

Eversource Energy (ES) Management on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-05-19 Earnings Summary

 *Press Release*  *10-Q*

EPS of \$0.98 beats by \$0.03 | Revenue of \$2.18B (-4.21% Y/Y) misses by \$-86.67M

Earning Call Audio

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Eversource Energy (NYSE:ES) Q3 2019 Earnings Conference Call November 6, 2019
9:00 AM ET

Company Participants

Jeffrey Kotkin - VP of IR

Philip Lembo - CFO

Leon Olivier - EVP for Enterprise Energy Strategy

John Moreira - Treasurer

Mike Ausere - VP for Business Development

Conference Call Participants

Michael Weinstein - Credit Suisse

Shahriar Pourreza - Guggenheim

Insoo Kim - Goldman Sachs

Steve Fleishman - Wolfe Research

Praful Mehta - Citi

Paul Patterson - Glenrock

Julien Dumoulin-Smith - Bank of America

Sophie Karp - KeyBanc

Travis Miller - Morningstar

Andrew Weisel - Scotia

Operator

Welcome to the Eversource Energy Q3 2019 Results Conference Call. My name is John and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note that this conference is being recorded. And now I'll turn the call over to Jeff Kotkin.

Jeffrey Kotkin

Thank you very much, John. Good morning and thank you for joining us. I'm Jeff Kotkin, Eversource Energy's Vice President for Investor Relations. During this call, we'll be referencing slides that we posted last night on our website. And as you can see on slide 1, some of the statements made during this investor call may be forward-looking as defined within the meaning of the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995.

These forward-looking statements are based on management's current expectations and are subject to risks and uncertainty which may cause the actual results to differ materially from forecasts and projections. These factors are set forth in the news release issued

yesterday. Additional information about the various factors that may cause actual results to differ can be found in our Annual Report on Form 10-K for the year ended December 31, 2018, and our Form 10-Q for the three months ended June 30, 2019.

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

Speaking today will be Phil Lembo, our Executive Vice President and CFO. Also joining us today are Leon Olivier, our Executive Vice President for Enterprise Energy Strategy and Business Development; John Moreira, our Treasurer and Senior VP for Finance and Regulatory; and Mike Ausere, our VP for Business Development.

Now, I will turn to slide 2 and turn over the call to Phil.

Philip Lembo

Thank you, Jeff. And today I will cover the third quarter 2019 financial results. I'll provide an update on our key regulatory dockets. Also, discuss our regions offshore wind development efforts and some recent financing activities we've had. We're \$0.98 per share in the quarter compared to \$0.91 per share in the third quarter of 2018. Electric Distribution earnings totaled \$0.61 per share in the third quarter of 2019 compared with earnings of \$0.55 per share in 2018. High distribution revenues which resulted mostly from base rate changes implemented earlier in the year as well as lower operations and maintenance expense were partially offset by higher depreciation and interest expense.

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

Our Natural Gas Distribution segment loss \$0.05 per share in the third quarter of 2019 compared with a loss of \$0.04 per share in 2018. The decline was expected and was due to the implementation of gradual revenue decoupling at Yankee Gas late last year. As I've discussed on earlier earnings calls, the decoupling boosted revenues in the first quarter

but lowered second and third quarter revenues when customer demand is at its lowest. The impact of revenue decoupling in the fourth quarter will be fairly neutral compared to last year.

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

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

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

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

Also our ability to respond effectively to weather-related emergency conditions at our systems continues to receive favorable reviews from our customers and policymakers. In late July, we responded to an extensive damage on Cape Cod caused by a rare set of three tornadoes.

About three weeks ago, a nor'easter with winds of up to 90 miles an hour also impacted Cape Cod causing significant damage not only in Southeastern Massachusetts but in Eastern Connecticut and Coastal New Hampshire as well. Our crews organized quickly around last month's storms and with the aid of significant outside resources, we restored power to nearly every one of about 475,000 outages in about two days.

Another storm on Halloween night resulted in significant tree cause outages up and down the East Coast. That storm caused more than 250,000 customer outages with the worst damage in Connecticut and New Hampshire. Thousands of our employees and outside line and tree workers contributed to a very strong restoration effort.

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

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

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

have not yet included any grid modernization expenditures in our capital forecast for the CL&P in Massachusetts, we expect NTAR Electric to complete the \$233 million of investments previously approved by the

Department of Public Utilities by the end of next year.

An updated grid modernization proposal covering the years 2021 through 2023 is due to the Massachusetts regulator by the middle of next year. Many of you have asked us recently when we'll provide a comprehensive update on our capital investment plans. So, I'll just say as we've done in each of the past six years we'll provide you with the update when we release our year-end results, which we expect to do in the second half of February.

Turning to offshore wind in slide 4. Massachusetts announced the results of its second offshore wind solicitation last week in which Mayflower wind was selected as the winning bidder. Mayflower's pricing is expected to become public in January when that contract is due to be filed with the state regulators for approval. Based on public statements made to date, we believe that Mayflower bid a price that would not have allowed us to earn the returns that we consider adequate as we did at the same level.

In Connecticut, bids were submitted at the end of September following up on a 2,000 megawatt offshore wind authorization that the legislature approved in June. Three parties submitted bids for these 400 megawatts each. We submitted one bid for 400 megawatts and other bids for other levels of capacity. Later this month, we expect the decision on this RFP in Connecticut.

In New York, we and Ørsted signed a 25-year contract last month with the New York State Energy Research & Development Authority relating to the supply of 880 megawatts of offshore wind into the New York market. The pricing is disclosed and it is \$110.37 cents per megawatt hour flat for 25 years.

It was made public when the contract was signed two weeks ago. That pricing and the pricing of the other power purchase agreements we have secured in Connecticut, Rhode Island and Long Islands, each of which is 20 years, will support the mid-teen returns on

equity that we expect and that we have been discussing with you on prior earnings call. We expect these returns will significantly exceed those of any of our regulated segments.

Several analysts on this call have asked us over the past week or so whether the mid-teen returns are still applicable given Ørsted's statement last week that it expects unlevered returns across its global portfolio to be in the 7% to 8% range going forward down 50 basis points from its previous range.

Ørsted also indicated that for (inaudible) project is now anticipating an average capacity factor 48% rather than 48% to 50% due to new understandings of wind dynamics around large offshore wind farms.

Additionally on projects that acquired from deep water, Ørsted indicated that certain transmission cost estimates has increased. As Ørsted's partner on some of the former deep water projects, we have been jointly developing some of the US cost estimates Ørsted decided. There are several factors that support our continued expectation that we will be able to earn in the mid-teens of these three projects noted on the slide in front of you.

First, the transmission cost estimates that we've been assuming this year in our discussions with investors has not changed. They are consistent with Ørsted's current expectations but are of more recent vintage and higher than the cost estimates available to Ørsted shortly after we closed this deep water acquisition last fall.

Also, our assumed returns for offshore wind investments are consistent with Ørsted's current 7% to 8% range.

Just a takeaway here is our guidance remains in place. We expect our offshore wind investments to produce returns on equity in the mid-teens. Our mid-teens ROE expectations are based on our current enterprise-wide capitalization and capacity factors in the 48% to 50% range across our portfolio of wind turbines in the US. We continue to be very encouraged by the bascule knowledge and experience of our partner and by the interactions that we've all had with federal and state regulators.

Turning to financing on slide 5. We essentially ramped up our 2019 financing program in the third quarter with nearly \$500 million of long-term debt issuances across Connecticut Light and Power, Yankee Gas and NSTAR Gas. We expect to close on a small debt issuance at Aquarion Connecticut before year-end. But that's the only remaining financing in 2019.

The decline in interest rates this year is certainly resulting in interest savings not only in the long-term debt issuances shown on this slide but also on our commercial paper borrowings where rates are down by more than 50 basis points compared with the end of 2018. Moreover, interest rate benefits our customers and our shareholders.

You recall that we sold 1.3 billion of new common shares in June with about 12 million of the 18 million shares subject to forward sale arrangement that will settle before the end of May 2020. To-date, we have not settled any of the forward sale arrangements.

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

Before I turn the call back over to Jeff, I mean, I just wanted to take a minute, I'm sure you've heard that Lee Olivier recently announced his decision to retire at the end of the year. I want to extend my thanks and appreciation to Lee for a tremendous amount of work he has done for nearly a fifth year utility career to make our company and our industry much better off.

After a highly successful career as a senior nuclear officer, Lee arrived at Northeast Utilities nearly two decades ago and led one of the most successful build-outs of an electric transmission system anywhere in the country.

He later moved on to the position of Chief Operating Officer at NU, and then at the merged Eversource, before beginning what may be his favorite position, which is overseeing our enterprise-wide strategy and business development efforts.

I'm sure, a decade from now, I'm convinced Lee will be known as one of the fathers of a thriving US offshore wind business. Lee and I have worked together for more than 20 years. And so, we've the front-end and back-end. He is an outstanding leader and just a wonderful person to work with. All of us wish Lee a wonderful retirement commencing at the end of next month, and I want to thank him for his advice and counsel, and joining us on his last major call. So, thank you, Lee.

Leon Olivier

Well, thank you very much, Phil. I really appreciate it – appreciate those remarks, and it's been great to work with you for all of these years.

Philip Lembo

Thanks.

Leon Olivier

You're a great leader and a financial engineer yourself. Thank you.

Philip Lembo

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

Jeffrey Kotkin

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

Question-and-Answer Session

Operator

Thank you. And now begin the question-and-answer session. [Operator Instructions] Our first question this morning is from Mike Weinstein from Credit Suisse.

Jeffrey Kotkin

Good morning, Mike.

Michael Weinstein

Hey. Good morning. I believe this is quite a move. Congratulations and we're all going to miss you I think. It's been a long time ever since the news projects. That's kind of the earliest thing I remember you famous for.

Jeffrey Kotkin

Well, thank you very much.

Michael Weinstein

Well, congratulations again.

Jeffrey Kotkin

You too.

Michael Weinstein

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

Philip Lembo

Yes, Mike. This is Phil. We'll – we notified the department that we would be in soon for filing and we expect to make that filing shortly here in the next days or weeks. So I say the – there is – there are a few nuances to the filing that do address some of the issues that we know of and that could potentially come out of additional work efforts and requirements from the Merrimack Valley incident. So I think you will see, when we do a filing of this in creative ways that we want to address and get ahead on. You know, certainly, you know, cost that would be moving up in terms of safety and engineering, professional engineering requirements that are now in effect that weren't necessarily in effect during our testier

period. So, I think you're right that it will be, in some respects, sort of a basic filing, but there will be some creative ways that we can address some of the issues that have come up thus far and provide placeholders for things to come up in the future.

Michael Weinstein

And then maybe just with that same line of thought, maybe you could just give a broad overview of the categories of updates that might be coming in February? You know, not necessarily the numbers so much.

Philip Lembo

Well, in categories, it would be the long-term earnings guidance. And as we've done for many years now, we would adjust that moving forward, you know, add a year onto that. So, less year or add a year so that the long-term earnings guidance will have our guidance for the current year period. We'll give a capital forecast by category, you know, showing, you know, what capital spending looks like over that five-year period.

We'll provide, as we've talked about, a little bit more detail now that the bids will be all-in and developed and pricing known and probably all public by that time. You know, more information sort of on the offshore wind side of things. And then any current regulatory or other matters we see out there.

Philip Lembo

Mike, any other questions?

Michael Weinstein

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

Jeffrey Kotkin

Yes, I think it's important, Mike, to just note that I think Ørsted's updates were to reconcile back to a Capital Markets Day from about a year ago last November. Our guidance is really based on current information, and all of our disclosed items have already been considered in the guidance and expectations. So we continue to be comfortable and provide forecast in the mid-teens on ROEs. And we continue to look at those costs and schedule estimates as we go forward.

Michael Weinstein

Great. Terrific. Thank you.

Jeffrey Kotkin

All right. Thanks, Mike.

Operator

Our next question is from Shahriar Pourreza from Guggenheim. Good morning, Shahriar.

Shahriar Pourreza

Hey. Good morning, guys. Can you hear me?

Jeffrey Kotkin

Yes.

Philip Lembo

Yes, we can hear you.

Shahriar Pourreza

Okay. Great. Let me just on – just on the rate cases, could we just get a quick update on New Hampshire's proceedings? Is there – I guess is there any opportunity to settle after discovery, how we start a discussion that's going with them?

Jeffrey Kotkin

Yes, Shahriar. This is Phil. There's absolutely an opportunity...

Shahriar Pourreza

Hey, Phil.

Jeffrey Kotkin

To do that, to settle. In fact, on the official schedule, there's time allocated for settlement conference. So that is really the way that things proceed in New Hampshire. So there is an ability to get to that settlement. And then there is a conclusion. I mentioned in May. That's in the – on the docket, so I would expect that once we go through all the discovery and all the data (inaudible) that it provides a better basis for having some meaningful settlement discussions.

Shahriar Pourreza

Got it. And, Phil, you mentioned placeholder items and the NSTAR gasoline. Can you just elaborate on what you will do there?

Jeffrey Kotkin

Yes. Sure. And this is true for some of our other filing to another states where we might have an approval for a tracker that is approved and had rate case. But there – how much is in that category would have to be defined in a future filing. So for example, we have these safety and reliability filings that are approved trackers, how the recovery works, what the procedures will be.

And then periodically, we go in with a plan or this is what the spending will be for the next year or the next few years. We have the same thing like on energy efficiency. We have A, an approved method for collecting it but then we have a plan that goes in each year. So that's what I'm referring to is that our mechanisms would be established and then as resources come up. So you wouldn't have to go back in for a base rate type of filing, you'd have the mechanism there.

Shahriar Pourreza

Got it. Got it. And then just lastly, I know past discussions seemed to point to potentially getting a CapEx update at EEI not necessarily wrong you plan forward and – but more of a CapEx update around your base business, right. Is that the rationale to not providing update, is it a function because of the New Hampshire case is taking longer than maybe you anticipated, so I'm kind of curious in why not on the base business without having a roll forward, could it seem like maybe past discussions centered on the potential update at EEI?

Jeffrey Kotkin

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

Shahriar Pourreza

Got it. Thanks. And, Lee, congratulations, you're definitely going to be missed.

Leon Olivier

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

Shahriar Pourreza

We'll stop to take you out for a nice steak dinner, though...

Jeffrey Kotkin

Give it a go.

Shahriar Pourreza

...and Jack.

Jeffrey Kotkin

Give it a go – and Jerry. Why not? Why not?

Shahriar Pourreza

You got it.

Jeffrey Kotkin

All right. All right. Thanks. Thanks, Shahriar.

Operator

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

Insoo Kim

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

Jeffrey Kotkin

Yes, we are, and that is, that is our plan.

Insoo Kim

Understood. And appreciating on the Connecticut grid mod side, it'll pretty probably be a lengthy process of discussing all that various items that you could potentially invest in. And, I think, you've talked in the past about pieces of those and how much that could potentially be, for example, AMI in Connecticut and Massachusetts being a \$1 billion opportunity, and as well. But just is there any way to frame what the total opportunity set

longer term would be for the Connecticut portion of all these items? I'm assuming And, you know, they won't really be in the base plan when you roll forward the CapEx plan in February.

Jeffrey Kotkin

That's correct, Insoo. Unless it's something that we have a clear line of sight for, it would not be. And just to be clear, it's not in our plans now. So, we've always talked about in Connecticut as a potential program that would require investments to modernize the grid into various categories.

And in AML, sort of, we've mentioned a number of \$1 billion program, and that's really across Massachusetts and Connecticut. So, you know, the number of customers, you know, are fairly consistent across the two states. But you might have different vintages of meters so – But, you know, it's probably 50/50 across the states I think is a good determination of that.

But, again, we're – we don't know, you know, what will come out of the proceeding that are going on. We feel that we have effective programs that can address all of the 11 categories that the Connecticut PURA has established and it's good to see sort of in the first six of them, they're really, you know – half of them or more are already programs that we're working on in other states. So, we feel good about our ability to deliver effectively there. But the timing and how much the will be will be determined going forward.

Insoo Kim

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

Leon Olivier

Well, thank you very much. I appreciate it. Good luck to you.

Jeffrey Kotkin

All right.

Leon Olivier

Thanks, Insoo.

Operator

Next question this morning is from Steve Fleishman from Wolfe. Good morning, Steve.

Steve Fleishman

Hey, good morning and congrats, Lee. Wish you the best.

Leon Olivier

Thank you, Steve.

Steve Fleishman

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

Leon Olivier

Yes, Steve. This is Lee. I think that the indication that Bowman now given is that they all have a draft of supplemental study in first quarter of next year. And they're looking at the full array of issues as an example. When these leases were let some years ago, they really did not understand the scale or magnitude of the development across all of these areas.

And at that time, I think it was just probably a bit of an oversight didn't really understand what the fisheries – actually, how they work, how they fish, whether it's straddlers or crustacean fishermen and so forth. And then, there were issues that have arisen around the layouts and how mariners would be able to access to and from ports in the area, and also with the Coast Guard in terms of how they do their search and rescue organizations.

I think all of those are better understood now and those are the kinds of issues that will be factored in into their analysis. I think we – the joint venture and feel very good about that. We've consistently in terms of our layouts and arrays have met with and got feedback from fisheries and mariners in the coast guard. So I think our arrays will be laid out as such there will be minimum issues in the industry, the offshore wind industry in the Northeast where our leases are all collaboratively working together to come up with a sub-common arrays and layouts such it will help facilitate the bulk process once they complete their supplemental EIS. And so we don't think there is any delays right now that we can forecast in any of our projects this time.

Steve Fleishman

Thank you.

Leon Olivier

You're welcome.

Operator

The next question is Praful Mehta from Citi. Good morning, Praful.

Praful Mehta

Hi, guys, and congratulations, Phil.

Leon Olivier

Thanks a million, Praful. Appreciate it.

Praful Mehta

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

Jeffrey Kotkin

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

Praful Mehta

Got you. And you didn't move out the construction – the start construction. I know it's got pushed hard but it's the same as you had before?

Jeffrey Kotkin

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

Praful Mehta

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

Jeffrey Kotkin

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

Leon Olivier

Yes. So, I guess I'd add to that no other really – in the guidance we've given it's all based on the pricing that's under the contract there.

Jeffrey Kotkin

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

Praful Mehta

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

Leon Olivier

Yes. That's built into the price like a locked-in price.

Jeffrey Kotkin

Yes. That's built into the price.

Leon Olivier

The fixed price.

Praful Mehta

Okay. Perfect.

Leon Olivier

It's built into the fixed price.

Praful Mehta

Thanks.

Leon Olivier

Yes.

Praful Mehta

Got you. Thanks so much, guys.

Leon Olivier

Thank you.

Jeffrey Kotkin

Thanks, Praful.

Operator

Our next question is from Paul Patterson from Glenrock. Good morning, Paul.

Jeffrey Kotkin

Good morning.

Paul Patterson

How are you doing?

Jeffrey Kotkin

All right.

Paul Patterson

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

Jeffrey Kotkin

Yes. So, I think, Paul, this is Phil, that you're right. There's – there was a lot of time, but recall that the Connecticut PURA, there was a new Chair of the PURA. So, certainly, in that transition, the Chair of any authority wants to, to set a direction and have some influence over the proceedings. So, it probably shouldn't have been unexpected that it would be some modifications or time frame schedule that came out with – after the new Chair was appointed. But – so, I think, the way you could look at it is they set up 11 different topics and, if you were me, I'd look at the first six that they've done, right?

So, the first – the first six focus on AMI, storage, electric vehicles, some technologies, if there's any change needed in interconnections, etcetera. So, the first one is I would think of the most critical and the most priority to the chair. And we have done work in every one of those areas in multiple states so we think we already have good plans and good proposals that we'd be ready to move forward with. So, that's kicking off right now. In terms of what the exact schedule will be, that is still to be determined. But the first – what happens next in the first half of 2020 there's another set of three and then there's two more to happen sort of after that.

So, just sort of the staging of the topics I think gives some indication of which ones would be the most important. But how those – what the time frame would be for a conclusion, I don't expect that we have any meaningful if there were investments to be made I think it'd be beyond 2020. You'd probably at best have the first set completed in 2020 with decisions made and then programs set up for possibly some spending in 2020 and then beyond that. So, I think that's the time frame we're looking at.

Paul Patterson

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

Jeffrey Kotkin

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

Paul Patterson

Yes, yes. I didn't mean to suggest this part of the stuff.

Jeffrey Kotkin

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

Paul Patterson

Okay. Awesome. Thanks so much.

Jeffrey Kotkin

Thank you, Paul.

Operator

Our next question is from Julien from Bank of America. Good morning, Julien.

Julien Dumoulin-Smith

Hey. Good morning, Phil. Thank you. So perhaps when could you file the proposal in Connecticut just to follow up on Paul's question here? Can you – well are an open ended just with respect again the timeline you guys have articulated here?

Jeffrey Kotkin

Yes. I'd say for the first quarter – April would be a time frame for the first set of items.

Julien Dumoulin-Smith

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

Jeffrey Kotkin

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

Julien Dumoulin-Smith

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

Jeffrey Kotkin

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

Julien Dumoulin-Smith

Got it. Sorry. One more cleanup item if you don't mind. With respect to earnings recognition of tax credits, obviously, another quarter, getting a little bit closer and hoping getting some clarity here, how do you think about that contributing especially given the very specific time line you articulated already for the in-service of all these different

projects how do you think about the cadence of that and how do you think about that contributing to the long-term earnings CAGR or the consistency of long-term earnings sort of ex these credits?

Jeffrey Kotkin

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

Julien Dumoulin-Smith

Got it. Okay. Fair enough. I'll leave it there. Thank you, guys.

Jeffrey Kotkin

All right. Thanks, Julien.

Operator

Our next question is from Sophie Karp from KeyBanc. Good morning, Sophie.

Sophie Karp

Good morning, guys. Congrats on the quarter.

Jeffrey Kotkin

Thank you.

Sophie Karp

Got a question I wanted to follow up on Connecticut. It just seems to me, from looking at your slides, that they're kind of doing AMI and all this fun stuff first and then redesign later after all of that. So, is that the accurate read of the sequence of events here? And if so, is

there any rate design changes that should be critical for the proposals that they're considering or can your existing rate design accommodate all of it or do you need any changes like what is your wish list there?

Jeffrey Kotkin

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

Sophie Karp

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

Jeffrey Kotkin

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

Sophie Karp

Got it. All right. Thank you. That's all I had.

Jeffrey Kotkin

All right. Thanks, Sophie.

Operator

Next question is from Travis Miller from Morningstar. Good morning, Travis.

Travis Miller

Good morning. Thank you. I just wonder if you could give a quick update on the water business developments there, what you're looking at over the next kind of 9 to 12 months, and then related to that acquisition rollup, small acquisition opportunities.

Philip Lembo

Hi, Travis. How are you doing? This is Phil. I will start off by saying we're very pleased with the performance of our water business. It's ahead of where we thought it would be at this time when Aquarion was brought into the Eversource family. We continue to look for opportunities to learn from each other and implement best practice or integration efforts there to improve operations on both sides of the ledger.

We're looking at and continue to look at opportunities to grow that business in a financially disciplined way. And as opportunities present themselves, we will take a look at them. So there's nothing different to that strategy. We continue to look for opportunities whether it be a opportunity that has more customers of the smaller acquisitions, of roll-ups, we'll continue to evaluate them.

Travis Miller

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

Jeffrey Kotkin

Are you referring to in the water business?

Travis Miller

In the water business. Yes.

Jeffrey Kotkin

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

Travis Miller

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

Jeffrey Kotkin

Yes. I think you can assume that this is just standard contract revisions in terms of commitments to pricing and then standard commitments in terms of getting projects and service, but there are certainly opportunities within a reasonable range of these changes in dates and all that. That's all provided for already in the contracts.

Travis Miller

Okay. Great. Thanks a lot.

Operator

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

Andrew Weisel

Hey. Good morning, everyone. I am basically all set. Just one follow-up I guess since you have me in here. The comment you made about lower returns and you would have been comfortable with the answer to a prior question for offshore wind that is. How would you think going forward about that trade-offs? If pricing continues to decline perhaps faster than your costs, would you be will – more willing to sacrifice a little bit of the returns or a little bit of the volume of projects won? How do you think of that tradeoffs?

Jeffrey Kotkin

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

Travis Miller

Okay. So it would be to be mid-teens, it wouldn't mean – it has to be more than a certain level above your regulated distribution returns, right?

Jeffrey Kotkin

Yes.

Travis Miller

I could say.

Jeffrey Kotkin

Yes. That is correct.

Travis Miller

Okay. Thank you.

Jeffrey Kotkin

All right. Thank you, Andrew.

Jeffrey Kotkin

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

Operator

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