

NE UTILITIES

Moderator: Jeffrey Kotkin
August 4, 2008
10:00 am EDT

Coordinator: Welcome to the Northeast Utilities Second Quarter Earnings conference call. All participants will be in a listen-only mode until the formal question and answer session of the conference.

At that time, if you would like to ask a question, you may press star then 1. Today's conference is being recorded. If you have any objections you may disconnect at this time.

Your host for today's call is Mr. Jeffrey Kotkin, Vice President of Investor Relations. Mr. Kotkin, you may begin.

Jeffrey Kotkin: Thank you. Good morning and thank you for joining us. I'm Jeff Kotkin, NU's Vice President for Investor Relations.

Speaking today will be Chuck Shivery, NU's Chairman, President and Chief Executive Officer, David McHale, NU's Senior Vice President and Chief Financial Officer and Lee Olivier, NU Executive vice president and chief operating officer.

Chuck is joining us from the annual EPRI conference in California.

Also with us today are Shirley Payne, our Vice President and Controller, and

Jim Muntz, head of our Transmission segment.

Before we begin, I'd like to remind you that some of the statements made during this conference call may be forward-looking, as defined within the meaning of the Safe Harbor Provision of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties, which may cause the actual results to differ materially from forecasts and projections.

Some of these factors are set forth in the press release issued Friday announcing our earnings for the second quarter of 2008, as well as in the slide packet that we have posted on our Web site to accompany this call.

If you have not yet seen those slides, they're located in the Investor Section of www.nu.com under Presentations and Webcasts.

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, 2007.

Additionally, our explanations of how and why we use certain non-GAAP measures are contained within both our news release and the slide packet and in our most recent 10-Q and 10-K. Now I will turn over the call to Chuck.

Chuck Shivery: Jeff, thank you. Good morning and let me also thank you for joining us.

We're pleased with the success we've achieved on behalf of both our customers and our shareholders during the first half of this year, particularly given the economic and energy cost environment in which we operate.

In fact, as a result of these successes we have raised our earnings guidance for 2008. But before Lee and David provide you with details on our year-to-date results, I want to comment on recent public policy initiatives in New England, as well as the advances in our own strategic initiatives.

As we have discussed before, I firmly believe that this company will continue to succeed if it achieves results that benefit our customers and are consistent with public policy directives of our political and regulatory leadership.

Although New England faces many challenges, the environment in which we operate also provides many opportunities. Our success in building transmission in Southwest Connecticut is a case in point. On July 29, ahead of schedule, we energized our solid core replacement cables beneath Long Island Sound, completing a more reliable high voltage connection between Connecticut and Long Island that will also have a better environmental profile.

In early 2009, we expect to place in service the last of our four major transmission projects that we began discussing publicly in 2001.

These projects are making Southwest Connecticut's transmission systems far more robust and reliable and have enabled grid operators to depend far less frequently on older, inefficient, more costly and less environmentally friendly plants to serve loads in our region that consumes half of Connecticut's electricity.

These projects also have been the most significant factor in our improved financial performance in recent years, creating a strong alignment between customers and investors.

We expect the largest and final Southwest Connecticut project, Middletown to Norwalk, to be completed 9 to 12 months ahead of schedule and at least 5 percent below its \$1.05 billion budget.

We believe our success with Middletown to Norwalk is indicative of one of our most important core competencies -- the ability to site, source and build major transmission projects that can provide significant customer benefits.

Our New England East West Solution, or NEEWS, projects will provide another opportunity to utilize those core competencies.

Later this year, along with National Grid, we will begin filing formal applications to construct a series of transmission lines to enhance the 345-kV interstate grid of southern New England, removing bottlenecks and vulnerabilities to our system and enhancing the flow of more competitive power.

These NEEWS projects will be every bit as significant to our customers and to our investors as the southwest Connecticut projects have been. And Lee will provide a preview of the siting and expected construction schedule shortly.

NEEWS is consistent with our overriding strategy. In addition to its primary purpose of improving the region's reliability, NEEWS will provide a number of secondary benefits. As energy prices and the cost of construction continue to rise and as New England implements its regional greenhouse gas initiatives and renewable portfolio standards, we need to find solutions that will allow our customers to use their energy more efficiently and to obtain more of that energy cost-effectively from renewable and non-carbon emitting sources.

Down the road, NEEWS will help create the infrastructure that will allow us

to access these more remote supply sources. In May, I discussed at some length our efforts to create a structure that would allow significant quantities of new, renewable, non-carbon emitting power to move south from far northern New England and Canada to meet the energy requirements of all of New England. We continue to meet with public policy makers and other utilities in both New England and Canada to develop a framework to allow these initiatives to move forward.

These conversations take two paths. One is to develop a consensus around the economic and environmental value of long-term power arrangements that can provide energy from renewable, non-carbon emitting sources to New England consumers. The other is to identify transmission routes over which we can import power to displace high-cost generation. We believe we are making progress on these initiatives and we'll continue to update you on the progress.

During its recently concluded legislative session, the New Hampshire legislature passed Senate Bill 383, which establishes a commission charged with developing a plan to expand the electric transmission systems in northern New Hampshire to encourage the construction of new renewable generation in this space. The commission must finalize its report by December 1, 2008. We will work closely with New Hampshire officials to see the development of renewable resources as critical to their state's energy future.

Beyond transmission, policymakers in New England continue to create incentives to promote the development of renewable and distributed generation and to better manage and reduce the use of energy. These incentives create new opportunities for customers and for companies involved in the energy business.

In New Hampshire this spring, the legislature approved a bill that allows

regulated utilities to invest in limited amounts of distributed generation on their system or on their customers' premises.

In Connecticut, regulators have become more open to allow utilities to sign longer term contracts to meet the energy requirements of our customers.

Massachusetts probably took the most comprehensive steps this year when Governor Patrick signed "The Green Communities Act of 2007" on July 2.

Among the bill's provisions were the requirement that 80 percent of RGGI auction proceeds be earmarked for energy efficiency and demand response; the removal of the cap on utility expenditures for energy efficiency and demand response; the ability of utilities to sign long-term contracts for renewable resources; and the ability for utilities to be able to own and operate up to 50 megawatts of solar resource generation.

Additionally, as David will discuss, Massachusetts regulators issued a decision last month that requires all utilities to move forward toward full decoupling.

Interestingly, 2008 is turning out to be not only a year of strong operational and financial results for our company, it's also a year of change in how the public and policymakers are viewing utilities such as NU. As in many other parts of the country, customers are asking us not only to provide them with safe and reliable energy delivery; they're asking us to provide solutions to their broader energy issues. We welcome the opportunities this change provides. We'll continue to share with you the progress we will make in this area.

Now let me turn the call over to Lee Olivier.

Lee Olivier: Thank you Chuck and good morning. So far, 2008 has been a good year for NU's operational performance and the execution of our capital deployment plan. I will start with operations.

We're meeting our system-wide reliability goals and we are on or ahead of schedule in all of our major infrastructure projects. Our annual capex program of \$1.3 billion is essentially on target with transmission spending being slightly ahead of schedule. However, distribution spending is slightly behind, primarily due to the slowing economy. We expect our distribution capital expenditures, to the end of this year, to be about \$35 million below our budget.

Turning to generation, our base load coal and wood generation at PSNH was available 98 percent of the time when prices in New England were the highest, and we expect to meet our generation capacity factor charges for the year.

In transmission as Chuck mentioned, we are now projecting completion of all four major southwest Connecticut projects by the first quarter 2009 -- 9 to 12 months ahead of the original schedule of December 2009. We also project that together the four major projects will be less than our original estimated cost of the \$1.68 billion we've been discussing with you over the past several years.

Here is an overview of the status of those major projects.

The Long Island Cable Replacement project entered service on July 29 and provides a much more reliable link between Norwalk, Connecticut and Northport, Long Island. This project was constructed jointly with Long Island Power Authority, and our share of the cost is \$72 million. The only remaining

work on this project is to complete cable burial on the New York side of Long Island Sound in September, which will require a brief outage. Of our remaining two southwest Connecticut projects, the Glenbrook Cables project, between Norwalk and Stamford, is now 93 percent complete and on budget of \$223 million.

Most significantly, our Middletown-Norwalk project is now about 95 percent complete. We expect the 45-mile overhead section to be completed and in service by the end of this year. Construction of the 24-mile underground section should be largely complete late this year; however, we expect testing to continue beyond the end of 2008. As I mentioned previously, every month we shave off the in-service date reduces capitalized costs by about \$4 million. Assuming this project enters service in early 2009, the cost will be at least \$50 million below its \$1.05 billion budget.

Early completion will provide customers with the benefit of improved reliability and reduced market contingency costs almost one year earlier than we had initially projected, while at the same time trimming the costs that would be need be supported of in transmission rates.

For investors, it means that cash flows generated by the line will be fully reflected in our financial statements for nearly all of 2009.

Southwest Connecticut has been a very good story. But it's not the only area of our service territory where we are enhancing our transmission system. There are dozens of other projects throughout our multi-state service territory that together represent about \$200 million or more of transmission spending annually.

In May, CL&P completed a comprehensive \$47 million upgrade of the

Barbour Hill transmission substation in South Windsor, Connecticut that serves a rapidly growing area northeast of Hartford. We added new 345-kV feeds, installed necessary transformers and other substation equipment and rebuilt the substations 115-kV section in time for the peak summer loads.

Like Bethel-Norwalk and dozens of other projects, this expanded substation is serving customers and earning a return for investors this summer.

Our last conference call took place just before we provided updated cost estimates for NEEWS. In mid-May, we updated you on that project. The most significant change was a decision to merge the former Springfield Underground Cables Project into an expanded Greater Springfield Reliability Project. The Greater Springfield Reliability Project is the largest and most complicated project within the NEEWS family of projects. It involves building a new 40-mile, 345-kV line on existing 115-kV right-of-way from Ludlow, Massachusetts to Bloomfield, Connecticut.

Along the way, we need to rebuild much of the 115-kV system in Massachusetts on the same right-of-way, construct two new switching stations, and upgrade a number of substations. It represents \$714 million of the \$1.49 billion we currently expect to spend on the NEEWS family of projects.

In late June, we began meeting with residents and other interested parties in three of the Connecticut towns potentially affected by the Greater Springfield Reliability Project, and we began the same process two weeks ago in Massachusetts. Next month, we expect to receive endorsements from the ISO-New England Reliability Committee for The Greater Springfield Reliability Project and the other two 345-kV projects that comprise the bulk of NEEWS, with ISO-New England's formal approval by year's end.

One of the two others is the Interstate Reliability Project, which will be completed in coordination with National Grid. CL&P's section will connect from Lebanon, Connecticut to the Rhode Island border from which National Grid's section will extend from the Rhode Island border to Millbury, Massachusetts.

The third major part of NEEWS is the Central Connecticut Reliability Project, which will connect from Bloomfield, Connecticut to Watertown, Connecticut. We are proposing to build all projects overhead and within existing rights-of-way. This fall, we plan to file for siting approval of The Greater Springfield Reliability Project, with both the Connecticut Siting Council and the Massachusetts Energy Facilities Siting Board.

Municipal consultations are expected to begin later this month in some of the 11 Connecticut towns in northeast Connecticut affected by the Interstate Reliability Project with an eye on filing in late 2008 for siting council approval. We will seek siting council approval for the Central Connecticut Reliability Project next year.

We expect to complete construction of the NEEWS projects by the end of 2013, assuming our siting applications are approved in a timely fashion and we are not delayed by appeals. We'd expect to begin incurring major capital expenditures in late 2010 and for the peak construction period to be 2011 and 2012. I will remind you that our \$1.49 billion estimate assumes that the projects are all built overhead and consistent with the configurations we will present to the siting authorities. If we are required to underground portions of the project, of course, costs will rise considerably.

Turning to generation, I'm sure you noticed that today we have updated our

cost estimate for installing the Clean Air Project, a wet scrubber for our PSNH Merrimack station in Bow, New Hampshire. Recall that Merrimack is a dual unit, 430-megawatt base load plant that provides some of the lowest cost power produced in New England.

The \$457 million cost of the Clean Air Project reflects firm bids for the major project segments we received this year and incorporates significant increases in a number of costs over the past several years, including increases in the cost of materials, labor and engineering. We expect to begin construction of the scrubber in 2009 and complete it well before the legislative deadline of July 1, 2013 for reducing the mercury emissions at Merrimack.

Recall that PSNH's 1,150 megawatts of generation operates under the traditional cost-of-service rate base model. Since it's largely depreciated and runs primarily on a combination of coal, wood and water, that generation portfolio is the primary reason PSNH's rates are significantly below the New England average.

The Clean Air Project has a number of benefits. First, it will reduce the units' sulfur emissions by more than 90 percent and mercury emissions by 85 percent. The project will also allow PSNH to avoid the purchase of 30,000 sulfur dioxide credits required to be purchased annually. Second, it will maintain a valuable source of below-market energy for PSNH and provide it with a valuable hedge against a run-up in capacity and energy prices.

Once the Clean Air Project is complete, our Merrimack station will be one of the cleanest coal-fired generating plants in America, and will continue to provide our customers with energy below the projected market price and lessen the region's dependency on natural gas. I would also add that Merrimack previously installed a selective catalytic reduction system to

reduce NOx and supplemental precipitators to minimize fine particle matter.

The Clean Air Project not only will help the environment and New Hampshire's energy diversity, it represents a sound investment on behalf of our customers. The 2006 legislation that requires us to install the scrubber also requires New Hampshire regulators to allow us to earn our generation rate base return on equity that is currently 9.81 percent. We look forward to moving ahead with this project this year.

Now let me turn the call over to David McHale.

David McHale: Thank you, Lee, and thank you everyone for joining us.

There are two very positive items I wanted to discuss this morning. First, financially, we had a very strong second quarter as well as a very strong second half of 2008.

Second, because of those results and our confidence about the second half of the year, we raised consolidated earnings guidance for 2008 by 15 cents a share on the low end of the range and 5 cents a share on the high end, resulting in a new range of \$1.80 to \$1.95 a share. That excludes the first quarter Con Ed related litigation charge.

I will discuss the components of our revised guidance in a moment.

Turning to our financial results, as shown in Slide 4, we earned \$57.8 million or 37 cents a share in the second quarter of '08 -- up 19.2 percent from the \$48.5 million we earned in the second quarter of 2007.

In the first half of the year as shown on Slide 5, earnings excluding the first

quarter after-tax litigation charge of \$29.8 million, were \$146 million, or 94 cents a share -- up 18.1 percent from the \$123.6 million, or 80 cents per share, we earned last year.

The primary driver for the results was our transmission segment where we earned in the second quarter \$35.2 million -- up 66.8 percent from the \$21.1 million we earned last year.

For the first half of the year, transmission earnings were \$67.7 million -- up 83 percent from the \$37 million we earned in the first six months of 2007. The driver for transmission earnings growth was the dramatically increased investment in our facilities, particularly in southwest Connecticut.

Our transmission rate base, including 50 percent of our capital expenditures to date on the three newest lines in southwest Connecticut, totaled \$1.77 billion at the end of June, compared with \$1.18 billion a year earlier.

We also benefited in the first half of the year from an order on a rehearing that FERC issued in March on the return on equity levels authorized New England transmission owners. That order, which was retroactive to 2005, generated \$4 million of incremental transmission earnings in the first half of this year.

Last month, FERC approved a 100 basis point incentive for the equity returns on the entire Middletown-Norwalk project and another 46 basis points for the underground portion. This means we will earn an equity return of 12.64 percent on the overhead section of Middletown-Norwalk and a 13.1 percent return on the underground portion.

The 46 basis point adder on the underground portion will result in about \$1 million of additional earnings once all the advance technology plant is in

service.

Also, I should note that within a few months we will be filing an application with FERC seeking incentives for our NEEWS projects. We expect to provide you with more detail on that application at the EEI financial conference in November.

During this past quarter, CL&P represented more than 80 percent of all NU's transmission earnings since Connecticut has been the focus of our construction efforts in recent years. While that's not surprising given our heavy investment in southwest Connecticut, we expect our ratio to change over the next several years as additional large projects are constructed in New Hampshire and Massachusetts. As these new projects are built, we continue to expect that our transmission segment will generate more than 50 percent of our consolidated net income by 2012.

Now turning to the distribution side of the business, our four distribution segments earned \$25.6 million in the second quarter of '08 -- up 9.4 percent from the same period of '07. In the first half of 2008, those segments earned \$79.4 million -- up 10.9 percent from the first half of last year.

In terms of the individual companies, The Connecticut Light & Power Company's distribution segment earned \$14.8 million in the second quarter of '08 and \$33.7 million in the first half of '08, compared with earnings of \$7 million in the second quarter of 2007 and \$27.6 million in the first half of '07.

Those improved results occurred despite a 5.8 percent year-to-year decline in the second quarter kilowatt-hour sales and a 4 percent decline in the first half sales.

The primary driver behind CL&P's improved performance was the \$77.8 million annualized distribution rate increase that was effective February 1 '08. That has been partially offset by higher operating costs, some of which reflect enhanced maintenance programs approved in the rate case, as well as higher amortization expense.

CL&P's distribution regulatory ROE was 8.2 percent for the 12 months ended June 30, and we continue to expect the company to earn around 8 percent for 2008.

PSNH's distribution and generation segments earned \$10.1 million in the second quarter of 2008 -- down from \$12.6 million in the same period of '07, and \$21.6 million in the first half of '08 -- up from \$20.7 in the first half of 2007. PSNH benefited from distribution rate increases effective on July 1, '07 and January 1 of 2008, but those increases have been somewhat offset by higher operating costs in the absence of a one-time, \$2.7 million after-tax benefit recorded in the second half of 2007, after PSNH's rate settlement was approved. That item reflected the recoupment of transmission expenses that had been expensed in 2006.

PSNH's combined distribution in generation regulatory ROE was 8.8 percent over the 12 months ended June 30, 2008, and we expect to end the year around 9 percent.

Western Mass Electric earned \$1.7 million in the second quarter of '08 and \$6.5 million in the first half of the year compared with \$3.5 million in the second quarter of '07 and \$9.4 million in the first half of '07. A \$3 million distribution rate increase that was effective January 1, 2008 was not enough to offset a number of items including a 2.9 percent decline in year- to-date retail sales, a \$1 million second quarter after-tax charge from a regulatory decision

concerning carrying charges on transition costs, as well as storm expense and higher uncollectables.

The \$1 million charge relates to a recent DPU decision regarding the carrying costs on regulatory overrecoveries that are eventually refunded to customers. The DPU ordered us to use a higher ROE in calculating the carrying costs going back to 2005, which in turn created a larger refund.

Western Mass's regulatory ROE for the 12 months ended June 30, 2008 was 8.2 percent -- about 9 percent excluding the regulatory charge, and we expect to end the year with a regulatory ROE of about 8 percent or around 8.5 percent excluding the regulatory charge.

Yankee Gas lost \$1 million in the second quarter of '08 and earned \$17.6 million in the first half of 2008, compared and with earnings of \$300,000 in the second quarter of 2007 and \$13.9 million in the first half of 2007. Yankee's dramatic year-to-date improvement is due to our rate increase that took affect July 1, 2007, but that was more than offset in the second quarter by higher O&M and a negative outcome to our purchased gas docket that related to adjustments made several years ago to unbilled revenues. Specifically, the DPUC disallowed \$5.8 million of the unbilled adjustment from the 2003 PGA year and ordered Yankee to refund that \$5.8 million to customers. This resulted in a \$3.5 million after-tax charge in the second quarter.

Including that charge, Yankee's regulatory ROE for the 12 months ended June 30, '08 was 9.1 percent, about 10 percent, excluding the charge, and we expect to end the year around 8 percent, again including that charge, or around 9 percent, excluding the regulatory charge.

In terms of sales, overall, our electrical retail sales were down about 4.5

percent in the second quarter of '08 compared with 2007. On a weather-adjusted basis, they were down 4.1 percent.

For the first half of the year, as shown in Slide 6, they were down 3.1 percent versus the same period of 2007 and down 2.6 percent on a weather-adjusted basis.

It's worth noting importantly that changes in our sales do not impact our bottom line nearly as much as they once did. In all three electric jurisdictions, the non-distribution revenues are tracked and reconciled to actual costs, so sales variations impact our earnings only to the extent that we have over or underrecoveries in accrued carrying costs.

With respect to distribution revenues, the majority of the approximately 3 cent- per-kilowatt-hour distribution charge we have in each of our states is recovered through fixed rate charges, such as the monthly customer and demand charge. For CL&P, this reflects the fact that in their last rate case, the DPUC began implementation of rate decoupling via increased fix costs recovery in rate design, and will continue to enhance fixed cost recovery in future rate cases, consistent with state legislative policy.

Based on today's rate, CL&P recovers nearly 65 percent of its revenue through non-usage components. You'll find it's a similar number for Western Mass Electric, about 60 percent for PSNH, and about 55 percent for Yankee if the DPUC adopts our latest rate design proposal.

In our view, declines in sales reflect much of the same economic influences that are being experienced throughout the region and nationally. While there are pockets of the economy that exhibit steady results or even growth, it's fair to say that the direct and indirect impacts of increases in energy costs

generally outweigh the positive indicators at this time.

Businesses and consumers are responding to the increasing costs in various ways including installing distributed generation, utilizing our conservation and load management programs and taking steps on their own to both conserve on their usage of electricity and reduce usage in peak hours.

With respect to sales by customer class, the biggest decline is in industrial sales, which are down 8.7 percent this year. For a number of years, we have been experiencing a decline in industrial sales and expect to see the trend continue.

We believe the bulk of the sales decline so far this year is due to two things -- the first one being customer reaction to rising prices, not only of electricity but also of oil, natural gas, gasoline and other consumer goods. The second reason for the decline is an increase in large customer owned co-generation and distributed generation. For distributed generation in Connecticut, Public Act 05-01 authorizes CL&P to recover all loss distribution revenue associated with qualifying projects. This is accomplished via the federally mandated congestion charges as approved by the DPUC. It's also worth noting that for CL&P, 99 percent of industrial revenue was collected through non-energy charges. That figure is 90 percent for Western Mass Electric and about two-thirds with PSNH.

Residential sales were down 3.5 percent, or 2.6 percent on a weather-normalized basis for the first six months of 2008. Feedback from our customers indicate they are proactively taking steps to reduce their usage and respond to the high cost of electricity, concerns about the economy, and their own financial situation and for environmental reasons. At the same time, we continue to see growth from the prior year in the number of residential

customers which helps to offset some of the decline in the average use per residential customer.

On commercial sales -- they were also down for the first six months of this year, 0.6 percent on an actual basis, 0.4 percent weather normalized. Some of this decline is attributable to certain generators who previously took station service from CL&P as retail commercial customers, but this year are served directly by ISO New England as wholesale customers. These station service customers are interconnected to transmission voltage and contribute no distribution revenue, so the loss of station service retail load has no earnings impact.

Unlike our electric sales, Yankee Gas firm sales posted an increase in the second quarter, up 2.4 percent on an actual basis and up 7.4 percent on a weather-adjusted basis. On the actual basis, all of that increase came in the industrial sector, where sales were up 10.6 percent in the quarter and 5.2 percent year-to-date. Approximately half of the industrial growth is due to the addition of customer owned, gas fired distributed generation. We believe the highly favorable pricing comparison today of natural gas versus heating oil is contributing to industrial growth as well.

Now, let me turn to the collection of our customer receivables. Consistent with our sales results over the first six months of the year, our uncollectible expense is also being influenced by the economy. Consistent with trends over the last two to three years, our write-offs as a percent of revenues have increased this year for all of our distribution companies; most notably at Western Mass Electric. As a result, our uncollectible expense in the second quarter was somewhat greater than we expected and our projected expense for the year is somewhat higher as well.

Like our sales, it's important to note that changes to our uncollectible expense do not impact our bottom line on a dollar-per-dollar basis. For example, a portion of the uncollectible expense for each of the electric distribution companies is allocated to the respective energy supply rate and recovered as a tracked expense. For CL&P and Yankee Gas, bad debt write-offs attributable to their hardship customers are tracked and recovered on a dollar-per-dollar basis as authorized by statute. PSNH and Western Mass offer discounts to limited income customers and these amounts are recovered. Nonetheless, the recent increase in our uncollectible expense is real and is one of the factors, along with sale, capital investment and O&M expenses, that we continue to watch closely as we consider the timing and magnitude of our next distribution rate case.

We do not expect any rate filings in 2008, and although we continue to evaluate our rate case strategy, at this time, based on earnings, cost and sales trends, it is probable you'll see rate cases filed by CL&P and PSNH, probably mid-year 2009.

We are hopeful that Yankee Gas can avoid a rate case filing until beyond 2009. It is also probable Western Mass Electric will file in 2009. On July 16, the Massachusetts DPU ordered all utilities in the state to file for full decoupling of unit sales from distribution revenues in their next rate case.

Currently we are in the second year of a two year settlement approved by regulators at the end of '06. That settlement allowed us to raise distribution rates by \$1 million in 2007 and another \$3 million this year and also allowed us to create tracking mechanisms for certain costs including pensions and post retirement medical benefits.

More specifically with regard to the recent ruling, the DPU will honor existing

settlements but want all utilities to go through a contested case by 2012, and ordered utilities to notify DPU by September 2, 2008 when they expect to file that rate case. Therefore, Western Mass will not settle its next case, so, in accordance with this order, we will submit a rate case to the department and proceed with a full evidentiary hearing process. In addition to decoupling, which will be based on fixed amount of revenue by customer, by class, the filing can include aspects of performance based ratemaking to include inflation and capital spending, if warranted, and may include cost tracking mechanisms, if the company can demonstrate that such costs are large, volatile and out of their control. The ruling also allows for recovery of lost base revenues as result of incremental conservation and load management spending.

Now from rate making, let me turn to financing. In the second quarter, we completed the vast majority of the external financings we expected to undertake in 2008. CL&P sold \$300 million of ten-year first mortgage bonds, and NU sold \$250 million of five-year senior notes. Coincidentally, the coupon on both series was 5.65 percent. Also, PSNH sold \$110 million of ten year first mortgage bonds at 6 percent. We were encouraged to see a number of new investors buy significant shares of those issuances and think that bodes well for our debt issuances in future years.

Two other financings are on the calendar for this year, including a \$100 million private placement first mortgage bond at Yankee Gas. Connecticut regulators approved Yankee's issuance request last week.

You may have noticed that also last week Moody's raised its outlook on Yankee Gas to stable from negative, primarily based on last year's rate settlement. We think that bodes well for Yankee's upcoming debt issuance. At this time, all credit ratings on the NU system are "stable".

Additionally, CL&P has a \$62 million tax-exempt first mortgage bond that has a fixed interest rate for a five-year period that ends October 1. We are currently assessing our options for remarketing that tax-exempt bond.

At the end of June, total debt represented about 58 percent of NU's consolidated total capitalization. You may recall that we've said that when total debt approaches 60 percent we'll begin to look at the timing of an equity issuance. We expect to reach 60 percent by the end of 2008, so we continue to expect to issue equity within the next year to maintain our balance sheet position to ensure successful future financings related to our capital investment program.

Even with the issuance of NU equity, we expect our investments to be accretive to EPS and position us for attractive long-term earnings growth.

Cash flows from operations totaled \$270 million in the first half of '08, approximately \$165 million after repayment of rate reduction bonds. We continue to project cash flows of between \$450 million and \$500 million after rate reduction bond payments.

Improvement in the second half will come from a number of factors including the fact that we paid \$49.5 million in the first quarter to settle litigation with Con Ed and will derive about \$19 million of tax benefits from that payment in the second half of this year.

Additionally, net regulatory refunds and underrecoveries totaled \$136 million in the first half of this year and we expect that figure to be much smaller in the second half.

Now before turning this call back to Jeff to start Q&A, I want to discuss our announcement Friday evening in which we raised 2008 guidance. Slide 7 contains the details, but I will start with transmission.

Earlier, I noted the positive impact of recent FERC decisions on our 2008 transmission earnings. We also benefited from strong execution of our capital program that Lee mentioned. As a result of these factors, we raised 2008 EPS guidance from 75 to 85 cents per share to between 85 and 90 cents per share.

We also reviewed our parent and other affiliate guidance in light of the successful NU unsecured debt financing in June at all-in rates lower than we what had imputed into our guidance. Because of that factor, and lower shorter term debt interest expense and lower O&M expenses, we amended our guidance to a loss of 10 cents per share excluding the 19-cent litigation settlement charge, better than the previous projected loss of 10 to 15 cents per share.

As the competitive businesses, we have earned 3 cents per share so far this year and continue to be successful managing our wholesale energy positions, so we are raising our estimate this year from break even to between break even and 5 cents per share.

Finally, the recent Yankee Gas and Western Mass regulatory decisions and lower than projected sales in the first half of 2008 will have some impact on our distribution business.

As a result, we lowered the upper end of our distribution and generation earnings range to \$1.10 per share from \$1.15 per share but we are maintaining the lower end at \$1.05 per share. When we add up all these changes, we are now projecting '08 earnings between \$1.80 and \$1.95 per share excluding the

first quarter litigation charge.

As we have done in the past, we expect to provide you with 2009 earnings guidance and 2009 through 2013 capital expenditure and rate based projections, including the New Hampshire clean air project, at the EEI conference in November.

And lastly, just as a reminder, our third quarter dividend will increase 6.25 percent, a 5 cent per share increase in the annualized rate from 80 cents to 85 cents per share. It was the seventh consecutive year we've raised the annualized rate by 5 cents per share.

Thank you very much for your time and now I'll turn the call back to Jeff.

Jeffrey Kotkin: And I am going to turn the call back to Christine, who can tell you how to enter your questions. Christine?

Coordinator: Thank you, sir. At this time we'd like to begin the question & answer session of the conference. If you would like to ask a question, please press star, then 1. To withdraw your question you may press star then 2.

Once again, if you would like to ask a question at this time, please press star, then 1. One moment for the first question, please

Jeffrey Kotkin: Thank you. Our first question today is from Anthony Crowdell from Jefferies. Anthony?

Anthony Crowdell: Good morning, just wanted to know if you could talk a little about the blended ROE in your transmission business and what do you guys see as the blended ROE when you look at all the projects together at the end of '08 and

also at the end of '09?

David McHale: Anthony, this is David. Let me try to go ahead and address that. I think in the past we've talked about 12 percent, moving up to 12.1 percent, maybe a little higher over the life of our sort of five year numbers that we shared with you. I think we've gotten at least one kind of constructive regulatory order, maybe a couple, since that time including the 50 basis point at or for our technology associated with M-N.

I don't think it's enough to move that number dramatically at this point so we'd see still in that 12, 12.1, 12.2 range and that's subject to the incentive filing that will take place later this year for our NEEWS project. So we'll kind of keep that number in place for the time being, we'll update you at EEI. Any update will be driven around our views on the NEEWS incentives.

Anthony Crowdell: Great, thank you.

Jeffrey Kotkin: Next question is from Ashar Khan from SAC. Ashar?

Ashar Khan: Hi, good morning. Dave, just going back could you just tell us what the transmission Capex is going to end up in '08 and where it is going to be in '09?

Based on the comments, I guess you said you are running faster, I'm trying to understand how Capex is shifting around in this current or next year?

David McHale: Sure, let me have Lee tackle that one for you.

Lee Olivier: Yes, if we look at '08, we'll spend about \$700 million in '08, and in '09, about \$350 million.

Ashar Khan: \$350, that's total?

Lee Olivier: Total in transmission.

Ashar Khan: Okay, I had it down as \$506 in a previous slide. So it's going to be lowered now by \$150?

Jeffrey Kotkin: Ashar, I think when you say \$506 you're referring to the projection that we gave at EEI in November of 2007 when we had the earlier schedule for Middletown-Norwalk. Is that correct?

Ashar Khan: That's probably correct. Okay, that's what I have. That is correct, but that's been amended, of course?

Jeffrey Kotkin: Yes, that's correct, and at EEI we'll give you a new schedule of those up to 2013.

Ashar Khan: 2013, okay. Okay, thank you.

Jeffrey Kotkin: Thanks a lot. Next question is from Jonathan Arnold from Merrill Lynch. Jonathan?

Jonathan Arnold: Good morning.

Jeffrey Kotkin: Good morning.

Jonathan Arnold: Just following up on the discussion on sales that David just made, wondering if you could be a little more specific about how much in the first half lower-than-expected sales have actually impacted earnings? I realize there're several ways in which that you've shielded.

And secondly, what of all kind of assumptions around sales were made for the second half in the distribution guidance where you're not changing it too much? And the earnings impact of that assumption?

David McHale: Jonathan, let me tackle that second piece only because with respect to your first question we really don't have that level of specificity that we share in that level of detail around our disclosures, necessarily.

But let me kind of tell you about what our thoughts are for going into guidance, and obviously we kind of lowered the top piece of that guidance from \$1.15 to \$1.10, driven on our use of sales. And even though I think there is a certain elasticity to sales, I hope you gather from our ratemaking mechanism that we are protected from any revenue recovery.

That said, right now we see that when you weather-normalize CL&P's sales and think about what's going on going forward, we probably continue to see that type of performance, that is kind of underperforming what we had originally thought going into the year in that sort of same time frame. So I think weather normalized we're down about 3.5 percent this year; we'd expect to see that trend going forward.

I think one of the things that we sort of studied just from a behavioral standpoint is whether later this summer or this month, as consumers experienced really warm weather, whether they really turn down their air conditioning when it gets hot a number of consecutive days.

We've done some recent polling of our residential customers and one of the things that they tell us is they are being more proactive in watching their thermostats more closely on both warm days and cool days. So, we'll see if

that persists. But I think in the guidance we see this type of sales experience going forward.

I think we see a similar result for PSNH; not a lot of strength. Their sales environment is better; it's about flat on a weather normalized basis. If there's some erosion - further erosion going forward - we continue to be concerned about our Western Mass jurisdiction primarily because, from an economic standpoint and from an affluence standpoint, they're the weaker of our customer base, and I think their response may be a little bit more negative going forward, and we do see some firming at Yankee Gas.

So, the weak spots, Massachusetts, I think you can expect similar trends CL&P and PSNH that we've seen so far.

Jonathan Arnold: Thank you.

Jeffrey Kotkin: Next question is from Maury May. Maury?

Maury May: Yes, good morning, folks. Congratulations on a good quarter.

Jeffrey Kotkin: Thank you.

Maury May: Question on the Massachusetts energy regulation that was just signed by the Governor last month. I'm unclear as to the utility recovery of the possible cost of 50 megawatts of solar. Is it going to be rate based? Is it going to be owned and leased? How are utilities going to recover there?

Lee Olivier: Maury, this is Lee Olivier. The legislation really leaves it up to each utility to be able to basically file a plan on how much photovoltaic they would want to build and what is the recovery mechanism.

So, it's not determined whether that goes into essentially distribution rate base or do you create a separate rate base with a different return on equity associated with it? So that's something that we are looking at now.

Maury May: Okay, and that's 50 megawatts for the state so what would WMECO's share of that be, I guess it would be a smaller share?

Lee Olivier: That's actually 50 megawatts per utility.

Maury May: Oh, really? Okay.

Lee Olivier: Yeah, so each utility could build up to 50 megawatts.

Maury May: Okay. And what's your best estimate for a kilowatt of solar these days, \$5,000 still a good number?

Lee Olivier: It's around \$6,000 is the last number that I saw without any other subsidies from directly from some other source.

Maury May: Okay, okay good. And how would this be instituted? Would customers request solar on their roofs and would the utility then install it and maintain it and essentially put it into the entire rate base?

Lee Olivier: Yeah, we are, you know, putting together a plan that addresses that. But essentially customers could request it.

Maury May: Okay.

Lee Olivier: And a customer will get a kind of a lease fee for allowing us to install solar on

their facility. We could install solar on our own facilities, as an example, and connect it to the grid. So, there are a number of ways to do that.

Maury May: Would it possibly be socialized upon the entire rate base?

Lee Olivier: Across the state?

Maury May: Well, across the, let's say, you know, the service territory of each utility?

Lee Olivier: It would be socialized across the service territory of each utility.

Maury May: Okay, great. Thank you, Lee.

Lee Olivier: You're welcome.

Jeffrey Kotkin: Thank you, Maury. Our next question is from Paul Patterson from Glenrock. Paul?

Paul Patterson: Hi, guys.

Jeffrey Kotkin: Hi, Paul.

Paul Patterson: Just a little bit more on the rate case expectations in 2009. What kind of ROE, I guess in the middle of 2009 your expectation is that your ROEs will be at that point an appropriate point to go in and get relief. Could you give us a little bit of a flavor for the range in ROE that you think that might, but just in general, what will happen to the ROEs in 2009?

David McHale: Well, I think right now if our strategy stays the course here and we're filing in 2009, and I mentioned that we are hopeful that Yankee may not be in the

hopper quite yet, but for the electric companies that puts 2008 as the test year.

And if you look at a test year in which - and you heard me rattle off the ROEs, year kind of a mid-eight, in some cases, depending on how you sort of adjust for the numbers, and there is no further rate relief for 2009, although in some cases, like CL&P, we've got a rate increase coming on Feb 1, you've got continued pressure on these returns, that's the bad news.

So you're going to go into these cases with a test year that's weak and then a filing year in which the trends are getting increasingly negative and I think that's the backdrop by which you have this dialogue. As well as for CL&P, in particular; still very, very meaningful capital expenditures going forward.

We know the Commission has been supportive of our - the investments in the aging infrastructure so you'll have a dialogue around the type of investments, the degree of investment, how much maintenance capex you want to do on this system. That, too, is the backdrop for our cases going forward.

Paul Patterson: With Connecticut Light & Power, I got the ROEs that you guys were generally sort of expecting for PSNH and WMECO. What is it for Connecticut Light & Power again? I just got distracted momentarily.

David McHale For Connecticut Light & Power Company?

Paul Patterson: Yeah.

David McHale: For 2008 we said we'll be in the about 8 percent range. We haven't given any specificity yet for 2009, haven't given the earnings guidance around 2009. That's something we'll talk about a little bit later in the year.

Paul Patterson: And the test year is going to be 2008. I guess the question sort of comes up why not going in a little bit earlier because it's going to take sometime to get through the process of what have you or - do you follow me, as opposed to waiting until the middle of 2009?

David McHale: Yeah, I do follow you. And I think that's something that we're studying pretty carefully, given this sort of climate that we're in, but it's definitely not out of the question, Paul.

Paul Patterson: Okay. And then the equity issuance, I didn't get the size of that, that you were expecting to do, I guess, near the end of 2008.

David McHale: In today's remarks, I didn't mention the size. In the past, what we had talked about, given the projections around rate base, capex, and the like, given our leverage ratio of 60 percent, we'd probably have to issue about half a billion dollars over the next five years.

And we said in the past, half of that could come in 2009, maybe half a couple of years later. That, too, sort of subject to update when we consolidate our new strategic view later this fall, but those numbers aren't out of the question by any means. If you had \$250 million in your models for 2009, I think you're going to be in a lot of company with where I think the street is right now.

Paul Patterson: Okay, no change. Okay then just finally on the distributed generation side there, which was I guess one of the big drivers for the lower industrial usage. Is pretty much the low hanging fruit in that area sort of already taken by the industrial customers or did you see - where do you see the trend in that going, I guess? And I guess it's mostly Connecticut with the law there, is that correct?

Lee Olivier: Yeah, Paul it is mostly in Connecticut. Although, as Chuck intimated, there is the opportunity for more distributed generation in New Hampshire. With the recent legislation, a distribution company can build up to 6 percent of its peak demand load, and that would be over 115 and 120 megawatts, for instance, for PSNH in New Hampshire.

So, we expect more distributed generation in New Hampshire, we expect that we will be part of that, build that. There is heavy emphasis in that legislation in renewable, so could be photovoltaic or wind. And New Hampshire's, of course, is a very good area for wind power.

In terms of Connecticut, there is still some more opportunity there, the biggest one recently was the Kimberly-Clark facility that went commercial in terms of their distributed generation this year, a fairly large load.

A lot of the other major players like UTC are already on essentially in-house generation. But there are a number of other smaller applications for high-rise buildings and industrial parks that still remain inside of the state.

Paul Patterson: Any perspective of how this with a load management program, the conservation that you are seeing, there's also the peaking generation, where that's going at the DPUC, what that might do with the demand-supply balance in the wholesale market?

Lee Olivier: Well, I think what's the - all of our studies and the IRP that was put together by us and United Illuminating and is now currently being reviewed by the Connecticut Energy Advisory Board basically tells you that there is no more need for additional base load generation.

So, if you factor in the RFP that the DPUC put out a couple of years ago which was for, you know, about 800 megawatts and this other one which is for around 600 megawatts of peaking generation, and if you factor in no retirements of existing plants, Connecticut has a lot of older plants, 40 years old or so, that really essentially don't run, so most of the revenues are created through the forward capacity market.

You don't need base load, you won't need any more peaking plants, and kind of a wild card is what happens to those existing plants that are old and sit idle for the most part.

Of course, the other part of it is, when NEEWS is built, NEEWS brings in additional transfer of capacity into the state. You know, it adds another 1200-1300 megawatts of transfer capacity to bring power in from places like New Hampshire and Massachusetts. So, build out of base load generation in the long-term will probably not be strong inside of Connecticut.

Paul Patterson: Thanks a lot.

Jeffrey Kotkin: Alright, thank you, Paul. Our next question is from Steve Fleishman from Catapult. Steve?

Steve Fleishman: Yeah, hi, gentlemen.

Jeffrey Kotkin: Steve.

Steve Fleishman: Hi, there. Couple of quick questions. First, on the transmission guidance change could you maybe give some sense how much of the change is related to the higher ROE versus essentially the higher rate base and completion of the spend earlier than expected?

David McHale: Steve, this is David. I think clearly most of the change in that guidance is driven by the FERC ROE decision that retroactively kind of reached back and gave us more value from past years, as well as more value in 2008. So that was probably 3 cents of it, you sort of think about it that way. The accelerated spending this year and the success of having bring projects nearer to completion along with the number of other items, smaller items is the balance of it.

Steve Fleishman: Okay, but that was 3 cents out of 10 so it's probably more the higher spend this year?

David McHale: Yeah, it is really what we are doing around Middletown-Norwalk putting, that in position to come into service very, very early in 2009.

Steve Fleishman: Okay. My second question is just, I know Chuck at the beginning mentioned a little bit about the NEEWS project and the initiatives with Canada, Northern New England, and do you think by the end of this year or maybe by your EEI meetings we'll have better definition on your potential opportunities there, and maybe even some of kind of, you know, contract arrangement?

Chuck Shivery: Steve, this is Chuck. I would hope that while by we get to that point in time in the year, let's say November EEI, we've gotten some more definition around what might be possible and can have a more fulsome discussion around that, so that's a pretty good timeframe.

Steve Fleishman: Okay, thank you.

Jeffrey Kotkin: All right, thank you, Steve. Our next question is from Ted Durbin from Goldman Sachs. Ted?

Ted Durbin: Yes, all my questions have been asked, thanks.

Jeffrey Kotkin: All right, very good. Well, we don't have any more questions. If you have any more you want a follow up please give us the call later this morning or this afternoon. Just want to thank everybody for joining us. Take care and have a good day.

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