

**New Hampshire Electric Cooperative, Inc.
Minutes of the Meeting of the
Corporate Services Committee**

**Zoom Meeting
March 15, 2024 8:30 a.m.**

Present: Corporate Services Committee members: Ed French (Chair), Alana Albee, Leo Dwyer, and Bill Darcy
Other Board members: Tom Mongeon, Carolyn Kedersha, Sharon Davis, and Harry Viens
NHEC employees: Alyssa Clemens Roberts, Mike Jennings, Jeremy Clark, Kristen Taylor, Autumn Doan, Josh Mazzei, Kelley Achenbach, Sonja Gonzalez, Carla Munoz, and Edee Murphy (Recording)
Others Present: Paul Phillips-NHEC Counsel

Meeting Called to Order

Chair French called the meeting to order at 8:30 a.m.

Agenda Review

There were no suggested changes to the agenda.

2023 Balanced Scorecard Incentive Payout

Ms. Clemens Roberts drew attention to the related documents in the meeting packet and welcomed any questions.

Discussion:

- ❖ Referencing the capitalized portion of payroll, Mr. Dwyer asked if 25% of labor, in general, goes to capitalized projects; Ms. Clemens Roberts replied, yes. Mr. Dwyer also asked if payroll reported in the P&L is the gross amount including the capital projects amount, or the net amount. Ms. Doan replied that what is posted in the meeting packet is total payroll; what is booked to the P&L is 75% of the total payroll – the other 25% is the capitalized projects.
- ❖ Mr. Mongeon commented he respects that NHEC sets goals and looks at performance, but wondered if the committee would consider any mitigating circumstances to provide some additional monies to staff; 36% just does not feel good for staff that is working so hard and a lot of folks are wearing two hats. Chair French responded that management has made a recommendation to this committee and the process should be followed. He thanked Mr. Mongeon for his comment and added that if there is a discussion, it needs to be at the full board meeting.

Upon motion by Mr. Darcy, seconded by Mr. Dwyer, it was

VOTED: Based on achievement of 36% of the established 2023 Balanced Scorecard (BSC) goals, the Corporate Services Committee recommends the Board of Directors authorize the payment of \$184,269 to eligible individuals in accordance with the provisions of the NHEC Success Sharing Plan.

Vote was unanimous.

Rate Pilot Review (Transactive Energy Rate and Net Metering Time of Day)

In addition to detailed information included in the meeting packet, Mr. Clark shared a Rate Pilot Review and Proposal presentation including the following highlights:

- 2024 Rate Timeline
- Transactive Energy Rate (TER)
 - Transactive Energy Rate Background
 - Transactive Energy Rate Lessons Learned

- Transactive Energy Rate Future Considerations:
 - Staff recommends ending TER pilot, effective with bills rendered on or after May 1, 2024.
 - Industry standardization in data interfaces could allow for “copy/paste engineering” approach for future advancement.
 - Staff will continue to explore device-based readings, such as EV charging and existing time of day rate structures.

Discussion on TER:

- ❖ Directors thanked staff for their efforts and lessons learned on this pilot.
- ❖ Mr. Darcy commented he thinks it is evident from the presentation that the cost of this program far exceeds the benefits for NHEC members as a whole; he commended staff for the courage to discontinue this program in the best interest of its members.
- ❖ In answer to a question about algorithms, Mr. Jennings explained unusual weather months where the peaks might be outside of the normal forecasted hourly peak ranges.
- ❖ In answer to a comment about how to communicate the end of the pilot to members, Ms. Clemens Roberts mentioned that communications with the aggregators who are participating has begun, and that Peter Glenshaw (VP Member Engagement) has a plan on how to wrap up and move forward.

Mr. Clark continued his presentation, discussing the following:

- Net Metering Time of Day (TOD)
 - Net Metering TOD Background
 - Net Metering TOD Rate Design
 - Net Metering TOD Member Savings
 - Net Metering TOD Incremental Costs
 - Net Metering TOD Lessons Learned
 - Net Metering TOD Future Considerations:
 - Staff recommends removing pilot designation and making it a full-fledged option for net metered members.
 - NHEC will monitor SmartHub enhancements and drive improvements to boost member experience.
 - On-Peak schedule may need to be adjusted if FCM or transmission peaks shift over time.
 - Staff continues to research over-the-air meter programming to reduce enrollment costs and provide flexibility in changing On-Peak and Off-Peak schedules; may also consider time-based changes to other TOD rates.
 - Most residential batteries are not currently configured to export to grid.
 - NHEC could consider expanding Net Metering TOD to other rate classes.

Discussion on Net Metering TOD:

- ❖ Ms. Albee thanked Mr. Clark for his summary and shared her experience being on the pilot including difficulties with SmartHub, complexity of the bill, etc. She also suggested that clear communications be sent to participants explaining the implications of the rate changes when they happen.
- ❖ Ms. Clemens Roberts mentioned it is great when a board member or employee participates in a pilot because they can provide us with some good communication and constant feedback.
- ❖ Ms. Clemens Roberts pointed out importance of effectively communicating pilots, rates, rate changes, etc., through our Communications team, to try to get members engaged, active and educated on not just the net metering side but even on the basic accounts.
- ❖ Ms. Albee suggested the board have detailed discussions with staff about the policy around “the spread” of the pricing to incentivize members to move onto this rate.
- ❖ In response to a question, Mr. Clark commented this rate is specifically available to above the cap residential net metering members – roughly 700-800 members.

In conclusion of his presentation, Mr. Clark reviewed staff recommendations as follows:

- Staff recommends ending Transactive Energy Rate Pilot.
- Staff recommends removing pilot designation from Net Metering Time of Day rate, effectively making it a full-fledged rate option for net metered members.

- To implement recommendations, staff seeks board authorization to update Terms & Conditions as proposed effective May 1, 2024.

Upon motion by Mr. Darcy, seconded by Ms. Albee, it was

VOTED: That the committee recommends the Board of Directors authorize staff to update the Terms and Conditions effective May 1, 2024, as recommended in the Rate Pilot Review and Proposal.

Vote was unanimous.

Equity Management Plan Review

In addition to detailed information included in the meeting packet, Ms. Taylor reviewed her Equity Management presentation highlighting the following:

- Equity Management – 3 key drivers to determining an equity target: Margins, Growth in total utility plant, Capital credit retirements.
- The financial goals help support NHEC's Equity Management Plan and include: Equity, DSC/MDSC, construction work plan, NHEC & NHB's lines of credit, net margin requirement, S&P rating, reasonable rate trajectory.
- Updates to Equity Management Plan:
 - Construction Work Plan – Includes 2023 capital construction budget figures.
 - Lines of Credit – Updated to reflect additional \$15M line of credit for power supply (approved in July 2023).
 - Minimum Distribution Net Margin Requirement – Return to \$4M.
 - Reasonable Rate Trajectory – Increase annual rate trajectory to 4%.
- Financial Forecast – Initiatives incorporated into the forecast: Direct buried cable project, SCADA expansion, substation transformer replacement program, Phase I of facility project, vegetation management, land mobile radio and microwave system upgrade, broadband.
- Capital Credits – recommended 2024 payout deferral due to increased operating and capital budget expenses; projected broadband losses.

Discussion:

- ❖ Mr. Darcy stated he feels the anticipated broadband losses should be kept within the broadband entity and electric rate payers should not have their rates increased as a result of those losses; he understands that lenders prefer large margins, but NHEC needs to protect its rate payers as well and he does not think NHEC should be mixing the distribution rates with the broadband losses or gains. He added that when broadband starts producing big surpluses, he assumes that should be shared with the distribution investor in terms of dividends back to NHEC, but he does not feel NHEC should be mixing the losses of broadband with the increase in rates for distribution members.
- ❖ In response to a request for clarification regarding effects of losses and gains on NHEC, Mr. Darcy commented there is a mechanism in the Operating Agreement that states if there are surpluses produced by NH Broadband, it is a decision to be made by the broadband entity to pass those on to benefit NHEC; that, in some way, could make up for the losses in the initial years. However, he does not think distribution rates should be affected during the time of losses, which were expected.
- ❖ Ms. Taylor commented she thinks discussion needs to occur as far as what is written in the Operating Agreement and the decisions that need to be made with respect to the losses and profits of NH Broadband. She added there have been discussions on whether NHEC wants to sell broadband services to our cooperative members for the lowest price that we can offer, similar to the principles of our electric distribution utility, although NHB is a for-profit entity; NHEC needs to evaluate how that is going to impact the distribution electric cooperative on a consolidated basis.
- ❖ Chair French commented that although everyone knows there will be losses as the buildout occurs, those losses have to come from somewhere; the benefit to the distribution side will be those dividends once the buildout happens and NH Broadband starts to generate net profits.

- ❖ Mr. Dwyer commented NHEC should not mix the two entities; that the electric business should be run on its merits and NH Broadband on its and make that visible to people. The extent to which we have broadband losses will put pressure on us to run it more efficiently; if losses are habitually absorbed into the electric business, we take away that pressure. As far as broadband losses needing to be paid by someone, NHEC is accruing it as a liability and a receivable; whether we need to strengthen the balance sheet of NHEC, which is effectively what we are doing with the margin requirement, he does not think is necessary. He added that relative to other cooperatives, NHEC has a very strong balance sheet.
- ❖ Ms. Doan explained that the reasons NHEC needs to have a higher margin are: 1) NHEC has a lot of capital investments coming up, therefore it has increased pressure on cost to borrow and interest expense; 2) our new debt interest rate is no longer 4%; the forecast assumes all new debt at a 6% interest rate. At the time of a note advance, if the rate is higher than forecasted it has an impact on margin.
- ❖ Ms. Clemens Roberts pointed out that until last year, NHEC had a \$4M margin. On top of that, compared to other cooperatives of NHEC's size or smaller, our margin is razor thin; we are not following best practices.
- ❖ Ms. Albee stated it would be useful to know what the margin would be just for the electric side, not incorporating broadband. She added she is concerned that rates are going to be impacted by the broadband losses in the short-term and that requires a clear policy decision; when NHEC entered the broadband business, we assured our electric members their rates would not be impacted by this project.
- ❖ Ms. Clemens Roberts reiterated even if it were just the electric business, she would not recommend a \$2M margin; even a \$4M margin for an entity of NHEC's size is extremely thin. If you look at every cooperative across the country who has delved into broadband, they have rate impacts on the front end and there are equity impacts; many of those cooperatives have even dipped below 30% equity. NHEC is trying to stay above that, because that is what our board has set for parameters. She added that these two businesses are not independent; the electric business props the broadband business up on all kinds of levels and she does not believe we are accurately capturing enough of the time the electric staff spends on the broadband business. She mentioned that the broadband business would not have ever been given the loans it has been given if it was an independent business without the support of NHEC behind it.
- ❖ Ms. Doan pointed out that NHEC's 2024 budget does not include major storms; if NHEC has a large major storm it would cause a negative margin.
- ❖ Mr. Darcy said if the margin increase were based on the need for capital investments on the distribution side, and if there is statistical evidence of other cooperatives having higher margins, he would be more likely to approve the recommendation. He commented it is clear from the write-up that what is being proposed is in a major way influenced by the anticipated broadband losses during the construction period, and that is why he is opposing the recommendation.
- ❖ Ms. Clemens Roberts pointed out margin pressure comes from the infrastructure investments required at NHEC; infrastructure projects, upgrades and maintenance have been delayed numerous times. She referenced other external aspects of the electric business that impact how NHEC staff does its budgeting and manages the business. She asked for board support of the staff recommendation; she also offered to have CFC come in and talk about the importance of a healthy margin and KRTAs if the board desires.
- ❖ Mr. Dwyer commented he would like to reserve judgement on the recommendation until he sees the breakout financial statements of the broadband entity at the March board meeting.
- ❖ Ms. Kedersha suggested the board review NHEC historical margins that were up around the \$6M-\$9M range. Ms. Clemens Roberts commented staff provided that information when the budget was presented to the board, and offered to have staff present the information again at the upcoming board meeting.
- ❖ At the request of Mr. Darcy, Ms. Clemens Roberts offered to forward to the board CFC information pointing to margin data/ratios.

- ❖ Mr. Dwyer mentioned he thinks NHEC's historically higher margins were during a period in which NHEC was rebuilding its balance sheet; he feels the balance sheet is now effectively rebuilt and, in some cases, overbuilt.

Ms. Taylor recapped main points as follows:

- NHEC has had historically high margins prior to the broadband business being undertaken.
- NHEC is not budgeting for 'Major Storm' this year; it was budgeted in 2023 only.
- NHEC is doing a combination of capital projects for strategic initiatives as well as broadband; it seems the only focus is on broadband because that is something new, but we are a consolidated company, broadband is our subsidiary, and we are evaluating our equity management on a consolidated basis.

Mr. French made a **motion** as follows:

That the committee recommends the Board of Directors approve the Equity Management Plan as modified through Attachment 2, with Attachment 3 and beyond included as supplemental information.

Mr. Darcy seconded the motion for discussion.

Discussion on the motion:

- ❖ Mr. Darcy asked if the \$15M Power Supply line of credit should be reduced since NHEC has changed the way in which we are contracting for power supply such that under recovery is less likely than in the past. Ms. Clemens Roberts responded that based on the volatility and prices of power over the last two-three years, staff feels the \$15M line of credit is appropriate; it does not mean we have to use it or that we will use it, but we want to make sure we have it available. Ms. Doan added that having the lines of credit available is good for NHEC's credit rating.
- ❖ Chair French reminded committee and staff that requests for information mentioned above will be provided to the board at the March board meeting (CFC margin data/ratios, NHEC historical margins, broadband financial statements).

VOTE on the motion was 2 in favor (Directors Albee and French), 1 opposed (Director Darcy), and 1 abstention (Director Dwyer-abstaining until he sees the breakout of broadband financial statements).

Motion carried.

Policies Review

Upon motion by Mr. Darcy, seconded by Mr. Dwyer, it was

VOTED: That the committee recommends the Board of Directors reaffirm Board Policies B-2, Attachment B – Corporate Services Committee, B-32 – Capital Credits, and B-33 – Equity Management Policy, as written.

Vote was unanimous.

Other Discussion:

- ❖ Responding to a question from Mr. Dwyer regarding "Fixed to Maturity" referenced on the Debt Portfolio Summary, Ms. Doan explained "Fixed to Maturity" means that an individual note interest rate is locked in until the note maturity date. For distribution notes, the term is 35 years and for broadband notes, the term is 30 years.

Chair French thanked staff for very good presentations and thanked the committee for robust discussion.

Adjournment

Upon motion by Mr. Darcy, seconded by Mr. Dwyer, Chair French adjourned the meeting at 10:01 a.m.