AMENDMENT TO
FCS GROUP PROFESSIONAL SERVICES AGREEMENT

THIS AMENDMENT TO FCS GROUP PROFESSIONAL SERVICES AGREEMENT is made by and between FCS Group a Washington corporation ("**Consultant**"), whose address is 7525 166th Ave NE, Ste. D-215, Redmond, WA 98052 and the City of Cheney, a non-charter code city of the State of Washington (the "**City**"), whose address is 609 2nd Street, Cheney, WA 99004. The City and Consultant are jointly referred to as the "**Parties**."

RECITALS

1. On May 14, 2019, the Parties entered into an agreement entitled "CITY OF CHENEY AGREEMENT FOR PROFESSIONAL SERVICES WITH FCS GROUP" for the purpose of providing professional services consisting of Water Rate Design Study (collectively, the "**Original Agreement**").

2. To further the interests of the Parties it is desirable to amend the Original Agreement as set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the terms and conditions expressed herein, the Parties agree as follows:

1. Original Agreement. The Original Agreement is hereby incorporated by reference as if fully set forth herein. Capitalized terms not otherwise defined in this Amendment shall have the meaning prescribed to them in the Original Agreement. This subsequent agreement is considered to be an Amendment of the Original Agreement.

2. Amendment.

A. Pursuant to this amendment, the Original Agreement, paragraph 1 entitled "Services to be performed" is modified to add the additional services set forth on the "FCS Group Scope of Work dated February 2022," which is attached hereto and incorporated by reference herein as Attachment A ("**Additional Services**").

B. The Original Agreement, paragraph 3 entitled "Compensation" is modified to an additional amended amount of $ 92,565.00 for Additional Services, for a maximum amount of $ 176,440.00 or such other amount as the Parties may mutually agree upon which such amount shall not exceed an additional 10% of the maximum amount, and which shall be paid by the City pursuant to paragraph 4 of the Original Agreement.

3. Limitation. Nothing contained herein shall be construed as revoking or otherwise altering any of the provisions found in the Original Agreement except as expressed herein. The City reserves the right to terminate or modify this Second Amendment in a manner consistent with the terms and provisions of the Original Agreement.

IN WITNESS WHEREOF, the parties have executed this Second Amendment this ____ day of _____, 2022.

THE CITY OF CHENEY	FCS GROUP
_____ By: Chris Grover Its: Mayor	Signature: _____ Print name: _____ Title: _____ Federal Tax I.D. Number

ATTACHMENT A
FCS Group Proposal for Water Cost of Service Rate Study February 2022

FCS GROUP
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CITY OF CHENEY

WATER UTILITY COST OF SERVICE RATE STUDY

The following work plan identifies the tasks required to complete a Water Utility Cost of Service Rate Study for the City of Cheney (City). The City's needs were discussed with Todd Ableman, Public Works Director on February 22, 2022. The services provided as part of this scope are described below.

TASK PLAN

TASK 1: INITIAL PROJECT MEETING/INITIATION

An initial project meeting is scheduled at the commencement of the project with the consultant and the City's project team. The intent of the meeting is to confirm the goals and objectives of the overall rate study and focus the efforts of the project team. The items covered at the meeting include reviewing the scope of work; identifying project objectives, expectations and deliverables; outlining the project schedule and key milestone review points; and discussing appropriate lines of communication. This task also includes the administrative efforts involved with project initiation. *Bi-weekly standing meetings may be scheduled with the project team to review the status of the project and deliverables.*

TASK 2: DATA COLLECTION

Consultant will provide a data request outlining key information required to complete the study, working with City staff to resolve questions and obtain additional records as needed. This task includes reviewing and validating data provided for the study, identifying potential data anomalies that could impact the integrity of the study's findings or resulting recommendations.

TASK 3: CUSTOMER STATISTICS VALIDATION

A comprehensive analysis and validation of the City's water customer billing data with customer water use demands and revenue generation is critical to the rate study as it establishes the foundation for all of the major analytical phases (revenue requirement, cost of service and rate design). The process includes reconciling individual customer data including number of accounts, rate code and billing usage patterns against actual revenues collected. This data will provide an understanding of the customer water use behavior in a highly granular fashion allowing for development of allocation factors (e.g., contribution to total water use, peak use, fire flow, etc.,) for use in the cost of service analysis and to make rate design recommendations that will address the City's water use goals while meeting the revenue needs of the utility.

TASK 4: REVENUE REQUIREMENT UPDATE

This task will develop an updated revenue requirement financial plan. The multi-year financial plan will identify annual cash flow needs by identifying expenses incurred to operate and manage the system including:

- Capital investment funding (improvements, expansion, and replacement)
- Expenses incurred to operate, maintain, and manage the system
- Existing and future debt requirements
- Cash flow needs
- Fiscal policy achievement

Key elements of the revenue requirement update include:

» *Operating Forecast*. Initially based on the District's 2022 Budget, along with comparing 3-years of historical actuals, the forecast of operating revenues and expenses will incorporate inflation and other cost increases (e.g., anticipated changes in staffing and/or program activities) as appropriate.

» *Capital Funding*. The City's most recent capital improvement plan will be used to update the total annual capital needs. A funding plan will be developed considering available resources from rate revenues, customer contributions, existing cash reserves and debt financing (as needed) to maintain the ongoing financial health of the water system.

» *Test of Sufficiency.* Consultant will consider the adequacy of current revenues in meeting both cash flow needs and any applicable debt service coverage requirements.

» *Annual Rate Strategy*. Develop an annual rate strategy to fully fund all system obligations and smooth rate impacts.

» *Sensitivity Analyses*. In collaboration with City staff, develop up to three (3) sensitivity analyses to evaluate the financial and rate impacts of changes to key variables or other factors of interest.

TASK 5: COST-OF-SERVICE ANALYSIS

The cost of service analysis (COSA) establishes a defensible basis for assigning "cost shares" and establishing "equity" for system customers based on industry accepted methodologies that are tailored to the City's unique system, customer characteristics, operating and capital cost drivers.

Specific consideration will be given to total utility costs in relationship to the functions identified below.

Water Functions of Service
Base capacity (average demand)
Peak capacity (peak demand)
Fire flow requirements
Customer (accounts/meters & services)

This analytical exercise will identify the cost to serve each customer class of the system. The results will identify any warranted shifts in cost burden that could improve equity between customers from the existing rate structure. Unit costs by functional component will be calculated to support the rate design process.

TASK 6: RATE DESIGN

Rate design determines how the City's water rate revenue requirement will be met from each customer class. The rate design process in this study will aim to balance the priorities of the City

while preserving revenue stability. This task will leverage the effort and conclusions of the initial Water Rate Design Study completed in 2019 and will further incorporate the findings of Tasks 4 Revenue Requirement Update and Task 5 Cost of Service Analysis.

The rate designs proposed will be consistent with the City's fiscal policies, billing system capabilities and objectives. The specific rate design issues to address as part of this task include:

- *Commercial*. Develop a standard commercial class rate design. This rate structure may consider a uniform rate, seasonal rate and/or overage rate.
- *Schools/Parks*. Using the specific customer statistics for schools and parks developed in Task 3 develop a tiered rate structure that incorporates size of lot, water use characteristics and water use efficiency into a new rate structure.

TASK 7: MEETINGS & PRESENTATIONS

During the study process, it will be important to interact frequently with staff throughout the project, to ensure that the findings and recommendations reflect approaches that are understood by impacted parties and can be implemented within the City's administrative practices. All meetings and presentations are anticipated as remote sessions given the continued uncertainty of COVID19 restrictions. The following meetings are included:

- Three (3) staff project team meetings to review study results at key milestones.
  - » One (1) – one (1) hour meeting with City staff to review draft revenue requirement results.
  - » One (1) – one (1) hour meeting with City staff to review draft COSA.
  - » One (1) – two (2) hour meeting with City staff to review rate designs and final recommendations.
- Three (3) workshops with the City Council and / or Public Works Committee to present the study results and incorporate feedback. Development of presentation material is included in the estimated labor effort.

We are happy to provide additional meetings and / or presentation as requested. The additional meetings and / or workshops are billed on a time and materials basis.

OPTIONAL TASK 1: DOCUMENTATION

An executive level report documenting the rate study methodology, key assumptions, results and recommendations will be provided. The technical information referenced in the report will be available in the provided Excel based models. Included will be one (1) electronic copy of the rate model and final report.

SCHEDULE

Comprehensive rate studies such as this generally require a six-to-nine-month timeframe for completion. This includes the time required to gather data, complete the technical analysis, and to accommodate City review time and scheduling of workshops / presentations. The project schedule is based on variety of issues including timeliness of receipt of requested data / information, quality of data, ability to schedule meetings in a timely manner, and the ability of the City to provide policy direction for the study to move forward at key study milestones. The City has indicated a desire to consider possible commercial rate design options for implementation by the summer of 2022. This is

a fairly accelerated timeframe. We will work with the City to define a specific project schedule, with key milestones, during the project initiation meeting

BUDGET

Our normal billing practice is to bill based on time and materials actually expended, not to exceed the total budget. We would be more than happy to negotiate the appropriate level of effort for this project if we have scaled our approach out of line with the City's needs and/or expectations.

TASK		BUDGET
TECHNICAL TASKS		
Task 2 | Data collection & validation	$	890
- Customer statistics validation and forecast		6,060
Task 3 | Revenue requirement Update (3 scenarios)		5,380
Task 4 | Cost of service analysis		7,800
Task 5 | Rate design		7,420
TOTAL TECHNICAL	**$**	**27,550**
PROCESS TASKS		
Task 1 | Initial project meeting/initiation	$	1,135
Task 6 | Meetings & presentations		
- Project Review meetings (3 remote; 1x2 hours; 2x1 hour)		2,600
- Workshops - Council/PW Committee (3 remote)		
- Presentation development		5,250
- Remote presentation		1,290
TOTAL PROCESS	**$**	**10,275**
TOTAL BUDGET	**$**	**37,825**
OPTIONAL TASKS		
Task O1 | Documentation	$	5,970

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CITY OF CHENEY

ELECTRIC UTILITY COST OF SERVICE RATE STUDY

The following work plan identifies the tasks required to complete an Electric Cost of Service Rate Study for the City of Cheney (City). The City's needs were discussed with Todd Ableman, Public Works Director and Steve Marx, Light Department Director on February 22, 2022. The services provided as part of this scope are described below.

TASK PLAN

TASK 1: INITIAL PROJECT MEETING

An initial project meeting is scheduled at the commencement of the project with the consultant and the City's project team. Meeting participants would include a representative from departments that can address issues related to finance, engineering, operations, customer service and administration.

The intent of the meeting is to confirm the goals and objectives of the overall rate study and focus the efforts of the project team. The items covered at the meeting include reviewing the scope of work; identifying project objectives, expectations and deliverables; outlining the project schedule and key milestone review points; and discussing appropriate lines of communication. *Bi-weekly standing meetings may be scheduled with the project team to review the status of the project and deliverables*.

TASK 2: DATA COLLECTION & VALIDATION

FCS GROUP will provide a data needs list encompassing historical and projected revenue, expenses, fiscal policies, capital plans, fund balances and comprehensive plans. The data will be reviewed, analyzed and validated for inclusion in the study process.

Validation of detailed customer statistics data with customer demands and revenue generation is critical to the rate study as it establishes the foundation for all of the major analytical phases (revenue requirement, cost of service and rate design). The process includes reconciling individual customer data including number of accounts, rate code and billing usage patterns (e.g., kWh, kW) against actual revenues collected. This revenue reconciliation will identify anomalies to be corrected prior to developing future projections for customer counts and use / demand under "normal" conditions and before calculating forecast revenue and cost allocation.

TASK 3: REVENUE REQUIREMENT

This task establishes the multi-year (e.g., 5/10-year) financial plan that meets the projected total financial needs of the electric utility. Annual cash flow needs are developed by identifying expenses incurred to operate and manage the system including:

- Capital investment funding (improvements, expansion, and replacement)
- Expenses incurred to operate, maintain, and manage the system

- Existing and future debt requirements
- Cash flow needs
- Fiscal policy achievement

We will design the analysis to mirror the City's own funds and to be flexible and stable enough to analyze multiple scenarios. Sub-tasks are as follows:

» *Operating Forecast*. The operating forecast is intended to identify future annual non-capital costs. Annual escalation factors will be applied for general inflation, labor and benefits. Adjustments will be made for new costs anticipated from additional staffing needs and other operating costs associated with maintaining the system along with initiating new or enhanced program activities such as renewable energy requirements and/or conservation.

» *Power Costs*. Power costs will be forecasted based on the Bonneville Power Administration's (BPA) billing determinants and the City's load forecast. Tier 1, existing resources and above rate high water mark (ARHWM) purchases will be forecasted independently taking into account the City's existing contracts.

» *Capital Funding*. The City's capital improvement plan will be used to determine total annual capital needs. The analysis will develop a capital funding plan that will determine an optimal mix of available resources from rate revenues, customer contributions, existing cash reserves and debt financing to maintain the ongoing financial health of the electric system and to smooth future rate impacts driven by capital funding needs identified in the City's capital plan.

» *Debt Service Requirements*. Incorporate existing and any anticipated new issues in the revenue requirement.

» *Financial Policies*. Review existing financial policies for compliance with operating, capital and power reserve targets.

» *Test of Sufficiency.* Evaluate the adequacy of the electric system's current revenues in meeting both cash flow needs and debt service coverage requirements on a stand-alone basis.

» *Annual Rate Strategy*. Develop an annual rate strategy to fully fund all system obligations and smooth rate impacts.

» *Sensitivity Analyses*. Offer up to three (3) sensitivity analyses to evaluate the financial and rate impacts of changes to load growth, power costs, project timing and priority, project funding, conservation initiatives or other changes specified by the City.

» The resulting revenue requirement and multi-year rate strategy developed will meet the City's specified financial metrics, goals and objectives and deliver a self-sustaining, electric utility financial planning toolset

TASK 4: COST-OF-SERVICE ANALYSIS

The cost-of-service analytical task will establish a defensible basis for assigning "cost shares" and establishing "equity" for the City's customers. This is accomplished with the development of a series of allocations, based on customer data and engineering / planning criteria to assign utility cost recovery to customers in proportion to their estimated demands. Specific consideration will be given to total utility costs in relationship to the functions identified in **Exhibit 1**. We have included traditional and unbundled cost-of-service functions. The unbundling analysis has proven beneficial in

aligning rates by service function in preparation of meeting alternative service requests for example - distributed generation.

Exhibit 1. Utility Cost of Service Functions

Traditional	Unbundled
Energy (Winter/Summer, HLH/LLH)	Purchased Power / Generation
Demand (Coincident, Transmission and Non-coincident Peaks)	Transmission
Customer	Distribution
	Customer

Key cost of service tasks include:

- *Classify Assets and Expenses*. A thorough review of the classification categories will be conducted with the City to determine if any changes are warranted.
- *Distribute Cost to Rate Classes*. Update class specific allocation factors with customer account and load data for each of the cost elements. The results of this task will determine the cost of service for each rate class. We will compare the summary of allocated costs to the existing revenue generated by each rate class to identify if any cost-of-service adjustments are warranted.
- *Unit Costs*. The final piece of the cost-of-service analysis is the calculation of average unit costs by functional cost category such as power, energy, demand, and customer account. Average unit costs will be cost based and expressed in terms of cents / kWh for energy costs, dollars / kW for demand and dollars / month or dollars / day for customer costs. Unit costs will be calculated for both bundled and unbundled cost functions.

TASK 5: RATE DESIGN

Rate design considers both the level (amount of revenue that must be generated) and structure (how the revenue will be collected or bill assessed). Each rate design alternative is developed to generate sufficient revenue to meet the revenue requirement forecast and begin to address any material inequities identified in the COSA findings. Further, we will identify the portion of revenues anticipated to be collected from the fixed and volume rate components to provide for an appropriate balance of revenue stability and the ability of customers to control their bill by changing behavior. The rate designs proposed will be consistent with the City's fiscal policies, billing system capabilities and objectives.

This scope of services includes the following rate design options:

- *Across the board increases*. The increases will be applied equally to both fixed and variable (where applicable) components.
- *Modified fixed and variable rate increase*. This alternative will evaluate modifying the fixed charges proportionally higher than the volume charges, or vice versa. This type of rate design would allow the City to address goals such as revenue stability or impacts of price elasticity and align rates with unit costs.
- *Non residential energy and demand structure evaluation*. The City's existing non residential energy rates for some of the classes include a declining energy structure. In addition, the demand charges for these classes include an allowance, billing for demand only once the allowance has been exceeded. This option will evaluate transitioning all non residential classes to uniform energy rates and modifying or eliminating the billing allowance for demand.

TASK 6: MEETINGS & PRESENTATIONS

During the study process, it will be important to interact frequently with staff throughout the project, to ensure that the findings and recommendations reflect approaches that are understood by impacted parties and can be implemented within the City's administrative practices. All meetings and presentations are anticipated as remote sessions given the continued uncertainty of COVID19 restrictions. The following meetings are included:

- Four (4) staff project team meetings to review study results at key milestones.
  - One (1) – two (2) hour meeting with City staff to review draft revenue requirement results.
  - One (1) – two (2) hour meeting with City staff to review draft COSA.
  - One (1) – two (2) hour meeting with City staff to review rate designs and final recommendations.
  - One (1) – one (1) hour meeting with City staff to review final recommendations and draft presentation.
- Three (3) workshops with the City Council and / or Public Works Committee to present the study results and incorporate feedback. Development of presentation material is included in the labor estimate.

We are happy to provide additional meetings and / or presentation as requested. The additional meetings and / or workshops are billed on a time and materials basis.

OPTIONAL TASK 1: DOCUMENTATION

An executive level report documenting the rate study methodology, key assumptions, results and recommendations will be provided. The technical information referenced in the report will be available in the provided Excel based models. Included will be one (1) electronic copy of the rate model and final report.

SCHEDULE

Comprehensive rate studies such as this generally require a six-to-nine-month timeframe for completion. This includes the time required to gather data, complete the technical analysis, and to accommodate City review time and scheduling of workshops / presentations. The project schedule is based on variety of issues including timeliness of receipt of requested data / information, quality of data, ability to schedule meetings in a timely manner, and the ability of the City to provide policy direction for the study to move forward at key study milestones. We will work with the City to define a specific project schedule, with key milestones, during the project initiation meeting with consideration for completing the key analysis required to inform the City's budget process in August 2022.

BUDGET

Our normal billing practice is to bill based on time and materials actually expended, not to exceed the total budget. We would be more than happy to negotiate the appropriate level of effort for this project if we have scaled our approach out of line with the City's needs and/or expectations.

TASK		BUDGET
TECHNICAL TASKS		
Task 2 | Data collection & validation	$	970
- Customer statistics validation and forecast		3,355
- Load shape development and reconciliation		2,060
Task 3 | Revenue requirement (3 scen. w. power forecast)		7,240
- Power reconciliation and forecast		3,300
Task 4 | Cost of service analysis		7,240
Task 5 | Rate design		6,620
TOTAL TECHNICAL	**$**	**30,785**
PROCESS TASKS		
Task 1 | Initial project meeting	$	1,040
Task 6 | Meetings & presentations		
- 4 Review meetings (remote; 3x2 hours; 1x1 hour)		3,815
- Council / Committee workshops (3 remote)		
- Presentation development		5,520
- Remote presentation		1,290
TOTAL PROCESS	**$**	**11,665**
TOTAL BUDGET	**$**	**42,450**
OPTIONAL TASKS		
Task O1 | Documentation	$	6,320

City of Cheney
Rate Study
Amendment Two

3/16/2022

Description	Contract	Amendment One	Amendment Two	Total Engineering
Water Rate Design Study	$ 22,640.00			$ 22,640.00
Cost of Service Rate Study and Connection Charges		$ 61,235.00		$ 61,235.00
Water Cost of Service Rate Study			$ 43,795.00	$ 43,795.00
Light Cost of Service Rate Study			$ 48,770.00	$ 48,770.00
Total	**$ 22,640.00**	**$ 61,235.00**	**$ 92,565.00**	**$ 176,440.00**