

New Hampshire Electric Cooperative, Inc.

Minutes of the Meeting of the

Budget, Finance & Rates Committee

March 13, 2026

Present: Committee Members: Jerry Stringham (Chair), Alana Albee, Bill Darcy, John Goodrich, Peter Laufenberg
Other Board Members: Pat Barbour, Tom Mongeon, Jeff Morrill, Bob MacLeod
NHEC Employees: Michael Jennings, Kristen Taylor, Josh Mazzei, Jeremy Clark, Rob Howland, Rachida Mahrouda, Christine Parent (recording)

Meeting Called to Order

Chair Stringham called the meeting to order at 10:29 am.

Agenda Review

Mr. Darcy stated this is a public meeting and encouraged attendees to hold broadband questions until the upcoming broadband meeting or executive session at the Board meeting.

There were no suggested changes to the agenda.

Ms. Taylor introduced Rachida Mahrouda, Senior Budget and Strategy Manager. Ms. Mahrouda started in December and replaced Ms. Doan, who retired after 30 plus years. Ms. Mahrouda will be handling our budgeting and forecasting functions and our S&P credit rating review, amongst other things.

Balanced Scorecard Incentive Payout

Mr. Jennings shared the Balanced Scorecard goals that were not met as follows:

- Cybersecurity hit minimum at 3.9% click rate, just short of the 4% goal.
- Broadband came up short on some goals, which will be discussed at a later date.
- Substation rebuild hit minimum, due to completing second one in December rather than the goal of October.
- Billing hit minimum as one G4 analytics was pushed out to members and the goal was two.
- Overall, 77%, equivalent payout is \$464,408
- Scored based on:
 - Minimum is equal to 50% of goal
 - Target is equal to 75%
 - Stretch is equal 100%
 - This is being standardized moving forward as the target has been all over the place in the past; target was anywhere from 50% to 90%

Discussion

Mr. Darcy asked what the difference was in the call center response time over last year. Mr. Jennings responded we just started tracking this as a goal in 2025. He added this year we are looking into more than just average speed of answer.

Ms. Albee asked if we missed the substation replacement goal due to internal or external factors. Mr. Mazzei replied it was more due to external factors. We had challenges with transportation of the substation transformer with the shipper. Ms. Albee stated if it was external factors like that, it is a bit harsh to reduce that achievement since it was out of our control, therefore, she would argue it was achieved.

Ms. Albee asked how many people with performance improvements or disciplinary issues do not benefit from the payout and how that compares to other years. Mr. Jennings replied it is comparable and he will get the exact number.

Mr. Darcy made the following **motion**, seconded by Mr. Laufenberg:

The Committee recommends to the Board of Directors to approve the following: Based on the achievement of 76.75% of the established 2025 Balanced Scorecard (BSC) goals, the Board of Directors authorizes the payment of \$466,408 to eligible individuals in accordance with the provisions of the NHEC Success Sharing Plan as presented to the Budget, Finance and Rates Committee on March 13, 2026.

Discussion on the Motion:

Chair Stringham asked if there was any discussion on Ms. Albee's point that this under appreciates the level of accomplishment of the team based on the two-month delay of the substation replacement.

Mr. Darcy suggested rather than trying to do the calculation to adjust it, that it is done at the Board level instead. He added he supports the amendment, but for purposes of moving it on to the next level, the Committee should approve it, and Mr. Jennings can re-calculate it later and send it to the Board in the agenda packet.

Mr. Jennings stated he will update the resolution accordingly to reflect the change in dollar amount.

VOTE: for the motion was unanimous.

2025 Capital Construction Budget vs Actuals

Mr. Mazzei shared the 2025 Capital Construction vs. Actuals as follows:

The 2025 Capital Construction Budget (CCB) was \$21,656,781, while actual spending totaled \$23,000,632, resulting in a 6.2% variance. The primary driver of this overage was the recurring portion of the CCB, which was budgeted at \$10,273,000 but ended up at \$12,567,517.

Mr. Mazzei highlighted key recurring overage drivers as new lines and transformers, and the elective overage factor as the final mobile substation payment which was delayed from 2025.

Discussion

Mr. Darcy asked if the transformer cost increases were directly related to the increase in new members or just transformer cost increases, or a combination of the two. Mr. Mazzei replied it was a combination of the two. He pointed out that we had almost double the new developments from the prior year, and a vast majority of new developments are underground utilities, and padmounted transformers are more expensive.

Mr. Jennings stated transformers are pre-capitalized, meaning they are capitalized when they come in. The cost is not seen on the new customer or development lines, but a lot of it is member driven

work. He added there is a timing element as the transformer arrival dates were moved quite a bit, so they may have been budgeted in one year, but delivered in another.

Mr. Goodrich asked if there is a checklist for the transformer transportation costs for the manufacturer to reference. Mr. Mazzei replied yes, and a lot of the issues came from the third party that Virginia Transformer used.

Ms. Albee asked how transformers are charged to members. She asked if the cost is shared evenly among all members, or if specific members are billed for them. Mr. Clark replied that traditional transformers are included in the construction allowance. If they are larger underground transformers, they are charged a fee for those. Mr. Mazzei added that many towns have zoning requirements that require new subdivisions to be underground.

Equity Management Plan Review

Ms. Taylor presented the 2026 Equity Management Plan as follows:

- Equity Management
 - Three key drivers to determining an equity target:
 - Margins (rate and operating budget)
 - Growth in total utility plant (construction work plan)
 - Capital credit retirements (capital credit policy)
 - Equity management is intended to be a year-round goal
- Financial Goals
 - The financial goals help to support NHEC’S Equity Management Plan and include:
 - Equity to assets ratio
 - DSC/MDSC
 - Construction work plan
 - NHEC and NHB’s lines of credit
 - Distribution margin requirement
 - S&P Credit Rating
 - Reasonable Rate Trajectory
- Equity Management Plan Comparison

Financial Ratio	Goal	2026 Budget	Notes
Equity	30% to 50%	31.8%	Equity gradually recovers after 2026
Debt Service Coverage (DSC)	1.5 to 1.75	1.37	Due to budgeted consolidated loss
Modified Debt Service Coverage (MDSC; Best 2 of 3 Years)	1.5 to 1.75	1.63	Mortgage covenants require 1.35 MDSC
Minimum Distribution Net Margin Requirement	\$4 million	\$4 million	
S&P Rating	A-	A-	2025 rating: A Negative Outlook
Reasonable Rate Trajectory	4%	2.3%	

Ms. Taylor reviewed:

- Long-Term Forecast
- Distribution Margin
- Equity Ratio Trends

- Capital Investments
- Equity Management Risks
- Capital Credits

Ms. Taylor also reviewed the updates to the Financial Goals of the 2026 Equity Management Plan. There were two updates: 1. Capital Expenditures were updated to \$56 million, which aligns with our 2026 planned capital projects and 2. Our lines of credit have been updated to reflect the current line of credit for broadband. Last year's equity management plan had a \$30 million line of credit. We fully utilized that line and now have a \$29 million line of credit with CFC.

Discussion:

Mr. Darcy asked if the MDSC would be at the same level if we work with CoBank or New York Life, our mortgage covenants. Ms. Taylor replied that our mortgage covenant with CFC is 1.35 and our MDSC goal is higher so that we don't run the risk of getting down to that, and, yes, it is in alignment with CoBank (NYL has no stand-alone financial covenant).

Ms. Albee asked why the risks around assumptions of revenue from broadband and relative rate stability in a volatile world are not included under equity management risks. Mr. Jennings replied it is more focused on the distribution component.

Mr. MacLeod asked why we include Broadband when we are talking about equity in the electric business since it's two different businesses. Ms. Taylor replied that it is two different businesses, but we are evaluated by CFC and are audited on a consolidated basis. So, to the extent that our DSC, MDSC and equity percentage are measured, it would be on both entities combined.

Chair Stringham asked what a capital credit distribution looks like and how members interact with that. Ms. Taylor replied on an annual basis, after the financials are reviewed, we do a financial soundness review to determine whether it is financially responsible for us to do a general retirement. If the Board elects to do one, there are several scenarios that are presented to the Board based on a dollar amount equal to 2.85% of our allocated equity. The Board can and has elected to do a lower percentage than that. We either took a dollar amount and we were able to retire that, or we used a percentage to get to a dollar amount. There are different methodologies to use; FIFO (first in, first out) where we would retire the oldest years first, or LIFO (last in first out), or hybrid. The first two years that we did capital credit retirements we did a hybrid of 70% to FIFO members and 30% to the LIFO members. We track members that took service and the amount that was allocated to each of those members, and that goes back to the 70's. We correspond with them to get accurate addresses. If they are still a member, they get a credit on their bill. If they are no longer a member, they get payment in check form if over \$10. If under \$10, it remains until it is over \$10. We do publications in the newsletter, have a capital credits website, hold member town halls, etc. to let members know what it means to be a member of a cooperative.

Chair Stringham asked if NHEC's bankruptcy wiped out people's capital credits. Ms. Taylor replied, no, there just wasn't anything to allocate in those years.

Mr. Laufenberg asked if we have to give capital credits or if it is a Board decision each year. Ms. Taylor replied that it is a Board decision each year.

Mr. Jennings added that it is at the Board's discretion, but there is an expectation that members will be paid eventually. There have been class action lawsuits against cooperatives in the past that have significantly withheld capital credits from members for a long period of time, even though they

have a very high equity percentage. There is a requirement that the Board acts in good faith to not withhold capital credits without a legitimate reason.

Ms. Taylor added there are two things that happen with capital credits. Every year we allocate in April and a notice goes on the bill with the allocation amount. The retirement is the payment to the member of the allocation. We allocate every year but only retire when the Board sees it financially prudent to do so.

Chair Stringham asked if the allocation is based on the combined entity or just the energy portion of the business. Ms. Taylor replied it is just on distribution.

Ms. Taylor shared the Board Resolution – 2026 Equity Management Plan.

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

VOTED that the Committee recommends to the Board of Directors to approve the Equity Management Plan as modified through Attachment 2, with Attachment 3 and beyond included as supplemental information, as presented to the Budget, Finance and Rates Committee on March 13, 2026.

Vote was unanimous.

Policy Review

Ms. Taylor reviewed three policies as follows:

B-2 Attachment B (Budget, Finance & Rates Committee), B-13 Capital Credits with Attachments A-C, B-14 Equity Management Policy

- These policies are reviewed on an annual basis.
- They remain appropriate and continue to guide our decisions effectively, so there are no proposed changes, and we would like to reaffirm.
- Ms. Taylor asked if there were any suggested edits or comments. There were none.

B-10 Default Service Power Procurement & Risk

Mr. Howland shared the following policy changes:

- Section 2 - Added definition of Internal Bilateral Transactions (IBTs), which is the term that is used for identifying the purchases that we make.
 - Was previously listed as “bilateral transaction”
- D.1. Added the following phrases that are in quotes: “rating” will “be” require”d to provide a guaranty from an associated entity an investment grade rating that shall guarantee the obligations of the Counterparty to NHEC.” Board approval “must be obtained” before entering into an agreement “with a Counterparty that does not have an investment grade rating or such guaranty.”

Policy Review Resolution

Discussion:

Mr. Darcy stated there are two separate resolutions that address these policy changes and they are both wrong. The second one leaves off B-15, and they both referred to changes, but there was only

one change. We are re-affirming the three that Kristen addressed and approving the change to B-10.

Ms. Taylor stated the “changes” are referring to the two changes in B-10. She shared the Policy Review Resolution, and Mr. Darcy agreed that one was correct.

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

VOTED that the Committee recommends that the Board of Directors reaffirms Board Policies B-2, Attachment B (Budget, Finance and Rates Committee), B-13 Capital Credits with Attachments A-C, and B-14, Equity Management Policy, and approves of the changes proposed to B-10, Default Service Power Procurement & Risk Policy as presented to the Budget, Finance and Rates Committee on March 13, 2026.

Vote was unanimous.

Rate Design Guiding Principles Update

Mr. Clark shared the Rate Design Review presentation, found in the Board packet, with the following topics:

- Unbundled Rates
- Functional Rate Components
- Ratemaking Steps
- Typical Rate Change Timeline
- Rate Codes
- Charge Types
- Revenue Classes
- Cost of Service Studies
 - A process which assigns costs to the classes of members to determine who incurred the costs.
- Rate Design Timeline
- Rate Innovation
- Rate Design Guiding Principles
 - The Board of Directors conducted a deep dive into rate design from 2018 to 2020 with numerous internal and external presentations.
 - CFC then facilitated a rate design discussion with the Board
 - The effort culminated in the codifying of the Board’s Rate Design Guiding Principles in February 2020.
 - Purpose: “To set forth NHEC’s priorities in balancing competing rate design principles for purposes of making changes to NHEC’s existing rates and charges, consistent with the strategic objectives of the cooperative.”
- Rate Design Guiding Principles in Action
- Rate Design Guiding Principles
 1. NHEC’s rates and charges should provide the revenue needed to meet the cooperative’s operating costs and maintain its financial strength.
 2. NHEC’s rates and charges should be fair and equitable to all members. All rate classes should contribute to the margin.

3. When making significant changes to its existing rates and charges, NHEC should seek to make those adjustments gradually over time unless doing so would unduly undermine the objective of making the change.
4. NHEC should seek to make its rates and charges simple and understandable for its members.
5. NHEC's rates and charges should be promised on the cost of providing the relevant service and, to the extent deemed advisable, be structured in a manner that reflects how those costs are caused.
 - a. All members should pay a Member Service Charge **informed by** cost.
 - b. Rates should be structured in a way that they serve as an effective price signal to members **while being comparable to other New Hampshire utilities.**

Discussion:

Mr. Jennings stated we made a change to the fifth guiding principle (in bold above) based on what the majority of the Board supported at the last rate-setting discussion. Mr. Darcy agreed the revision is consistent with what the Board already voted on.

Ms. Albee stated she is not comfortable with the addition of "comparable to other NH utilities" and suggested changing it to "consideration of other utility rates in New Hampshire." Mr. Goodrich stated he supports Ms. Albee's point.

Mr. Darcy proposed an amendment to last clause of 5.b. by adding "considering the rates of other NH utilities". Mr. Jennings stated Mr. Darcy's amendment leaves it up to the Board as to which ones they want to take into consideration and suggested the Committee recommend it to the Board with a resolution to put it in the record.

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

VOTED that the Committee recommend to the Board of Directors to approve the addition of "considering the rates of other NH utilities" to 5.b. in the Rate Design Guiding Principles.

Vote was unanimous.

Net Metering Rate and Interconnection Application Fee Review

Mr. Clark shared the Net Metering Rate and Interconnection Application Fee Review presentation from the Board packet, with the following highlighted topics:

- Net Metering Timeline & Growth
 - 2025: +189 accounts
 - Total: 2,283 accounts
- Rate Components and Exported Rate Components
 - Co-op Power Credit: Exported energy reduces costs, losses, and partially reduces capacity charges. Exported energy does not reduce Renewable Portfolio Standard or administrative costs. The exported credit is computed based upon the expected avoided energy and capacity costs. Depending upon their arrangement, members may be separately compensated for Renewable Energy Certificates.
 - Regional Access Credit: Exported energy partially reduces transmission costs, but does not reduce the cost of facilitating competitive supply, load settlement, or administration. The exported credit is computed based upon the expected avoided annual transmission costs.

- Distribution Credit: Exported energy does not currently reduce the cost of distribution equipment, billing, interest, property taxes, operations, maintenance, or administration. In some cases, more expensive equipment is needed to serve net metered locations. The current exported credit is attributed to NHEC's philosophy of providing incentives for member-sited renewables, and is capped at 2,000 kWh per month.
- 2024 Distribution Cost of Service Study
 - The 2024 Distribution Cost of Service Study found that the Net Metering rate classes were paying significantly less than their cost to serve.
- Net Metering Interconnection Application Fee
 - Currently assessed to offset administrative expenses resulting from new net metering installations
 - NHEC has adopted the same tier sizes as the PUC authorized for regulated utilities in 2024.

- Net Metering Sizing
 - Most systems are residential between 5 kW and 10 kW AC.
- Net Metering Queue
 - Most prospective installations are 5 kW to 10 kW AC.
- Fees are fair

Discussion

Chair Stringham asked how much we're buying from our members. Mr. Clark replied that much of it does not even make it on to our system. Mr. Jennings added it acts as a load reducer for power purchasing.

Ms. Albee asked if there is a 32% under collection on residential net metering because the distribution costs move in both directions. Mr. Clark responded that when we deliver a kWh to a net metered residential member above the cap, we are charging them from a distribution perspective 5.9¢ per kWh, then when they send something back to the grid, we are crediting them 2.5¢ per kWh, even though there is no cost basis for that 2.5¢. He added that is a very big reason for the under collection.

Mr. Jennings added that we are paying a little too much to members that net meter on the distribution portion only, and the other ones are very accurate. He added this incentivizes our members to do solar.

Ms. Albee asked if there is a cap on how big you can go with solar. Mr. Jennings replied that you can net meter up to a megawatt on our system. Mr. Clark added that there is no distribution credit when you get into that rate class, they only get the avoided cost for power and transmission, so the cooperative and ratepayers are protected from that perspective.

Ms. Albee asked if there are any fees for people installing batteries. Mr. Clark replied yes, it would go through the Interconnection application.

There was discussion around the time of use rate, and Mr. Clark stated it is a very small program at this point but has potential to grow if more members use batteries.

Mr. Jennings stated he thinks we do a good job incentivizing while not putting too much of that cost on the rest of the members. He suggested not changing the way current rates are designed, but added he is open to discussion. Mr. Darcy agreed.

2027 Capital and Operating Budget Timeline

Mr. Clark shared a slide on the 2026 Budget Timeline.

Discussion

The Committee agreed that the timeline was more constructive, the Board had more input, and it was a better process overall, which resulted in the Board feeling more comfortable with the budget. The Committee was in favor of replicating the timeline this year.

Action Items

- Mr. Jennings will provide the number of employees on improvement plans that will not benefit from the Balanced Scorecard payout.
- Mr. Jennings will update the Board Resolution - 2025 BSC Success Sharing Payout accordingly to reflect the change in dollar amount due to reflect achieving target on the substation replacement goal.
- Mr. Clark will create a resolution outlining the changes to Rate Design Guiding Principle 5.

Adjournment

Upon motion from Mr. Darcy, seconded by Ms. Albee, Chair Stringham adjourned the meeting at 12:12 p.m.