Scope of Services

4.0 WORK PLAN (SECTION C)

4.1 Technical Approach and Methodology

Phase 1: Inception – pilot rates

Phase 1 will include 6 different tasks from inception to kick-off the project to the development of pilot rates.

Task 0: Inception

The main objective of this task is to formally initiate the project, collect information needed from the City and other relevant stakeholders, finalize timelines, and establish the required communication channels for the rest of the project.

Step 1: Kick-off meeting

Exeter has extensive experience initiating utility rate development and cost-of-service projects for government clients. Through our work with the Defense Logistics Agency Energy, the Department of Energy's national laboratories, and other government entities, we have developed effective protocols for project initiation that ensure all stakeholders are aligned from the outset.

A virtual kick-off meeting will be organized with the City, Exeter, and Ricardo. The meeting will aim to go through all of the workstreams and the work plan and agree on timelines. During this meeting, we will also review and finalize the communication protocol proposed in 4.2 below to ensure it meets the City's expectations and aligns with the project timeline.

Step 2: Data Collection

Under this step, we will prepare and issue a data request to the City. We assume that the City will provide the information requested within five working business days to ensure that the project remains on track. The intention is to consolidate the most relevant information already available and identify any existing gaps in order to address them as soon as possible and incorporate any potential impacts or adjustments into the work plan.

We will work with the city to understand data availability, and for any information gaps, we will work with the City and agree on assumptions to use in the models.

Task 1: Refine existing financial model

We will refine and refresh the City's existing financial model, which we have assumed is on Microsoft Excel. To update the model, we will use information provided by the city in response to the information requested under Task 0.

Exeter brings extensive experience in developing long-term financial forecasts for utility and energy projects that appropriately account for macroeconomic and policy variables. Our approach to refreshing the SEU's financial model will incorporate current and anticipated conditions across several key dimensions:

- ***Macroeconomic Factors*.** We will incorporate current forward interest rate curves for debt financing costs, inflation forecasts from Federal Reserve projections and consensus economic forecasts, and energy price projections. For energy price forecasts, we rely on multiple data sources including the Department of Energy's Energy Information Administration (EIA) Annual Energy Outlook, S&P Global's quarterly long-term power forecasts (to which Exeter maintains an active subscription), and forward market curves from Intercontinental Exchange (ICE) data. Given the volatility in energy markets, we will assess how different price scenarios could impact the SEU's financial position over the 3-5 year planning horizon.

- ***Policy and Regulatory Environment*.** We will evaluate and incorporate the impacts of relevant federal, state, and local policies that affect SEU economics. This includes federal incentives such as Investment Tax Credits (ITC) and Production Tax Credits (PTC) for renewable energy, evolving Inflation Reduction Act provisions, Michigan state renewable energy policies and incentive programs, and any local Ann Arbor policies or programs that may affect costs or revenues. Our team actively tracks policy developments through our ongoing federal client work and maintains awareness of regulatory changes that could materially impact utility-scale renewable and geothermal projects.
- ***Market Conditions*.** We will assess current market conditions for solar, battery storage, and geothermal system costs, including recent trends in equipment costs, supply chain factors, and construction/installation cost trends in the Michigan market specifically where possible.

Before updating the model, we will consolidate the data and provide recommendations on inputs and assumptions to use for the City's approval. The inputs will be based on information provided by the City and our expert judgment and understanding of the political and economic context.

Exeter will ensure that the model operates at high levels of granularity, is highly flexible, easily editable, and user-friendly, and that the results are easy to understand through summary tables and graphs. All parameters will be unlocked to be modified at the user's convenience. We will develop the model to be fully transparent, allowing City staff to understand all calculations and relationships, and to use the model independently for scenario analysis and future updates. This approach has been successfully employed in our work for the Defense Logistics Agency Energy and Department of Energy clients, where we regularly develop spreadsheet-based analytical tools that client staff can maintain and modify after project completion.

The refined financial model will provide the foundation for the strategic business model and launch plan discussions in Task 2.

Task 2: Business model and launch plan

We will serve as a strategic thought partner to the City on the SEU's business model and launch plan, providing decision-support and structured frameworks for evaluating critical choices that will shape the utility's success. This task serves as a bridge between the financial model refresh in Task 1 and the detailed cost-of-service modeling in Task 3, translating economic realities into strategic direction.

Drawing from Exeter’s experience conducting utility options studies for federal clients, we will work collaboratively with City staff to systematically evaluate the most critical levers affecting both revenue generation and customer rate competitiveness. Our approach will help the City think through complex trade-offs and sequence decisions to optimize the SEU's launch and early operations.

The teaming arrangement between Exeter and Ricardo will be particularly valuable in this task. Exeter will contribute financial and economic expertise—including our experience with utility rate structures, financing mechanisms, and market dynamics—while Ricardo will provide technical expertise on system design, engineering considerations, and operational requirements. This integrated perspective will ensure that strategic recommendations are both financially sound and technically feasible.

Key factors we will evaluate include, but are not limited to:

- **Financing structures and terms**. Assessment of debt vs. equity considerations, bond financing options, leverage ratios, and how financing choices impact rate competitiveness and financial flexibility over the planning horizon.
- **System sizing strategies**. Evaluation of optimal individual system sizes and total capacity deployment pathways, considering economies of scale, customer demand patterns, grid constraints, and capital availability.
- **Asset types and procurement approach**. Analysis of build vs. buy decisions for solar, battery storage, and geothermal systems, including trade-offs between capital costs, operational control, performance guarantees, and speed to deployment.
- **Customer class prioritization and sequencing**. Recommendations on which customer segments to target initially (anchor facilities, residential, commercial/institutional) based on revenue potential, system economics, and strategic positioning.
- **Grant and incentive optimization**. Strategies to maximize use of available grant funding and federal/state incentives while ensuring the long-term financial sustainability of the utility.
- **Revenue model alternatives**. Evaluation of rate structure options (e.g., subscription models, lease arrangements, traditional utility rates) and their implications for customer adoption, revenue stability, and administrative complexity.

We envision this strategic advisory work proceeding through iterative discussions with City staff and leadership, supported by short analytical memos, presentations, and scenario comparisons as needed. Our team will be responsive to emerging questions and decisions as the SEU's planning evolves. We understand that the City may be developing a formal business plan document, and we are prepared to contribute written content, analysis, and recommendations to support that effort.

The strategic recommendations developed under this task will directly inform the scenarios populated in the cost-of-service model (Task 3) and help ensure that the rate structures ultimately designed (Task 6) align with the SEU's business model objectives.

Task 3: Develop Cost of Service Model

This task aims to establish a transparent and structured cost-of-service (CoSS) model that will determine the overall revenue requirement, allocate costs fairly across the SEU's potential rate classes, and provide forecasts for up to five years to understand immediate and future impacts.

Ricardo will lead the development of the CoSS model, building upon their in-house Microsoft Excel-based framework, with guidance from Exeter.

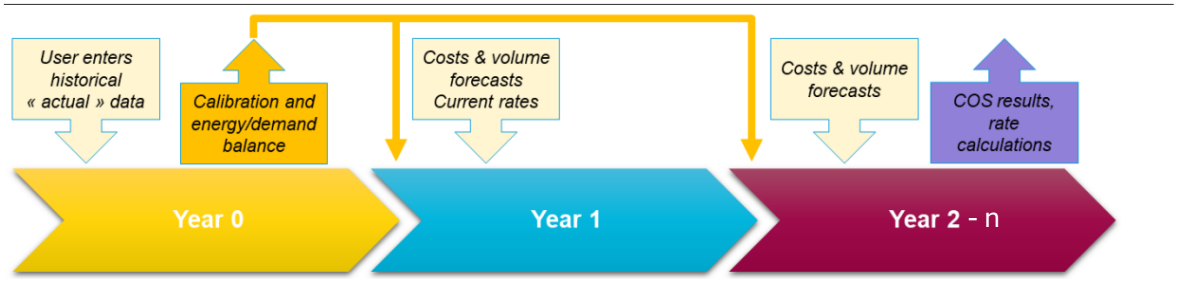
Model Design Principles

We will ensure that the model operates at high levels of granularity, is highly flexible, easily editable, user-friendly, and that the results are easy to understand through summary tables and graphs. All parameters will be unlocked to be modified at the user's convenience, enabling the City to conduct independent scenario analysis and updates as conditions evolve. The model will be fully transparent, with clear documentation of all calculations, assumptions, and methodologies.

Model Architecture and Multi-Year Framework

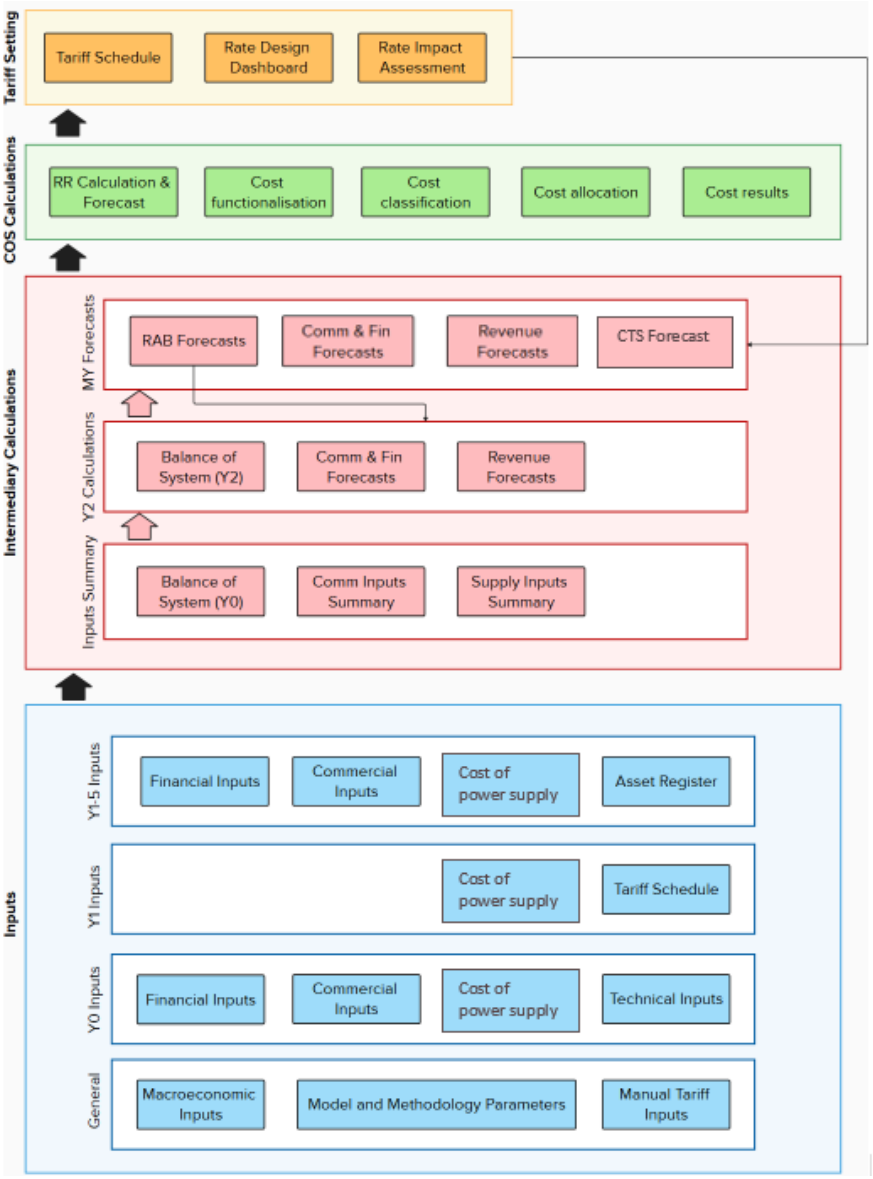
The CoSS model will span a period from Year 0 through Years 3-5 (as determined in consultation with the City). Year 0 represents historical baseline data used for energy system balancing purposes, leveraging commercial data collected from existing service providers. Year 1 is the year over which the CoSS is carried out. Years 2 through 5 are for projection purposes, allowing the City to understand how costs and rates may evolve as the SEU grows and market conditions change.

FIGURE 2: VISUAL ILLUSTRATION OF THE MULTI-YEAR NATURE OF THE COS TOOL



The model will be supplied with a set of input data, which are reflected in the yellow segment of the model flowchart. The model uses commercial inputs such as potential customer numbers and sales by category, operational inputs including O&M expenditure and budget forecasts, the asset register and technical inputs (e.g., loss factors), power supply, and other inputs.

FIGURE 3: FLOWCHART OF THE PROPOSED COSS MODEL ARCHITECTURE (PENDING CITY REVIEW)



Cost-of-Service Model Development Process

The CoSS will be developed following established utility rate-making principles through the following. The key stages of this modelling process are illustrated in the figure and described below:

Figure : CoSS model development process

A detailed explanation of each step in the CoSS model development process is provided below.

Step 1: Data collection and analysis, and decide on up to three scenarios

As part of Step 1, we will submit a data request under task 0 in the inception phase. The intention is to consolidate the most relevant information already available and adapt it as needed for the modelling. In this way, the study will be based on data and inputs that have been formally validated and approved by the city. The aim would be to collect as much information as possible on the balance of the system.

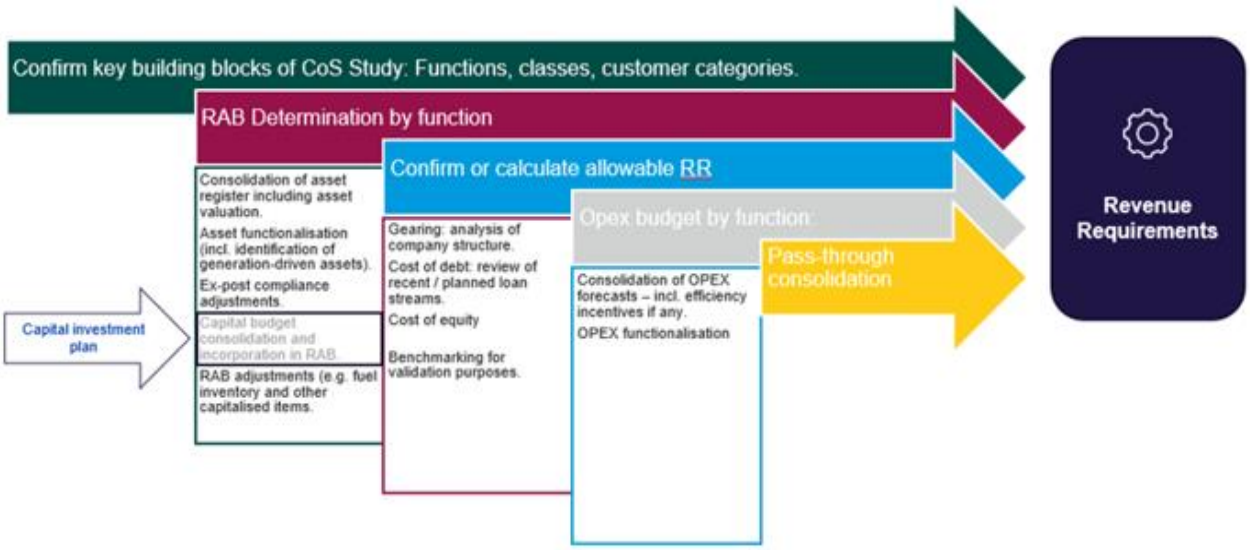
We will work with the city to understand data availability, and for any information gaps, we will work with the city and agree on assumptions to use in the models.

Step 2: Revenue Requirement (RR)

In this step, we will use the inputs collected from step 1 to calculate a revenue requirement (RR).

The range of activities required to achieve this is described in the figure below.

FIGURE 4: COMPONENTS REQUIRED TO DERIVE REVENUE REQUIREMENTS



Once the components of the RR have been calculated, the costs are further broken down by function, also called "cost functionalization". Some of the functions which could be considered are as follows: Power supply, use of system, distribution retail. *Step 3: CoSS classification and allocation*

With the RR established, the next step is to allocate costs across the different customer categories. This allocation process is carried out in two distinct stages: classification and allocation.

The main purpose of this step is to review various options for the cost allocation and to provide a set of meaningful and practical recommendations.

- **Classification:** These functionalized costs are then classified based on their cost drivers: demand-related, energy-related, and customer-related. At this stage, the model will also incorporate a further breakdown to capture seasonal variations and time-of-use characteristics.

- **Allocation:** Finally, costs are distributed among the customer categories:
    - **The allocation of energy-driven costs** (i.e., costs most directly proportional to the increase in sales, such as variable OPEX, etc.) typically factors energy purchases imputable to each specific customer class, along with technical and non-technical losses assumed to be incurred.
    - **The allocation of demand-driven costs** (i.e., costs most directly proportional to the increase in system demand, such as network investments using the Average and Excess (A&E) method[1] or the coincident peak demand method.
    - **The allocation of customer-driven costs** (i.e., remaining costs, most directly correlated to the number of customers within each class) typically takes into consideration customer numbers - and, in some jurisdictions, assigned weighting factors related to the extent of customer service provided to the various customer categories. E.g., large commercial customer classes (which typically have far fewer interactions with customer service teams than residential classes) can be allocated a lower weighting factor than low-usage residential classes.

Additionally, we will use the outputs and recommendations from task 2 to consult and agree with the City on up to three scenarios to use for the modelling exercise to reflect potential service offerings, deployment pathways, financing rates, and other variables. We will then populate the model with the scenarios.

Task 4: Benchmark Tariff Structures

In this task, we will conduct a benchmarking exercise of the tariff structures and rates for competitors and peer offerings to inform the tariff development phase in Phase 2. The output of this task will help inform the tariff development by assessing common and best practices in how utilities structure and document their service offerings.

Exeter has experience reviewing utility tariff documents and rate structures through our work for state regulatory commissions, consumer advocates, and federal agencies. Our staff regularly analyzes utility tariff filings as part of regulatory proceedings before public service commissions across multiple states, and we have evaluated competitive electricity supply structures for the Defense Logistics Agency Energy, the U.S. Air Force, and the Department of Energy's national laboratories. This experience has provided us with familiarity with a wide range of tariff structures, rate design approaches, and service offerings across different utility models and regulatory environments.

[1] This method uses a weighted average of the average-demand allocators (weight = system load factor) and the Excess-Demand Allocators (weight = one minus the system load factor)

We will obtain and review tariff documents from publicly available sources including state public utility commission websites, utility websites, and regulatory filing databases. Our benchmarking will assess not only the rates themselves but also how services are defined, structured, and documented in formal tariff language—which will be important as the City develops its own tariff book in Phase 2.

The specific categories we will examine include, but are not limited to:

- Traditional investor-owned utility tariffs: Standard residential and commercial service rates, time-of-use rates, low-income rates, and renewable energy riders from utilities such as DTE Energy and other Michigan utilities, as well as relevant offerings from utilities in other states with similar regulatory environments.
- Community Choice Aggregation (CCA) programs: Rate structures and service terms from established CCA that offer renewable energy options to customers.
- Municipal utility rate books: Tariff structures from municipal utilities offering renewable energy services, including how they structure opt-in programs, customer classes, and billing arrangements.
- Third-party solar and geothermal service agreements: Contractual structures for solar leasing, power purchase agreements, and geothermal service offerings from both utility-sponsored programs and third-party providers.
- Green tariff programs: Utility-offered renewable energy tariff riders and programs, such as green pricing programs, community solar subscriptions, and carbon-free energy riders that allow customers to access renewable energy while remaining utility customers.

We will not only assess local tariff structures and rates but also consider examples from other jurisdictions to obtain a broader perspective on best practices. However, given the SEU's unique regulatory environment as a municipal entity in Michigan, we will prioritize Michigan and Midwest examples where applicable.

We will provide a benchmark report summarizing our findings, including identification of common tariff provisions, innovative approaches that may be relevant to the SEU's offerings, and recommendations for how the SEU might structure its own tariff to balance customer clarity, administrative feasibility, and legal compliance.

Task 5: Develop Preliminary Pilot Service Rates

The final step of Phase 1 will be to develop preliminary pilot service rates for:

- Grant-supported SEU solar and geothermal offerings
- Commercial/institutional customers served by existing solar assets they currently own

These pilot rates will serve an important function in the launch of new utility services. They allow the SEU to test its service model with early adopters, validate assumptions about costs and customer response, gather operational experience, and refine rate structures before broader market deployment. The preliminary rates developed in this task will provide the foundation for the SEU's initial service offerings while recognizing that rates will require iterative refinement as the SEU gains operational experience and as market conditions evolve.

In developing these preliminary pilot rates, we will consider how rates can be structured to balance affordability, customer uptake, bill simplicity, and customer satisfaction, while ensuring that the rates recover the intended revenue. Drawing on our experience with utility rate design and our understanding of customer preferences from work with federal installations and state regulatory proceedings, we will develop rates that are clear and aligned with the SEU's strategic objectives.

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- **Grant-Supported Solar and Geothermal Offerings**. For SEU offerings that benefit from capital grant contributions, the preliminary pilot rates will reflect the impact of grant funding on the revenue requirement. These pilot rates will be designed to balance multiple objectives: making the service attractive to early adopters, ensuring adequate cost recovery given the grant support, establishing a foundation for future rate adjustments as the SEU scales, and maintaining alignment with the SEU's mission of providing affordable renewable energy options to the community.
- **Existing Customer-Owned Solar Assets**. For commercial and institutional customers with existing solar systems that may be sold to the SEU, preliminary pilot rates will reflect the purchase price and operational characteristics of the acquired systems. We will work with the City and technical advisors to translate asset valuations into appropriate rate structures. These rates will need to account for the costs of acquiring, operating, and maintaining the systems, as well as providing a fair return to the SEU while offering customers a compelling value proposition compared to their current arrangements.

  We understand that the City may have specific information on potential anchor customers and their existing solar installations. This customer-specific data will be valuable in developing rates that are tailored to actual rather than hypothetical circumstances.

We anticipate that the development of preliminary pilot rates will be an iterative process involving multiple discussions with City staff, legal counsel, and other advisors. As we develop rate proposals, we will present them to the City for review and feedback, refine them based on input, and continue this cycle until the City is comfortable with the preliminary rates. These preliminary pilot rates represent a first iteration that will be further refined and expanded in Phase 2 as the SEU moves toward full tariff development and launch.

Phase 2: Tariff Launch and Public Engagement

Task 6: Develop Tariff Design

After completing Phase 1, we will proceed with Phase 2 where, under Task 6, we will design tariffs for the SEU launch, considering Phase 1 outputs. The aim will be to develop rates that balance affordability, uptake, bill simplicity, and customer satisfaction, while ensuring that the rates recover the intended revenue and comply with applicable legal requirements.

Based on Phase 1 and the findings from the pilot rates and other tasks, we will work with the City to decide and narrow down the offerings to continue with for full tariff development. We understand that the rate design may be required for solar, solar plus storage, standalone storage, and geothermal.

In this stage, we will use the cost-of-service model developed under Task 3, and specific inputs based on the type of offering selected, to develop the rate structure and rates. Ricardo will lead the technical rate calculations with guidance from Exeter on rate design principles, customer considerations, and regulatory best practices informed by our work with utilities and regulatory commissions.

The objective is to enhance efficiency, provide consumers with accurate cost signals, and promote rational electricity consumption, while ensuring economic efficiency, financial viability, and achievement of the SEU's social and environmental objectives.

The specific customer classes to be served by the SEU will be determined through the Phase 1 analytical work, particularly through the business model and launch plan discussions in Task 2 and the cost-of-service analysis in Task 3. Our tariff design approach will accommodate whatever customer class structure the City determines is appropriate—whether that involves distinctions between residential, small commercial, large commercial/institutional, low-income, or other categories.

After reviewing the tariff designs and offerings, a rate book will be drafted along with guidelines and detailed example cases that can be used for training and customer engagement. These materials will provide clear explanations of how rates are calculated, how customers will be billed, and what options are available to different customer segments. The rate book will serve as both an internal reference document for SEU staff and a customer-facing communication tool to ensure transparency in how the SEU's rates are structured and applied.

Task 7: Public Engagement

Exeter Associates will lead the public engagement process for the SEU’s utility rate tariff development, ensuring that community input is actively integrated into the design. This begins with early outreach to residents, businesses, and stakeholders to explain the goals of the proposed rate structure and gather feedback. Exeter will facilitate public meetings and workshops, providing clear,

accessible information and creating space for open dialogue. These sessions will help surface community priorities and concerns, which will inform the technical and policy aspects of the rate design.

Following these engagements, Exeter, with the assistance of SEU, will manage a formal comment period, allowing for written input from the public. All feedback will be reviewed and, where appropriate, incorporated into the final recommendations, which will be approved by the council. Exeter will document how public input shaped the outcome, reinforcing transparency and accountability throughout the process. The final rate structure will reflect both the SEU's operational needs and the values of the community it serves.

Phase 3: Ongoing Support

Following the completion of tariff development and the launch of SEU services, Exeter and Ricardo will remain available to provide ongoing advisory support on a retainer/as-needed basis. This phase explicitly begins after SEU service launch and will provide the City with continued access to our expertise as the SEU begins operations and encounters issues that require technical, financial, or regulatory guidance.

The ongoing support will include advisory consultation, updating tariffs and rates as needed, and other items to be added by mutual agreement, with time estimated at approximately 10 hours per month over a 36-month period. Exeter will lead on financial, economic, and regulatory matters, while Ricardo will remain available to answer technical questions related to the cost-of-service model, system operations, and engineering considerations. Together, the team will provide responsive support to help the SEU navigate the challenges of its early operational period and ensure that rates remain appropriate as circumstances evolve.

4.2 Proposed Communication Protocol

The ambitious timeline and deliverables in this section will require regular communication between our teams and the City to keep progress on track. We propose the following communication protocols for Phases 1 and 2:

- Weekly project team meetings with City staff, Exeter, and Ricardo to discuss progress, address questions, and coordinate next steps
- Bi-weekly senior team meetings with City leadership to review major milestones and strategic decisions
- Monthly written status updates documenting accomplishments, upcoming deliverables, and any open information or data needs
- Ad-hoc communications via email and phone as needed for time-sensitive items
  This communication structure will be refined during the kick-off meeting based on City preferences and project timeline considerations.

4.3 Project Timeline and Milestones

The SEU has established an ambitious goal to begin providing services by 2027. Our proposed work plan is designed to support this timeline while ensuring that all analytical, design, and engagement work is conducted with appropriate rigor and stakeholder input.

The project is organized into three phases as described above, with Phase 1 focused on analytical foundation-setting, Phase 2 on tariff development and public engagement, and Phase 3 on ongoing support during the SEU's initial operational period. Key milestones and deliverables are identified in Figure 5.

FIGURE 5: PROJECT TIMELINE AND MILESTONES

Milestone/Deliverable	Target Completion
Phase 1: Inception – Pilot Rates (Approximately December 2025 – March 2026)	
Project kick-off meeting	December 2025
Data request issued and responded to	December 2025
Communication protocols established	December 2025
Refreshed financial model delivered	January 2026
Business model and launch plan recommendations	February 2026
Cost-of-Service model delivered (with 2-3 scenarios populated)	February 2026
Tariff benchmarking report	February 2026
Preliminary pilot service rates	March 2026
Phase 2: Tariff Launch and Public Engagement (Approximately April – July 2026)	
Tariff design for selected service offerings	May-June 2026
Public meetings and workshops	June 2026
Formal comment period	June-July 2026
Final rate recommendations and rate book	July 2026
City Council presentation materials	July 2026
City Council authorization (anticipated)	August-September 2026
Phase 3: Ongoing Support (Approximately July 2026 – July 2029)	
Response to SEU advice / support requests	As requested