, once we divest of the offshore wind, would need to be replaced.

So -- and that aligns with the guidance that we gave you back in February, where we said that we would expect our wind business to contribute between 6% to 8% based off of the regulated returns for the first full year of operations, and that is 2026 -- so if you do the math, that puts you at about \$140 million, \$130 million, \$140 million. And the \$3 [billion] (correctd by company after the call) is what it would take from a regulated standpoint to replace those earnings, using in a 50-50 cap structure.

Durgesh Chopra - *Evercore ISI Institutional Equities, Research Division - MD and Head of Power & Utilities Research*

Got it. So, \$3 billion in regulated investments would equal the earnings loss from offshore.

John M. Moreira - *Eversource Energy - Treasurer & CFO*

That's correct. And on today's call, and what we've been disseminating, is we're well on our way to reaching that. We're at between the AMI and the offshore interconnection into our system, that's about a \$1.5 billion of that number. And then just given the opportunities that Joe has mentioned, and we're seeing happen to materialize just on the whole distribution system and transmission system to accommodate the load expansion to bring in further renewable resources to address decarbonization and electrification. We feel very confident that we can reach that level of investment.

Jeffrey R. Kotkin - *Eversource Energy - VP of IR*

Thank you, Durgesh. Next question is from Andrew Weisel from Scotia.

Andrew Weisel - *Scotiabank Global Banking and Markets, Research Division - Analyst*

If I can first follow up on that last question. It sounds like you're expecting to get at least half, if not all of that \$3 billion. You sound more confident. What would that mean for EPS growth? The EEI slides, you said you'd expect to be higher than 5% to 7% thanks to offshore. So, if you are able to backfill the wind earnings, does that mean you could grow earnings faster than 7%.

John M. Moreira - Eversource Energy - Treasurer & CFO

Well, we're not here today to update our guidance. We -- what we're saying is that the \$3 billion investment would replace the earnings that we would lose from the wind. So, I think it's a little premature.

Andrew Weisel - Scotiabank Global Banking and Markets, Research Division - Analyst

Okay. Fair enough. Then from the customer perspective.

John M. Moreira - Eversource Energy - Treasurer & CFO

But the answer was certainly it would be additive to our core business growth from where we are today.

Andrew Weisel - Scotiabank Global Banking and Markets, Research Division - Analyst

Okay. Got it. And from the customer perspective, the cost of offshore wind obviously won't go away if the owner changes. So how do you think about affordability impact if you're backfilling the capex with projects in the rate base in addition to those offshore projects still moving forward?

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

No. I think if you look at some of the pricing out there right now for energy, you'll see that wind is very, very competitive and certainly is less costly than the options that are available right now in the marketplace. So, I don't think that cost is going to be a barrier around wind.

John M. Moreira - Eversource Energy - Treasurer & CFO

And then, Andrew, what I would remind you of, the \$500 million that we've discussed on the call today, as it relates to offshore wind interconnection, that's paid by the developer and not socialized.

Andrew Weisel - Scotiabank Global Banking and Markets, Research Division - Analyst

Okay. That's a good reminder. Then one last kind of maybe funny question. In terms of the potential buyer, are there any requirements of preferences for the buyer to be a U.S.-domiciled company? Or could it just as easily be an international buyer?

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

No, there is no restrictions on that. It could be international buyer or could be a local buyer or whatever.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Our next question is from David Arcaro from Morgan Stanley.

David Arcaro - Morgan Stanley, Research Division - Research Associate

I was wondering if you could give an update on how conversations have gone with credit rating agencies recently. Any chance that you've seen for a lower FFO to debt threshold after the sale? And what is your thinking right now just around maintaining your ability to hit the thresholds that you've got in place right now, given that you've got quite a bit of spending on the utility CapEx that you'll be adding to the plan.

John M. Moreira - Eversource Energy - Treasurer & CFO

Sure, David. So, I'll tell you that, and I'm sure you're fully aware of this, that we have completed our annual review with all three agencies. And overall, a great, great outcome.

As to how it relates to the Moody's, getting to 15%. So, we do have a plan. Obviously, the use of the proceeds that we would get from offshore wind, that would contribute very nicely and move the needle. The equity issuance that we've discussed in total, in addition to the ATM. We also have about \$600 million of treasury shares. So, you're really looking at \$1.8 billion that we're looking to execute.

And then that metric has been negatively impacted, quite honestly, by the high level of deferred storm costs that we're carrying. And we have plans in Massachusetts to commence recovery, certainly, with this rate case. And as you know, in Connecticut, we do have a stay out that we can't change base rates, including recovery of storm costs any earlier than 1/1/24. So, we're hopeful that over the next coming year or two, those recovery -- that will be in place, that recovery.

And then as I discussed in my formal remarks, the status of our pension fund. And obviously, because we are expecting to be overfunded, quite honestly, that we have the ability to avoid any contributions for a couple of years out.

And then the timing of rate adjustments. We have one kicking in 2023, early '23 for our open case that we have for NSTAR Electric. So, we do have a path to get to enhance FFO to debt. So, I feel very confident that we'll be able to get there.

David Arcaro - Morgan Stanley, Research Division - Research Associate

Great. That's really helpful. It sounds like there are some clear cash flow improvements coming. Should the base line kind of target an assumption that you don't see the need for any more equity in the plan even to hit that \$3 billion or to fund that \$3 billion of incremental utility CapEx?

John M. Moreira - Eversource Energy - Treasurer & CFO

Well, I mean that will happen over time. But once again, I think we -- once we get the offshore wind deal wrapped up, we will reevaluate our equity needs and align that with the timing of our incremental investment -- our incremental capital needs, spending.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Next question is from Paul Patterson from Glen Rock.

Paul Patterson - Glenrock Associates LLC - Analyst

Just one question now, and that is with respect to the Massachusetts climate legislation, what's your expectation here for what the Governor might do sort of running out of time. So, I'm just sort of -- I was wondering if you guys are hearing anything or getting any sense as to what direction this might be going in.

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

Yes. He's favorably disposed to sign this legislation. I don't anticipate anything standing in the way of that. He might have a couple of messages he sends back. But I think he realizes that it's out of time, and I don't think he wants to jeopardize what he considers to be part of his legacy. So, I think we're in good shape on that Bill.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. So that's what I was wondering. When -- in the slide, it says potential seeking modifications. I'm just wondering with the session sort of ending, I guess that would be kind of difficult to do, I would assume. Is that the right way to think about it?

Joseph R. Nolan - *Eversource Energy - President, CEO & Trustee*

Send back some messages. If they're not in formal session, it makes it difficult, obviously, to kind of override that. But that doesn't jeopardize the entire bill. These would be kind of individual or, say, pocket type of a change the one-offs that wouldn't impact the overall bill.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay, I see. So, in other words -- okay, that's helpful. So, in other words, he could make modifications that -- okay. I got what you're saying. I was thinking maybe a little bit -- so he wouldn't need the legislator to respond to those in order to have them become effective, if I understand that correctly.

Joseph R. Nolan - *Eversource Energy - President, CEO & Trustee*

That's correct. That's correct. It's not one of these total up or down that you actually can come in a surgical piece if he felt that strongly. I would tell you that, I think, you've got a governor here that is very mature and really understands and has the relationship with the legislature. So, he'll be very thoughtful, very deliberate about anything that he does around this Bill. And I think anything he sent back, he probably will have already had kind of passed through with the legislature to make sure that everybody is on the same page.

Jeffrey R. Kotkin - *Eversource Energy - VP of IR*

Next question is from Julien from Bank of America.

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

So just checking in, if I can just try to elaborate a little bit, and I know you guys are preliminary on this \$3 billion number here, but a little bit more on the timing and the pieces here, right? When you talk about like the \$1.5 billion tied to the offshore transmission, for instance, in part, what's the timing there?

I know we've been talking about sort of that would displace the '26 offshore. But is the idea that \$1.5 billion would be fully deployed by that point in time?

And then similarly, my impression, but tell me what the specifics are, the other \$1.5 billion there. How much of that is contemplated, for instance, AMI? And how much of that AMI would be done by '26, if you will?

I'm just trying to understand, of the \$3 billion how much capital at least under the line of sight that you have today, do you think that you can have in place by '26 versus at some point through the decade, if you will?

John M. Moreira - *Eversource Energy - Treasurer & CFO*

Julien, the guidance that we've given is that, by 2026, we would have -- if you look at the forecast that we disseminated, take that capital number and add \$3 billion. So, we hope to have all of these investments in place by 2026.

So, to answer your question on AMI, as I said in my formal remarks, we expect a decision from both Connecticut and Massachusetts. And quite honestly, we're working on vendor agreements to be able to move forward with those investments. And that's about \$1 billion in total and we're going to start on it immediately. So certainly, by 2026, those will be fully in place.

And then on the \$500 million of interconnections. That one, a good portion of it, if not all of it, could be in place by 2026. So, it's really the other opportunities to accommodate electrification and upgrades to our infrastructure.

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

Got it. Excellent. So, it sounds like, at least on the parts that you've identified, you've got line of sight for '26. And the timeline for more fully introducing the balance here would be sort of coincident with the time line for announcing the sale?

John M. Moreira - *Eversource Energy - Treasurer & CFO*

Or as part of our normal update in February.

Jeffrey R. Kotkin - *Eversource Energy - VP of IR*

Next question is from Ryan Levine from Citi.

Ryan Levine - *Citigroup Inc., Research Division - VP*

Any color you could share at this stage in the offshore wind sale process on the coordinated marketing effort between Eversource and Ørsted? What drag-along or tag-along rights does Ørsted have in the process? And how does that impact the role they're playing in the preparation of sims, teasers, et cetera?

Joseph R. Nolan - *Eversource Energy - President, CEO & Trustee*

Ørsted is a phenomenal partner. I mean, they are very good friends, and they are arm-in-arm with us even to right down to the level of detail around anything that we distribute. They also join us on any calls with potential bidders.

So, we don't really have any restrictions. They don't have any veto power. Obviously, they're our friend, they are a great partner, and we will continue to do business with them, whether it's on the interconnection front or helping them in any way. So, you should understand that this is a very amicable, very friendly and very coordinated effort as we look at this piece of our business.

Ryan Levine - *Citigroup Inc., Research Division - VP*

Okay. So, you said no veto rights, do they have any ability to offer a price afterwards after the formal auction has completed?

Joseph R. Nolan - *Eversource Energy - President, CEO & Trustee*

No, they do not. And keep in mind that we love this wind business. We are going to continue to support this wind business, and we want them to be successful. So, we're going to make sure that whoever is the acquirer fits very nicely with Ørsted.

Ryan Levine - Citigroup Inc., Research Division - VP

Okay. And then somewhat related, is there a preset for evaluation that Eversource would require with this transaction for it to be contemplated? Maybe just leave it open at that.

John M. Moreira - Eversource Energy - Treasurer & CFO

I didn't get the first part of that.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Right. Ryan, could you...

Ryan Levine - Citigroup Inc., Research Division - VP

Valuation that rate. Is there a minimum bid that you require?

John M. Moreira - Eversource Energy - Treasurer & CFO

No, we will go -- we're going to test the waters, right? So, it's a little premature. I mean, we know how much we have invested in the joint venture. And we feel, given the market conditions, that we should do -- it will be a lot more -- we're expecting a lot more of value given the current market situation.

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

And keep in mind that this is not -- we have a lot of line of sight on value because obviously, we saw what took place in the New York Bight, we've seen other transactions. So, it's not as if we don't have a rough idea where this is going to end up. We know we're going to end up. And the players we're talking about, I mean, these are major players that are very well aware of the value of our assets. So, we feel very, very good about that.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Thanks, Ryan. Appreciate it. Well, we don't have anybody else in the queue, so we want to thank you all for joining us. If you have any follow-ups, let us know today. We look forward to seeing you at the conferences in August and September. And have a wonderful summer, all.

John M. Moreira - Eversource Energy - Treasurer & CFO

Thank you.

Joseph R. Nolan - Eversource Energy - President, CEO & Trustee

Thank you, everyone.

Operator

That concludes the Eversource Energy Q2 2022 Earnings Conference Call. Thank you for your participation. You may now disconnect your lines.

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