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ES - Q3 2019 Eversource Energy Earnings Call

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OVERVIEW:

Co. reported 3Q19 EPS of \$0.98. Expects 2019 EPS excluding Northern Pass charge to be = \$3.40-3.50.



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PRESENTATION

Operator

Welcome to the Eversource Energy Q3 2019 Results Conference Call. My name is John, and I'll be your operator for today's call. Please note that this conference is being recorded. And I will now turn the call over to Jeff Kotkin.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Thank you very much, John. Good morning, and thank you for joining us. I'm Jeff Kotkin, Eversource Energy's Vice President for Investor Relations. During this call, we'll be referencing slides that we posted last night on our website. And as you can see on Slide 1, some of the statements made during this investor call 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 risks 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. 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, 2018, and our Form 10-Q for the three months ended June 30, 2019. Additionally, our explanation of how and why we use certain non-GAAP measures is contained within our news release and the slides we posted last night and in our most recent 10-K. Speaking today will be Phil Lembo, our Executive Vice President and CFO. Also joining us today are Lee Olivier, our Executive Vice President for Enterprise Energy Strategy and Business Development; John Moreira, our Treasurer and Senior VP for Finance and Regulatory; and Mike Ausere, our VP for Business Development. Now I will turn to Slide 2 and turn over the call to Phil.

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

Thank you, Jeff. And today, I will cover the third quarter 2019 financial results, provide an update on our key regulatory dockets, also discuss our region's offshore wind development efforts and some recent financing activities we've had. We earned \$0.98 per share in the quarter compared to \$0.91 per share in the third quarter of 2018.



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Electric distribution earnings totaled \$0.61 per share in the third quarter of 2019 compared with earnings of \$0.55 per share in '18. Higher distribution revenues, which resulted mostly from base rate changes implemented earlier in the year, as well as lower operations and maintenance expense, were partially offset by higher depreciation and interest expense.

Our electric transmission segment earned \$0.33 per share in the third quarter of 2019 compared with earnings of \$0.34 per share in 2018. The decline was primarily due to no longer recognizing AFUDC earnings on the Northern Pass Transmission project, effective July 1, 2019.

Our natural gas distribution segment lost \$0.05 per share in the third quarter of '19 compared with a loss of \$0.04 per share in 2018. The penny decline was expected and was due to the implementation of revenue decoupling at Yankee Gas late last year. As I've discussed on earlier earnings calls, the decoupling boosted revenues in the first quarter, but lowered second and third quarter revenues when customer demand is at its lowest. The impact of revenue decoupling in the fourth quarter will be fairly neutral compared to last year.

Our water distribution segment earned \$0.06 per share in the third quarter of '19, the same as last year, as higher revenues and lower depreciation expense were offset by the absence of a small gain on a land sale that we recognized in the third quarter of 2018. Our parent and other segment earned \$0.03 per share in the third quarter of '19 compared with nearly flat results last year. The improvement was largely due to the absence, in 2019, of last year's write off of an investment in the Access Northeast natural gas transmission project and certain benefits we recorded in the third quarter of '18 related to tax reform.

Overall, we earned \$2.69 per share in the first nine months of the year, excluding the Northern Pass charge we discussed last quarter, compared with earnings of \$2.52 per share in the first nine months of 2018. Excluding the charge, we remain very comfortable with our ability to earn around the midpoint of our \$3.40 to \$3.50 per share range that we first announced in February.

While we continue to experience much higher-than-normal storm expense, we thus far have been able to offset that impact elsewhere to remain within our guidance. But it's something we'll need to keep an eye on as we close out the year. The midpoint of that guidance range is consistent with our long-term earnings growth rate of 5% to 7%.

Moving from our earnings discussion to key operating performance results, our continued intense focus and emphasis on safety continues to produce strong results, our best ever as a company. Our electric reliability continues to trend very strong with months between interruptions at 22.2 months through September this year versus 17.4 months during the same nine-month period last year. Our reliability continues to be at a level that is among the very best in the industry. Also, our ability to respond effectively to weather-related emergency conditions on our systems continues to receive favorable reviews from our customers and policymakers.

In late July, we responded to extensive damage on Cape Cod caused by a rare set of three tornadoes. Then three weeks ago, a Nor'easter with winds of up to 90 miles an hour, also impacted Cape Cod, causing significant damage, not only in Southeastern Massachusetts, but in Eastern Connecticut and coastal New Hampshire as well. Our crews organized quickly around last month's storm, and with the aid of significant outside resources, we restored power to nearly every one of about 475,000 outages in about 2 days. Another storm on Halloween night resulted in significant tree-caused outages up and down the East Coast. That storm caused more than 250,000 customer outages, with the worst damage in Connecticut and New Hampshire. Thousands of our employees and outside line and tree workers contributed to a very strong restoration effort.

Turning from operations to some regulatory items, our New Hampshire electric rate review continues through the discovery process with intervener testimony due next month and a final decision expected in May of next year 2020. You will recall that on June 27, the New Hampshire regulator approved a settlement we had reached with the Public Utilities Commission staff and the Office of Consumer Advocate to implement an annualized \$28.3 million temporary increase in base rates. The temporary increase was effective July 1, and will remain in effect until permanent rates take effect in the middle of next year.

From the rate reviews I'll turn to Slide 3, and PURA's recent decision in Connecticut's grid modernization docket. In early October, PURA issued an order, in which it divided 11 different topics related to grid modernization into separate dockets, and then promptly initiated reviews on six of them. So those six include items such as Advanced Metering Infrastructure or AMI, electric storage and zero emissions vehicles. There'll be a second and third round to this docket, which will cover five other topics ranging from resiliency standards to new rate designs. The process for reviewing



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each topic will include public forums, request for different proposals, hearings leading up to a draft and final decision. Although PURA found these topics to be potentially very beneficial to customers, it's not yet known when they'll result in meaningful investments related to these grid technologies. We'll update you on the processes in both Connecticut and Massachusetts as we move forward.

While we have not yet included any grid modernization expenditures in our capital forecast for CL&P, in Massachusetts, we expect NSTAR Electric to complete the \$233 million of investments previously approved by the Department of Public Utilities by the end of next year. An updated grid modernization proposal covering the years 2021 through 2023 is due to the Massachusetts regulator by the middle of next year.

Many of you have asked us recently when we'll provide a comprehensive update on our capital investment plans. So I'll just say, as we've done in each of the past 6 years, we'll provide you with the update when we release our year-end results, which we expect to do in the second half of February.

Turning to offshore wind on Slide 4. Massachusetts announced the results of its second offshore wind solicitation last week, in which Mayflower Wind was selected as the winning bidder. Mayflower's pricing is expected to become public in January, when the contract is due to be filed with state regulators for approval. Based on public statements made to date, we believe that Mayflower bid a price that would not have allowed us to earn the returns that we consider adequate had we bid at the same level. In Connecticut, bids were submitted at the end of September, following up on a 2,000-megawatt offshore wind authorization that the legislature approved in June. Three parties submitted bids for at least 400 megawatts each. We submitted one bid for 400 megawatts and other bids for other levels of capacity. Later this month, we expect a decision on this RFP in Connecticut.

In New York, we and Orsted signed a 25-year contract last month with the New York State Energy Research and Development Authority relating to the supply of 880 megawatts of offshore wind into the New York market. The pricing is disclosed, and it is \$110.37 per megawatt hour flat for 25 years. It was made public when the contract was signed 2 weeks ago. That pricing and the pricing of the other power purchase agreements we have secured in Connecticut, Rhode Island and Long Island, each of which is 20 years, will support the mid-teen returns on equity that we expect and that we have been discussing with you on prior earnings calls. We expect these returns will significantly exceed those of any of our regulated segments.

Several analysts on this call have asked us over the past week or so whether the mid-teen returns are still applicable given Orsted's statement last week that it expects unlevered returns across its global portfolio to be in the 7% to 8% range going forward, down 50 basis points from its previous range. Orsted also indicated that for a number of its projects it is now anticipating an average capacity factor of 48% rather than 48% to 50% due to new understanding of wind dynamics around large offshore wind farms. Additionally, on projects it acquired from Deepwater, Orsted indicated that certain transmission cost estimates have increased. As Orsted's partner on some of the former Deepwater projects, we have been jointly developing some of the U.S. cost estimates Orsted cited. There are several factors that support our continued expectation that we'll be able to earn in the mid-teens of these three projects noted on the slide in front of you.

First, the transmission cost estimates that we've been assuming this year in our discussions with investors have not changed. They are consistent with Orsted's current expectations, but are the most recent vintage and higher than the cost estimates available to our Orsted shortly after it closed its Deepwater acquisition last fall. Also, our assumed returns for offshore wind investments are consistent with Orsted's current 7% to 8% range. Just the takeaway here is our guidance remains in place, we expect our offshore wind investments to produce returns on equity in the mid-teens, our mid-teens ROE expectations are based on our current enterprise-wide capitalization and capacity factors in the 48% to 50% range across our portfolio of wind turbines in the U.S. We continue to be very encouraged by the vast skills, knowledge and experience of our partner, and by the interactions that we've all had with federal and state regulators.

Turning to financing on Slide 5. We essentially wrapped up our 2019 financing program in the third quarter with nearly \$500 million of long-term debt issuances across Connecticut Light & Power, Yankee Gas and NSTAR Gas. We expect to close on a small debt issuance at Aquarion Connecticut before year-end, but that's the only remaining financing in 2019. The decline in interest rates this year is certainly resulting in interest savings, not only in the long-term debt issuances shown on this slide, but also on our commercial paper borrowings, where rates are down by more than 50 basis points compared with the end of 2018. Lower interest rates benefit customers and our shareholders. You'll recall that we sold \$1.3 billion of



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new common shares in June with about 12 million of the 18 million shares subject to a forward sale arrangement that we'll settle before the end of May 2020. To date, we have not settled any of the forward sale arrangements.

Additionally, as we've discussed earlier in the year, we also expect to utilize approximately \$100 million of treasury shares each year through 2023 to meet our dividend reinvestment and employee retirement plan requirements. Through October of this year, we have distributed approximately 900,000 treasury shares to meet those plan requirements at a rate of just under 300,000 shares a quarter.

Before I turn the call back over to Jeff, I just wanted to take a minute. I'm sure you have heard that Lee Olivier recently announced his decision to retire at the end of the year. I want to extend my thanks and appreciation to Lee for a tremendous amount of work he has done for nearly a 50-year utility career to make our company and our industry much better off. After a highly successful career as a senior nuclear officer, Lee arrived at Northeast Utilities nearly 2 decades ago and led one of the most successful build-outs of an electric transmission system anywhere in the country. He later moved on to the position of Chief Operating Officer at NU and then at the merged Eversource, before beginning what may be his favorite position, which is overseeing our enterprise-wide strategy and business development efforts. I'm sure a decade from now, I'm convinced Lee will be known as one of the fathers of a thriving U.S. offshore wind business. Lee and I worked together for more than 20 years, on the front-end and back-end. He is an outstanding leader and just a wonderful person to work with. All of us wish Lee a wonderful retirement, commencing at the end of next month. And I want to thank him for his advice and counsel and joining us on his last investor call this morning. So thank you, Lee.

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

Well, thank you very much, Phil. I really appreciate those remarks and it's been great to work with you for all of these years. You are a great leader and a financial engineer yourself. Thank you.

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

Well, I'll turn the call back over to Jeff.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

All right. Thank you, Phil. And I'm going to turn the call back to John just to remind you how to enter a question. John?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Our first question this morning is from Mike Weinstein from Crédit Suisse.

Michael Weinstein - Crédit Suisse AG, Research Division - United States Utilities Analyst

Lee, this is quite a move. Congratulations and we're all going to miss you, I think. It's been a long time - ever since the NEEWS projects, that's kind of the earliest thing I remember you famous for.

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

Well, thank you very much. I appreciate it. Thank you, Michael.

Michael Weinstein - Crédit Suisse AG, Research Division - United States Utilities Analyst

My question is about the, I guess, the upcoming NSTAR Gas filing. And what -- maybe you could shed some light on what that's going to entail? And also whether you think there's going to be any additional work that might be necessary on the gas utilities as a result of the Merrimack Valley incident from last year?

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

Yes, Mike. This is Phil. We notified the Department that we would be in soon for filing, and we expect to make that filing shortly here in the next days or weeks. So I'd say there are a few nuances to the filing that do address some of the issues that we know of and that could potentially come out of additional work efforts and requirements from the Merrimack Valley incident. So I think you will see, when we do a filing, there will be some creative ways that we want to address and get ahead of certain costs that would be moving up in terms of safety and engineering, professional engineering requirements that are now in effect that weren't necessarily in effect during our test year period. So I think you're right that it will be, in some respects, sort of a basic filing, but there will be some creative ways that we can address some of the issues that have come up thus far and provide placeholders for things to come up in the future.

Michael Weinstein - Crédit Suisse AG, Research Division - United States Utilities Analyst

And then maybe just on that same line of thought, maybe you can just give a broad overview of the categories of updates that might be coming in February, if not necessarily the numbers so much?

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

Well, categories would be the long-term earnings guidance. And as we've done for many years now, we would adjust that moving forward, add a year on to that list throughout the year, add a year, so it will be long-term earnings guidance. We'll have our guidance for the current year period. We'll give a capital forecast by category, showing what capital spending looks like over that 5-year period. We'll provide, as we've talked about, a little bit more detail now that the bids will be all in and developed and pricing known and probably all public by that time, more information sort of on the Offshore Wind side of things. And then any current regulatory or other matters we see out there.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Mike, any other questions?

Michael Weinstein - Crédit Suisse AG, Research Division - United States Utilities Analyst

Sorry, just one last question. On the Orsted, I guess, the Orsted guidance, it sounds like that was basically what they've been saying is already baked into your mid-teens assumption, that's why there's no change, right? Just wanted to -- just confirm I understood that correctly.

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

Yes, I think it's important, Mike, to note that, I think, Ørsted's updates were to reconcile back to our capital markets day from about a year ago, last November. Our guidance is really based on current information and all of our disclosed items have already been considered in the guidance and



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expectations. So we continue to be comfortable and provide a forecast in the mid-teens on ROEs, and we continue to look at those cost and schedule estimates as we go forward.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Our next question is from Shar Pourreza from Guggenheim.

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

Can you hear me?

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Yes. We can hear you.

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

Let me just -- on just -- on the rate cases, can we just get a quick update on New Hampshire's proceedings? Is there, I guess, is there any opportunity to settle after discovery? How are sort of discussions going with the [regulators] (corrected by company after the call)?

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

Yes, Shar, this is Phil. There is absolutely an opportunity to do that, to settle, in fact, on the official schedule, there is time allocated for settlement conference. So that is really the way that things proceed in New Hampshire. So there is an ability to get to that settlement. And then there is a conclusion, I mentioned in May, that's on the docket. So I would expect that once we go through all the discovery and all the data is in that it provides a better basis for having some meaningful settlement discussions.

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

Got it. Phil, you mentioned placeholder items in the NSTAR Gas line, can you just elaborate on what you mean by that?

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

Yes. Sure, and this is true for some of our other filings too in other states, where we might have an approval for a tracker that is approved and is part of the rate case, but there -- how much is in that category would have to be defined in a future filing. So for example, we have these safety and reliability filings that are approved trackers, how the recovery works, what the procedures will be, and then, periodically, we go in with a plan for this is what the spending will be for the next year or the next few years. We have the same thing like on energy efficiency. We have an approved method for collecting it but then we have a plan that goes in each year. So that's what I'm referring to, is that mechanism would be established, and then as resources come up. So you wouldn't have to go back in for base rate type of filing. You have the mechanism there.

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

Got it. Got it. And then just, lastly, Phil, I know past discussions seems to point to potentially giving a CapEx update at EEI, not necessarily rolling your plans forward, but more of a CapEx update around your base business, right? Is that really -- the rationale to not provide an update, is it a



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function because of the New Hampshire case has taken longer than maybe you anticipated? So I'm kind of curious on why not on the base business without having to roll forward? Because it seems like maybe past discussions centered on the potential update at EEI?

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

Sure. I will maybe make a point there, Shar, which is, we have never really provided an indication that there would be an update. We've always pointed to a February year-end call as being the time we would do the update. So what our statements are and what our plans are now are very consistent with what our thinking has been all along that we plan to, and we will do an update in February. So I'm not -- just to be clear, we're not changing anything as a result of any proceedings. Really, that's been our plan all along.

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

Lee, congratulations. You are definitely going to be missed.

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

Well, really, thank you. Thank you very much, Shar. It's been a lot of fun working with you over the years as well.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Our next question this morning is from Insoo Kim from Goldman Sachs.

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

Starting with offshore wind, given your comments on the recent Massachusetts RFP results and your point that maybe the pricing didn't -- would not have met your return expectations. Are you still of the mindset that future of current and future bids on future offshore wind projects will try to maintain your 7% to 8% unlevered IRRs or mid-teens ROE assumptions?

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

Yes, we are. That is our plan.

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

Understood. And appreciating on the Connecticut grid mod side. It'll probably a lengthy process of discussing all the previous items that you could potentially invest in. And I think you've talked in the past about pieces of those and how much that could potentially be, for example, AMI and Connecticut, Massachusetts being a \$1 billion opportunity as well. But just, is there any way to frame what the total opportunity set longer-term would be for the Connecticut portion of all these items? I'm assuming, and they won't really be in the base plan when you roll forward the CapEx plan in February.

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

Yes, that's correct. It -- unless it's something that we have a clear line of sight for, we would not be -- and just to be clear, it's not in our plans now. So we've always talked about a grid mod in Connecticut as a potential program that would require investments to modernize the grid into various categories. And in AMI, sort of the -- we've mentioned a number of a \$1 billion program, and that's really across Massachusetts and Connecticut.



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So the number of customers are fairly consistent across the 2 states, but you might have different vintages of meters. So -- But it's probably 50-50 across the states, I think, is a good determination of that. But again, we are -- we don't know what will come out of the proceedings that are going on. We feel that we have effective programs that can address all of the 11 categories that the Connecticut PURA has established. And it's good to see sort of in the first 6 of them, there really -- half of them are more or already programs that we're working on in other states. So we feel good about our ability to deliver effectively there, but the timing and how much the breadbox will be, will be determined going forward.

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

Understood. And Lee, congratulations. I know you and I haven't really interacted much given my being new to the coverage, but wish you all the best.

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

Well, thank you very much. Appreciate it, and good luck to you.

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

Next question this morning is from Steve Fleishman from Wolfe.

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

Congrats, Lee. Wish you the best.

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

Thank you, Steve.

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

And just, you bet, and so just maybe a little bit more color on the BOEM approvals and just the supplemental study and both timing of that as well as just what is the focus that you've seen so far of that study? And just how do you feel about overall timeline then of your projects?

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

Yes, Steve, this is Lee. I think that the indication that BOEM is now giving is that it'll have a draft of supplemental study in first quarter of next year. And they're looking at the full array of issues, as an example. When these leases were let some years ago, they really did not understand the scale or magnitude of the development across all of these areas. And at the time, I think, it was just probably a bit of an oversight. Didn't really understand what the fisheries -- actually how they worked, how they fish, whether it's dragnets or crustacean fishermen and so forth. And then there were issues that have arisen around the layouts and how mariners would be able to access to and from ports in the area, and also with the Coast Guard in terms of how they do their search in rescue organizations. I think all of those are better understood now and those are the kinds of issues that will be factored into their analysis. I think we -- the joint venture Eversource/Orsted, feel very good about that. We have consistently, in terms of our layouts and arrays, have met with and got feedback from fisheries and mariners and the Coast Guard. So I think our arrays will be laid out such there'll be minimum issues in the industry -- the offshore wind industry in the Northeast, where our leases are all collaboratively working together to come up with a some common arrays and layouts such that it will help facilitate the BOEM process once they complete their supplemental EIS. And so we don't think there's any delays right now that we can forecast in any of our projects at this time.



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Jeffrey R. Kotkin - Eversource Energy - VP of IR

Next Question is from Praful Mehta from Citi.

Praful Mehta - Citigroup Inc, Research Division - Director

Congratulations as well.

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

Thanks a million, Praful. Appreciate it.

Praful Mehta - Citigroup Inc, Research Division - Director

Yes, so I just want to quickly follow up, again, unfortunately, offshore wind. Was there a delay right now in the schedule for Revolution Wind? Did that get pushed out a little bit?

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

No. It's pretty much on track. I think, if there was a delay -- because we have not filed our BOEM permit yet. And we expect to file with them in early 2020, probably end of the first quarter. At BOEM, at which point in time, we'll have a clear understanding of where BOEM is going to be with their supplemental EIS. So right now, I think, it would be premature to look at a delay in Revolution Wind. So we're still looking at commercial operations for Revolution Wind late in 2023.

Praful Mehta - Citigroup Inc, Research Division - Director

Got you. And you didn't move out the construction -- the start of construction, either it was -- got pushed out, but it's the same as you had before?

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

Yes, it's pretty much the same as we've had before, and we won't make any changes. We don't feel there's a need to make any changes until we understand if there is any impact with the supplemental EIS at BOEM.

Praful Mehta - Citigroup Inc, Research Division - Director

Got you. And then just secondly, in terms of all these projects and in the context of what Orsted said, is there any incremental revenue that is assumed as a part of these projects to achieve your IRR? So for example, capacity revenue or ancillary services, anything incremental that helps kind of achieve or get to your target returns?

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

Well, in the case of Sunrise Wind, our pricing is \$110.37 as predicated both on the energy receiving, energy revenue and capacity revenue inside of that market. And we feel good about being able to achieve that.



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

Yes. so I guess I'd add to that, that no -- in the guidance we've given, it's all based on the pricing that's under the contract terms.

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

There is a move afoot here in New England for probably more ancillary kinds of services that ISO New England is proposing. But that's -- right now, it's all in the concept mode. So we would have to see what happens there.

Praful Mehta - Citigroup Inc, Research Division - Director

Got you. And so just to confirm, the Sunrise Wind has a capacity revenue component? Or that's already built into the price that you put here in terms of a final, like, a locked-in price?

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

Yes. That's built into the price.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Next question is from Paul Patterson from Glenrock.

Paul Patterson - Glenrock Associates LLC - Analyst

Congratulations, Lee. And I wanted to follow-up on just a few quick things. First of all, the Connecticut grid mod proceeding, it seems like after a quite a bit of a delay and a lot of time, they have now come up with a whole bunch of other proceedings, as you guys mentioned on your -- on the prepared remarks. Any sense as to how long all this might take? And is there any proceeding -- any of the new proceedings that maybe are more of a priority or we should focus on more than the others? I mean, it just seems like quite a bit to cover if you follow what I'm saying?

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

Yes, you're right. I think, Paul, this is Phil, that you're right. It was a lot of time, but recall that the Connecticut PURA, there was a new chair of the PURA. So certainly, in that transition, the chair of any authority wants to set a direction and have some influence over the proceedings. So from the -- shouldn't have been unexpected that there would be some modifications or time frame schedule that came out after the new chair was appointed. But I think, the way you can look at it is, they've set up 11 different topics. And if it were for me, I'd look at the first six that they've done, right? So the first 6 focus on AMI, storage, electric vehicles, some technologies, if there's any change needed in interconnections, et cetera. So the first ones I would think are the most critical and the most priority to the chair. And we have done work in every one of those areas in multiple states. So we think we already have good plans and good proposals that we'd be ready to move forward with. So that's kicking off right now. In terms of what the exact schedule would be, that is still to be determined. But the -- what happens next in the first half of 2020, there's another set of 3 and then there's two more to happen sort of after that. So just sort of the staging of the topics, I think, gives some indication of which ones would be the most important. But how those -- what the timeframe would be for a conclusion, and I don't expect that we'd have any meaningful -- if there was investments to be made, I think it would be beyond 2020. We probably, at best, have the first set completed in 2020 with decisions made and then programs set up for possibly some spending in 2020 and then beyond that. So I think that's the timeframe we're looking at.



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Paul Patterson - *Glenrock Associates LLC - Analyst*

Okay. And then, there's also been some press coverage of, I guess, some proceeding in Connecticut on affordability and service terminations and what have you. And from what I can see, it seems that this is mostly associated so they're identifying people at risk for service cutoffs. But is there anything else we should be thinking about with respect to this? I mean or is that sort of what the focus is? Is there any other element of that? Or is there anything you'd like to add about it in terms of how that is unfolding, I guess?

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

So I think what you're referring to is -- it's separate from this proceeding or from PURA that is going on.

Paul Patterson - *Glenrock Associates LLC - Analyst*

Yes. I didn't mean to suggest that it's part of the PURA stuff?

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

Yes. No, I don't -- No, there is no bigger agenda here for affordability. I think just affordability is on everybody's radar screen, and we want to make sure that we deliver quality products at a price that is affordable for customers, and that's what we do, that's how we design our rates. So there's really no specific agenda for that category yet, and that'll be decided as we move through.

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

Our next question is from Julien from Bank of America.

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

So perhaps, when could you file the proposal on Connecticut, just to follow-up on Paul's question here? Can you -- well, I'll leave it open ended just with respect to, again, just the timeline you guys have articulated here.

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

Yes, I'd say for the first quarter, May -- April would be a timeframe for the first set of items.

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

Got it. And then still sort of broadly thinking the same timeline to start to spend in kind of a year plus?

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

Yes. As I said, I would expect that you'd have some decision in 2020, and you could have some spending in later 2020 for any of these programs into 2021 and beyond.



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

Right. Okay. Excellent. And then perhaps just clean up here. Apologies if I missed this, but commentary about how you are thinking about expansion on gas and acquisitions on that front or more broadly acquisition strategy? I know that there's been some degree of media attention on this, perhaps, it's died down, but just want to come back to sort of the core thought process here? Specifically in Mass?

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

Yes. No, we did not -- we hadn't mentioned -- didn't mention anything, so you didn't miss anything, Julien. I think that we are focused on our core business and running our core business in an effective way. We've been able to deliver that core business growth and affordability and performance in a way that meets our customers and regulatory requirements. We've been able to do that and deliver in the middle of the 5% to 7% growth rate out of our core business. So we are focused on managing those core assets in an effective way and working effectively on our offshore wind business. So that's what we're focused on. We certainly have enough on our plate to work on there. So that would be our continued focus going forward.

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

Got it. And sorry, one more clean up item, if you don't mind. With respect to earnings recognition of tax credits, obviously, another quarter getting a little bit closer to, hopefully, getting some clarity here. How do you think about that contributing, especially given the very specific timeline you've articulated already for the in-service of all these different projects? How do you think about the cadence of that? And how do you think about that contributing to a long-term earning CAGR? Or the consistency of long-term earnings sort of ex these credits?

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

I think our long-term earnings will continue to be primarily driven by our core business. And I think you will see that our core business really is the driver for the 5% to 7% growth rate. And as we've said that when these projects come in to service -- the offshore wind projects come in to service in 2024 in terms of contributing to earnings, and beyond that, that growth rate will improve and increase.

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

Our next question is from Sophie Karp from KeyBanc.

Sophie Karp - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Analyst of Electric Utilities & Power*

Congrats on the quarter.

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

Thank you.

Sophie Karp - *KeyBanc Capital Markets Inc., Research Division - Director and Senior Analyst of Electric Utilities & Power*

Good question I wanted to follow-up on Connecticut. It just seems to me from looking at your slides that they're kind of doing a [docket] to fund stuff first and then rate design later after all of that. So is that an accurate read of the sequence of events here? And if so, is there any rate design changes that should be critical for the proposal that they're considering? Can the existing rate design accommodate all of it? or do you need any changes? Like, what is your wish list there?

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

No. I think you're reading that correctly, Sophie, that sort of the later topics for some future period of time would include rate designs, et cetera. So we don't feel that there's any specific major changes in terms of rate design that would be impacted by any of the other categories that we're working on. There certainly would be no earnings impact for that. But I think, we were able to -- I think there may be some minor -- there may have to be a tracker or there may have to be some other category, but in terms of major rate design, you're right. Anything on that front would be later topic for discussion.

Sophie Karp - KeyBanc Capital Markets Inc., Research Division - Director and Senior Analyst of Electric Utilities & Power

But just to be clear, you wouldn't be deploying any incremental capital until you're clear on their rate design? And maybe additional trackers or things like that?

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

No. No. I -- that's not clear. We are able to, with our current rates and our current design, be able to implement any of the categories that is currently under review. So we do have trackers. We do have sort of placeholders for future grid modernization items to slide in there. So no, we would not need to go through a rate design proceeding to be able to implement these items from the first wave.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Next question is from Travis Miller from Morningstar.

Travis Miller - Morningstar Inc., Research Division - Director of Utilities Research and Strategist

I just wondered if you could give a quick update on the water business developments there? What you're looking at over the next 9 to 12 months? And then related to that acquisition roll up, small acquisition opportunities?

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

This is Phil. I will start off by saying we're very pleased with the performance of our water business. It's ahead of where we thought it would be at this time when Aquarion was brought into the Eversource family. We continue to look for opportunities to learn from each other and implement best practice or integration efforts there to improve operations on both sides of the ledger. We're looking at and continue to look at opportunities to grow that business in a financially disciplined way. And as opportunities present themselves, we will take a look at. So there's nothing different to that strategy. We continue to look for opportunities, whether it be a larger opportunity that has more customers or these smaller acquisitions or roll ups, we'll continue to evaluate them.

Travis Miller - Morningstar Inc., Research Division - Director of Utilities Research and Strategist

Okay. Any regulatory -- major regulatory issues or stuff you see going down the line here in the next, again, kind of 9 to 12 months?

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

Are you referring to in the water business?



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Travis Miller - Morningstar Inc., Research Division - Director of Utilities Research and Strategist

In the water business. Yes.

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

No. Nothing that we see on the horizon in that time period. That's correct.

Travis Miller - Morningstar Inc., Research Division - Director of Utilities Research and Strategist

Okay. And then just real quick. You answered most of my offshore wind questions. But wondering on those contracts and either they are one or the other ones you've had. How much flexibility, if any, is in that pricing? And are there any clauses in terms of buyouts or adjustments or contract cancellations, anything along those lines? If say, cost got out of line or there were timing delays, stuff like that?

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

Yes. I think you could assume that they are just standard contract revisions in terms of commitments to pricing and then standard commitments in terms of getting projects in service. But there's certainly opportunities within a reasonable range, if this changes in dates and all that, that's all provided more already in the contracts.

Jeffrey R. Kotkin - Eversource Energy - VP of IR

Thank you, Travis. Our next question is from Andrew Weisel from Scotia.

Andrew Weisel - Scotia Howard Weil, Research Division - Analyst

I am basically all set. I just want one follow-up, I guess, since you have me in there. The comment you made about lower returns, and you would be comfortable with, in an answer to a prior question for offshore wind that is. How would you think going forward about that trade off? If pricing continues to decline, perhaps faster than your cost, would you be more willing to sacrifice a little bit of the returns or a little bit of the volume of projects won? How do you think of that trade-off?

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

I think some of the -- some of it is speculation of what might happen in the future. But I would say that our answer is that we want to maintain our return levels going forward in that business. So we'll look for opportunities to maintain and participate in auctions or RFPs in a way that we can compete effectively and that, that competition allows us to maintain a mid-teens level of returns for our shareholders.

Andrew Weisel - Scotia Howard Weil, Research Division - Analyst

Okay. So it would need to be mid-teens. It wouldn't need -- it has to be more than a certain level above your regulated distribution returns, right? [TID] I should say.

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

That is correct.

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Jeffrey R. Kotkin - Eversource Energy - VP of IR

All right. Thank you, Andrew. That's the end of the queue for today. So we want to thank you all for joining us. We look forward to seeing most of folks on the call at the EEI Conference starting on Sunday. Take care.

Operator

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

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