

Guide to CPCNH Policy Documents

- ✓ Energy Portfolio Risk Management Policy
- ✓ Retail Rates Policy
- ✓ Financial Reserves Policy

December 28, 2022

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1 | Process

Process for Development and Approval of Policies



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CPCNH Important Dates



11/03	RMC email outlines the process for finalizing key documents	<input checked="" type="checkbox"/>
11/15	Legal Consultation on CSA & Risk, Reserves, and Rates Policies	<input checked="" type="checkbox"/>
11/21 10:15 - 12:15	Legal Consultation on CSA & Risk, Reserves, and Rates Policies	<input checked="" type="checkbox"/>
11/22	Requested deadline for policy document feedback	<input checked="" type="checkbox"/>
11/28	RMC will release updated drafts of the documents	<input checked="" type="checkbox"/>
11/29 16:00-18:00	Legal Consultation on CSA & Risk, Reserves, and Rates Policies (possible make-up on 11/30)	<input checked="" type="checkbox"/>
12/08 17:00-20:00	RMC Public Meeting Deliberative Session on the 4 key documents	<input checked="" type="checkbox"/>
12/15	Board Meeting vote on whether to approve the 4 key documents	<input checked="" type="checkbox"/>
JANUARY 2023	Launching Members gain approval of policies from Governing Bodies	<input type="checkbox"/>
FEB-MAR 2023	Public Info & Outreach, Customer Notification & Public Hearing	<input type="checkbox"/>
APRIL/May 2023	CPCNH LAUNCH GOAL!!	<input type="checkbox"/>

Interplay of Three Policies

Energy Portfolio Risk Management Policy

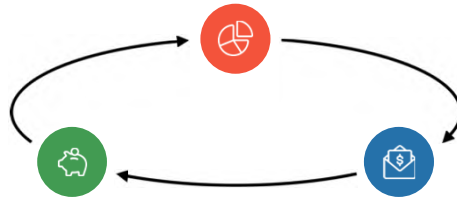
Outlines the mechanisms, financial safeguards, and reporting/transparency to procure electricity for members.

Financial Reserves Policy

Describes how the Financial Reserve will be established/maintained; mechanisms for utilization; how excess reserves are allocated and made available to Members.

Retail Rates Policy

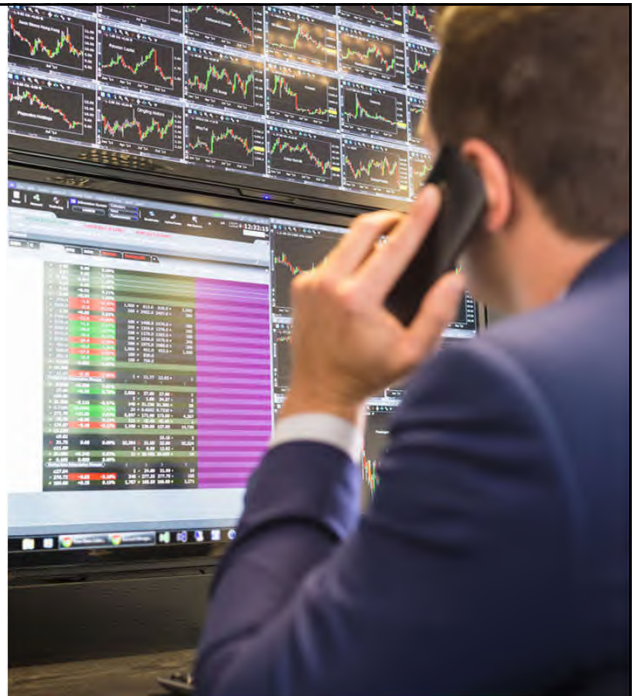
Describes how retail rates will be set and what types of rates will be offered.



2 | Energy Portfolio Risk Management Policy



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EPRM Section 1 – Philosophy, Objectives, Scope

Philosophy

- ✓ CPCNH's primary business is to procure/produce electricity supply to meet Community Power Aggregation (CPA) customer load requirements
- ✓ EPRM Policy provides a power procurement framework to maximize probability that CPCNH:
 - Identifies + manages risks of procuring and hedging the power supply portfolio
 - Accrues reserve funds to satisfy financial obligations

Objectives

- ✓ Meet customer “all-requirements electricity”, obtain best available rates, maintain rate stability, develop and maintain financial reserves, plus additional items outlined in document

Scope

- ✓ EPRM Policy prescribes the management organization, authority, and processes to monitor, measure and control the risks to which CPCNH is exposed in the normal course of business arising primarily from CPCNH's participation in the wholesale energy markets. CPCNH is exposed to three quantifiable risks:

1. **Volumetric Risk:** load and resource variability.
2. **Price Risk:** market-related cost variability.
3. **Counterparty Credit and Collateral Call Risk:** potential default by a counterparty or requirement to post collateral

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EPRM Section 2 – Risk Exposures

Defines main risk categories of:

1. Market Risk
2. Volumetric Risk
3. Opt-Out Risk (Customer Attrition Risk)
4. Counterparty Credit Risk
5. Liquidity and Collateral Risk
6. Regulatory and Legislative Risk
7. Operational Risk
8. Reputation Risk

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EPRM Section 3 – Risk Strategy & Parameters

Identifies key strategies CPCNH will apply to mitigate all the risks associated with energy transacting activities.

1. **Portfolio Strategy and Cost Allocation:** continuous monitoring + modeling of energy markets & customer behaviors/loads, responsive energy transactions to minimize cost + risk of electricity supply, settling financial obligations in the wholesale market.
2. **Portfolio Diversification:** electricity procured from numerous sources, with a variety of contract durations for both physical and financial energy contracts.
3. **Counterparty Diversification and Credit Exposure:** CPCNH will assess and monitor counterparty creditworthiness and avoid being overly reliant on any one entity.
4. **Default Rate Benchmarking:** CPCNH will monitor and compare its electricity rates against NH utilities.
5. **Reporting Requirements:** daily monitoring, at least weekly reporting of 5 energy supply parameters, and monthly reporting to the Risk Management Committee. Members have full access to reports and performance evaluations.
6. **Risk Metrics:** Portfolio management decisions supported by risk metrics computed from energy market simulations.
7. **Position Limits (Hedge Ratios):** CPCNH will purchase energy hedges to insure against future market price fluctuations. The policy documents defines minimum and maximum ratios of the electricity purchase commitments relative to the expected load.

All CPAs will be managed as one portfolio to maximize economies of scale, with detailed accounting to correctly allocate costs for different Members and Customer Classes.

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Position Limits (Hedge Ratios)

CPCNH will:

- ⚡ Rely on risk metrics to guide procurement decisions;
- ⚡ Purchase energy on a forward basis to hedge against the risk of open load positions within the minimum and maximum hedge ratios

Hedge ratios are fixed price purchases and supply resources divided by forecasted load.

Maintaining minimum and maximum hedge ratios limits CPCNH's net open exposure and provides a framework to manage market risk while allowing flexibility in procurement sufficient to maintain competitive rates.

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Position Limits (Hedge Ratios)

Discount to Utility Tariff Model			
Months to Delivery		Discount to Utility Tariff (Auction Based Rates)	
		Minimum	Maximum
0+	3	60%	125%
3+	6	50%	110%
6+	9	0%	70%
9+	12	0%	70%
12+	48	0%	50%

Cost of Service or Fixed Price Model			
Months to Delivery		Cost of Service ("Fixed Price" Rates)	
		Minimum	Maximum
0+	3	80%	125%
3+	6	50%	110%
6+	9	40%	90%
9+	12	40%	90%
12+	18	30%	90%
18+	24	20%	90%
24+	48	20%	90%

Hedges and futures purchases that ≠ 6 months forward products represent CPCNH's structural advantage achieved by active portfolio management as compared to regulated utility procurement methods.

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EPRM Section 4 – Risk Control Principles

The processes to identify, monitor, control and track risk exposure will involve:

- ✓ Delegation of authority to qualified parties
- ✓ Separation of responsibilities for procurement
- ✓ Adherence to well defined procedures, documentation, reporting, oversight and review

CPCNH will assess, specify and limit the types of energy products that may be transacted.

CPCNH Directors, Officers, Alternates, Employees, Volunteers, consultants, and any other person acting for or on behalf of CPCNH are bound by the terms of CPCNH's Conflict of Interest Policy.

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EPRM Section 5 – Roles, Responsibilities, Organization

Defines overall roles & responsibilities for implementation of EPRM Policy.

1. **CPCNH Board of Directors:** Member Board has ultimate oversight over CPCNH operations and is responsible for establishing organization-wide framework for risk management,
2. **CEO:** Has overall responsibility for implementing the EPRM Policy and for communicating risk management issues to the Member Board.
3. **Risk Management Committee:** Ensures procurement activities carried out on behalf of CPCNH are executed within the guidelines of EPRM Policy and are consistent with the Member's goals.
4. **Front Office*:** Responsible for managing CPCNH's market price risk associated with Member CPA load serving requirements.
5. **Middle Office*:** Independent oversight of the Front Office & adherence to this policy.
6. **Back Office*:** Provides supporting activities necessary to settle energy transactions (largely accounting) and support Middle Office risk control responsibilities.

*CPCNH's Front, Middle, and Back-Office functions will be provided by Ascend Analytics, LLC and our Load Serving Entity

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EPRM Section 6 – Policy Compliance

Describes how violations to any part of the EPRM Policy will be reported, investigated and reviewed.

- ✦ Independent, third party audits of the Enterprise Risk Management Policy, including the Energy Portfolio Risk Management Policy will be performed at least once every two years.
- ✦ Financial reserve levels reviewed monthly by Finance Committee.
- ✦ All employees and Members involved with EPRM Policy will be trained to the appropriate level.

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3 | Retail Rates Policy

Section 1 – Purpose: Outlines the requirements, objectives, rate setting authorities, rate setting processes, and different types of rate products of CPCNH



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Rates Policy Section 2 – Requirements & Objectives

CPCNH will only launch new Member CPAs pursuant to meeting Member EAP requirements (e.g., meeting or beating the utility default service rates for residential customers at launch)

- ✓ Thereafter, CPCNH will strive to maintain default service rates that are lower than or competitive with utility default service rates.
 - “Competitive with” means that over the long term, CPCNH rates will be lower than the utility default service rates, but occasionally for short periods of time, utility rates may dip below CPCNH rates due to market volatility.
 - Other rates plans will also be made available for customers to opt-up to if desired.

Main considerations & requirements for setting rates for CPCNH customers:

- ✓ Rates set based on CPCNH financial data, energy positions, Member objectives & market considerations;
- ✓ Rates cover CPCNH’s operating/capital costs, financial reserve targets, other requirements set by the Board;
- ✓ NH law & rules require equitable treatment of customer classes & posting rates to NH DOE Shopping Comparison website;
- ✓ Rate changes are required to be publicly noticed at least 30 days in advance of becoming effective;
- ✓ CPCNH will support income eligible customers enrolled in Electric Assistance Program to receive their discount.

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Rates Policy Section 3 – Policy Amendments

- ✦ CPCNH Board must approve amendments to the Retail Rates Policy.
- ✦ The principal executive officers of **Each Member** will receive advance written notice of Board meetings at which changes to this Policy are proposed.
- ✦ Subsequently, the principal executive officers of **Each Member** will receive prompt written notice of the effective date of such amendment.

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Rates Policy Section 4 – Default Rate Setting Process

- ✦ CEO, in consultation with Risk Management and Finance Committees, will recommend default rates to Member Board for approval.
- ✦ Advance written notice of Board meetings at which changes to default rates are proposed will be sent to the principal executive officers of **Each Member**.
- ✦ Subsequently, prompt written notice of approved default rate changes will be sent to the principal executive officers of **Each Member**.
- ✦ **Emergency Default Rate Adjustment Authority** for unexpected events:
 - The Board must approve emergency rate adjustments.
 - Prompt written notice of emergency rate adjustments will be sent to the principal executive officers of **Each Member**.

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Rates Policy Section 4 – Member Election of Rate Products & Discretionary Reserve Adders

- Individual Members may select different **default** and **opt-in** rate products:

Product	Minimum Content	Member Election
Granite Basic	Minimum RPS Content (23.4%)	Default, Opt-Down, or N/A
Granite Plus	~33% Renewable or Carbon Free	Default, Opt-Up, or N/A
Clean 50%	~50% Renewable or Carbon Free	Opt-up or N/A
Clean 100%	100% Renewable or Carbon Free	Opt-up or N/A

- Individual Members may elect to apply an adder to default and opt-in rates for the accrual and use of **Discretionary Reserves**, as provided for in the Financial Reserves Policy.

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Rates Policy Section 5 – Rate Structure Types

Lists and defines the types of Rate Structures permitted.

- Discount to Utility Tariff Rates
- Fixed Price Cost of Service Based Rates
- Time of Use Rates
- Net Metering Rates
- Index Plus Adder Rates (pass-through + CPCNH admin adder)
- Fixed and Index Blend Rates (combines structures 2 and 5)
- Board approval required to authorize any new rate structures not listed

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Rates Policy Section 6.1 – Rate Product Types & Approval Authorities

Lists & defines the Rate Products CPCNH is permitted to offer:

- ✦ Default Service
 - Communities may elect from menu of different default rate products (e.g., minimum renewable content vs. 5-10% additional renewable or carbon-free content)
 - Local power generation can be incorporated into individual CPA default service offerings
- ✦ Alternative Customer Rate Options (Opt-in, Opt-up, or Opt-down)
 - Higher/lower renewable energy content
 - Price will have a different benchmark than Default Service
 - Innovative custom rates for larger customers based on cost to serve

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Rates Policy Section 6.2 – Net Metering Offer

CPCNH Anticipates Offering Net Metering Rates as Follows:

Traditional Net Metering 1.0

- ✦ Customers will maintain their Traditional Net Metering 1.0 rate structure and monthly kilowatt-hour crediting of excess generation towards future consumption.
- ✦ Customers that have accrued a bank of kilowatt-hours credits who transition to Community Power may zero out their bank of kilowatt-hour credits upon becoming Community Power customers.

Alternative Net Metering 2.0

- ✦ Customers will maintain their Alternative Net Metering 2.0 rate structure but will transition from a monthly taxable monetary payment for excess generation to a monthly kilowatt-hour credit for excess generation to be banked against future consumption for the supply component only.
- ✦ Such Customers may receive dual bills, one from utility for delivery charges/credits and one from CPCNH for supply charges/credits.

Group Net Metering

- ✦ “Host” customer-generators will likely benefit by remaining on utility default service, while their “Group Members” who may receive on-bill credits for Host exports to the Grid should benefit by switching to Community Power for their supply. CPCNH can help evaluate individual cases.

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Rates Policy Section 7 – Rate Product Content & Member Elections

CPCNH will offer the following rate products and contents:

Product	Minimum Content	Member Election
Granite Basic	Minimum RPS Content (23.4%)	Default, Opt-Down, or N/A
Granite Plus	~33% Renewable or Carbon Free	Default, Opt-Up, or N/A
Clean 50%	~50% Renewable or Carbon Free	Opt-up or N/A
Clean 100%	100% Renewable or Carbon Free	Opt-up or N/A

- Members may elect Granite Basic or Granite Plus as their default product, and other products as optional (opt-in, opt-up, or opt-down).

Product Content

- “Carbon-free” means power that is reported as carbon-free on an Environmental Disclosure label pursuant to Puc rule 2205.11 and includes power from larger hydroelectric generation that doesn’t qualify as renewable under RPS.

4 | Financial Reserves Policy

Section 1 – Purpose: Establishes minimum, target, and maximum levels of **Joint Reserves** that will be accrued, used, maintained, and monitored by CPCNH; and provides for accrual and use of **Discretionary Reserves** by individual members.



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Financial Reserves Policy Section 2 – Objectives

Financial reserves are accrued and maintained by CPCNH on behalf of and for the benefit of Member CPAs with the following objectives:

- ✦ Protect against emergency default rate adjustments
- ✦ Strive to adjust rates gradually over time
- ✦ Ensure cash availability when net revenues are unavailable
- ✦ Lower and avoid interest expenses
- ✦ Achieve a credit rating and maintain good standing with rating agencies
- ✦ Manage risks identified in the Energy Portfolio Risk Management Policy
- ✦ Establish clear expectations between the Board of Directors, staff, contractors, and suppliers of electricity to CPCNH
- ✦ Net result = CPCNH is financially stable & able to develop projects for Members

A formal reserve policy creates a shared understanding of the proper level and use of reserves.

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Financial Reserves Policy Section 3 – Rights of Members to Reserve Contributions

- ✦ Reserve contributions shall be tracked and accounted for on behalf of **each Member CPA (your community)**.
- ✦ If a **Member CPA** withdraws from CPCNH or membership is involuntarily terminated, the balance of any reserves accrued by **your community** will be distributed or applied as directed by **your community's** governing body, after satisfaction of the Member's contractual obligations with CPCNH and in accordance with any applicable law and regulation.
- ✦ Financial reserves allow Members to “build equity” in CPCNH
- ✦ **Discretionary Reserves** may be collected on behalf of an individual Member and tracked, accounted for, and transferred to the Member or otherwise applied or held as directed by the individual Member's governing body

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Financial Reserves Policy Section 4 – Joint Reserve Target Levels Established

Defines three target levels of reserves, relative to the forecasted expense of operations as reflected in CPCNH's budget, and in addition to any other financial obligations CPCNH has committed to:

- ✦ **Minimum Operating Reserve:** reserves sufficient to cover 60 days of operations to be achieved within 3 years.
- ✦ **Target Operating Reserve:** reserves sufficient to cover 120 days of operations to be achieved within 5 years.
- ✦ **Maximum Operating Reserve:** reserves sufficient to cover 180 days of operations.

Reserve targets have been set based on cost forecasting as part of the Technical Assessment of CPCNH's viability.

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Financial Reserves Policy Section 5 – Joint Reserve Target Levels Maintained

Defines financial reserve actions for different reserve levels.

- ✦ **Replenishment of Minimum Reserves:** CPCNH will develop and implement a plan to return reserves to the minimum within 2 years.
- ✦ **Between minimum and maximum reserve level:**
 - Small reserve contribution rate adjustments to grow reserve to a "Target Operating Level."
 - No further action required once the Target Operating Level is achieved.
- ✦ **Above the maximum reserve level:** Considered excess reserves and allocated and distributed back to Member CPAs for their own use.

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Financial Reserves Policy Section 6 – Excess Reserves

- ✦ Reserves collected from customers of a given Member CPA in excess of the Maximum Operating Reserve Level will be allocated or distributed back to or otherwise made available for use as directed by the Member's governing body.
- ✦ Members may use Excess Reserves to invest in developing new local energy projects, to fund programs benefiting their customers specifically, for rate reductions, or for other uses as determined solely by each individual Member.

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Financial Reserves Policy Section 7 – Forecasting, Reporting & Evaluation of Joint Reserves

Outlines regular Financial Reserve assessments and adjustments.

- ✦ Reserves levels forecasted on a rolling 12-month basis to normalize for Member expansion
- ✦ Regularly Forecasting of Reserve Levels
 - Methodology is approved by Risk Management Committee (RMC)
 - Methodology is reviewed by Financial Committee
 - Reported monthly to the Member Board
- ✦ Periodic Review of the Reserve Target Levels
 - Reserve target levels periodically reviewed for consistency with industry standards by RMC
 - The funding level may be adjusted when significant new risks are identified or retired.
- ✦ Annual Consideration of Forecasted Reserve Levels and Targets
 - An analysis of over or under forecasting of reserve levels during the fiscal year shall be made in conjunction with year-end financial results. Results reported to the Board of Directors as part of year-end financial report presentation.
 - The Board to review and consider the target reserve levels defined in this Policy, in the context of CPCNH's overall financial condition and taking under consideration changes to the industry and/or CPCNH's exposure to the risk factors defined in the Enterprise Risk Management Policy.

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Financial Reserves Policy Section 7 – Conditions for Use of Joint Reserves

- ✦ The use of Joint Reserves is defined as an expenditure that is forecasted to result in more than a 10% reduction of the reserve level at the conclusion of a rolling 12-month forecast period.
- ✦ A temporary reduction in cash consistent with the expected peaks or dips in revenues and expenditures are normal cyclical occurrences to be expected over the course of any 12-month period, and do not constitute an expenditure of Joint Reserves.
- ✦ The expenditure of Joint Reserves is subject to approval by the Board. However, the CEO has the authority to use reserves for operating liquidity in emergency situations in consultation with the Board Chair and either the Vice Chair or Treasurer, and such actions must be noticed to the Board in the next meeting.

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Financial Reserves Policy Section 8 – Board Discretion

The Board may, by resolution, modify or suspend any provision of the Financial Reserves Policy for any duration at any time . . .

- ✦ **Except** that the provisions under this section and under “Rights of Members to Reserve Contributions” may only be modified or suspended by a written amendment unanimously approved by the votes cast at a meeting of the Membership at which a quorum is present.

The CEO or Board Chair will send notice to Member Representatives and principal executive officers of each Member:

- ✦ At least 14 days prior to a meeting at which proposed amendments to or suspension of the provisions under this section and under “Rights of Members to Reserve Contributions” may be acted upon;
- ✦ Subsequently, the effective date of such amendment or suspension.

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