

**CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON**

AGENDA TITLE:	Shoreline Water District-City of Seattle Water Supply Contract
DEPARTMENT:	Shoreline Water District
PRESENTED BY:	Cynthia Driscoll, District Manager

PROBLEM/ISSUE STATEMENT:

Shoreline Water District, which serves the east 40% of the City of Shoreline, obtains its wholesale water from the City of Seattle. The contract with Seattle expires in 2011. The District, through its representatives and an organization known as the Water Supply Association, has negotiated a new long-term water supply contract. The new contract would replace the existing contract, and last until 2061.

The District is inclined to sign the new contract. However, the District would like input from the City prior to doing so.

FINANCIAL IMPACT:

There will be no financial impact to the City of Shoreline.

The new contract will have a long-term effect on the rate-payers of Shoreline Water District for they will pay water rates based, at least indirectly, on the new wholesale water contract.

The new contract will have no effect on the approximately 60% of the citizens of the City of Shoreline living on the west side of the city. They are served directly by the City of Seattle, and their rates are determined by Seattle Public Utilities.

RECOMMENDATION

The District requests any comments or other input from the City Council regarding the proposed Shoreline Water District-City of Seattle wholesale water supply contract.

Approved By: **City Manager** KTD **City Attorney** J/A

INTRODUCTION

Shoreline Water District, which serves the east 40% of the City of Shoreline, obtains its wholesale water from the City of Seattle. The contract with Seattle expires in 2011. The District, through its representatives and an organization known as the Water Supply Association, has negotiated a new long-term water supply contract. The new contract would replace the existing contract, and last until 2061.

The District is inclined to sign the new contract. However, the District would like input from the City prior to doing so.

BACKGROUND

Shoreline Water District serves approximately 8,000 customers in the east portion of the City of Shoreline and the west part of the City of Lake Forest Park. The District has obtained water since the 1930's from the City of Seattle, which in turn gets its water from two sources in the Cascade mountains, the Cedar and Tolt rivers.

Seattle provides water on a retail basis to its own citizens and to others living outside the city limits, including the west side of the City of Shoreline. Seattle also provides water on a wholesale basis to twenty-eight suburban cities and water districts, which are known collectively as "purveyors." In 1982, the relationship between Seattle and its purveyors, including Shoreline Water District, was formalized in a 30-year contract.

As water supply planning is a very long-term project, in the early 1990's the purveyors and Seattle began discussions about water supply issues, including the possibility of a new wholesale contract with Seattle. Shoreline Water District has been very involved in these discussions and negotiations.

In very brief summary, those negotiations initially were known as the Tri-Caucus Process, and consisted of representatives of Seattle, the suburban cities, and the water districts. The Tri-Caucus process concluded in 1995 with a statement of principles for future water supply planning and governance. Among those principles was a concept of the creation of a new regional water entity. Between 1996 and 2000, a new regional water entity, initially known as the Interim Water Group but eventually known as the Cascade Water Alliance, was formed. However, only approximately 50% of the purveyors (by volume) joined the CWA. Shoreline Water District was one of those purveyor's that decided not to join the CWA.

There were several reasons why Shoreline Water District and many purveyors did not join the CWA. Among them were concerns about projected expenses, future rates

(including abandonment of "old water" rates that were favorable to the ratepayers of Shoreline), and planned direction of the organization.

The failure of all purveyors to join the CWA did not end the efforts by Seattle and the purveyors to develop a long-term water supply contract. In 2000, many of the purveyors which did not join the CWA created a new organization, known as the Water Supply Association (WSA), to negotiate a new long-term wholesale supply contract. In 2000 and continuing into 2001, those negotiations took place. Again, representatives of Shoreline Water District were very involved in this process. In May 2001, the WSA and Seattle completed negotiation of the contract, and the agreement has now been made available for signing by any purveyor.

The new agreement calls for the creation of an Operating Board to manage most of the affairs of the water system. In order to be considered for membership on the Operating Board, Shoreline Water District needs to sign the new contract by August 31, 2001.

DISCUSSION

The existing contract between Shoreline Water District and the City of Seattle expires December 31, 2011. The City of Seattle has announced that it will not extend the contract in its present form, but wishes to enter into a new contractual arrangement with its purveyors.

During 1997-99, Seattle and the CWA conducted extensive negotiations for a "one-size-fits-all" contract for all 28 purveyors. Unfortunately, that proved to be one of the problems with the CWA, for the 28 purveyors are all different. Accordingly, the recent negotiations between the WSA and Seattle was designed to create alternative contracts, depending on the needs of the purveyor. Therefore, the WSA and Seattle negotiated three contracts, a "Full Service Requirements" contract, a "Partial Requirements" contract, and a "Block Sale" contract. All three would have the same basic terms, but would differ depending on the needs of the purveyor to purchase water from Seattle.

Most of the "old water" purveyors, such as Shoreline Water District, obtain all of their wholesale water from Seattle. Therefore, those purveyors are likely to be interested in a "Full Service Requirements" contract. That is the preferred contract for Shoreline Water District.

The District has carefully analyzed the proposed Full Requirements contract, and copies have been provided to the City staff. In summary, the contract provides the following:

1. Seattle makes a 60-year commitment to provide all water needed by the District.
2. The District retains the right to reduce the purchase commitment or even terminate the contract after giving Seattle five years written notice. The District can even reduce or terminate the purchase of water with less than five years notice upon approval of the Operating Board.
3. Seattle will provide water service to the purveyors in "parity" with service provided to its own retail customers.
4. The District has the right of first refusal to renew the contract after 60 years.
5. Seattle remains responsible for water quality within the regional water supply system.
6. An Operating Board is created which will oversee the operation of the water system. The Operating Board will consist of three members from Seattle, three members from the purveyors, and a seventh chosen by the other six.
7. Seattle's 1.0% water conservation program will be implemented by the purveyors.
8. Rate/Philosophy
 - a. Seattle's customers will pay the same wholesale rates and surcharges as its purveyors.
 - b. Regional project costs will be shared equally.
 - c. Rates will be structured to encourage efficient use (e.g., seasonal).
 - d. Costs will be allocated into cost pools: supply, transmission, new facilities, and existing facilities.
 - e. Facility charges will be based on a "growth-pays-for-growth" mechanism.

9. "Old water" rates will be transitioned to become equal with "new water" rates over the next 12 years.

10. Seattle, as lead agency, will confer with the Operating Board for future water supply requirements, capital facilities plans, and emergency response planning.

RECOMMENDATION

Shoreline Water District has carefully reviewed the proposed contract, and finds its terms to be acceptable. Therefore, the District is inclined to approve the contract. The Board of Commissions seeks input and comment from the City Council regarding the proposed new water supply contract.

Attachment: Version 15 SPU water supply contract

CITY OF SEATTLE

FULL REQUIREMENTS CONTRACT

FOR THE

SUPPLY OF WATER

TO

___ WATER DISTRICT ___ or ___ CITY

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FULL REQUIREMENTS CONTRACT

**BETWEEN
THE CITY OF SEATTLE
AND**

-----XXXXXXXXXX-----

FOR THE SUPPLY OF WATER

THIS CONTRACT is entered into between the CITY OF SEATTLE ("Seattle"), a municipal corporation of the State of Washington, and -----XXXXXXX----- ("Water Utility"), a municipal corporation of the State of Washington.

RECITALS

1. Seattle owns and operates a system for the supply, transmission and distribution of potable water and is authorized to sell and distribute water to its residents and to other persons and customers located outside the corporate limits of Seattle.
2. Seattle's water system is integral to the health and welfare of the residents located within the water service area shown in Seattle's Water System Comprehensive Plan. Seattle intends to provide water from the system to meet the current and future needs of the residents of such water service area when such service is requested from Seattle.
3. In meeting this service commitment, Seattle must ensure that this role does not place financial burdens on its retail customers for which they do not receive a corresponding benefit.
4. This contract and contracts of a similar nature with other wholesale customers of Seattle located within Seattle's service area are intended to provide those customers with the security of a long term service commitment and to describe the terms and conditions associated with that commitment.
5. Under this contract, Seattle intends to provide wholesale water to Water Utility at an equivalent level of service and under the same pricing principles as it provides water to Seattle's own distribution system.
6. Given the extensive of growth of the Seattle and surrounding areas and the impacts upon infrastructure and costs, this contract is intended to provide sufficient water for growth. As a general philosophy for cost sharing purposes, the parties desire to adopt the principle that "growth should pay for growth."

7. Seattle and Water Utility, together with other wholesale customers of Seattle, have agreed to establish an Operating Board comprised of representatives pledged to represent the best interests of the region in order to provide overall direction to the Administrator of the Seattle Water Supply System.

NOW, THEREFORE, in consideration of mutual covenants herein, it is agreed as follows:

SECTION I. DEFINITIONS

For the purposes of this contract, the following terms have been defined as:

"Full Water Requirements" - All of the water needed by Water Utility to meet the needs of its present and future water customers within its service area as shown in Water Utility's comprehensive water system plan.

"Block Purchase Contract" - A contract in which Seattle sells a fixed quantity of water to the Wholesale Customer on a take or pay basis.

"Full Requirements Contract" - A contract in which Seattle supplies a Wholesale Customer with its Full Water Requirements.

"Partial Requirements Contract" - A contract in which Seattle supplies a Wholesale Customer with that portion of its Full Water Requirements above that provided by the Wholesale Customer's own supply.

"Wholesale Customer" - Those customers who receive water from Seattle for the purposes of reselling to others.

"1982 Water Purveyor Contract" - That certain Water Purveyor Contract between Water Utility and Seattle having an effective date of September 8, 1982.

"Existing Supply Resources" - Current components of the Seattle Water Supply System which consist of the Cedar River storage, treatment and diversion facilities, the Tolt River storage, treatment and diversion facilities, and the Highline Well Field as set forth in Exhibit VII.

"FC" - Means Facility Charge.

"1% Water Conservation Program" - A program which has been implemented by Seattle with the agreement of Water Utility which contains a goal of 1% conservation per year for ten years.

"Seattle Water Supply System" - Seattle's water supply system consisting of dams, impounded water, supply and transmission mains, pumps, treatment facilities, and all other facilities utilized in conveying water to Seattle's retail service area, to Water Utility and other Wholesale Customers. This definition does not include Seattle's water distribution system, which is used to serve its Retail Customers.

"Seattle's Average Cost of Debt" - The weighted average interest rate on Seattle's water system debt outstanding calculated at the end of each calendar year during the term of this contract.

"Rate of Return on Investment" - Seattle's Average Cost of Debt, plus 1.5 percent.

"Service Connection" - The water meter and appurtenances through which water is delivered from the Seattle Water Supply System to a Wholesale Customer's water system.

"Seattle Transmission Facilities" - Those facilities serving Seattle's regional transmission needs as set forth in Exhibit VIII.

"Stranded Costs" - Those water supply and related costs that Seattle and others have invested for the region which may not be recovered as a result of lost revenues.

"Seattle Water System Comprehensive Plan" - Seattle's Water System Comprehensive Plan dated April, 2001, and amendments thereto, prepared by Seattle to comply with the requirements of WAC 248-54-580, and successor regulations.

"Administrator" - The Director of Seattle Public Utilities or any other title given to that person who maintains the authority to operate and manage the Seattle Water Supply System.

"Operating Board" - A board of representatives having the powers and duties set forth in Section V hereof.

SECTION II. TERM OF CONTRACT AND GUARANTEES

II.A. Term of Contract

1. Term. This contract shall take effect upon the signature of both parties and shall remain in effect until 12:01 AM on January 1, 2062.
2. Subsequent Right Of First Refusal. At the end of the term of this contract, Water Utility shall have a right of first refusal to continue to purchase the amount of water then purchased from Seattle at the time of contract expiration.
3. Periodic Review and Right to Change Certain Terms and Conditions. The parties may review and change certain terms and conditions governing the sales of water hereunder on January 1, 2022 and January 1, 2042 as follows.
 - a. Consensual Process. On or before January 1, 2021, and then again on or before January 1, 2041, either party may provide the other with a written proposal to amend the contract terms. The parties shall then meet and consider the proposal. If the parties agree to the proposal prior to January

1, 2022 and January 1, 2042, respectively, a written amendment to this contract shall be approved and executed by both parties and this contract shall be amended accordingly.

- b. Seattle's Right to Amend. If the parties are unable to agree on a proposal by Seattle pursuant to subsection a. above within the respective one-year periods, Seattle may propose in writing its desired amendment to the Operating Board. Seattle and the Operating Board shall meet and consider the proposed amendment and use reasonable efforts to resolve any differences in the proposal. After 90 days from Seattle's written proposal to the Board, Seattle may propose its desired amendment to the Seattle City Council. If the Operating Board does not agree with such proposal, it may submit a revised proposal to the Seattle City Council within 90 days of Seattle's submission of its proposal to the Seattle City Council. After receiving the Operating Board's alternate proposal, or after the lapse of the 90 day period for the Operating Board to make an alternate proposal, the Seattle City Council may then deny both proposals or approve one of them and issue an amendment to this contract which shall be in effect for the remaining term of the contract from the date of issuance, unless later amended pursuant to subsection a. above, or by mutual agreement.
- c. Limitation on Seattle's Right to Amend. Notwithstanding subsection b. above, Seattle shall not have the right to: (i) reduce its obligation to provide the Full Water Requirements of Water Utility; (ii) cease to provide wholesale water to Water Utility at an equivalent level of service as it provides water to Seattle's own distribution system. (iii) charge a higher wholesale rate for water supply and transmission to Water Utility than that charged to Seattle for supply to its retail customers, (iv) reduce its water quality obligations hereunder, (v) change the methodology for calculating Rate of Return on Investment, (vi) restrict Water Utility's right to withdraw from this contract, and (vii) disband or significantly reduce the powers of the Operating Board.

II.B. Agreement to Supply and Purchase Water

1. Full Requirements Commitment. Seattle shall supply the Full Water Requirements of Water Utility for the term of this contract. Except as set forth in Exhibit I and section II.B.5 below, Water Utility shall purchase all of its wholesale water needs from Seattle.
2. Adjustments in Water Utility's Service Area. In the event Water Utility acquires additional service area that is: 1) located outside of the service area identified in its comprehensive water system plan and 2) which is not already served with Seattle water, then Seattle shall supply the water requirements of the additional

service area subject to a) Seattle's ability to serve that area, and b) Water Utility's payment of FCs for that additional service area in accordance with section IV.E..

3. Assumption or Transfer of Responsibilities. In the event Water Utility's entire service area and service responsibilities are assumed by or are transferred to another utility, then this contract shall become null and void at the time of the assumption or transfer; provided, however, if the transferee of the service area is a Wholesale Customer, Seattle shall provide water to the transferee according to the terms of the transferee's water supply contract with Seattle. If the transferee is not a Wholesale Customer, then Seattle shall issue the transferee a water supply contract for such area subject to terms and conditions as Seattle shall determine.
4. Annexation by Seattle. If the entire water service area of Water Utility is annexed to Seattle, then this contract shall become null and void upon Seattle's assumption of Water Utility's water system.
5. Water Utility's Right To Terminate or Reduce Purchase Commitment. Water Utility's commitment to purchase water from Seattle under this contract may be terminated or reduced subject to the terms and conditions set forth below. Water Utility shall provide Seattle at least 5 years written notice thereof, provided, however, if Seattle unilaterally amends the terms and conditions of this contract pursuant to Section II.A.3 above, Water Utility may terminate this contract at any time within 1 year thereafter by giving Seattle 1 year written notice.
 - a. Automatically Permitted Reductions. Water Utility may, without restriction, upon five years written notice to Seattle, reduce its water purchases from Seattle by an amount not to exceed 10 million gallons per day of its average annual demand.
 - b. Reductions Requiring Permission. Water Utility may reduce quantities of water purchased from Seattle by more than the amount identified in the preceding section or by providing less than five years advance notice of such reduction if in the judgment of the Operating Board, using the criteria listed below, it determines that such reduction is in the best interest of the Seattle Water Supply System as a whole.
 - c. Criteria. The criteria to be used by the Operating Board in determining the best interest of the Seattle Water Supply System shall include but not be limited to the following:
 - i. The potential for Stranded Costs and impacts on rates;
 - ii. The cost of new resources;

- iii. The feasibility and benefit of reallocating to Seattle or other customers the amount of water foregone by Water Utility; and
- iv. Environmental aspects of the proposed change.

The Operating Board shall act promptly and reasonably in evaluating and deciding upon Water Utility's request. The Operating Board may approve, with or without reasonable conditions, or deny Water Utility's request based on the above criteria. Approval conditions may include a requirement that Water Utility waive its rights to be served its Full Water Requirements. If the approval conditions are unacceptable to Water Utility, it may elect in writing to withdraw its request and this contract shall continue in full force and effect.

II.C. Continuity of Service within the Term of the Contract

1. Parity of Service. Seattle shall provide wholesale water to Water Utility at an equivalent level of service that it provides to Seattle's own distribution system. In the event of a general emergency or weather-related water shortage affecting the entire Seattle Water Supply System, general restrictions placed upon water deliveries to Water Utility shall be determined by the Operating Board and applied equally to Seattle's distribution system and the Wholesale Customers. In the event of localized emergency problems, Water Utility acknowledges temporary, localized service interruptions may occur for the duration of the emergency.
2. Emergency Curtailment Measures. It is recognized by both parties that emergency water use curtailment measures may have to be implemented by Seattle on a regional basis in order to meet an emergency condition or a regional water shortage. The procedures to be used in the event of a weather-related regional water shortage, or shortages caused by other factors, shall be as described in Seattle's Water Shortage Contingency Plan in effect as of the effective date of this contract, or successor contingency plans. Successor contingency plans shall be developed and implemented by Seattle in consultation with the Operating Board. Water Utility shall assist with and support all emergency curtailment measures that are implemented.
3. Other Emergencies. Seattle may temporarily interrupt or reduce deliveries of water to Water Utility if Seattle determines that such interruption or reduction is necessary or reasonable in case of system emergencies or in order to install equipment, make repairs, replacements, investigations and inspections or perform other maintenance work on the Seattle Water Supply System. Except in cases of emergency, and in order that Water Utility's operations will not be unreasonably interrupted, Seattle shall give Water Utility and the Operating Board reasonable notice of any such interruption or reduction, the reasons for and the probable

duration. Seattle shall use its best efforts to minimize service interruptions to Water Utility.

4. Waiver Of Charges. If interruption or reduction in service to Water Utility requires that Water Utility draw water supply in a manner that subjects Water Utility to demand charges (as described in Exhibit III hereto), Seattle shall waive such charges during the period of such interruption or reduction.

II.D. Water Quality

1. Seattle Water Supply System. Seattle shall be responsible for water quality within the Seattle Water Supply System as set forth below. Seattle shall construct, operate and maintain water quality treatment facilities and use its best efforts to carry out its water quality responsibilities in the most cost-effective manner for the region.
2. Applicable Standards. Seattle shall at all times during the term hereof deliver water to Water Utility's system that meets or exceeds all applicable Federal, State and local regulations as the same may change from time to time.
3. System-wide Water Quality Plan. Seattle, in consultation with the Operating Board, shall develop and maintain a system-wide regional water quality plan. The plan shall describe, at a minimum, goals, objectives, procedures and the means to satisfy legal requirements and industry standards for water quality, monitoring, information exchange, best management practices, adaptive management practices, public health protection, and cross connection control. The Operating Board may form a technical subcommittee to provide input and review of such plan. Seattle shall share available water quality data and technical expertise with all Wholesale Customers.
4. Distribution Systems. Water Utility shall be responsible for compliance with all applicable federal, State and local water quality laws and regulations applicable to water in its distribution system including any water from supply sources that it may own or operate.
5. Monitoring. Water quality monitoring shall be performed by Seattle in the Seattle Water Supply System and by Water Utility in its distribution system to comply with federal, State and local water quality regulations, to verify the condition of water that is passing from one entity to the other, to enhance system operation and to document the aesthetic qualities of the water. Notwithstanding the foregoing, Water Utility may contract with Seattle for water quality monitoring services as an elective service under section IV.F. hereof.
6. Water Quality Notifications to Customers (Consumer Confidence Reports). Each party shall prepare at its sole cost periodic water quality notifications to its

respective retail customers and regulatory agencies as required by law. Seattle shall provide Water Utility all water quality data in a timely manner regarding the Seattle Water Supply System that Water Utility may be legally required to report in such notices.

7. Water Quality Best Management Practices and Adaptive Management Practices. The Operating Board shall develop best management practices ("BMPs") and adaptive management practices ("AMPs") as reasonably necessary to protect water quality within the Seattle Water Supply System. The BMPs and AMPs will include recommendations to prevent deterioration of water quality in transmission and distribution systems. The parties shall use reasonable efforts to comply with the BMPs and AMPs.
8. Flushing. Water Utility shall be solely responsible for flushing water mains within its system. Flushing allowances will be provided by Seattle only when the Operating Board determines that flushing is required to maintain or improve regional water quality.
9. New Water Sources. Prior to the introduction of any new water supply source by Water Utility which mixes with water in Seattle's Transmission Facilities, the proposed source must be evaluated using customary and reasonable water quality criteria developed in consultation with the Operating Board to ensure compatibility with Seattle water. The proposed Water Utility source must also meet all federal, state and Seattle water quality and treatment standards. Water Utility shall also provide Seattle with satisfactory results from a blending study to determine the compatibility of the source with existing sources already in the Transmission System, the appropriate method and level of treatment and the probable distribution of the new supply within the Transmission System. Water Utility shall also complete a flavor rating analysis of no more than 3.0 as tested by Seattle's Flavor Profile Panel according to the methodology described by the American Water Works Association, or its successor. Water Utility shall obtain all necessary and appropriate regulatory permits, reviews and approvals for rights to and operational use of such water supply source. The introduction of any direct or indirect potable reuse water into Seattle's Transmission Facilities shall, in addition, require Seattle's prior written consent.

The Operating Board may form a technical subcommittee to develop water quality standards and review and advise on the water quality evaluation criteria for proposed new sources. Such criteria for new sources shall be the same for surface water and ground water.

10. Transfers Outside Seattle's Transmission System. If, with the consent of Seattle, water is transferred between Water Utility and another water utility in a manner that does not use the Seattle Water Supply System, Water Utility or the other

water utility shall be responsible for meeting all applicable water quality standards related to the transfer of such water.

II.E. Conservation

The parties acknowledge that conservation prolongs the time before new supply resources are needed and thus constitutes an important ongoing tool in managing the water resources of the region. Accordingly, Water Utility hereby adopts and agrees to be bound by Seattle's 1% Water Conservation Program through the year 2010.

1. Performance Measurements. For the purposes of determining water conservation performance, Water Utility's water use shall be measured in conjunction with the use of all other participants in Seattle's 1% Water Conservation Program. The Operating Board may develop reasonable criteria to measure the participants' water conservation performance in accordance with such program.
2. Conservation Above the 1% Program. Water Utility acknowledges that water conservation beyond the 1% Water Conservation Program may be required as condition of State or federal regulations, court orders, settlements or agreements made to avoid litigation, fines or penalties, or as otherwise determined to be reasonably necessary by the Operating Board. The Operating Board may adopt reasonable additional conservation measures and targets for such purposes. Such conservation measures and targets shall apply in the same manner to all holders of Full and Partial Requirements contracts and to Seattle. Except as provided in the next subsection, Water Utility shall use reasonable efforts to abide by and perform such water conservation measures and to meet the adopted targets.
3. Water Utility's Option to be Conservation Service Provider. Water Utility may elect to provide its own water conservation program, beyond its commitment to the 1% Water Conservation Program to meet conservation targets adopted by the Operating Board or more stringent targets. Water Utility shall bear the costs thereof and shall be solely responsible for its implementation. Under this option, Water Utility shall be evaluated for meeting water conservation targets solely by its own performance.
4. Incentives and Penalties. The Operating Board may adopt penalties for shortfalls in water conservation and rewards for meeting or exceeding adopted targets. In the event Water Utility or Seattle fails to meet the adopted targets set by the Operating Board, the Operating Board may assess a penalty. Penalties may not exceed the cost of Seattle undertaking those conservation measures reasonably needed to achieve the adopted target.
5. Postponing The Need For New Water Supply Facilities. In order to avoid the necessity of developing new physical water supply facilities for as long as reasonably practicable, any water saved through conservation in either Seattle's or

Water Utility's retail service areas shall be dedicated first to the municipal and industrial water supply requirements of the Seattle Water Supply System before any other use of such water may be undertaken.

SECTION III. CONDITIONS OF SERVICE

III.A. Minimum Hydraulic Gradient

1. Initial Minimum. Seattle shall maintain a minimum hydraulic gradient or head at a maximum flow rate in amounts and at locations described in Exhibit II attached hereto for each Service Connection from Seattle's Water Supply System to Water Utility's distribution system. Such gradients and locations shall be contained in Seattle's and Water Utility's future water system comprehensive plans. Seattle shall operate and maintain facilities necessary to carry out such obligation. If Seattle and the Operating Board find that a project resulting in the modification of such minimum gradient or head would benefit the Seattle Water Supply System as a whole, the minimum hydraulic gradient or head described in Exhibit II may be modified by Seattle if such modification is feasible from an economic, land use and engineering perspective taking into account the facilities required to carry out and for Water Utility to adapt to such modification. Seattle may make these modifications only once during any fifteen (15) year period provided that four (4) years advance written notice is given to Water Utility, unless a shorter notice is approved by the Operating Board.
2. Emergencies. If Seattle is prevented by emergency circumstances from providing such minimum hydraulic gradient, Seattle shall supply not less than the volume of water equivalent to the maximum 24-hour average flow rate required by Water Utility as shown on Exhibit II for each 24 hour period that the minimum hydraulic gradient is interrupted.
3. Additional Service Connections. Additional Service Connections between Water Utility's and Seattle's water systems or adjusted minimum gradients may be established from time to time by mutual agreement between Seattle and Water Utility subject to approval by the Operating Board. Exhibit II shall be appropriately amended to reflect such additions or adjustments.

III.B. Resale to Other Parties

Water Utility may sell water supplied by Seattle to water purveyors located outside of Water Utility's existing or future boundaries only upon the prior written consent of Seattle (or oral, in case of emergency). Agreements for resale of water by Water Utility listed in Exhibit I are hereby approved by Seattle subject to whatever written terms, conditions and limitations that Seattle has imposed on such resale.

III.C. Interconnection With Other Systems

1. Prohibition on Interconnection. Water Utility shall not interconnect any part of its system supplied with water from Seattle with other water systems without the prior written approval of the Operating Board, or, in case of emergency, upon oral approval by Seattle, which shall not be unreasonably withheld. Any such interconnection shall be subject to the approval of the Washington State Department of Health. Such other systems must be in compliance with all applicable local, State and federal laws and regulations including the requirement that they have a valid operating permit issued by the Washington State Department of Health.
2. Requests by Seattle to Interconnect. Seattle may request that Water Utility interconnect its water system to the water system of an adjacent Wholesale Customer. Water Utility shall comply with that request subject to the terms and conditions set forth below.
3. Requirement for Interconnection. If Water Utility does not consent to Seattle's request for interconnection, Seattle may propose the interconnection of Water Utility's water system to the adjacent Wholesale Customer to the Operating Board. Water Utility may present facts and arguments to the Operating Board in opposition to the interconnection and/or to document its costs in making the interconnection and conveying water to the adjacent Wholesale Customer. The Operating Board shall hear and consider the matter. Upon (a) a written finding by the Operating Board that the proposed interconnection with an adjacent Wholesale Customer is feasible taking into account Water Utility's capabilities, limitations and obligations, (b) a written finding by the Operating Board that such interconnection benefits the Seattle Water Supply System and (c) a written demand of the Operating Board that Water Utility carry out the interconnection, Water Utility shall be required to interconnect its facilities to the adjacent Wholesale Customer for the purpose of supplying water to that Wholesale Customer through the distribution system of Water Utility, provided that the interconnection shall be performed in a location and according to a schedule which does not unduly disrupt Water Utility's operations.
4. Payment and Indemnity. Water Utility shall be paid its actual costs of providing such interconnection and water transmission service to the adjacent Wholesale Customer, plus a reasonable amount for overhead, administration and rate of return (equal to Rate of Return on Investment) on such costs, and Water Utility shall be indemnified from any liability that may result from providing such interconnection. The Operating Board may adopt a standard methodology for calculating costs that ensures that Water Utility is fairly compensated for such service.

III.D. Development of Regional Supply and Transmission Infrastructure

Final decisions and authority to approve construction of capital infrastructure related to the Seattle Water Supply System shall rest with the Seattle City Council. Capital construction activities include all renewals, replacements, upgrades, expansion and any other capital construction activities.

III.E. Metering Equipment

Seattle shall own and maintain appropriate metering devices to measure the amount of water delivered to Water Utility pursuant to this contract. At Water Utility's request and expense, Seattle shall install and maintain equipment selected by Water Utility and approved by Seattle to transmit signals to Water Utility's recording equipment (at locations determined by Water Utility) of the amount of water delivered as measured by Seattle's meter(s).

Until such time as Seattle determines it to be economical to install metering devices to measure the amount of water delivered from the Seattle Water Supply System to Seattle's distribution system, the amount of water delivered to the Seattle distribution system shall be measured indirectly by subtracting the metered water delivered to all of Seattle's Wholesale Customers from 98% of the total amount of water exiting Seattle's sources of supply as measured by the supply meters.

SECTION IV. COST OF WATER & TRANSMISSION

Cost-based rates are a water industry accepted practice and the historical practice of Seattle and the Wholesale Customers. The rate-making principles, policies and methodologies set forth in this Section IV are intended to meet the objective of equitable and cost-based rates.

IV.A. Rate-making Principles

The following general principles and policies shall apply to the establishment of all rates and charges for water supply and related services hereunder beginning on January 1, 2002. Prior to that date, the pricing method of the 1982 Water Purveyor Contract shall be maintained.

1. No expenses attributable to electric power development maybe allocated to the cost pools identified herein unless the pools are allocated a commensurate share of revenue derived from such development.
2. Seattle shall utilize generally accepted accounting principles consistently applied as a basis for developing the financial information upon which rates and charges are based.

3. Abrupt changes in financial policies should be avoided.
4. The rate structure should encourage the efficient use of water, conservation and the timely development of new environmentally responsible water sources and should incorporate seasonal rates and other pricing approaches to encourage efficient use.
5. The rate structure should be innovative, flexible and adaptive whenever it is cost effective and beneficial in furthering the rate-making policies.
6. The rate structure should be simple to administer and easily understandable.
7. The rate structure should be fair and equitable while the balancing the needs of all parties.
8. Capital costs which benefit only a new Wholesale Customer shall be allocated to that customer and not to any cost pool described in this contract.
9. Seattle's distribution system which serves its retail customers shall be treated as the equivalent of a Wholesale Customer of the Seattle Water Supply System for the purpose of charging Seattle the same wholesale rates and charges as Water Utility for water supply and transmission. Costs calculated under the costs pools described below shall apply equally to Water Utility and to Seattle's distribution system which serves its retail customers.
10. The allocation of costs associated with capital construction activities within the Seattle Water Supply System shall be the responsibility of the Operating Board. The Operating Board shall use its best efforts to determine and approve a cost allocation method for infrastructure projects prior to the capital project obtaining construction approval from the Seattle City Council. Failure of the Operating Board to determine and approve a cost allocation method shall not hinder the Seattle City Council from approving capital infrastructure projects in order to assure Seattle's ability to fulfill the requirements of this contract.
11. The purveyor balance account as that term is defined in the 1982 Water Purveyor Contract between Seattle and Water Utility shall be credited to the Wholesale Customers in a ratable and equitable manner commencing with the application of rate making policies and framework.

IV.B. Ratemaking Framework

Subject to the foregoing principles, wholesale rates and charges for the services described in this contract shall be developed by Seattle based on the following framework:

1. Water Supply and Transmission Service. The costs of water supply and transmission of water shall be accounted for separately in the water supply and transmission cost pools described below. The price for each service shall be recovered through separate rates for each service. All direct costs incurred in providing water supply and transmission services shall be allocated to the appropriate cost pool and recovered through the rates for each service. In addition, certain indirect costs consisting of a reasonable overhead and administration cost shall be allocated to the appropriate cost pool and recovered through rates for each service.
2. Water Supply - Basic and Elective Services. The costs of supplying water falls into two categories – basic and elective services. Basic service costs includes direct and indirect costs attributable to the delivery of water to the Wholesale Customers and to Seattle's retail service area pursuant to the foregoing principles. Elective services are optional services, such as water quality laboratory services and specific engineering support that Seattle makes available.
3. Conservation. Costs incurred by Seattle for regional conservation shall be allocated to the Wholesale Customers through rates or FCs as determined by the Operating Board in the New Supply Cost Pool.

IV.C. Water Supply Pricing – Basic Services

1. Two Water Supply Cost Pools. For the purposes of determining costs of water supply, there shall be two cost pools: An existing supply cost pool ("Existing Supply Cost Pool") and a new supply cost pool ("New Supply Cost Pool").
 - a. Existing Supply Cost Pool. The Existing Supply Cost Pool shall be accounted for as follows:
 - i. A basic services rate for water supply shall be levied to recover the full costs of operating maintaining and replacing the Existing Supply Resources incurred by Seattle.
 - ii. All conservation programs undertaken by Seattle prior to the effective date of this contract with the exception of the costs of the 1% Program from January 1, 2002 through 2010, shall be considered an Existing Supply Resource cost.

- iii. Renewal and replacement of Existing Supply Resources will be an Existing Supply Resource cost.
- b. New Supply Cost Pool. The New Supply Cost Pool shall be accounted for as follows:
 - i. Water supply resources developed in the future ("New Supply Resources") that expand the capacity of the Seattle Water Supply System, including the costs of the 1% conservation program from January 1, 2002 through 2010 and a portion of the cost of the Tacoma Second Supply Project (as allocated from the Tacoma Second Supply Project Cost Pool as set forth in Section IV.E. 7), shall be included in the New Supply Cost Pool. If any portion of a New Supply Resource project enhances reliability of Existing Supply Resources, the costs thereof may be allocated to the Existing Supply Cost Pool if the Operating Board and Seattle both agree.
 - ii. The cost of New Supply Resources plus Rate of Return on Investment may be recovered through FCs charged annually to the holders of Full Requirements Contracts, Partial Requirements Contracts and Seattle or through new supply rates based on the costs of such facilities. Such costs which are not recovered on an annual basis through FCs shall be recovered through new supply rates. The new supply rate shall be applied to all holders of Full Requirements Contracts and Partial Requirements Contracts and Seattle.
 - iii. The Operating Board shall determine the portion of the New Supply Resource costs that shall be recovered through FCs or through new supply rates. The FCs and new supply rates may be scalable to create an incentive for developers to build housing or commercial units with efficient water usage levels. Water Utility, as well as each other Wholesale Customer and Seattle in setting rates for retail customers shall be free to choose the method of incorporating FCs or new supply rates into their own retail rates and charges.
 - iv. Holders of Full and Partial Requirements Contracts who have not purchased water from Seattle under the 1982 Water Purveyor Contract between Seattle and the Wholesale Customer shall be assessed the full marginal costs of the operation, including Rate of Return on Investment, of the New Supply Facilities. This assessment may be satisfied by either paying FCs and new supply rates or arranging a special water supply rate in lieu of paying FCs.

- c. Emergency Surcharge. In the event of a drought, catastrophe or other extraordinary condition that requires emergency expenditures to maintain a sufficient water supply, Seattle may impose an emergency surcharge on all holders of Full and Partial Requirements Contracts in order to pay for such expenditures and/or maintain financial stability of the Seattle Water Supply System. Any such emergency surcharge shall be presented to the Operating Board prior to adoption by Seattle. Seattle shall consider the comments of the Operating Board but shall nevertheless have the full authority to adopt the charge.

IV.D. Transmission Pricing - Basic Services

- 2. Two Transmission Costs Pools. For purposes of determining the cost of the transmission of water to the Wholesale Customers there shall be two transmission cost pools consisting of an existing transmission cost pool ("Existing Transmission Cost Pool") and a new transmission cost pool ("New Transmission Cost Pool").
 - a. Existing Transmission Cost Pool. Costs to be allocated to the Existing Transmission Cost Pool shall consist of the following: operation, maintenance, repairs and replacements to the Seattle Transmission Facilities.
 - i. The Seattle Transmission Facilities are owned and operated as a regional network by Seattle to convey water to Wholesale Customers and to Seattle's distribution system. Therefore, the price of transmission for Seattle water transmitted within the Seattle Transmission Facilities shall be calculated on the same basis to holders of Full Requirements Contracts and Partial Requirements Contracts and to Seattle.
 - ii. Costs incurred for purposes of transmission reliability may be included in the Existing Transmission Cost Pool subject to the approval of the Operating Board and Seattle.
 - b. New Transmission Cost Pool. The cost of new transmission facilities shall be included in the New Transmission Cost Pool. The renewal, replacement or modification of existing transmission facilities which create an expansion of transmission capacity may be allocated to the New Transmission Cost Pool. The Operating Board shall decide what portion of costs of renewal, replacement or modification of transmission facilities may be treated as new transmission costs and the portion of the cost of a transmission project that extends the geographic extent of the transmission system that shall be recovered through the New Transmission Cost Pool or

from a new Wholesale Customer. Except for costs allocated specifically to a specific Wholesale Customer, New Transmission Cost Pool costs shall be recovered through new transmission rates or FCs. The new transmission rate shall be applied in a uniform manner to all holders of Full Requirements Contracts and Partial Requirements Contracts and Seattle.

2. Demand Charge

- a. Seattle may adopt a demand charge in accordance with the methodology described in Exhibit III. The demand charge rate (i.e., dollars per 1000 gallons of deficient storage) shall be based on the equivalent cost of providing the deficient storage.
- b. The proceeds of the demand charge will be treated in rate setting as a credit to the New Transmission Cost Pool.
- c. Seattle shall suspend the demand charge rate in the event of emergencies and unforeseen conditions.

3. Cost of New or Changed Service Connection. If Seattle changes the location of the Service Connection to Water Utility for Seattle's benefit, then Seattle shall pay the cost and it shall be included in the appropriate transmission cost pool. If Water Utility requests the change in location, then Water Utility shall pay the cost of the new connection.

IV.E. Allocation of Costs and Revenues into Cost Pools

1. Accounting. Seattle shall maintain a cost accounting system consistent with the provisions of this contract and generally accepted accounting principles consistently applied in developing the financial information for determining the costs of construction, replacement, maintenance and operation of the facilities in each cost pool.
 - a. Asset Accounts. An asset account shall be maintained for each facility and within that account Seattle shall record the original cost of that facility plus betterments and less retirements.
 - b. Depreciation. Facilities shall be depreciated according to Standard Water System Asset Lives and a record of life-to-date depreciation shall be maintained for each facility. No depreciation shall be recorded in the first calendar year of operation of a facility. A full year's depreciation shall be recorded in every subsequent year.

- c. Net Book Value. The net book value of any facility shall be its original cost plus betterments and less retirements as recorded in its facility asset account, less life-to-date depreciation.
- 2. Infrastructure Costs. Each cost pool shall include the infrastructure costs for its respective facilities, calculated on a utility, cash or other basis depending upon the facility and the cost pool as set forth below.
 - a. Utility Basis. The utility basis shall be used to calculate the infrastructure costs for all Existing Supply Facilities and Existing Transmission Facilities, as well as their replacements and betterments. The utility basis may also be used for new supply facilities and new transmission facilities in Seattle's discretion. Under the utility basis, the infrastructure cost for a facility in any year shall be the sum of (i) the annual depreciation expense recorded for that facility and (ii) the product of the net book value of that facility and the Rate Of Return On Investment.

At Seattle's discretion, interest costs may be considered current infrastructure costs during the construction of a facility. However, any such interest costs must be considered contributions in aid of construction, and not included in the Net Book Value of the facility for purposes of calculating Utility Basis costs in future years.
 - b. Cash Basis. The cash basis may be used in Seattle's discretion for new supply facilities and new transmission facilities, or a portion thereof. Under the cash basis, the infrastructure cost for a facility in any year shall be the actual cash expenditure made by Seattle in that year for either the payment of construction costs or actual principal and interest costs on debt issued to finance its construction. In the event that the depreciation lifetime of the facility is less than the term of the debt issued to finance all or a portion of the facility, debt maturities will be selected such that the construction cost of the facility will be fully amortized at the end of its depreciation lifetime.
 - c. Other Basis. Seattle, with the approval of the Operating Board may determine one or more other bases on which to calculate infrastructure costs and may apply these bases to facilities in the New Supply and New Transmission Cost Pools.
- 3. Operations Costs. The costs of operating the assets assigned to a cost pool shall be included in the cost pool. The annual operations costs of a cost pool shall be the labor, materials, equipment and other direct costs required for the operation and maintenance of the facilities in that cost pool, together with any net profit or expense from the disposition of facilities in that pool. Operations costs shall

include the cost of general and administrative overhead applied in a manner consistent with its application to facilities construction projects.

- a. Existing Supply Operations Costs. The parties agree that an efficient way of handling operations costs for the Existing Supply Cost Pool shall be as follows: The Operations Cost base in the Existing Supply Cost Pool for the year 2001 shall be \$17,780,262.00. In each succeeding year, the amount from the previous year shall be adjusted by the percentage increase in cost in the supply cost centers identified in Exhibit IX, except that the increase in treatment operations costs caused by the first full year start-up of the Cedar Treatment Plant at Lake Youngs in or around 2005 shall not be included in the percentage adjustment. Any increase in Cedar Treatment operations costs for the first full year of operation of the plant shall instead be added directly to the Operations Cost total from the prior year as adjusted by the index. For each year after the first full year of operation, increases in Cedar Treatment operations costs shall be included in the adjustment index.
 - b. Existing Transmission Operations Costs. The parties agree that an efficient way of handling operations costs for the Existing Transmission Cost Pool shall be as follows: the Operations Costs base in the Existing Transmission Cost Pool for the year 2001 shall be \$4,531,931.00. In each succeeding year, the amount of these costs from the previous year shall be adjusted by the percentage increase in cost in the transmission cost center identified in Exhibit IX.
 - c. New Supply Operations Costs. The operation costs of the 1% Program after January 1, 2002 and the Second Supply Project, together with the costs of operating facilities assigned to the New Supply Cost Pool and any other costs approved by the Operating Board, shall be assigned to the New Supply Cost Pool. The base for operations costs for 2001 for the 1% Program shall be \$1,326,712.00. This amount shall be adjusted in each succeeding year by the percentage increase in cost in the "1% Conservation" cost center as identified in Exhibit IX.
 - d. New Transmission Operations Costs. The actual costs of operating facilities assigned to the New Transmission Cost Pool and any other costs approved by the Operating Board, shall be assigned to the New Transmission Cost Pool.
4. Disposition Costs. The costs of disposing of assets within a cost pool shall be included in the cost pool. Net disposition costs shall be calculated as follows:
- a. Disposition Under the Utility Basis. The net book value of the facility, less any sales, salvage, or other revenues derived from the disposition of that facility.

- b. Disposition Under the Cash Basis. The value of principal of unpaid maturities of debt used to finance the construction cost of the facility, less any sales, salvage or other revenues derived from the disposition of that facility.
 - c. Disposition Under Other Basis. Disposition of any facilities whose infrastructure costs are calculated on another basis under section IVE..2.c. above shall be determined by the parties as part of the definition of such other basis.
5. Creation of Additional Cost Pools. Seattle, in its discretion, may create additional cost pools to provide equity and flexibility in payment arrangements and the allocation of costs as the Seattle Water Supply System expands to include new infrastructure and new customers. The costs in an additional cost pool, or a portion thereof, may be added to an existing cost pool subject to the consent of the Operating Board if the costs to be allocated satisfy the criteria for accounting in the existing cost pool.
6. Tacoma Second Supply Project Cost Pool. The Tacoma Second Supply Project Cost Pool shall be an Additional Cost Pool. The Tacoma Second Supply Project Cost Pool shall contain the infrastructure and operations costs associated with the Tacoma Second Supply Project. The New Supply Cost Pool shall be allocated that portion of the Tacoma Second Supply Project costs commensurate with the proportion of the benefits of the project received by Wholesale Customers with Full and Partial Requirements Contracts.
7. Facilities Charge Revenues. Supply FC revenues shall offset infrastructure costs in the News Supply Cost Pool allocated to the Supply FC by the Operating Board. Surpluses and deficits in actual Supply FC revenues over cost allocated to the Supply FC shall be carried forward and earn simple interest at Seattle's Average Cost of Debt. Any current-year deficit (including any surplus balance available from previous years) shall be paid by rates for the New Supply Cost Pool. New Supply Cost Pool rates shall be discounted by surplus Supply FC revenues until any deficit Supply FC balance is repaid, except the amount of this discount shall not exceed, without the agreement of the Operating Board, twice the maximum annual deficit paid by the rate for the New Supply Cost Pool in any one year. In the event that Supply FC surplus balances exceed the Net Book Value of assets whose costs are allocated to the Supply FC, the difference between the Supply FC balance and the Net Book Value of these assets shall be used to discount the rate for the New Supply Cost Pool (and the Supply FC surplus balance shall be reduced by the amount of this discount). The use and accounting for transmission FCs shall be done in a like manner to supply FCs. Seattle and Water Utility agree that FC revenues are the sole property of Seattle.

8. Allocation of Cost Pools by Customer Class. The costs in cost pools shall be allocated within the pools as follows:
- a. Allocation of Existing Supply Cost Pool. The total cost of the Existing Supply Cost Pool shall be allocated to two customer classes as follows:
 - i. Block Purchase Customer Class. The portion of costs in the Existing Supply Cost Pool allocated to holders of Block Purchase Contracts shall be determined pursuant to those contracts.
 - ii. Full and Partial Requirements Customer Class. The holders of Full Requirements Contracts and Partial Requirements Contracts and Seattle shall be allocated the remaining costs in the Existing Supply Cost Pool.
 - b. Allocation of New Supply Cost Pool. The costs allocated to the New Supply Cost Pool shall be:
 - i. Block Purchase Customer Class. The holders of Block Purchase Contracts shall be allocated no costs from the New Supply Cost Pool.
 - ii. Full and Partial Requirements Customer Class. The holders of Full Requirements Contracts and Partial Requirements Contracts and Seattle shall be allocated all costs in the New Supply Cost Pool.
 - c. Allocation of Existing Transmission Cost Pool. The costs of the Existing Transmission Cost Pool shall be allocated as follows:
 - i. Block Purchase Customer Class. The proportion of costs in the Existing Transmission Cost Pool allocated to holders of Block Purchase Contracts shall be determined pursuant to those contracts.
 - ii. Full and Partial Requirements Customer Class. The holders of Full Requirements Contracts and Partial Requirements Contracts and Seattle shall be allocated the remaining costs in the Existing Transmission Cost Pool.
 - d. Allocation of New Transmission Cost Pool.
 - i. Block Purchase Customer Class. The holders of Block Purchase Contracts shall be allocated no costs from the New Transmission Cost Pool.

- ii Full and Partial Requirements Customer Class. The holders of Full Requirements Contracts and Partial Requirements Contracts and Seattle shall be allocated all costs in the New Supply Cost Pool.
 - e. Allocation of Additional Cost Pools. The costs in any additional cost pool created by Seattle pursuant to the terms of this contract, or portion thereof, may be allocated to an existing cost pool identified above with the consent of the Operating Board.
9. Facilities Charges. If Seattle establishes FCs as authorized herein, then such charges shall be calculated as follows:
- a. ERU Definition. Seattle shall develop a definition of an Equivalent Residential Unit ("ERU") based on meter size as set forth in Exhibit VI, number of residential units, water use, or other basis which shall be consistent with accepted industry standards. The Operating Board shall have the right to review and comment on the definition and Seattle shall consider the Operating Board's comments.
 - b. Record-Keeping. Water Utility shall provide Seattle with an annual accounting of its water connections by January 31st of each year, which shall be accurate as of December 31st of the preceding year. Water Utility shall report the size of the meter and other pertinent data such as the number of residential units or square footage served or water use. Seattle shall provide Water Utility with an annual accounting of its retail service connections on the same basis. Upon reasonable notice, Water Utility shall make its billing and connection records available to Seattle for inspection and copying during normal business hours, and Seattle's billing and connection records shall be made available to Water Utility on the same basis.
 - c. Annual Calculation of ERUs. Until such time as Seattle develops another basis, the calculation of ERUs in any year shall be the greater of:
 - i. Method One: The annual growth in the number of meters installed by Water Utility during the year taking into account the size of each meter, or
 - ii Method Two: The annual growth in total water consumption of Water Utility divided by the annual average use of a single-family residential household of Seattle and all of its Wholesale Customers. The average annual growth shall be measured by a rolling three-year average of the most recent three years. Water use resulting from catastrophes, e.g. large fire, shall be excluded for purposes of this calculation.

- d. Imposition of Facilities Charges. Seattle shall collect and Water Utility shall pay FCs based on the number of ERU's added during the previous month determined by the number of meters installed. Seattle shall pay FCs into the accounts of the Seattle Water Supply System on the same basis. Seattle shall prepare and distribute a report no later than March 31st of each year showing the ERU count of Seattle and each Wholesale Customer on such basis for the previous year and each year since the effective date of this contract.

Beginning in the June billing for each year, a truing charge for any underpayment of ERUs taking into account method two described above shall be added to Water Utility's bill in six equal installments.

- e. Emergency Situations. Water Utility and Seattle agree that emergency situations may arise that require a Partial Requirements Customer to temporarily demand water in excess of its long-term annual demand. In the event of an emergency, Seattle may suspend the use of Method Two identified above in the calculation of the ERU count for any such Partial Requirements Customer for a period not longer than two consecutive years.
10. Rate Setting. The structure of FCs water rates for water charged to the holders of Full Requirements Contracts and Partial Requirements Contracts shall be determined by Seattle, in its sole discretion, except that the price may not, without the consent of Water Utility, be set to collect more than the costs forecast under Section IV hereof and Rate of Return on Investment. FCs shall be calculated as set forth on page 1 of Exhibit VI.
11. Cost Audit. At the end of each fiscal year, Seattle shall provide a statement of actual costs allocated to each cost pool and other costs and revenues received, which statement may be audited by an external auditor selected by the Operating Board. In addition, Water Utility may have the statement audited by an external auditor of its choice, solely at Water Utility's expense.
12. Transition. Notwithstanding the foregoing, Water Utility and Seattle agree that it is appropriate to adjust certain terms of this contract for the period commencing with the date of this contract to December 31, 2011 ("Transition Period").
- a. Waiver of Supply FCs. Seattle shall not levy Supply FCs on Water Utility as long as the amount of water it purchases from Seattle does not exceed its old water allowance under the 1982 Water Purveyor Contract. This waiver shall continue until the earlier of (i) January 1, 2012; or, (ii) the year in which the average annual water demand of Water Utility exceeds its old water allowance. This waiver, however, shall not relieve Water Utility from the record-keeping requirement of subsection 9 above.

- b. Transition Growth Surcharge. A transition growth surcharge of \$0.60 per CCF shall be applied to the rates of Water Utility for delivery of water in excess of the old water allowance of the 1982 Water Purveyor Contract for the Transition Period. The revenue from this surcharge shall be used to discount the base rates of the holders of Full and Partial Requirements Contracts by not more than \$0.16 per CCF. In the event that the revenues generated by the surcharge exceed those required to fund the discount, Seattle may keep the difference.

IV.F. Elective Services

1. Water Supply Services. Seattle may provide certain elective services (e.g. conservation, engineering) to Water Utility upon request by Water Utility. Such services shall be negotiated and contracted for separately between Water Utility and Seattle.
2. Transmission Wheeling. In consultation with the Operating Board, excess transmission capacity may be made available by Seattle for a fee for purposes of wheeling water between points within the Seattle Water Supply System to Water Utility or to others.
3. Water Quality. So long as Seattle owns and operates a water quality lab, Water Utility may use the services of that lab based on its published rates.

IV.G. Rate Adjustment

1. Rate Adjustment. Upon 120-days notice of its intent to do so, Seattle may adjust water service rates and FCs to Water Utility subject to the terms of this contract. Rate adjustments will be effected only within five years of the completion of a cost of service study to be conducted by Seattle which shall include an analysis of the allocation of operation, maintenance and capital costs between cost pools. Such study shall be prepared in accordance with accepted industry standards. In addition, Seattle shall review the Operating Board's comments and recommendations on the rate proposal and provide a written explanation of any recommendations that are not accepted.
2. Rate Consultant. An independent rate consultant shall be selected by Seattle in consultation with the Operating Board. Detailed information and progress reports from the consultant will be made to Water Utility during the course of the study upon drafting of each major study section directly affecting Water Utility and other Wholesale Customers. A final consultant report shall be made available to Water Utility not less than 30 days before Seattle formally transmits any resulting rate adjustment proposal to the Operating Board.

IV.H. Retail Rate-Setting

Each party to this contract shall have sole authority for establishing retail rates, connection charges and other fees and charges within its respective jurisdiction.

IV.I. Truing Actual Costs and Actual Revenues

A mechanism for reconciling revenue targets for the various cost pools and the actual revenues received during each year shall be implemented by Seattle as follows:

1. For each previously identified class of customers in each cost pool, Seattle shall maintain a running balance of the excess or deficit of actual rate revenues collected less actual expenses incurred. Each balance shall earn simple interest at the rate of Seattle's Average Cost of Debt. At the end of each year, each balance shall be adjusted to reflect the operating results of that year. The statement of these balances shall be reviewed and approved by an external auditor.
2. FC balances shall be carried forward as set forth in Section IV.E.7.
3. Each wholesale rate study shall adjust rates to eliminate the cost pool balances. ERU fees shall be based on the costs of increments in supply and transmission capacity, and shall not be adjusted to reflect surpluses or deficits in FC revenues.

SECTION V. OPERATING BOARD

1. Purpose. The purpose of the Operating Board is to provide certain limited authority to a board of representatives elected by the Wholesale Customers over policy and operational matters as they affect the Seattle Water Supply System.
2. Structure and Authority. The Operating Board shall have the powers and authority as set forth herein. Exhibits IV and V describe the structure and authority of the Operating Board. The matrix provided in Exhibit V is for illustrative purposes only. In the event of a conflict between provisions of this contract which grant specific powers to the Operating Board and Exhibits IV and V, such grants of specific powers shall control. The Operating Board shall not be formed until such time as there are six (6) signatories to Full or Partial Requirements contracts, or January 1, 2002, whichever comes first.
3. Review. The structure and authority of the Operating Board may be reviewed as of January 1, 2007 and every five years thereafter to determine its effectiveness in addressing regional and contractual issues. The review may address the composition of the Board and its powers and authority as set forth in Exhibits IV and V, provided that notwithstanding any other term or provision of this contract, Seattle shall not have the power to disband the Operating Board nor take away or diminish the powers vested in the Operating Board as set forth in Sections II, III

and IV of this contract. Either party may initiate the review. The reviewing party shall provide the other with its comments and proposals. The parties agree to consider the other party's comments and proposals and to respond in writing stating its reasons for rejecting any proposals and the reasons for its own counter-proposal. After consideration of all comments and proposals at each five year interval, Seattle may make changes in the structure and authority of the Operating Board that are not inconsistent with the provisions of this subsection.

SECTION VI. PLANNING

VI.A. Reporting of Planning Data

1. By no later than April 1 of each year, Water Utility shall report to Seattle and the Operating Board as follows:
 - a. Its annual and peak day total system demand for each year, during the term of this contract, as of December 31st of the previous year.
 - b.
 - c. Its forecast of Full Water Requirements for the year including estimates of annual water consumption and maximum 24-peak demand for the ensuing calendar year, and for the fifth, tenth, and fifteenth year in the future. Such forecasts shall reflect the best judgment of Water Utility.
2. Water Utility shall report other data relating to water supply and demand as may be reasonably requested by Seattle for water planning purposes.
3. Records relevant to water supply and consumption within the possession of Seattle or Water Utility shall be provided to the other upon reasonable request.

VI.B. Submittal of Water Utility Comprehensive Plans

Water Utility shall provide a copy of its water comprehensive plan, including any amendments, to Seattle for inclusion in Seattle's Water System Comprehensive Plan.

VI.C. Seattle as Water Planning Agency

Seattle shall be the lead agency and primary planning authority for the purposes of fulfilling its obligations to provide for the Full Water Requirements of Water Utility. Seattle, in consultation with the Operating Board, shall examine and investigate water supplies suitable and adequate to meet the present and reasonable future needs of Seattle and the Wholesale Customers. Seattle shall prepare and adopt a plan for acquiring such water supplies in a timely fashion. The plan shall provide for the lands, waters, water rights and easements necessary therefor, and facilities for retaining, storing and delivering such waters, including dams, reservoirs, aqueducts and pipelines to convey

same throughout the Seattle Water Supply System. In preparing or adopting the plan, Seattle shall consider as possible alternatives or additional water supply sources the acquisition of water from sources controlled and/or developed by individual water utilities, legally constituted groups of water utilities and utilities which are not presently supplied by the Seattle Water Supply System. Seattle has final responsibility for the plan and for fulfilling the obligations of this contract. However, the Operating Board may participate in developing the plan by proposing goals and objectives for the Seattle Water Supply System, by making any additional suggestions and by acting in a review capacity.

VI.D. Comprehensive Capital Facilities Plan

Before ordering any major improvements to fulfill the requirements of this contract, Seattle shall adopt and maintain a comprehensive capital facilities plan for the Seattle Water Supply System, which provide for such improvements. When such plan is updated or amended, it shall be reviewed by the Operating Board prior to submission to the Seattle City Council. The Operating Board shall respond within 60 days of receipt of the plan, or its approval shall be presumed to be given. The response submitted by the Operating Board regarding facilities substantially affecting Water Utility and other Wholesale Customers shall be seriously considered by Seattle. Seattle shall reply to the Operating Board within 90 days with its comments. The Operating Board and Seattle shall use their best efforts to arrive at a mutually acceptable plan.

VI.E. Emergency Planning

An emergency plan shall be prepared and maintained by Seattle as part of its Water System Comprehensive Plan to provide for water supply in the event of drought or disaster. Such plan shall be prepared pursuant to the procedure outlined in Section VI.D. Water Utility shall use reasonable efforts to comply with the provisions of such plan, or alternatively, Water Utility may adopt its own emergency plan if it believes it is prudent to do so.

SECTION VII. PAYMENT

VII.A. Collection of Money Due City

Seattle shall bill Water Utility on a monthly basis for all charges due under this contract. Water Utility shall pay such charges within 60 days of the billing date. Any amounts disputed by Water Utility shall be paid under protest within the 60-day time period.

VII.B. Penalties for Late Payment

All late payments, and any refund of an amount in dispute that was paid under protest, shall accrue interest at 1% per month.

VII.C. Disputes

Water Utility may dispute the accuracy of any portion of charges billed by Seattle by taking the following actions within the 60-day payment period by notifying Seattle in writing of the specific nature of the dispute and paying the undisputed portion of the charges.

Seattle shall consider and decide any billing dispute in a reasonable and timely manner. Any billing disputes that remain after such consideration shall be reconciled pursuant to the dispute resolution procedures of this contract.

SECTION VIII. CONTRACT AMENDMENTS

Seattle shall notify Water Utility and all other holders of Full Requirements Contracts of any amendments to such contracts within 30 days of the execution of such amendment. Water Utility shall then have 90 days to decide whether to include such amendment in this contract by giving written notice to Seattle of its election to do so. Upon the issuance of such notice, Seattle shall issue the amendment to Water Utility and the amendment shall be final and binding upon both parties upon mutual execution.

SECTION IX. DISPUTE RESOLUTION

Dispute resolution shall proceed in four steps as follows:

IX.A. Operating Board Review

Any dispute regarding the terms of this contract shall first be referred to the Operating Board for consideration and recommendation. Each party shall submit a written statement regarding the dispute to the Operating Board.

1. If the dispute cannot be resolved in discussions with the Operating Board, then the Operating Board shall provide written recommendations to each parties within 60 days of the above submittal setting forth its interpretation of the applicable facts and law.
2. If either party rejects the written recommendation of the Operating Board, that party shall within 10 days, notify the other party in writing of its reasons.

IX.B. Seattle City Council Review

The written statements of the parties, the recommendations of the Operating Board and the written reasons for either party's rejection of those recommendations shall then be submitted to the Seattle City Council for review.

1. Within 60 days of the submittal of the written materials, the Seattle City Council shall provide written recommendations to resolve the dispute.
2. If either party rejects the written recommendation of the Seattle City Council, that party shall within 10 days notify the other party in writing its reasons.

IX.C. Non-binding Mediation

Within 10 days of receiving the written rejection of the Seattle City Council's recommendations by one or both parties, each party shall designate in writing not more than 5 candidates it proposes to act as a non-binding mediator.

1. If the parties cannot agree on one of the mediators from the combined list within 5 days, the Operating Board shall within an additional 5 days select one of the mediators from either list to serve as mediator.
2. Upon selection of the mediator, the parties shall use reasonable efforts to resolve the dispute within 30 days with the assistance of the mediator.

IX.D. Resort to Litigation

If mediation fails to resolve the dispute within 30 days of selection of the mediator, the parties may thereafter seek redress in court subject to Section X.H. below.

SECTION X. MISCELLANEOUS

X.A. Notification

Whenever written notice is required by this contract, that notice shall be given to the following representatives by actual delivery or by the United States mail (registered or certified with return receipt requested,) addressed to the respective party at the following addresses or a different address hereafter designated in writing by the party):

SEATTLE:

Director
Seattle Public Utilities
Dexter Horton Building, 10th Floor
710 Second Avenue
Seattle, WA 98104

WATER UTILITY:

Manager
-----XXXXXXX-----
address-----
City---, WA
98XXX-XXXX

The date of giving such notice shall be deemed to be the postmarked date of mailing.

X.B. Severability

The purpose of this contract is to provide for long-term water supply planning and certainty for both Seattle and Water Utility through adoption of orderly plans calling for the expenditure of vast sums of money for regional water supply and transmission facilities. It is the intent of the parties that if any provision of this contract or its application is held by a court of competent jurisdiction to be illegal, invalid, or void, the validity of the remaining provisions of this contract or its application to other entities, or circumstances shall not be affected. The remaining provisions shall continue in full force and effect, and the rights and obligations of the parties shall be construed and enforced as if the contract did not contain the particular invalid provision; provided, however, if the invalid provision or its application is found by a court of competent jurisdiction to be substantive and to render performance of the remaining provisions unworkable and non-feasible, is found to seriously affect the consideration and is inseparably connected to the remainder of the contract, the entire contract shall be null and void.

X.C. Consent

Whenever it is provided in this contract that the prior written consent or approval of either party is required as a condition precedent to any actions, in each such instance said consent or approval shall not be unreasonably withheld, and in each such instance where prior consent is sought, failure of the party to respond in writing within 90 days of the request shall be deemed as that party's consent or approval unless expressly stated herein. This provision does not apply to requests for amendments of this contract.

X.D. Emergency Situations

Nothing in this contract shall be deemed to preclude either party from taking necessary action to maintain or restore water supply in emergency situations and such action shall not be deemed a violation of this contract.

X.E. No Joint Venture - Individual Liability

This is not an agreement of joint venture or partnership, and no provision of this contract shall be construed so as to make Water Utility individually or collectively a partner or joint venturer with any other Wholesale Customer or with Seattle. Neither party is an agent of the other. Neither Seattle nor Water Utility shall be liable for the acts of the other in any representative capacity whatsoever.

X.F. Complete Agreement

This contract represents the entire agreement between the parties hereto concerning the subject matter hereof. This contract may not be amended except as provided herein.

X.G. Relinquishment of Prior Contract

Upon entering into this contract, Water Utility relinquishes its then existing 1982 Water Purveyor Contract with Seattle and the terms and conditions of that 1982 Water Purveyor Contract shall have no further force and effect.

X.H. Venue, Jurisdiction and Specific Performance

In the event of litigation between the parties, venue and jurisdiction shall lie with the King County Superior Court of the State of Washington. The parties shall be entitled to specific performance of the terms hereof.

X.I. Default

In the event of default of any provision of the contract, the non-defaulting party shall issue written notice to the other party setting forth the nature of the default. If the default is for a monetary payment due hereunder, the defaulting party shall have thirty (30) days to cure the default. In the event of other defaults, the non-defaulting party shall use its best efforts to cure the default within ninety (90) days. If such default cannot be reasonably cured within such ninety (90) day period, the non-defaulting party shall, upon written request prior to the expiration of the ninety (90) day period be granted an additional sixty (60) days to cure the default.

X.J. Force Majeur

The time periods for Seattle's performance under any provisions of this contract shall be extended for a reasonable period of time during which Seattle's performance is prevented, in good faith, due to fire, flood, earthquake, lockouts, strikes, embargoes, acts of God, war and civil disobedience. If this provision is invoked, Seattle agrees to immediately take all reasonable steps to alleviate, cure, minimize or avoid the cause preventing such performance, at its sole expense.

X.K. Successors

This contract shall inure to the benefit of and be binding upon the parties and their successors and assigns.

X.L. Exhibits

Exhibits I through IX are attached hereto and are hereby incorporated by reference as if set forth in full herein.

SIGNATURE PAGE

IN WITNESS WHEREOF, the parties hereby execute this contract.

WATER UTILITY

BY: _____

TITLE: _____

DATE _____

AUTHORIZING LEGISLATION: ORDINANCE/RESOLUTION _____

THE CITY OF SEATTLE

BY: _____

Director, Seattle Public Utilities

DATE: _____

AUTHORIZING LEGISLATION: ORDINANCE _____

FULL REQUIREMENTS CONTRACT

-----XXXXXXXX-----

LIST OF EXHIBITS

- I. Contracts, etc.
- II. Minimum Hydraulic Gradient of Water Supplied
- III. Demand Charge Methodology
- IV. Operating Board Structure
- V. Contract Authority Matrix
- VI. Calculation of ERUs as a Part of Facilities Charges
- VII. List of Supply Facilities
- VIII. List of Transmission Facilities
- IX. Cost Centers used for Operations Cost Indexes

EXHIBIT I

List of documents, commitments, adjustments, reductions, agreements, and/or written approvals by Seattle regarding the supply, purchase and/or resale of water according to Sections I.B. and II.B. of this Contract:

1. Intertie Agreements:

a.

b.

c.

2. Independent Well Sources:

a.

b.

c.

3. Water Supply Contracts To Other Water Utilities:

a.

EXHIBIT II

**CUSTOMARY POINTS OF DELIVERY, MINIMUM HYDRAULIC GRADIENTS, AND
MAXIMUM FLOW RATES OF WATER SUPPLIED**

SECTION XI. METER SERVICE				MINIMUM HYDRAULIC GRADIENT FOR PLANNING PURPOSES AT STATION UPSTREAM OF METER (FEET NAVD-88 Datum)	MAXIMUM FLOW RATE UP TO WHICH THE MINIMUM HYDRAULIC GRADIENT APPLIES (gpm) ⁽³⁾
LOCATION	STATION NUMBER ⁽¹⁾	PIPELINE SEGMENT NUMBER ⁽²⁾	SIZE OF METER (IN.)		
				TOTAL:	

Notes:

(1) Station and Pipeline Segment Numbers pertain to the demand metering program.

DEMAND CHARGE METHODOLOGY

The policy of Seattle Public Utilities is to supply water to its Wholesale Customers at, as near as is practical, the twenty-four hour average flow rate, during the peak demand season (June through August). To comply, the Wholesale Customers have to construct adequate storage volume within their individual systems, or sometimes collectively, so as to avoid excessive peak flow withdrawals from the Seattle transmission pipelines. The Demand Metering Program is established to set performance standards, and to monitor the Wholesale Customer's compliance with this policy. If an individual Water Utility exceeds the prescribed threshold, a "demand charge" is calculated.

Except where other agreements supersede the provisions of this contract, each Water Utility shall be subject to a demand charge based on effective deficient storage, as determined by the peak instantaneous flow rate, and the equivalent financing costs to provide storage. The demand charge rate (i.e., dollars per 1000 gallons of deficient storage) shall be based on the equivalent cost of providing the deficient storage. This rate will be determined as part of each rate study.

The Demand Metering Program is charged with implementation of the "demand charge" methodology. It shall be the responsibility of the Seattle, in consultation with the Operating Board, to determine the appropriate means to achieve the program's purpose. The options that may be considered range from temporary suspension on a year by year basis to full activation, as described below.

There shall be no requirement for Seattle to install demand-metering equipment at each Service Connection in order to assess a demand charge. Seattle may choose to apply "demand metering" selectively to certain parts of the transmission network that are designated as "critical" from the standpoint of hydraulic capacity or other operational considerations. Seattle may choose to apply "demand metering" intermittently in various parts of the transmission network for the purpose of monitoring for compliance by individual Wholesale Customers or groups of Wholesale Customers on a given line segment.

EXHIBIT IV

OPERATING BOARD STRUCTURE

1. Structure. The Operating Board (or "Board") shall be structured as follows:
 - a. The Board shall consist of seven (7) members, composed of three members representing Seattle Public Utilities (SPU), three members representing Seattle's Wholesale Customers selected as described below and one independent party selected as set forth below to be a tie-breaker as needed. Board members shall, to the best of their ability, act in the best interests of the Seattle Water Supply System as a whole and shall not represent the interest of a group of utilities or an individual utility.
 - b. The term of each Board position shall commence on January 1 and shall be for four (4) years. Terms of each Board position shall be staggered such that no more than two positions are renewed in any single year. Board members may serve not more than three successive terms.
 - c. Three Board members representing the Wholesale Customers will be selected from persons nominated by the holders of Full Requirements and Partial Requirements Contracts and sorted into three categories based on utility size, calculated by ERUs. The selected categories will be small, medium and large utilities, which will be made up from approximately equal numbers of contract holders. Each category of utility may elect, by majority vote (one vote per utility) its representative to the Operating Board.
 - d. The initial Operating Board will be created when there are at least six (6) signatories to the Full and Partial Requirements Contracts or January 1, 2002, whichever comes first. The initial Board will then be recomposed pursuant to the above subsection on January 1, 2002 and every 5 years thereafter.
 - e. The seventh member of the Board shall be a person having expertise in the operations of regional water supply systems. Such person shall be selected by majority vote of the other Board members. In the event of a deadlock in selecting the independent representative, the independent board member shall be selected by Judicial Arbitration and Mediation Services Inc., of Seattle, Washington or its successor. The seventh member shall not vote on issues coming before the Board unless there is a deadlock in the voting among the other six Board members. The seventh member may nevertheless express his or her opinions in Operating Board discussions. Such member shall have no employment, financial or contractual relationship with Seattle nor any Wholesale Customer and shall have no other actual or apparent conflict of interest in holding this position.

2. Voting Except as otherwise provided above, each member of the Board shall have one vote on all matters coming before the Board. Each Board member may appoint an alternate to vote in his or her absence. A quorum of four (4) Board members present shall be required for any vote. Members of the Board may not grant proxies for any vote.
3. Chairperson The Board shall have a Chairperson who will be selected and have duties as defined below:
 - a. The Chairperson shall be selected at the first regularly scheduled meeting of each new year.
 - b. For the initial year, a designated representative of SPU shall be the Chairperson of the Board. All Chairpersons thereafter shall be selected by the Board using a nomination and voting process.
 - c. Nominations for the position of Chairperson shall be taken from Board members. The Chairperson shall be selected based upon the simple majority vote of Board members. Should the Board fail to elect a Chairperson at the first regularly scheduled meeting of the new year, a designated representative from SPU shall be the acting Chairperson until such time as the Board elects a Chairperson.
 - d. The Chairperson shall have the responsibility to call meetings, determine the agenda and preside over meetings. In the absence of the Chairperson, for whatever reason, a designated representative from SPU shall be the Acting Chairperson for that meeting. The Chairperson shall also act as the spokesperson for the Board and liaison between the Administrator and the Seattle City Council's Committee on Water Resources and Public Health or successor committees.
4. Schedule / Procedures. The Board shall adopt a regular meeting schedule and notify all Wholesale Customers of the schedule. The Operating Board may adopt its own internal procedures. The latest edition of Roberts Rules of Order shall, in the absence of agreement by the Operating Board on procedural matters, govern all meetings and votes of the Operating Board.
5. Reporting. The Board will provide reports to the Wholesale Customers and to the Seattle City Council Committee on Water Resources, or successor City Council committee, on its decisions and recommendations in a timely manner.
6. Responsibilities and Authority of the Board. The Contract Authority Matrix, attached as Exhibit V, provides an outline of the responsibilities and authority of the Board for illustration purposes only. It also provides details of the relationship between the Operating Board, the Seattle City Council, and the Seattle Public Utilities. Where no clear responsibility or authority on an issue is established in this contract the responsibility and authority shall rest with the Seattle City Council.
7. Expenses. The Board shall be authorized to incur reasonable expenses which will be allocated by the Board to either or both of the New Transmission or Supply Cost Pools.

EXHIBIT V

CONTRACT AUTHORITY MATRIX

	SPU ADMINISTRATOR	OPERATING BOARD	COUNCIL
CONTRACT			
Terms & conditions (amendments)	Implements	Recommends	Authorizes
OPERATING BOARD			
Structure & responsibilities	Recommends	Recommends	Authorizes
FINANCIAL			
Cost allocation structure	Recommends	Reviews & Recommends	Authorizes
Wholesale Rates	Develops & Implements	Review & Recommends	Authorizes
New Financial Policies	Develops & Implements	Reviews & Recommends	Authorizes
Purchase and disposal of regional property	Recommends	Recommends	Authorizes
Allocation of new regional projects costs	Recommends	Authorizes	Reviews
Issuance of Bonds	Implements	-	Authorizes
Regional Budget	Develops & Implements	Reviews & Recommends	Authorizes
Selection of vendors, consultants & contractors (for regional projects)	Authorizes	Recommends	-
Regional CIP	Develops & Implements	Recommends	Authorizes

	SPU ADMINISTRATOR	OPERATING BOARD	COUNCIL
SUPPLY			
Yield Analysis	Develops	Reviews	Reviews
Selections of new sources	Recommends	Recommends	Authorizes
New source criteria	Implements	Authorizes	Reviews
New supply cost allocation	Develops & Implements	Authorizes	Reviews
Allocation of supply to new customers	Recommends	Recommends	Authorizes
Reserves	Develops & Implements	Authorizes	Reviews
Allocation of block sales quantities	Implements	Recommends	Authorizes
Water Shortage Contingency Plan	Implements	Develops & Recommends	Authorizes
WATER CONSERVATION			
1% Program	Develops & Implements	Reviews	Reviews and Approves
New Goals	Implements	Develops & Authorizes	Reviews
Incentive & disincentive programs	Implements	Develops & Authorizes	Reviews
Conservation Potential Assessment	Develops & Approves	Reviews	Reviews

	SPU ADMINISTRATOR	OPERATING BOARD	COUNCIL
WATER QUALITY			
Monitoring responsibility	Develops & Approves	Reviews	Reviews
Selection of new treatment techniques	Reviews & Implements	Recommends	Authorizes
New treatment cost allocation	Recommends & Implements	Authorizes	Reviews
New treatment regulations	Reviews & Implements	Reviews	Reviews
Flushing allowances	Reviews	Authorizes	Reviews
Solutions to identified regional water quality deficiencies	Recommends & Implements	Recommends	Authorizes
REGIONAL INFRASTRUCTURE			
Operation of System	Implements	Recommends	Authorizes
Access to transmission	Recommends	Recommends	Authorizes
Allocation of excess capacity	Recommends & Implements	Recommends	Authorizes
Transmission capacity cost allocation	Recommends & Implements	Authorizes	Reviews
New regional infrastructure	Recommends	Authorizes	Authorizes
New regional project cost allocation	Recommends	Authorizes	Reviews
Wheeling	Recommends	Recommends	Authorizes
Wheeling cost	Develops & Implements	Reviews & Recommends	Authorizes

Regional CIP prioritization	Develops & Recommends	Reviews & Recommends	Authorizes
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	SPU ADMINISTRATOR	OPERATING BOARD	COUNCIL
OPERATIONS & MAINTENANCE			
Best Management Practices	Recommends & Implements	Develops & Approves	Reviews
Demand Forecast	Develops & Approves	Reviews	Reviews
Reliability standard	Develops & Recommends	Reviews & Recommends	Authorizes
REGIONAL ISSUES			
CPS Water Suppliers Forum	Represents		Reviews
Tacoma Second Supply Project	Represents	Recommends	Represents
HCP's	Represents	Recommends	Authorizes
Regional conservation organizations	Represents	Recommends	Authorizes

EXHIBIT VI

Calculation of ERUs as a Part Of Facilities Charges

The ERU Fee is:

- the flat debt service payment required to finance the facility providing the ERU over the lesser of (i) the facility life or (ii) the period over which new demand will fully utilize the facility's supply
- divided by -
- the number of new ERU's of demand expected in each year.

Seattle's Average Cost of Debt shall be used as the interest rate in this calculation. In the event that several new supply facilities are added simultaneously, the facilities may be considered together as providing a total new supply capacity for a total construction cost.

Example: A new facility costing \$100 million is built with a capacity of 100,000 ERUs. Growth of 5,000 ERU's per year is expected over the next 20 years, so the facility is projected to be supplying its full capacity in 20 years. Were this facility financed over 20 years at 6% interest, the flat annual debt service payment would be \$8.7 million. Each ERU would cost 0.02% of this annual amount, or about \$1,740.

At the time a new supply facility is added, the ERU price for this supply shall be calculated. This ERU price shall then be averaged with the then-current ERU Fee. This average shall be weighted by the number of unpurchased ERUs available at the then-current ERU fee and the number of new ERUs being added at the new ERU price. This weighted average shall be the new ERU Fee, and the number of ERUs available at the fee shall be the sum of the unsold ERUs at the previous fee and the ERU capacity of the new facility.

Example: 10 years ago, a \$100 million facility was constructed that can supply 100,000 ERU's. Growth and demand projections have proven accurate, and now 50,000 ERUs have been purchased, each for \$1,740. The facility also has an additional 50,000 ERU's still available at the same price. This year, we construct a facility worth \$70 million, with a capacity of 40,000 ERU's. Based on demand projections, this facility (on it's own) would be fully utilized in 10 years, and it's ERU price is therefore \$2,375. The average price of any of the 90,000 available ERU's is therefore \$2,022.

ERUs by Connection Size

<u>Connection Size</u>	<u>Number of ERUs</u>
¾" and smaller	1
1"	2
1 1/2"	5
2"	8
3"	22
4"	31
6"	66
8"	112
10"	169
12"	238

ERU Proving Methodology

The size of the water service connection used to serve an establishment depends upon both the total demand of that establishment and the instantaneous flow required by that establishment. For this reason, connection size is only a general indicator of the annual demand placed on water supplies by the establishment.

List of Seattle Supply System Facilities

1. Cedar Source

- All roads, buildings, structures, water supply facilities, recreational and educational facilities, and fisheries enhancement and mitigation facilities located within or close to the Cedar River Hydrographic Watershed boundary as defined by Seattle land ownership, including the land itself, and any capitalized studies related to the above. Excepted are facilities solely owned by Seattle City Light for the purpose of power generation. Facilities shared by Seattle City Light and Seattle Public Utilities shall be part of the Seattle Supply System only to the extent of SPU share or responsibility.
- All facilities located within the Lake Youngs Reservation as defined by Seattle ownership of the land except for conveyance facilities used to transport finished water during non-emergency operation
- All facilities located within the Lake Youngs Aqueduct, the Landsburg Tunnel, and the Lake Youngs Supply Lines right-of-way, including the right-of-way itself
- Existing Morse Lake Floating Pump Stations

2. Tolt Source

- All roads, buildings, structures, water supply facilities, recreational and educational facilities, and fisheries enhancement and mitigation facilities located within or close to the South Fork Tolt River Hydrographic Watershed boundary as defined by Seattle land ownership, including the land itself, and any capitalized studies related to the above. Excepted are facilities solely owned by Seattle City Light for the purpose of power generation. Facilities shared by Seattle City Light and Seattle Public Utilities shall be part of the Seattle Supply System only to the extent of SPU share or responsibility.
- Tolt Treatment Facility

3. Highline Wellfield

- Riverton Wells, including all pumping and treatment equipment, original yard piping, to the connection to CRPL4, and the low flow piping to Riverton Reservoir
- Boulevard Well, including all pumping and treatment equipment, and all piping up to the connection to CRPL4

4. Other

- Water Reuse Program
- One Percent Conservation Program through December 31, 2001
- Commercial Incentive Program
- Commercial Toilet Retrofit Program
- Showerhead retrofit Program
- The Seattle Forecasting Model (SEAFM Model)

- GIS Projects related to facilities identified herein as part of the Seattle Supply System

List of Seattle Transmission Facilities

1. Pipelines

- Tolt Pipeline No. 1 from the Tolt Regulating Basin to Lake Forest Reservoir, including any transfer and ancillary small diameter parallel pipes
- Tolt Pipeline No. 2 (where constructed), including any transfer and ancillary small diameter parallel pipes
- Tolt Tieline
- Tolt Eastside Supply Line (from TESS Junction to the intersection of SE 16th ST and 145th Place SE)
- Tolt Eastside Line Extension (from the intersection of SE 16th ST and 145th Place SE to Eastside Reservoir)
- The 540 head Pipeline from Maple Leaf Reservoir to Lake Forest Reservoir
- Lake Youngs Bypass No. 4 from the outlet of each of the Cedar Treatment Facility clearwells to Control Works
- Lake Youngs Bypass No. 5 from the outlet of each of the Cedar Treatment Facility clearwells to the Lake Youngs Tunnel
- The Lake Youngs Tunnel (from the original lake outlet to Control Works)
- The Maple Leaf Pipeline (from the intersection of 18th Avenue E. and E. Prospect Street to Maple Leaf Reservoir)
- Cedar River Pipeline No. 1 from Control Works to Volunteer Reservoir
- Cedar River Pipeline No. 2 from Control Works to Lincoln Reservoir
- Cedar River Pipeline No. 3 from Control Works to the intersection of 18th Avenue E. and E. Prospect Street
- 30" intertie between Cedar River Pipelines 2 and 3 in east Olive Street
- Cedar River Pipeline No. 4 from Control Works to the West Seattle Pipeline
- Cedar Eastside Supply Line (from the Cedar Wye to the intersection of SE 16th St and 145th Place SE)
- West Seattle Pipeline from Augusta Gatehouse to Cedar River Pipeline 4
- The 8th Avenue S. Pipeline between S. 146th Street and S. 160th Street
- The Bow Lake Pipeline (between 8th Avenue S. and CRPL 4, and as relocated outside runways at Seatac Airport)
- The Burien Feeder (in S. 146th Street between 8th Avenue S. and CRPL 4)
- The Fairwood Line (between Fairwood Pump Station and Soos Reservoirs)
- The 24-inch discharge pipeline of Lake Youngs Pump Station up to Soos Reservoirs
- The 12-inch discharge pipeline of Lake Youngs Pump Station up to Soos Reservoirs
- The 630 head pipeline between Lake Youngs Pump Station and the Cedar River WSD pump station at the eastern boundary of the Lake Youngs Reservation

2. Reservoirs, Tanks, and Standpipes, including overflow pipes, all valves, appurtenances, and disinfection facility located on the premises of each storage facility, unless otherwise noted

- Lake Forest Reservoir
- Eastside Reservoir
- Riverton Reservoir
- Maple Leaf Reservoir (excluding Roosevelt Way Pump Station and its suction and discharge piping, Maple Leaf Tank and 520 zone piping, except where solely serving the disinfection facility)
- Soos Reservoirs

3. Pump Stations, Major Valve Structures, and other Facilities

- Eastgate Pump Station
- TESS Junction Pump Station
- Lake Hills Pump Station
- Maplewood Pump Station
- Maple Leaf Pump Station
- Bothell Way Pump Station
- Fairwood Pump Station
- Lake Youngs Pump Station
- The Control Works
- Augusta Gatehouse

Purveyor tap and meter installations shall not be part of the Regional Transmission System. The cost of improvements to such installations shall be borne by the purveyor served by the installation regardless of the cause for the improvements provided that such cause is consistent with AWWA and safety standards and practices.

The facilities include the appurtenance of these transmission facilities including but not limited to rights of way, line valves, system meters and remote automation devices.

EXHIBIT IX**Cost Centers Used for Operations Cost Indices**

The following costs centers or successor cost centers that capture the direct costs of operation of Existing Supply Facilities, Existing Transmission Facilities and the 1% Program shall be used as the indices for operations cost in the Existing Supply Cost Pool, Existing Transmission Cost Pool and for the 1% Program in the New Supply Cost Pool.

Supply

Program	Project	Project Name	Activity
Communications	N1203	Communications Activity Group	N120304 Purveyor Relations
Audit & Accounting	N3303	Customer Audit	N330303 Purveyor Audit
Watershed Management	N5401	Program Management	N540194 Department Support
Watershed Management	N5401	Program Management	N540195 General Expense
Watershed Management	N5401	Program Management	N540196 General Management
Watershed Management	N5401	Program Management	N540197 Training
Watershed Management	N5401	Program Management	N540198 Safety
Watershed Management	N5401	Program Management	N540199 Personnel
Watershed Management	N5401	Program Management	N540289 Capital Purchase
Watershed Management	N5403	Support Services	N540301 Modified Duty
Watershed Management	N5403	Support Services	N540302 Procuring/Paying/Receiving
Watershed Management	N5403	Support Services	N540303 Vehicle Equipment Downtime
Watershed Management	N5404	Watershed Protection	N540401 Hydrological Data Collection
Watershed Management	N5404	Watershed Protection	N540402 Fire Protection
Watershed Management	N5404	Watershed Protection	N540403 Inspection
Watershed Management	N5404	Watershed Protection	N540404 Boundaries
Watershed Management	N5405	Facility Management	N540501 WS Grounds
Watershed Management	N5405	Facility Management	N540502 WS Buildings
Watershed Management	N5405	Facility Management	N540503 WS Facilities & Roads
Watershed Management	N5406	Watershed Road Maintenance	N540601 Grade/Gravel/Ditching
Watershed Management	N5406	Watershed Road Maintenance	N540602 Bridges/Streams Culvert
Watershed Management	N5406	Watershed Road Maintenance	N540603 Roads/Row/Vegetation Cutting
Watershed Management	N5406	Watershed Road Maintenance	N540604 Tolt Roads & Streams
Watershed Management	N5407	Watershed Operations Support	N540701 Veh/Equipment Management
Watershed Management	N5407	Watershed Operations Support	N540702 Veh/Equip/Tool Repair
Watershed Management	N5408	Water Quality & Hydrology	N540801 Water Quality Monitoring
Watershed Management	N5408	Water Quality & Hydrology	N540802 Hydrological Monitoring
Watershed Management	N5409	Public/Cultural Programs	N540901 Recreation Planning
Watershed Management	N5409	Public/Cultural Programs	N540902 Management & Research
Watershed Management	N5409	Public/Cultural Programs	N540903 Watershed Education
Watershed Management	N5409	Public/Cultural Programs	N540904 Watershed Public Information
Watershed Management	N5410	Wildlife & Fisheries Programs	N541001 Program Planning & Evaluation
Watershed Management	N5410	Wildlife & Fisheries Programs	N541002 Interagency/Public Involvement
Watershed Management	N5410	Wildlife & Fisheries Programs	N541003 Ecological Monitoring & Research
Watershed Management	N5410	Wildlife & Fisheries Programs	N541004 Habitat & Species Inventory
Watershed Management	N5410	Wildlife & Fisheries Programs	N541005 Habitat Enhancement/Restoration

FULL REQUIREMENTS CONTRACT

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Watershed Management	N5411	Resource Information Mgmt	N541101 Program Plan/Evaluation
Watershed Management	N5411	Resource Information Mgmt	N541102 Information Maintenance
Watershed Management	N5411	Resource Information Mgmt	N541103 Information Services
Watershed Management	N5412	Special Projects	N541202 Silviculture
Watershed Management	N5412	Special Projects	N541205 Land Exchanges/Acquisitions
Watershed Management	N5415	Cedar HCP	N541501 ASSESS OF EXPAND FOREST STAND
Watershed Management	N5415	Cedar HCP	N541502 ASSESS EXPAND FOREST ATTRIBUTE
Watershed Management	N5415	Cedar HCP	N541503 AUGMENT FOREST HABITAT INV
Watershed Management	N5415	Cedar HCP	N541504 LONG-TERM FOREST HABITAT
Watershed Management	N5415	Cedar HCP	N541505 OLD-GROWTH CLASSIFICATION
Watershed Management	N5415	Cedar HCP	N541506 RIPARIAN RESTOR PROJECT MONIT
Watershed Management	N5415	Cedar HCP	N541507 UPOLAND FOREST RESTOR PROJ MONT
Watershed Management	N5415	Cedar HCP	N541515 GIS DATA COMPATIBILITY STUDY
Watershed Management	N5415	Cedar HCP	N541516 FOREST HABITAT MODELING
Watershed Management	N5415	Cedar HCP	N541517 SPECIE HABITAT RELATION MODEL
Watershed Management	N5416	Cedar HCP	N541601 CRHCP GIS SUPPORT
Watershed Management	N5416	Cedar HCP	N541603 CRHCP TECHNICAL SUPPORT
Watershed Management	N5417	Cedar HCP	N541701 ROAD MAINTENANCE
Watershed Management	N5418	Cedar HCP	N541801 EXPERIMENTAL STREAM MONITORING
Watershed Management	N5418	Cedar HCP	N541802 LONG-TERM STREAM MONITORING
Watershed Management	N5418	Cedar HCP	N541803 AQUATIC RESTORATION MONITORING
Watershed Management	N5418	Cedar HCP	N541804 BULL TROUT SURVEYS (ADULT)
Watershed Management	N5418	Cedar HCP	N541805 BULL TROUT SPAWNING SURVEY
Watershed Management	N5418	Cedar HCP	N541806 BULL TROUT FRY/JUVENILE SURVEY
Watershed Management	N5418	Cedar HCP	Riparian Zone Studies
Watershed Management	N5418	Cedar HCP	N541809 BULL TROUT STREAM DISTRIBUTION
Watershed Management	N5418	Cedar HCP	N541810 BULL TROUT REDD INUNDATION STU
Watershed Management	N5418	Cedar HCP	N541811 COMMON LOON MONITORING
Water Quality & Supply	N5503	Water System Operations	N550301 Water Management
Water Quality & Supply	N5503	Water System Operations	N550302 Water System Control
Water Quality & Supply	N5503	Water System Operations	N550303 Anadromous Fishery Mgmt
Water Quality & Supply	N5503	Water System Operations	N550304 SCADA Management
Water Quality & Supply	N5503	Water System Operations	N550305 Highline Well Field
Water Quality & Supply	N5503	Water System Operations	N550306 Morse Lake PS
Water Quality & Supply	N5503	Water System Operations	N550307-SAFETY PROCESS MGMT COMPLIANCE
Water Quality & Supply	N5503	Water System Operations	N550308-EPA RISK MGMT COMPLIANCE
Water Quality & Supply	N5504	Water System Analysis	N550401 Eng Analysis/Modeling
Water Quality & Supply	N5504	Water System Analysis	N550402 Water Rights Mgmt

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Water Quality & Supply	N5504	Water System Analysis	N550403 DEMAND METERING
Water Quality & Supply	N5505	Surface Water Trtmnt Rule	N550501 Monitoring, Reporting & Admin
Water Quality & Supply	N5505	Surface Water Trtmnt Rule	N550502 Cholrination Facilities O&M
Water Quality & Supply	N5505	Surface Water Trtmnt Rule	N550503 Watershed Management
Water Quality & Supply	N5506	Total Coliform Rule Compl.	N550601 Monitoring, Reporting & Admin
Water Quality & Supply	N5508	Lead & Copper Rule Compl.	N550801 Monitoring, Reporting & Admin
Water Quality & Supply	N5508	Lead & Copper Rule Compl.	N550802 Corrosion Trtmnt Facil O&M
Water Quality & Supply	N5509	Fluoridation Program	N550901 Fluoridation Program O&M
Water Quality & Supply	N5510	Other Reg Comp/Monitoring	N551001 Otr Reg/Operational Analysis
Water Quality & Supply	N5510	Other Reg Comp/Monitoring	N551002 Disinfection By-Product Rule
Water Quality & Supply	N5510	Other Reg Comp/Monitoring	N551003 Limnology
Water Quality & Supply	N5510	Other Reg Comp/Monitoring	N551005 WQ Lab
Water Quality & Supply	N5510	Other Reg Comp/Monitoring	N551006 DW Reg Dev & App Research
Water Quality & Supply	N5510	Other Reg Comp/Monitoring	N551007 Public Information/Notification
Water Quality & Supply	N5511	Special Projects	N551104 LIMS & QA/QC
Water Quality & Supply	N5512	Cedar HCP	N551201 INTERIM CHINOOK COHO
Water Quality & Supply	N5513	Cedar HCP	N551301 HCP STREAMFLOW GAUGING
Water Quality & Supply	N5513	Cedar HCP	N551302 SWITCHING CRITERIA STUDY
Water Quality & Supply	N5513	Cedar HCP	N551303 STEELHEAD REDD MONITORING
Water Quality & Supply	N5513	Cedar HCP	N551304 CHINOOK STUDIES
Water Quality & Supply	N5513	Cedar HCP	Salmonid Studies
Water Quality & Supply	N5514	WQ Monitoring	N551403 DRINKING WATER QUALITY MONITOR
Water Quality & Supply	N5515	HCP Fisheries	N551501 FRY CONDITION AT RELEASE
Water Quality & Supply	N5515	HCP Fisheries	N551502 FRY MARKING & EVALUATION
Water Quality & Supply	N5515	HCP Fisheries	N551503 FRY TRAPPING & COUNTING
Water Quality & Supply	N5515	HCP Fisheries	N551504 FISH HEALTH
Water Quality & Supply	N5515	HCP Fisheries	N551505 SHORT-TERM FRY REARING
Water Quality & Supply	N5515	HCP Fisheries	N551506 LAKE WASHINGTON PLANKTON STUDY
Water Quality & Supply	N5515	HCP Fisheries	N551508 ADULT SURVIVAL DISTRIBUTION
Water Quality & Supply	N5515	HCP Fisheries	N551509 PHENOTYPIC & GENETIC STUDY
Water Quality & Supply	N5516	Tolt DBO	N551601-CONTRACTOR PAYMENTS
Water Quality & Supply	N5516	Tolt DBO	N551603-MANAGEMENT COSTS
Resource Planning	N5609	Water Resource & Habitat Issues	N560903-ESA

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Water Operation	N6543	WT - Grounds/Roads/ROW	N654305 Fences/gates - P
Water Operation	N6543	WT - Grounds/Roads/ROW	N654306 Fences/gates - E
Water Operation	N6543	WT - Grounds/Roads/ROW	N654307 Mow ROW - P
Water Operation	N6543	WT - Grounds/Roads/ROW	N654308 Mow ROW - E
Water Operation	N6543	WT - Grounds/Roads/ROW	N654309 Mow Other
Water Operation	N6544	WT - Facility Maintenance	N654401 Program Maintenance
Water Operation	N6544	WT - Facility Maintenance	N654402 Event Driven Repairs
Water Operation	N6545	WT - Castings	N654501 Casting Adjustments
Water Operation	N6546	WT - Customer Services	N654601 Communications/Dispatch
Water Operation	N6546	WT - Customer Services	N654602 Locating/Marking
Water Operation	N6547	WT - Damage by Others	N654701 P/L/ROW/Facility
Water Operation	N6548	WT - Transmission Shops	N654801 Shops/Fabrication
Water Operation	N6549	WT - General Expenses	N654905 Tools/small equipment
Water Operation	N6549	WT - General Expenses	N654906 Standby
Water Operation	N6549	WT - General Expenses	N654907 Truck Inventory
Water Operation	N6549	WT - General Expenses	N654908 Downtime - Job Related
Water Operation	N6549	WT - General Expenses	N654909-DISASTER-EMERG RESPONSE

1% Program

Program	Project	Project Name	Activity
Community Services	N5303	Resource Conservation	N530301 1% Conservation

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