Approved 4/29/2025

New Hampshire Electric Cooperative, Inc.
Minutes of the Meeting of the
Budget, Finance, and Rates Committee

March 14, 2025 8:30 a.m.

Present: Committee members: Jerry Stringham (Chair), Alana Albee, Carolyn Kedersha, Jeff Morrill, John Goodrich, and Bill Darcy (Not Present: Leo Dwyer)
Other Board members: Pat Barbour, Peter Laufenberg, Tom Mongeon, and Harry Viens
NHEC employees: Mike Jennings, Kristen Taylor, Rob Howland, and Edee Murphy (Recording)
Others Present: Tom Beamon (Bolinger, Segars, Gilbert & Moss)

Meeting Called to Order
Chair Stringham called the meeting to order at 8:30 a.m.

Agenda Review
There were no suggested changes to the agenda.

2024 Balanced Scorecard Incentive

Mr. Jennings reviewed the 2024 Success Sharing Plan results and management recommendation based on 78% achievement of goals.

Motion by Mr. Darcy, seconded by Ms. Kedersha:

Based on achievement of 78% of the established 2024 Balanced Scorecard (BSC) goals, the Board of Directors authorizes the payment of $439,571 to eligible individuals in accordance with the provisions of the NHEC Success Sharing Plan.

Discussion:

- Ms. Albee suggested the overall system of the Balanced Scorecard Success Sharing Plan be reviewed either at a future committee meeting or board meeting.

Vote was unanimous.

Equity Management Plan Review

Ms. Taylor provided an overall introduction to the Equity Management Plan and reviewed the presentation provided in the meeting packet, including the following items:

- Three (3) key drivers to determining an equity target: Margins (rates & operating budget), Growth in total utility plant (construction work plan), and Capital credit requirements (capital credit policy).
- The financial goals help support NHEC's Equity Management Plan and include: Equity to Assets Ratio, DSC/MDSC, Construction work plan & capital investments, NHEC & NHB's lines of credit, Distribution margin requirement, S&P Credit Rating, and Reasonable Rate Trajectory.

Equity Management Plan Comparison

Ms. Taylor explained that this comparison chart was included in the budget presentation and points out the financial goals within the Equity Management Plan to show what are currently established as goals or targets, and what we have in our forecast for the 2025 budget.

Financial Ratio	Goal	2025 Budget		Notes
Equity	30% to 50%	**30.5%**		
Debt Service Coverage (DSC)	1.5 to 1.75	**1.37**		
Modified Debt Service Coverage (MDSC; Best 2 of 3 Years)	1.5 to 1.75	**1.57**		Mortgage covenants require 1.35 MDSC.
Minimum Distribution Net Margin Requirement	$4 million	**$4 million**		
S&P Rating	A-			2024 rating: A Negative Outlook.
Reasonable Rate Trajectory	4%	**3.8%**		

Ms. Taylor continued her presentation including the following:

- Long-Term Forecast 2024 through 2033 – 4% rate increase in 2026 projected to maintain Modified Debt Service Coverage above 1.35; 35.6% Equity to Asset in 2033 with 4% rate increase and margin requirements set as noted in the chart.

Discussion:

❖ Mr. Laufenberg asked if there is a threshold where lenders start getting nervous related to the financial ratios. Ms. Taylor commented NHEC receives an Equity discount at 40% or above. Although we ended 2024 under 40%, were able to negotiate with CFC and they allowed the discount. She added she recently spoke in person with CFC staff and asked what the typical reduction in equity is with co-ops undergoing a broadband build and they said up to 20%; she stated they may start to get nervous if our Equity dropped to 20%.

- Distribution Margin – 2025 Equity Management Plan calls for at least $4M distribution margin; Budgeted margins ranged from $4.1M to $7.4M from 2013 to 2024; CFC Revenue requirement recommended $5.7M in 2024 (excluding storms); 2025 Budget approved $4M distribution margin.
- Capital Investments – Chart showing Margin needed to continue funding reliability-focused capital investments such as Transformer Replacement Plan (aka Substation Replacement), Direct Buried Cable Replacement, and SCADA Expansion. Ms. Taylor noted that the larger facilities project (headquarters) has been taken out of the calculations because our equity percentage and ratios were falling; we can reevaluate each year and if we are financially able to afford including the headquarters facilities project we can incorporate it back in.
- Updates to Equity Management Plan:
  - ➢ Equity % - Update the range for 2025 from 30%-50% to 25%-45%
  - ➢ Capital Expenditures – Updated to $71.3M to include all capital projects
  - ➢ Lines of Credit – Update to include the line of credit for Broadband of $30M that was approved in October 2024

  Ms. Taylor pointed out the reduction in the equity range is not a result of our distribution business not doing well but an intentional adjustment we knew was going to happen with frontloading the broadband capital investment. In time, that equity range will climb back up.

Discussion:

❖ Mr. Laufenberg asked if, other than internally, the equity range has any external effect? Ms. Taylor replied no, it is like internal guardrails to stay within operationally. Mr. Laufenberg stated he would rather leave the equity range target at 30%-50% so the lower range does not become the norm, and new board members will not assume that is the norm. Mr. Mongeon agreed.

❖ Mr. Darcy stated he supports staff's recommendation. This is not a matter of performance; we made decisions to make capital investments ($150 to $200M) that will necessarily result in a reduction in our debt-to-equity ratio, and all the lenders understand this will drive down our equity ratio as a result. It is a natural result of decisions we have already made; adjusting the equity ratio is consistent with the plans we have already made. Chair Stringham commented the equity ratio is subject to annual adjustment and agreed the goal for 2025 is certainly not 30%-50%.

- ❖ Ms. Albee commended the finance team on the information presented and suggested adding a slide that shows historical five-year equity ratio goals to show the trend, which may overcome some of Mr. Laufenberg's concern about new board members. At least if they see the past five years, they can ask a question about it.
- ❖ Ms. Barbour commented she understands about the broadband buildout forcing the equity ratio down but suggested leaving what we can in place rather than making changes to ratios. She also commented the S&P rating reduction concerns her. Mr. Darcy commented the S&P rating reduction from A to A- was due to expected capital expenditures; nothing has changed since that downgrade except NHEC receiving a $50M grant.
- ❖ Mr. Goodrich agrees with staff and Mr. Darcy in lowering the equity ratio and suggested making a footnote regarding the change.
- ❖ Mr. Darcy stated he has language changes to the Equity Management Plan which he has shared with Mr. Jennings and Chair Stringham as follows:
  - <u>Key Considerations</u> – add language regarding the timing of investment in assets.
  - <u>Financial Goals</u> – add language related to increase in revenues allowing our equity ratio to recover over time – add: and ultimately provide a better equity ratio than prior to the broadband capital project.
  - Changes to <u>Minimum Distribution Margin</u>: NHEC shall set a distribution net margin goal of $4M, subject to other business and member considerations that may increase or decrease that margin goal at the time the board establishes the annual distribution rates. Same language change for the Reasonable Rate Trajectory.

  Ms. Taylor stated Mr. Jennings had provided her with these changes and they have been made to the Equity Management Plan presented in the meeting packet. Mr. Jennings commented the changes are appropriate for clarity and are consistent with our current practices.

Mr. Darcy motioned that the committee recommends the Board of Directors approve the Equity Management Plan as modified through Attachment 2, with Attachment 3 and beyond as supplemental including the amended language above. The motion was seconded by Mr. Goodrich.

<u>Discussion</u>:

- ❖ Mr. Mongeon asked if a decision will be made now regarding Mr. Laufenberg's suggestion of keeping the equity ratio at 30%-50%, Mr. Albee's suggestion of the five-year historical equity ratio data, or Mr. Goodrich's suggestion of a footnote.
- ❖ Ms. Kedersha commented she supports keeping the equity ratio at 30%-50%.
- ❖ Mr. Darcy stated his motion did not include a change to the equity ratio included in the Equity Management Plan and suggested that be a separate decision.

Note: Mr. Darcy's motion was voted on down below (Page 4).

Ms. Taylor had two more slides to complete her presentation.

- <u>Equity Management Risks</u>:
  - ➢ A low or negative consolidated margin may cause a credit rating downgrade, which would increase the cost of borrowing and the ability to obtain financing.
  - ➢ Greater than assumed capital expenditures could exhaust available financing commitments.
  - ➢ Expense overruns or revenue shortfalls could result in a violation of mortgage covenants.
- <u>Capital Credits</u>:
  - ➢ Annual review and approval of policy by board
  - ➢ Policy has flexibility as written
  - ➢ Board may decrease amount retired or suspend to maintain equity range

- Forecast assumes retirements resume in 2029
- 2025 retirement suspended as part of 2025 budget approval

Ms. Kedersha motioned that the Equity Ratio range stay at 30%-50%. The motion was seconded by Mr. Morrill.

Vote: Director Albee-No, Director Goodrich-No, Director Kedersha-Yes, Director Morrill-Yes, Director Darcy-No, Director Stringham-Yes (Director Dwyer absent). Vote ended in a tie, therefore did not pass. Mr. Darcy commented it will be voted on at the March 25, 2025, board meeting.

Mr. Darcy restated his previous motion, seconded by Ms. Albee, as follows:

Mr. Darcy motioned that the committee recommends the Board of Directors approve the Equity Management Plan as modified through Attachment 2, with Attachment 3 and beyond as supplemental including the amended language above.

Vote: Five-Yes, One-No (Director Kedersha is a “No” due to not agreeing to the 25%-45% Equity Ratio range listed in the Equity Management Plan).

Motion carried.

Policy Review

There were no suggested changes to Board Policies B-2 Attachment B (Budget, Finance & Rates Committee) or B-14 Capital Credits. Ms. Taylor reviewed suggested redline changes to Board Policy B-15 Equity Management Policy.

Upon motion by Ms. Albee, seconded by Ms. Kedersha, it was

VOTED: That the committee recommends the Board of Directors reaffirm Board Policies B-2, Attachment B (Budget, Finance and Rate Committee) and B-14 Capital Credits with Attachments A-C; and approves the changes proposed to B-15 Equity Management Policy.

Vote was unanimous.

Mr. Jennings reviewed the changes to Board Policy B-11 Default Service Power Procurement & Risk Policy stating there is no redline document in the meeting packet because the policy is basically a complete rewrite of our existing power procurement document. He commented what this policy essentially does is give the authority to the board to set guidance to staff on the amount and duration of purchases that NHEC will be entering into based on what staff is presenting to the board for each rate period.

<u>Discussion</u>:

- Mr. Darcy commented he worked on this policy with Mr. Jennings and he thinks it sets the appropriate roles of the board and staff.
- Chair Stringham asked Mr. Jennings if he feels this policy gives staff adequate ability to perform its day-to-day job and to go out and get the best rates. Mr. Jennings replied yes.

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

VOTED: That the committee recommends the Board of Directors approve changes to Board Policy B-11 Default Service Power Procurement & Risk Policy as presented.

Vote was unanimous.

Lending Strategy Discussion

Ms. Taylor stated that Tom Beamon has joined the meeting today; he has been instrumental in assisting with this lending strategy information. Mr. Beamon worked at CFC for a number of years, has been CFO at a couple of different cooperatives, and is now providing consulting services for Bolinger, Segars, Gilbert & Moss out of Texas.

Ms. Taylor reviewed the Lending Strategy Memo she included in today's meeting packet. Some highlights were as follows:

- Currently NHEC is 100% CFC borrower, having just over $200M in long-term debt with CFC
- Our CFC rates are priced at treasury rate plus 2.20%
- In other areas NHEC is looking to borrow (Insurance/CoBank) the rates are priced at treasury rate plus 1.20% and 1.50% respectively, which is obviously more attractive to us.

Mr. Beamon commented he is always impressed to see how well governed and administered this cooperative is. He went on to say that NHEC is getting to the point where CFC feels kind of full in their appetite for continuing to add additional long-term debt with NHEC. He pointed out that at around $200M to $300M lending to a single borrower, CFC will start to slow down their lending to avoid additional risk. He does not see any problem with NHEC being able to raise money in the capital markets.

Referring to Ms. Taylor's slide regarding Loan Portfolio allocation, Mr. Beamon commented it makes absolute sense to have one-third CoBank, one-third CFC, and one-third Insurance. He added that looking at NHEC's forecast and its capital additions in the next six years, you are going to hit that $300M mark. There are two benefits from loan diversification: 1) you let CFC feel comfortable again to continue expanding its portfolio to you; and 2) you introduce the price competition.

Ms. Taylor asked board members if they would like to have any further discussions with CoBank or New York Life. Board members commented they do not need to hear from them directly, however, some information on their financials would be beneficial.

Mr. Jennings gave a shout-out to Ms. Taylor and Mr. Beamon; this information got boiled down into a few slides but the amount of work it took and the relationships they had to develop is commendable.

Other board members thanked Ms. Taylor for a great job in compiling such thorough information.

Adjournment

There being no further business, Chair Stringham adjourned the meeting at 9:41 a.m.