NORTHEAST UTILITIES PRESENTATION
NOVEMBER 2, 2009
7:15-8:20 a.m. EST

Jeff Kotkin, Vice President, Investor Relations

Good morning. Thank you for joining us this early morning. I'm Jeff Kotkin, NU's Vice President for Investor Relations. We want to really thank you for starting the conference off with us. You have a number of materials at your table, at your chair. There's presentation and news release. There's a bag. If you're missing anything that you want, we have extra copies in the back. There's a little gift. The gift is a zip drive and it actually has our new corporate responsibility report loaded on it. It's two gigabytes, so there's lots of space for other things, including our presentation if you would like to download it later in the conference.

Presenting today will be Chuck Shivery, NU's Chairman, President and Chief Executive Officer, Lee Olivier, NU's Vice President and Chief Operating Officer, and David McHale, NU Executive Vice President, Chief Financial Officer.

Before we begin, I'd like to remind you that some of the statements made during this investor presentation may be forward-looking, as defined within the meaning of the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements are 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 this morning and the slide packet posted on our website and at your seat. If you have not yet seen that news release, we have copies, and if you're on the Webcast, it's up on our website.

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 1st, 2008 and on our Form 10-Q for the second quarter of 2009. Additionally, our explanation of how and why we use certain non-GAAP measures is contained within our news release and in our most recent 10-Q and 10-K. The presentation will go about an hour or so today and we'll stay around for some Q&A and we'll stay around afterward if you want to talk to the NU representatives.

One thing I do want to do before turning over to Chuck is our Treasurer Randy Shoop and Assistant Treasurer Sue Weber are also here today. Maybe if they could stand up. Just so you could see where they are. Randy is over here and Sue's over there. Thank you for joining us, and I'm going to turn this over to Chuck

Chuck Shivery, Chairman, President, and CEO

Well, good morning everyone. Thank you for joining us. This has kind of become a tradition for us now. We have something over 100 people here today, and it's a great way for us to kick off the EEI meeting and the discussion that we have with all of our investors. As you can see from the slide, we really want to cover three things today. The first is the current year—where are we ending up in 2009. You've already seen the news release on third-quarter earnings. We'll spend a little time on some of the accomplishments of '09 because we think that's been important, and then we're going to talk about the near term. This is a little different than we've done in the past. If you were here last year, we would have talked about 2009, pretty exclusively. But as you'll see, when Lee and David give you some additional details, '10 is such a transition year for us that we wanted to talk about '10 and '11. We'll give a lot of details on '10, but we want to talk about '10 and '11 pretty much together. Because what happens in '10 will drive a lot of the back end of '10 earnings. But it also drives an awful lot of 2011 earnings, so we didn't want to separate those two quite the way we have in the past, and so we talked about the near term.

And then the last piece of this is what we have typically done, which is the key elements of our investment strategy over the longer term. As we have done in the past, we will talk about what items are, in fact, in the five-year capital plan and as importantly, we'll talk about what items are not in the five-year capital plan as we look to the region, our customers, and how do we benefit the customers, the region, as well as continue to provide value for our shareholders. So, that's what we're going to try to accomplish today, and if you go to the current year accomplishments, it's pretty impressive, we think.

We've continued to advance the Hydro-Quebec project, the NEEWS project, the Clean Air Project and WMECO's solar initiative. Go back a year ago, we talked about HQ, we talked about NEEWS and we talked about the Clean Air Project. WMECO solar is really new this year, and we're moving along in that area. We have significantly improved regional reliability. We've completed the CL&P AMI pilot. That's one of the more comprehensive pilots that has been conducted. Lee will talk a little more about the details of that and where we go with that and, as Jeff said in his introductory remarks, we published our first Corporate Social Responsibility Report. That's important because this company has always been very much a corporate citizen, and it has done an awful lot of different things over the years to improve the region, improve our customers, but we've never captured it in one spot. So, what that Corporate Responsibility Report does is it puts it all down in one spot, gives us a baseline that shows what we have in fact accomplished, but as importantly, gives us a baseline from which we can set goals going forward. We think strategically that's going to be important to us and strategically we know it is important to you, our investors.

On the financial side, year-to-date net income's up 12%, the dividend was up 12%, year-to-date cash flows were up significantly. David will talk a little bit about that and that clearly has a positive impact on the additional equity that we are going to need, and we did both successful debt and equity offerings in a time that there was a certain amount of dislocation in the financial marketplaces. And operationally, you've seen the O&M numbers. We've put in place very strong cost controls. We've seen productivity gains. Reliability is in fact up, and the transmission upgrades that we've put in place have saved our customers over $400 million as well as providing significant benefits we think to our investors.

Let's go to near term initiatives. And we've shown this as actions and outcomes. We would expect to commence construction of the Greater Springfield part of the NEEWS projects, and as you know, that's about half of that total project. We expect to get additional siting visibility around the other two components of that project, and the outcome of that of course is greater visibility for you to see the timing of capital deployment, which really drives the continuation of our transmission earnings growth. We expect to file the PPA and the TSA for the Hydro-Quebec project late '09, early '10. The PPA obviously is the document that we will use to determine at what price and under what conditions we sell to the ultimate customers.

The TSA is the Transmission Services Agreement. What that actually does is define the operating and financial relationship between ourselves and NSTAR as the two owners of the line and Hydro-Quebec. It will clearly have in it capital structure. It will have in it returns on equity but it will have a lot of operating details in it about how do you maintain the line, how do you improve the line, all of that. The TSA will be filed with FERC, so it's public and you'll see it as soon as we do that. The PPAs obviously will be filed with all the state commissions in the jurisdictions where our customers in the region may want to purchase that power. So, end of this year, first part of next year, you should see both of those documents being filed.

2010 is a rate case year on the distribution side. Many of you know that we have a rate case in progress in New Hampshire right now. We did receive temporary rates August 1. But that process works through, first of all, a filing process, then an opportunity for settlement and ultimately an adjudication process, if settlement is not forthcoming. And we would hope to settle. We have done that in New Hampshire in the past; we think two good outcomes. We would fully expect to be able to do that. But, if we can't, that process will be adjudicated by the middle of next year. Impacts 2010; clearly impacts 2011. We expect to file a WMECO rate case about halfway through next year. Clearly, that won't affect '10, but could affect '11. And the CL&P rate case we expect to file the end of this year, very early next year. That's about a 150-day process although a number of times the commission has asked for an additional 30 days, so figure about six months. The CL&P rate case then will have a potential impact on the back end of 2010 but also very much on 2011. Hence, you can see why this is becoming a year 2010-2011 discussion.

And then the last item is the PSNH Clear Air Project which we typically refer to, I guess colloquially, as the scrubber project. It's moving along really well. Lee will get into some of the additional details on that, but it's providing real benefits to the region and real benefits to our customers and ultimately, will continue to provide value to our shareholders. So that's the near term.

As we've done in the past, we tend to like to talk to you at this time about some of the regional challenges that we see as we try to devise ways or strategies to help our customers meet their needs, to help our region meet its needs, and clearly to provide value to you, our shareholders. I just want to address a few of those that we see right now and we've given you the benefit of indicating whether they are in or out of the capital plan. But if you look at a critical challenge in the region of reducing carbon emissions and reducing our dependence on foreign oil you get a few items. The partnership with NSTAR, the HQ line, 1200 megawatts of low carbon firm power. That's beneficial. That's going to be beneficial to the customers. It's beneficial to the region, clearly provides value to the shareholders, and it is in fact in our five-year capital plan and will, as Lee and David will talk a little bit more about that, they'll go through some additional details. We have six megawatts of solar, of a pilot solar project in Massachusetts in the capital plan, about $41 million, but there is the opportunity under the Green Communities Act to expand that to up to 50 megawatts per utility. The additional megawatts are not in the capital plan, but clearly this is an opportunity for us. And, Lee and David will talk a little bit about it because it's a beneficial tariff under the solar program, as it is in generation in New Hampshire. We expect to work hard on increasing the penetration of

Yankee Gas. Lee's going to talk about the potential growth in Yankee Gas. We see natural gas as the fuel of choice, and we think there's an opportunity to expand our gas business there.

And then the last thing is the development of the electric car. This is, I think, going to be one of the most significant opportunities or one of the most significant events for our region. It's not going to happen today. It's not going to happen tomorrow. In fact, we don't expect to see electric cars being available to us until the end of 2010. But just think, if you could solve the battery technology and wave a wand and take half of the internal combustion engines off the road in New England and replace them with electric vehicles, the tremendous impact, positive impact on the environment. A lot of issues that we have to work our way through. It is an item that's there. It is not in the five-year plan. We're beginning to look at what the technical issues are around it and how do we position ourselves, not only to make sure that New England receives electric vehicles when they're available to us, but also that we resolve some of the technical issues around how do you charge them, when do you charge them, what the grid issues are around that, the grid management issues. So it's not in the plan. It is clearly over the next number of years, I think, going to have a continuing impact on the region, especially on the environment in the region, and it will have an impact on us.

We continue to expand energy efficiency. We have an award-winning conservation and load management program at CL&P. We expect to see that continue to expand as we improve the region's energy efficiency, and we will deploy smart grid technologies. Many of you know that we had filed an application with the DOE for some matching grants on Smart Grid. We did not get that. That really does not change the approach that we're taking with our Smart Grid programs. We mentioned the CL&P pilot. We just filed in Massachusetts for an additional pilot program. Lee will spend a little more time talking about the details of that, but we see Smart Grid as one of those enabling devices that will allow us to accomplish not only energy efficiency, but a lot of distribution productivity savings.

And then the last one is interesting. All of you know that we have a cap-and-trade program in New England. We've had it for a number of years now. It's called RGGI, the Regional Greenhouse Gas Initiative. It extends into New York. It extends into some of the Mid-Atlantic states. It's working. All of you know that we have renewable portfolio standards in New England. Every state in New England and they differ 20% in 2020, 25% in 2025. They change as you go forward. But regardless of what happens in Washington, we have a carbon issue in New England that we have to deal with and we have a renewable issue in New England that we have to deal with.

How do we do that? There's a lot of renewable power available in New England. If you look at northern Vermont, northern New Hampshire and Maine, there are 2,000 megawatts of wind that can get built in that area. There's biomass that can get built in that area. There are a number of renewable generation sources that are available to us. Unlike traditional fossil fuel plants where you build the plant close to the load, renewables you build the plant near the fuel source which means it takes transmission to bring it down. We will go over with you the transmission that is currently in our five-year plan. But as we've done in the past, we try to look out a little bit beyond that five-year plan and say what other transmission, what other renewable resources may be possible.

We don't have it in the five-year plan, other than what we will talk about, but clearly it is our view that we are going to need to, as a region, continue to build out transmission, supply renewables to meet the region’s, renewable portfolio standards no matter what comes out of Washington. So there may be some opportunities there, and it's a concept at this point in time. That concept is a collector line to tie that wind in that's in Maine and northern New Hampshire and Vermont. It's a concept. It could be 2,000 megawatts. It could be $1.5 billion to $2 billion. There are an awful lot of variables around that. But I remember a couple years ago when we first started talking about renewables and low-carbon energy, and Hydro-Quebec was only a concept.

And, as we've moved our way through the last couple years, Hydro-Quebec is getting closer and closer to becoming a reality. This is just a concept, something that we can't do by ourselves, but we have the opportunity to work with a number of the other transmission owners in the region to begin to develop transmission solutions for our customers and for our investors. We wanted to tee that up. Lee's going to give you a little more details on that. It's one of those things that's past the five-year plan, but it is something we will continue to talk about as we go forward. With that, let me turn it over to Lee Olivier who will talk a little bit about the detailed operational accomplishments and what we are planning over the next five years. Thank you.

Lee Olivier, Executive Vice President and COO

Thank you and good morning. It's good to be here with you all this morning. What I'm going to do is to kind of give you an overview of the five-year business planning period. And first of all, as Chuck said, 2009 has been a strong year for us in terms of the execution of our business plan. Productivity has improved across all of our companies. We're getting more work done for less money. Our capital deployment plan is on track and reliability is actually better than target in all of all of our companies. Our capital investment for this new five year business planning period is going to be $6.4 billion, investments that we believe are good for customers, good for shareholders, and good for the environment, and I'll walk you through a series of slides in that 2010-14 capital spend.

Now, as Chuck said, we're coming off a really successful year from the standpoint of the cap ex deployment on our transmission. As a result of the work that we've done in southwest Connecticut, we've received both regional, national and international recognition for those projects. And staying with transmission, when you look at our next big project which is the NEEWS project, we continue to advance that project. We'll soon end the evidentiary hearings in Connecticut probably later this week, starting the evidentiary hearings in Boston on the NEEWS project. Generation plants in New Hampshire are all at or above their target capacity factor so for the year. The Merrimack scrubber is essentially on and under budget so far, and we expect to be about 33% complete on the Merrimack project by the end of this year.

Also, from the standpoint of a distribution business, we have made great strides in terms of re-evaluating our investment in that distribution business, making sure that our investments are timely, not investing any more money than we need to. And the distribution business holds a lot of opportunities going forward for further investments. Also, by the fact that we own the distribution business, we get to develop other business lines, other business segments, whether it's plug-in hybrid vehicles, AMI Smart Grid or other distributed generation like solar generation that we're doing in Massachusetts. And finally, the Yankee

Gas part of the business really does have an opportunity to be able to grow the business. Natural gas, as Chuck said, is the fuel of choice. We see a lot of opportunity there.

Our Wallingford-to-Waterbury distribution gas pipeline expansion which is a major project that we're putting in place to solve reliability issues and also to be able to retire other assets that are at the end of their life, such as our propane system is essentially moving along well. And inside of your package at the end there is an attachment that gives you the project plan of that project. So overall we're very confident in the year that we've had and we're confident in the capital plan as we look forward.

I'm going to start with transmission and I won't spend a lot of time here. Many of you have seen this slide before on the southwest Connecticut projects. But I think in many ways the success that we had here really typifies NU and separates NU out from many of the other companies that are embarking on transmission because we have actually completed the most complex, largest transmission projects anywhere in the US, using both state-of-the-art technology, overhead, underground, undersea, use of the first underground 345 KV solid cable anywhere in the Americas, and, as a result of this, Connecticut customers, Connecticut consumers have saved over $400 million in congestion costs since the first project, which was the Bethel to Norwalk project, went in service.

So for Connecticut, they're getting a more reliable transmission system. They're getting significant savings that far outstrip the revenue requirements, and they're also getting cleaner air. A lot of those plants that are in southwest Connecticut that used to be plants that NU owned that are older, vintage 1950s and 60s plants don't run any more. They've got capacity factors of 1 to 2% a year so the air is cleaner as well. So there are real benefits for the environment, as well as customers. And as you probably know that we have won both the Platts Global Award for Infrastructure and the Edison Institute, Edison award of the year, and this is really a great foundation for the transmission part of the business in which we see a lot of growth opportunities going forward.

Now, the next projects that we're working on—obviously the NEEWS projects, $1.5 billion worth of projects, the Greater Springfield portion of that project which is worth about $714 million, the largest part of the project, about $540 million of that is in the Massachusetts area. We continue to make great progress there. Again, we expect to start the evidentiary hearings today in Boston and we would look at receiving the siting approval in Connecticut early in 2010, and we expect hearings to complete in Massachusetts by the end of this year and to be able to start construction by the middle of 2010 on that project.

Now, ISO-New England is currently reviewing the other two segments. So that's the IRP, the Interstate Reliability Project, and the Central Connecticut portion of the project and essentially what ISO is doing is they're reviewing all the major projects that are inside the regional system plan. Obviously, they're reviewing it against where we are in terms of peak load growth projections. ISO's projected about 2.2% peak load growth over the course of the last five years. They see about a 1.2% peak load growth over the course of the next five years. Of course the other thing that they're looking at is what is the capacity situation. Connecticut has about 1,000 megawatts of new capacity coming on, both some base load and some peaking units. And they also have to look out, what's going on inside of the forward capacity markets. If you follow the forward capacity markets in New England, every time there's a forward capacity auction the floor price drops and it continues to drop. Some plants have delisted in

New England, so ISO has to be aware of what's going to happen to the forward capacity markets. They're currently trying to negotiate kind of a new methodology for forward capacity going forward. And all of those are things that they're factoring into determine the exact right timing of the two segments of the project. We're very confident in those projects, that they're needed. We believe our interactions with the ISO management team, they also believe that as well.

Now, similar to southwest Connecticut, the NEEWS project has savings for customers. We think there are probably about $75 million of differential costs in congestion that will benefit both Connecticut and Massachusetts customers as well. So not only will you solve the reliability piece, you also get savings for customers as well.

I'm going to just go through very quickly this new milestone chart. This is a milestone chart for the NEEWS project, and it's a little bit different from the last one that you've seen. We put more information in it. As the project has evolved, we better understand the various milestones of the project, so I've updated that for you. The green really reflects the changes in the project, and really, most of the green centers around the Interstate and the Central Connecticut portions of the project. They've essentially moved out about one year. Again, we expect the ISO to render a decision on their evaluation probably late this year or early next year. And the driver, as I said, is the need to do better planning, based upon where we are with the economy, where we are with capacity. But the second driver really all centers around the fact that you're trying to site this project in three states with three state siting agencies because National Grid has the piece over in Rhode Island. So, you look at trying to coordinate three state siting agencies, that's had a little bit of difficulty. Each one of them probably lost about three months just trying to get the three of them reconciled.

Looking at the going forward capital, if you look at this slide, it shows you where we've been and where we project to be going forward. You can see we spent about $2.8 billion in transmission capital over the course of the last nine years. We expect to spend about $2.9 billion of capital in the next five years. Now, if you remember, in the last presentation we did here, we said the capital, transmission capital would be $3.4 billion. And of course, this is a lower number, and inside of your presentation in your package there's a waterfall chart that I put in there that really explains how the capital is changed from last year to this year. But essentially, it's really driven by two major things. One is the completion of the southwest Connecticut project a year ahead of schedule. Of course, the Middleton-Norwalk project was a big one. It was over a billion dollar project. That was finished a year ahead of schedule. Two, there's a reduction in two projects in New Hampshire. One is a project in southern New Hampshire that's called the Deerfield-Webster-Coolidge Project, and that was all designed to take care of load flow constraints in southern New Hampshire. And ISO made a decision that because of the immediacy of that issue, they wanted to put in a shorter term and a lower cost solution. So instead of taking two to three years to site a line upgrade and get it built, they decided to go with capacitor banks and this essentially takes it from $300 million to about $30 million. But it's not a permanent fix. And that line will have to be upgraded. But it buys them about four to five years. So there's about $300 million of reduction there.

The other issue is in northern New Hampshire we had a project called the Northern Loop. It was essentially designed to connect renewables up in the Berlin area of northern New Hampshire and as a result of a major wind generator that dropped out of the ISO-New England queue, it took about 150 megawatts of wind capacity out, the upgrade that we had that would have taken that 115-KV line to a 230-KV line is not needed at this time. Now, when the next wind generator goes back into the ISO in New England, we will have to upgrade that line again to a 230-KV line. Just can't project when that will be.

If you look out the NEEWS project, you can see we spent a little over $100 million to date. We've got about $1.35 billion to go over the course of this planning period. And if you'll notice on the HVDC line, that project has increased by about $150 million. The project which was originally a $700 million project is now a $900 million project. And of course, NSTAR has a 25% share of that $900 million so our share would be $675 million. That's a good price of furthering the engineering, furthering the design between us and Hydro-Quebec, better understanding of the right-of-ways, so we're very confident around that $900 million price. Now, as the project continues to develop, we'll refine that even further as we go forward. But we think that's a good price.

The blue is a series of other projects that I'm going to cover on the next slide. Now, as you can see on this slide, the other projects are spread throughout the three-state region with New Hampshire having the largest share. That's going to be a trend that you see going forward. More and more of our transmission will be built in New Hampshire and away from Connecticut because, by and large, we will have most of the transmission issues resolved in Connecticut.

Now, it's important to note that about 70% of the transmission that you see there either is already in the Regional System Plan or does not need to be included in the Regional System Plan. The other 31%, or about $280 million, will need Regional System Plan review. Those are projects that are farther out in the five-year forecast. And if you look under CL&P, you see about $100 million of investment, transmission investment, that's reliability-based in the Stamford area. And we have a coinciding $100 million investment in distribution there because Stamford, despite the economy, is really the fastest growing area of the state. There's major economic development going on, particularly in the east end, with multi-use kinds of dwellings. So we see a big investment in transmission in that area, and that $100 million is part of that $280 million. So the certainty around this $900 million other transmission spend, for us, is very high.

Now, Chuck mentioned in his presentation, transmission opportunities beyond the HVDC line. And, as you can see from this slide, there is a significant amount of indigenous renewable resources that reside inside New England, which really for New England, you don't have to go to South Dakota to go get that energy. You don't have to go to the Midwest to get it. It's actually right here in New England. The issue, clearly, is that much of it needs transmission interconnection. As you can see from the slide, the renewable portfolio requirements for New England by the year 2020 is 22,800 gigawatt-hours. And you go by the math, it's about 6,600 gigawatt hours that exist now. There's about 3,500 gigawatt-hours that is in development. Either in the ISO queue or being actively developed which leaves a gap of about 12,700 gigawatt-hours. Looking at the slide, you see the Class One renewables that could fill this gap.

Everything from biomass, obviously, to wind, fuel cells in Connecticut are actually Class One renewables. And if you look down, from the standpoint of a nameplate megawatt electric, you see you would need to build about 3,800 megawatts of capacity and I'll put in there, about 3,300 megawatts of wind, actually more wind there but it's off-shore. Off-shore wind is about two to two and-a-half times more expensive than on-shore. You would want to go with on-shore wind, biomass, land fill and others before you went as an example off-shore. So we are working with the other transmission operators and owners inside of New England, putting together a view of how to build this connector line which would run about 350 miles, take about 2,000 megawatts of wind and biomass energy, and get that down into the southern New England area. We had a series of meetings with New England transmission owners, and our Transmission president, Jim Muntz, has this as his assignment, and so far the feedback on this has been very positive. So we'll continue to update you as we move this forward and we make more headway.

Looking at, the generation business, clearly the key aspect of generation is finishing the Merrimack Clean Air scrubber. That's a $457 million project that essentially takes the rate base, the generation rate base in New Hampshire, from $370 to $857 million, significant increase and a really good regulatory paradigm from the standpoint of a 9.81% return on equity and pretty much all of your costs fully tracking. When it's done it will take 90% of the sulfur in the air, takes out 80% of the mercury, and if you've been following where the EPA is going on mercury, very much looks like they're going to enact regulation around mercury abatement, so I think in many ways we're ahead of schedule. We are again 33% complete by the end of this year.

And also we're working on solar generation. We've got six megawatts underway right now. We have an RFP out for engineering, construction and materials. We can build up to 50 megawatts issued of our own jurisdiction and we're looking on how to go forward because the real issue there is how much burden do you want to put on ratepayers. If we could socialize that cost across all of Massachusetts versus the WMECO area, that's better for customers and we'd be more than happy to move forward with that. Overall, generation moving forward successfully.

Distribution business you can see in the slide, we've taken a lot of initiatives to reduce our capital spend over the course of the five-year business planning period. You can see capital spending is down from 2009 to 2008 and we've reduced our infrastructure spending by about $191 million, as compared to the previous plan, with about $142 million reduction between the 2010-2011 period. Now, these reduced investments are somewhat offset by the fact that now we're going to purchase all of our vehicles, all of the heavy vehicles, like bucket trucks which normally we lease. Just as a result of where credit markets are, it's actually a lot better deal for customers to purchase the vehicles now and capitalize them over time, so that somewhat offsets that. But the big issue is that we've really done a lot of studies, had a team approach, working on distribution capital investment for about six months and saved close to $200 million there.

O&M we've been very aggressive. We have a number of initiatives on process improvement. Our O&M is down about $20 million versus last year, about $10 to $12 million of that is non-reoccurring O&M, in other words savings permanently captured. We have more initiatives to go after and reduce our O&M further. And I would note that all of our maintenance is essentially on track. We have not deferred our maintenance; we've actually never done more maintenance than we have so far this year. So it's a good story in terms of execution around the business.

When you look out the distribution spend and also the generation cap ex, you can see it's pretty flat over the period of time. Some slight declines over the period, again, which is better management of distribution, and this makes the assumption the very modest growth in terms of an economic recovery starting late in 2010. So, relatively flat from what you've seen before.

And in regards to the AMI pilot, as Chuck said, we had a very highly successful AMI pilot in Connecticut. It was not only a technology pilot but a tariff pilot to really understand what drives customers' behaviors. We learned a lot about that. We're in the process of working with the a consultant. We'll provide a report to the Connecticut DPUC next month and we believe there's a case to be made, even without the DOE subsidies, to do a broader roll-out implementation of AMI because we've seen from the standpoint of some customers up to 23% savings with AMI associated with technology. We have a pilot coming up in Massachusetts in 2011, and you can see there's kind of a schedule there. We'll do the filings for that in 2010 but we see a broader roll-out of AMI in the future.

Just finally, on natural gas, we do see natural gas as an area for growth for us, and it's kind of a different story than the electric part of the distribution business. Natural gas, as I'm sure all of you know no longer tracks the world oil price, and as a result of that there are significant opportunities because of the shale gas fields that are near to New England, particularly the Marcellus Shale gas fields and they provide opportunities that include benefit from the standpoint of greater energy security due to less oil imports, lower cost to customers because there's a real nice differential. The lowest differential between a customer class between oil and gas is about a 23% savings if you convert to gas. If you look at the highest savings, about 54% for a multi-dwelling usage. We have seen a significant amount of customers that want to sign up, and clearly gas has a much cleaner environmental footprint than oil. Now, along our mains, we've got about 86% penetration inside of our service territory, but we only have in the total service territory about 35% penetration. So again, great opportunity.

One of the things that we're doing is building this pipeline that goes from Waterbury over to the Wallingford greater Cheshire area. There we have issues with a lot of customers that want to be converted to gas but can't be because we have insufficient distribution transmission capacity. So we have the $67 million project, 16 miles long. We're starting now in the initial project planning phase for that project. It will allow us to leverage the LNG facility that we built—the $107 million facility that we built in Waterbury—and also one of the things as I've said before, we have to retire our propane plants because of their age. This is actually the lowest cost solution to do both. So we have high confidence that this will go forward. So with that, I think I'm going to turn it over to Dave McHale.

Dave McHale, executive vice president and CFO

Thank you, Lee. Good morning. I am going to take a few moments here to translate all this into some financial perspective for you. Spend a little bit of time on our 2009 results. Running down the list here a little bit, I think we've affirmed guidance for today. We feel pretty good about where we are this year. Even the quarter, pretty much on expectation for us. we'll end up in that $1.80, $1.90 range. We've given you a financial perspective here that gives us an ability, even with the headwinds that we're facing in this economy, to grow our earnings modestly going into 2010 and bottom line we remain very, very optimistic about the strategy, about the resiliency of this strategy and about our ability to grow enterprise value of this company over time, but we've got, like every company here, we've got some issues to deal with in 2010.

And in 2010, that's the year we really try to forge ahead on the regulatory front. We'll talk more about that in a moment. We laid out the new capital plan for you. It's a little lower than 2008. $6.4 billion. I think the good news there is it takes a little less external financing to make this thing happen. I think that's good in this marketplace. That translates into for us a very, very competitive and I think a very attractive long-term growth rate. We changed the way we talk about that a little bit. We'll get back to that in a couple of the slides going forward. If you think about what we're trying to engineer here, it's still a very balanced earnings growth and dividend growth equation going forward.

In terms of the results for the quarter, and for the year-to-date, you can see that overall we've increased earnings about 12% for the nine months ended September. That translates into $1.43 a share versus $1.41 last year. Again, consistent with what we were trying to achieve this year as an organization. A lot of that of course driven by the transmission business, a lot of that driven by the investment. Rate base is up from $1.65 billion or thereabouts last year to $2.5 billion, that's almost a 50% increase in the transmission rate base alone. Across our regulated companies, the operating companies we've seen improvement selectively in some of those companies. We'll show you that in a moment. Overall, right on course for 2009.

When you look at some of the individual companies, you can see that for Massachusetts and for New Hampshire, we're showing improvement in the Connecticut companies. They're probably feeling the economy a little bit more than some the others. There's some consistency here in terms of some of the themes that we're facing.

Sales are clearly off this year, but sales more in the commercial and industrial sectors. Residential sales are actually up across our companies on a weather-normalized basis, and as I sort of been talking to some of the other CFOs in some of the other companies just over the last day or so, that seems to be a consistent theme within the industry. Residential showing some growth but commercial and industrial really showing some weakness. The power of our business model, and you know this from some of our conversations in the past, is our rate design is set up to really hedge, if you will, through fixed price recovery or fixed charge recoveries the decline in sales for commercial and industrial, and actually where our rate design is a little more volumetric in the residential space, so we've actually been getting a little bit of revenue outperformance there because sales are up.

Those subtleties are really important to study when you're looking at the earnings power of these companies going forward. We don't call that revenue decoupling per se, but it acts very much in the same way. Another theme of course is that these companies are facing higher pension expenses; they're facing higher uncollectible expense. I think our view around uncollectible expense, it will land harder in our Connecticut companies, not far off what we said earlier in the year, but uncollectible expense, a lot of it is tracked for us but as it relates to what is not tracked, maybe $35 to upwards of $40 million, I'll tell you that I think that's probably the peak of this cycle. It's been creeping up since about 2005. Like to think this is about it in terms of where we are in the cycle. And, I think from here actually you may get some benefit going forward. Also, a theme that we've been talking about is when you look at the returns off of these companies, they are not earning their authorized returns which means we are queuing up from a new regulatory cycle.

We are already in that with New Hampshire but the Connecticut company CL&P is earning about 7% on its equity capital right now, will end up the year about 7%. New Hampshire is about 7 - 7.5%. We'll end in that neighborhood again this year. For Massachusetts, they're closer to 8.5% now. They'll stay in that 8 to 8.5% and for the gas company, about the same. That puts us square in the middle of really having to focus now on regulatory solutions across each of these companies.

When you think about what we actually have done, just sort of reflecting on some history for just a moment, it was in this hotel, maybe this very room that in 2005 we announced the divestiture or our intent to divest of all of our competitive businesses, and since 2005 from a compounded annual growth rate we have grown this company's earnings, EPS, by about 12%. Now, I know this is a what have you done for me lately market, but nevertheless, pretty good result. We completely transformed the company, almost doubled the amount of net income in this company, diversified the earnings, put a lot of money into transmission. You can see this in the pie chart. Really diversified the amount of revenues for sure and the asset contribution, but shifted it towards those high quality, more predictable FERC cash flows with a more meaningful return. And that's a big part of what we're going to do going forward for sure but we still have a very meaningful part of our business in the distribution company.

Here's our new guidance. I know you've seen this already. We stay the course for 2009 and for 2010, we sort of work from the bottom up here, $1.80 to $2.00. That $1.90 midpoint, a little over the midpoint of where we are for this year. That's my comment about positioned for some modest growth. When you look at where we are on the NU parent or the competitive side of the business, I think high certainty around that number. I think also high certainty around the transmission number as well. Where the real range is this year is for the distribution company. No surprise. We've got a range of $0.95 to $1.05 a share. The big swing factor there will be the rate case assumption for both New Hampshire and for Connecticut and we are moving very quickly to actually filing that Connecticut case. We'll touch on that in a little bit more.

We’ve tried to lay out some of the drivers, not only for 2010, because I think it's important to study what this management team is doing in 2010 to set up 2011 and then beyond. So I won't call '10 a transition year. I think of it more as a positioning year. But when you look at some of the positive drivers, we know there will be rate relief for Public Service of New Hampshire. In fact there already is some that was granted earlier this year. We will have a case for CL&P. Tough to predict the outcome. We know whatever the outcome is it will be accretive to what ROE we're earning today. We'll touch on that in a moment. That average rate base, even though it is a lower CapEx year in 2009 and 2010, that average rate base is continuing to creep up and will drive earnings in 2010. So what are some of those headwinds? Similar themes that we talked about in the past and maybe some other companies are discussing as well. Pension costs will continue to climb. I think the good news there is that pension costs have traditionally been a regulatory recovery item that hasn't–while it goes through a tremendous amount of scrutiny—has not been all that contentious an issue, but those will be seams in our cases. When you look at uncollectible costs, this year they may peak in the $40 million range, maybe drift down a little bit, but I think that's something we need to watch and the industry needs to watch. Our sales environment going forward calls for not the down 4% we're seeing this year, although it's only about 2% weather adjusted, but down about 1%. We'll show you how that works in a moment. Of course, operating expenses through the business as we add capital. Whether it's interest, depreciation, taxes and the like, you should expect that those costs will also work their way to the bottom line.

Now, the good news is that for the Connecticut, New Hampshire companies, some of those costs are going to get swept up into new rates and will get mitigated by rate relief. But when we think about for example just managing O&M and we've had a lot of success in the last two years in particular, we see an escalation environment for 2010 that's probably around labor, probably around 3%, non-labor, probably around 2%. So, 2 to 3% for us is kind of where we're working right now although we've been flat for 2009. So, some of these cost savings you're seeing are sustainable. Some, less sustainable but 2 to 3% is kind of where we are on an O&M base for us. That's about $660, $670 million. Our O&M is about $1.2 billion but a lot of that is tracked, as you know. Generation is tracked. Transmission is tracked. Other expenses are tracked. So it’s two to three on roughly $660 million. Now, some of that also will get recovered in the rate case. It that just sizes it up.

I want to talk a little about pension expense too. We've tried to, in the past, quantify some of that for you. I think you will see, particularly in New Hampshire which has had the most underfunded position, you'll see higher expense there. We will make a contribution, at least that's our view today, in 2010, into our defined benefit program. We haven't done that in over 20 years. I think it's going to be a small number, about $50 million. It will get recovered in rate. In 2011, it will be a larger number.

Now, this is really assumptions-based, but if you had to just stop today and think about where growth rates might be or discount rates, it's probably close to $200 to $250 million. That will get recovered in rates. Some of that will be financed. It's all tax deductible, as you know. But that's one of the reasons why you see a 6 to 9% growth rate going forward. Some of what has to get funded there will get financed.

When you look into 2011, I think it's going to be a much growthier year for us. We said above trend. What's trend for us? When you think 7.5% as the midpoint of our growth rate, we think 2011 will be significantly above that sort of midpoint growth. And it should be for obvious reasons. When you look at where we are with Greater Springfield, those capital expenditures will really accelerate. You'll be on a full run rate with the other distribution rate increase items.

I put below in the lower quadrant here other pressures that we'll see. Sales we'll continue to watch, operating expensing and the like. And just a comment on our competitive businesses. We have been putting $0.05, $0.06, $0.07 a share to the bottom line. I don't want people to model that forever. You know that these businesses are rolling off around 2012 and '13. Come 2011 or so it's probably a breakeven business, so this year we’re very pleased with our results but it's not sustainable. It wasn't meant to be sustainable, that business will disappear in about three or four years.

On the sales side, just we're kind of pausing on this. I think this will be a theme as you talk to companies this week. We've got a couple of depictions here. First, on the right is our view of 2010 and interestingly, we broke this out not by company this year but by category because I think it's important to study what's happening in each of these sectors. We look for a recovery in 2010. As I think Lee said, it's more back half of 2010, admittedly some of our comments are shaped by one of the market data services that we use which is Global Insight, but probably a sales environment that's down about 1%, less so around the residential class, and probably breakeven around 2011. If you look longer term, our perspective is, particularly with distributed generation technologies and with conservation and load management, we're probably in an environment where we're kind of flat in terms of overall sales across all of our companies.

The graphic here on the left demonstrates that perhaps, just perhaps on a weather normalized basis, we've sort of bottomed out. If you look at this orange piece, it's showing you that quarter-to-quarter for residential sales in particular you're starting to go from less negative which seems to be a common theme these days, to now actually seeing year-over-year increases in the residential spot. A lot of conjecture about why that's happening. A lot of anecdotal evidence about customers really staying in their homes, using power, not traveling, entertaining at home and the like. Our models going forward would say if there's an economic recovery, customers are going to get out of their homes and start spending money. I think you see that in the longer term trends where even residential is projected to be up strong.

Among our companies, we look at CL&P and PSNH in 2010 being down about a percent and Western Mass Electric being about breakeven. The last point here too, this is the subtlety; rate design hedges a lot of this downside. About half of our costs are recovered through fixed charges on our residential sales and 80 to 90% of our revenue requirements are covered in our commercial industrial sales.

Rate case activity, perhaps you've seen this depiction before. We're already in motion in New Hampshire. We will be filing shortly in Connecticut. Massachusetts statutorily must file next year, and Yankee Gas, although returns are not in the 7% range, it's something we continue to assess. We're putting a lot of capital into the ground there. I think going forward, even though we see a nice sales environment for gas—actually, gas sales are up about 4% weather-normalizes this year, 8% actual, we think there eventually there will be some rate pressures that we need to tackle.

We show you here our authorized returns. Some of those are a little dated in terms of when they were authorized. We'll bring those current in our request for New Hampshire. We submitted testimony that demonstrates there's a market ROE out there that's 11 to 11.5%. We asked for 10.5% in this environment. That's probably a little bit of a precursor for what some our thinking will be around our Connecticut case. But New Hampshire regulators have already granted interim revenue of $25 million. We have a full ask of $51 million on the table. They'll decide that later this spring and we asked for a step increase of $17 million on July 1st of 2010. So we think there's some value there that we will receive, but we're still in the midst of that case.

In Connecticut, there are similar themes around needing revenue to recover our increased capital program. While we face some cost pressures, we've done a lot with the commission there to discuss where we are on some of these fronts, what pressures we're seeing. Our willingness and our ability to invest in aging infrastructure and into things like the smart grid and AMI and the like, and this whole trade-off that we've discussed. Everyone has discussed in the past around the fair and reasonable return aspect of doing business in this space. Western Mass for us will be a case that will be a full-blown cost of service case. We must file for revenue decoupling. You'll see a proposal there. The other companies in

Massachusetts are going through this process right now, particularly National Grid. And as I said, Yankee Gas is on the horizon.

People have often asked us, well, how are you thinking about Connecticut, why will this be different? We've earned 7% there forever. There's a different dynamic being established right now in Connecticut. It doesn't mean that we own this dynamic necessarily. If you look at this diagram and trace back the dynamics around the last two cases in particular. What you find is we've been in an environment where the cost of generation—we are price takers in this market--around these rate cases has been one in which prices through customers who stay on standard offers are going up 20%. In the last case, our standard offer was up 25 to 30%. That's the backdrop of going in and asking for a modest distribution increase. I think this backdrop is very different for two reasons. One, we already know based on what we hedged for 2010 that prices are coming down. If you remain on standard offer, right now you pay about $0.125 a kilowatt hour.

What you see on this green bar, the $0.11388 is a combination of last resort which is commercial industrial and standard offer. So, we still have 1,500 megawatts of load on the standard offer, including the residential customers. If you're on that, it costs you about $0.125. We already procured about 95% of the energy for 2010, and when we do the math that's going to come in closer to $0.115. And when you do the math and reset again on July 1st, it's going to come down closer to $0.11. There will be some noise around that, depending on over- recoveries and under-recoveries and the like, but that's the backdrop that will be filing this case. Very, very different than we've seen in the past.

I think the second aspect as we already know, and this is really quite mathematical, some of you helped this company issue back in the year 2000 rate reduction bonds. $1.4 billion of transition bonds are coming due. They will mature on December 30th of 2010. That's about $220 or $230 million of revenue requirements that disappears from customer bills. I say that as if it's magic, it's not magic. Customers have paid those costs, and it has hung heavy on their bills. It's worth about a penny a kilowatt hour. That disappears. So, when you think about the backdrop, less pressure into the known and predictable shaping around generation, less pressure around the rate reduction bonds, I think that takes some of the pressure out of the political and perhaps politicized environment that we're in. I think that it's real, and it's not to suggest that we own that head room by any means. We've got to make sure that the investments we're making in distribution makes sense for our customers but I think this backdrop is a lot more attractive than we've seen in the past.

Just quickly, 2012 and beyond, you know these investments. Lee and Chuck have spoken to them. Let me translate this into the year by year cap ex. This graphic probably requires a little bit of study. You can do this back in the shop. It kind of lines up by segment. Last year's story and then this year's cap ex. The $7 billion versus the $6.4 billion. So, you see that in '10, '11, and '12, largely being driven by transmission. Less capital being deployed into the business. There's also around some of the reshaping of NEEWS. NEEWS stayed the course. It's a $1.5 billion. It's in the plan. Some of the capital moves out in time. HQ, we've upsized that to $900 million, but some of that moves out in time a little bit. But this is the overall translation. And when you look at the overall CAGR on rate case, it's still a very impressive growth rate for the underlying rate base. It amounts to the 9.5% compounded annual growth for all of our businesses combined.

But because that capital is pushed off in time a little bit, and because cash flow is stronger and FFO is stronger, the amount of external financing that we need to generate this growth is much less. In the past we had talked about doing equity in 2011, maybe coming back a couple years later. I don't see that environment anymore. Over the next half decade, I think we see maybe the need for a single equity offering. I don't think it's any earlier than 2012 and if you look at a company that's about $4 billion in size, we said $300 million may be needed in 2012 when we look at how we equities the company. That's a pretty small percent of the total market cap of this company. I think that's very achievable. Even the debt, I think we see, particularly in 2010 will be less than we had previously seen. Over the first three years I think cash flow from operations, net cash flow less cap ex. is up about $400 million.

When we look at what happens to this company's asset base going forward, between transmission and generation, it's more than half the assets but it's more than 60% of our earnings by the time we get into 2014, so that's sort of fully tracking, more predictable both in terms of earnings and cash flow, segment of our overall asset base will be tied up in those two businesses.

Just want to clarify a point, I think Chuck raised this earlier. We like to help you organize your thinking about what is in this base case, what is in this model, and what is not. You can read this a little bit later but the column here to my right is sort of things that we are serious about as an organization, things that we are working on but they're not as high up the probability curve, and I think as a philosophy, we put into our business plan what we think is achievable, what we think we will do, and where there's a lot of transparency. When you look at other initiatives whether it's smart grid or AMI or this very substantial new renewable line that we're thinking through in northern New England as well as potential undergrounding for NEEWS or the reemergence of some of these southern New Hampshire projects that have been removed, there's still a substantial amount of investment or rate base opportunities, particularly in the transmission space, that remains outside of the 6 to 9%, remains outside of the 9% CAGR story, that I think is something that will land in this plan going forward but it's not in the base plan.

Just to finish out that financing story. It will take about $8.1 billion of cash to get this thing done over the next five years. A lot of this is from internally generated cash, more than half of that, it's a slice on the bottom, $4.2 billion. We do have some debt refinancing coming up, some maturities, but not until 2012 so we don't really see pressure around refinancing activity and in the middle you'll see new financing of about $3 billion. Only 10% of that is from common equity, the balance from debt. All of our debt ratings are on stable, all refreshed—well some refreshed lately by Fitch and Moody's, perhaps you've seen those reports. I feel very good about where we are. Big focus on FFO to interest and FFO to debt. Less on leverage but we still have sort of a self-imposed leverage of 60%-ish on total debt to total cap. Feel this is very achievable. I said earlier in 2010 we'll be doing some debt, $340 million of debt; nothing for The Connecticut Light and Power Company. We'll do about $170 million or so for PSNH maybe $90 million for Western Mass Electric. We'll do $80 million for our gas company, Yankee Gas.

The dividend story for us I think has also been an attractive part of our overall total return profile. We've had a 12% dividend increase this year, we're at a $0.95 per share run rate now. You can see the graphic on the right is the history. We remain in that sort of 50% dividend payout ratio target. If you go midpoint right now, it's about 51, 52%. Don't get too excited if it's 49, 52%. But it's about that 50%, so as we grow the earnings, we can really grow this dividend I think and without compromising the amount of total equity we have to raise over time. I think that can remain a very attractive part of our overall profile as well.

Let me just finish up. I want to be respectful of your time. We are at this point poised to complete a successful 2009. I think 2010 guidance puts us in a position to continue to grow this company's earnings. I think we're making major progress on our major projects, HQ, NEEWS, I'll even put solar in there for Massachusetts, an important part from a policy perspective, what we're trying to do. Distribution remains attractive from an investment opportunity standpoint. I know we have to get the economics right. We will get the economics right. But it remains an important part of our business, and when you look at the amount of equity financing we need to do, it's minimal. EPS and CAGR, growth rate going forward is attractive. The dividend growth rate going forward is attractive and I think bottom line is you get a good balanced dividend, earnings perspective, and from a valuation standpoint I think it's a good investment for our shareholders. Let me stop there and Jeff, I know we have a few minutes left for questions.

Jeff Kotkin

We will take some questions, and Chuck and Lee and Dave will be up here for them. For the folks on the webcast, I'm going to repeat the question and then we'll answer them. But just to make sure the folks who are on the webcast know what talking about. Any questions out there? The question is the difference between our rate of rate base growth and the rate of EPS growth.

David McHale

I think there's really only one new factor in that. We've always said there's a dispersion of potential returns that you could earn in this business. Certainly there's some equity that's put behind this business that does dilute the EPS growth rate from the rate base CAGR, so depending on your assumption of what you think we can achieve there, that will vary it. The new assumption this year is how much we will put into our defined benefits plan, how much we have to sort of finance there.

So, if we're kind of at the lower end of that growth rate, it may be in part because we actually have to make, although tax-deductible, contributions, some of those contributions may have to be equitized. That said, all those contributions get paid back from regulators but they get paid back over time through the accounting smoothing. So those are some of the dynamics of how those two growth rates vary.

Jeff Kotkin

Any other questions? All right. Well, I want to thank everybody for being here today. We're going to stay around, so if you have some more questions you want to ask us, please join us. Later today our drop-in visitation is from 2:30 to 4:30 in conference room 312, which is in the south tower. And again, thank you very much for joining us.