

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

Zoom Meeting

July 19, 2022 10:30 – 11:30 a.m.

Present: Committee members: Ed French (Chair), Leo Dwyer, Sharon Davis, Brenda Boisvert
Other Board members: Tom Mongeon, Jeff Morrill, Harry Viens
NHEC employees: Mike Licata, Drew Dunagin, Geoff Ziminsky, Jeremy Clark, Kristen Taylor, Autumn Doan, and Edee Murphy (Recording)
Others: Paul Phillips – NHEC Counsel

Meeting Called to Order

Chair French called the meeting to order at 10:30 a.m.

Agenda Review/Minutes Approval

There were no changes to the agenda.

Upon motion by Ms. Davis, seconded by Ms. Boisvert, it was

VOTED: That the committee approves the June 16, 2022, meeting minutes as written.

The vote was unanimous.

Schedule of Fees Proposal

Chair French reminded the committee that the board requested management review the NHEC Schedule of Fees due to pressures on the supply chain, increased costs, inflation, etc.

Mr. Dunagin commented that current proposed changes will not have a large impact, since most of our fees are labor based and were reviewed in 2021, effective January 1, 2022. He added that the Schedule of Fees will be reviewed again in the coming months.

Mr. Clark commented that the focus for the current Schedule of Fees proposal was based on material-based fees, adding that staff plans to perform an entire review of the Schedule of Fees this fall, including labor-based fees, for potential changes effective January 1, 2023. He then continued his presentation of the proposed Schedule of Fees which included the following:

- Schedule of Fees Methodology
- Construction Related Fee Changes (Single Phase Self Contained Allowance and Price Per Foot Fee, Transformer Fee for New Services)

Discussion:

- ❖ In response to a comment, Mr. Clark responded that staff will take a look at analyzing allowances.
- ❖ In response to a comment, Mr. Clark mentioned that staff is reviewing the Schedule of Fees at least annually, especially during this volatile time related to supply chain, pricing and inflation.

Upon motion by Ms. Davis, seconded by Mr. Dwyer, it was

VOTED: That the committee recommends the Board of Directors authorize management to update the Schedule of Fees effective August 1, 2022, as recommended in the Schedule of Fees Proposal.

The vote was unanimous.

Board Policies Review

- **B-2, Attachment B – Corporate Services Committee** – Paragraph 10: Changed the reference from “Material Inventory” to “Annual Physical Inventory” for clarity. Paragraph 11: Changed “Biennially review” to “At least biennially review.”
- **B-33 – Equity Management** – Paragraph II.A.1.i. – added the verbiage “and fiber asset.” Paragraph II.B.iii. – deleted the verbiage “and debt/equity ratio.” A committee member recommended adding a footnote for the definitions of “Modified Debt Service Coverage” and “Equity Ratio”; these definitions will be added as footnotes to the policy.

Discussion:

- ❖ For purposes of consistency in performing what our policies state, the committee members agreed to delete the verbiage “and debt/equity ratio” as recommended by management.
- ❖ In response to a comment related to debt, it was noted that the current debt includes approximately \$13-\$14M under-recovery in power costs, and over \$6M CCI receivable.

Upon motion by Ms. Davis, seconded by Ms. Boisvert, it was

VOTED: That the committee recommends the Board of Directors approve Board Policies B-2, Attachment B – Corporate Services Committee and B-33 – Equity Management Policy, with recommended changes are presented.

The vote was unanimous.

Equity Management Plan

Ms. Taylor explained that today’s goal is to review changes that are being proposed and have a discussion on what the impact of various capital projects and strategic initiatives will have on equity. She reviewed a presentation that included the following topics:

- Financial Goals – Equity, DSC/MDSC, Construction Work Plan, Lines of Credit, Net Margin requirement, S&P rating
- Desired equity range (re-evaluate next year)
- Construction Work Plan – Increase from \$14M to \$15M (higher prices due to supply chain issues)
- Lines of Credit – Addition of third line of credit for broadband (\$20M)
- Minimum Distribution Net Margin – Maintain at \$4M
- S&P Rating – No change. NHEC will maintain an S&P Rating of A- or above

Mr. Dunagin reviewed the Financial Forecast through 2031, reminding the committee members that, as with last year, the forecast includes supplemental information which is not part of requested approval from the board.

The highlights of the presentation included the following:

- Initiatives incorporated into the financial forecast: Capital Credits retirement, Direct Buried Cable Project, SCADA expansion, Substation Transformer Replacement Program, New Plymouth district facility, Andover/Sunapee building, Increase in Vegetation Management to \$12M by 2024, Broadband (Full Build, and assumes \$50M in grant support).
- 10 Year Financial Forecast – Included: Net Margins, Equity Ratio, Debt Service Coverage, Modified Debt Service Coverage, Additional Revenue to meet Equity Ratio goal. Assumption: Conexon turnkey proposal.

Mr. Dunagin commented that the forecast will require thoughtful committee and board discussions going into this year's budget process, as well as from a strategic planning perspective, to hone in on objectives. He added that management expects the Equity Ratio to remain adequate for the upcoming year, but that the board will need to make some tough decisions about which initiatives are done, referencing the 10 year forecast presented today. If we continue as shown in the forecast, there will be a combined 15% increase in the next two years. He recommended that during the budget process, discussions take place related to rate trajectory tolerance of the board. Rising interest costs on debt will also be a variable built into the budget. Mr. Dunagin mentioned that with the importance of the broadband initiative, if it means losing the Equity Ratio discount, that may not be overly impactful. He added that the Equity Ratio discussion definitely needs to be on the table for what a new threshold minimum might be, what the financial impact of that is, and what are the things we want to do to manage the rate increases and the Equity Ratio.

Discussion:

- ❖ Chair French clarified that what is in front of the committee today is an Equity Management Plan that is consistent with how we are budgeted for 2022; the resolution for board approval is not committing us – as Mr. Dunagin said – to approve the entire forecast through 2031. He mentioned that Mr. Morrill is scheduling a meeting to revisit the Capital Credits policy and philosophy; there are a lot of levers and moving parts. He added that Ms. Taylor and Mr. Dunagin are “sensitizing” the committee members and subsequently the full board as to what we may be looking at if we do not do different things moving forward.
- ❖ Ms. Davis had no concerns and thanked Mr. Dunagin for being frank with committee members in things they need to watch out for and what he is cognizant of.
- ❖ Mr. Dwyer suggested reviewing the nature of our customer base in the situation of multiple meters at one address, as we appropriately move more of the distribution cost into the fixed cost of the member fee.
- ❖ Ms. Boisvert thanked Mr. Dunagin for the presentation, stating it is helpful to know what is coming up in the future.
- ❖ Mr. Mongeon recommended putting a number in the forecast for the headquarters buildout.
- ❖ Mr. Morrill thanked Mr. Dunagin and encouraged the development of structured principles to guide the larger team (management and board) through decisions on which variables/levers to adjust in the forecast.

Mr. Phillips left the meeting at 11:19 a.m.

- ❖ Chair French stressed the importance of obtaining the full board's perspective on rates tolerance; then the committee can recommend which levers get moved to achieve what the board indicates.

Approved 9/23/2022

Upon motion by Ms. Davis, seconded by Ms. Boisvert, it was

VOTED: 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, as presented.

The vote was unanimous.

Mr. Dunagin thanked the committee for their support and comments, and recognized the Finance team, specifically Ms. Taylor and Ms. Doan, for their efforts in putting together the presentation materials and forecast, respectively.

Adjournment

Upon motion by Ms. Davis, seconded by Mr. Dwyer, Chair French adjourned the meeting at 11:23 a.m.