Judi Gladstone
SPU Wholesale Contracts ORD
February 17, 2011
Version #1a

CB
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#4

ORDINANCE _____

AN ORDINANCE relating to Seattle Public Utilities; authorizing the Director of Seattle Public Utilities to enter into long-term, full and partial requirements contracts and emergency intertie agreements with wholesale customers that have expiring water supply contracts with Seattle, and ratifying and confirming certain prior acts.

WHEREAS, Seattle serves 11 cities and water utilities under long-term full and partial requirements contracts for water supply that were authorized in 2001 by Ordinance 120362; and

WHEREAS, eight cities and water utilities remained under long-term water supply contracts signed in 1982, or similar contracts, which expire January 1, 2012; and

WHEREAS, Seattle has completed negotiations with six of the cities and water utilities, including Water Districts 49, 90, and 119, and the cities of Bothell, Duvall, and Renton for long-term full or partial requirement contracts, that are substantially similar to the existing full and partial requirements contracts authorized by Ordinance 120362, which will make for consistent and easier wholesale customer contract management; and

WHEREAS, the six cities and water utilities entering into these full and partial requirements contracts will become members of the existing Operating Board for the Seattle Regional Water Supply System and be subject to the same provisions as the existing full and partial contract holders including, the same cost allocation and rate-making principles and procedures, participation in the regional conservation program, a contract expiration date of January 1, 2062, and opportunities to amend the contract in 2021 and 2041; and

WHEREAS, Seattle and the City of Renton have negotiated alternative provisions to a partial requirements contract to handle unique circumstances for providing regional conservation services and new supply to their entire retail service area even though the City of Renton supplies most of its retail service area with its own independent sources of supply; and

WHEREAS, Seattle has also completed negotiations with the remaining two entities, including the City of Edmonds and the Lake Forest Park Water District for long-term emergency intertie agreements since their requirements for future water supply from Seattle are limited to emergency purposes; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

SEA CITY CLERK

Section 1. The Director of Seattle Public Utilities is hereby authorized to enter into long-term full requirements contracts with Water Districts 49 and 119 and the cities of Bothell and Duvall, and long-term partial requirements contracts with Water District 90 and the City of Renton, substantially in the form of the contract attached to this ordinance as Attachment A, including any changes the Director deems necessary and that are consistent with the purposes of this ordinance, including provisions in the partial requirements contract with the City of Renton to include an alternative cost recovery mechanism to recover costs for providing regional conservation services or other new supply to the City of Renton in lieu of facilities charges or new supply rates.

Section 2. The Director of Seattle Public Utilities is hereby authorized to enter into Emergency Intertie Agreements with the City of Edmonds and the Lake Forest Park Water District, substantially in the form of the contract attached to this ordinance as Attachment B, including any changes the Director deems necessary and that are consistent with the purposes of this ordinance.

Section 3. The contracts and agreements authorized in Sections 1 and 2 above will replace the expiring water supply contracts upon their respective effective dates.

Section 4. Any act consistent with the authority of this ordinance taken after its passage and prior to its effective date is hereby ratified and confirmed.

Section 5. This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

CITY CLERK

Judi Gladstone
SPU Wholesale Contracts ORD
February 17, 2011
Version #1a

Passed by the City Council the ____ day of _____, 2011, and signed by me in open session in authentication of its passage this

_____ day of _____, 2011.

_____
President _____of the City Council

Approved by me this ____ day of _____, 2011.

_____
Michael McGinn, Mayor

Filed by me this ____ day of _____, 2011.

_____
City Clerk

(Seal)

Attachment A – City of Seattle Full [Partial] Requirements Contract for the Supply of Water to [Wholesale Customer]

Attachment B – Emergency Intertie Agreement between Seattle Public Utilities and [Wholesale Customer]

SPS CITY CLERK

Judi Gladstone
SPU Wholesale Contracts ATT A
February 25, 2011
Version #2

Attachment A

CITY OF SEATTLE

FULL [*PARTIAL**] REQUIREMENTS CONTRACT

FOR THE

SUPPLY OF WATER

TO

_____ WATER DISTRICT [*CITY OF* _____]

--- Date ---

* [*italics*] represents alternative language to replace certain provisions depending on whether final contract will be Full or Partial Requirements Contract or include a particular sub-region.

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FULL [*PARTIAL*] REQUIREMENTS CONTRACT

BETWEEN
THE CITY OF SEATTLE
AND
_____ WATER DISTRICT [*CITY of*_____]

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 _____ ("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 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 Wholesale Level of Service with the same pricing and operational principles as it provides itself.

6. Given the extensive growth of Seattle and the 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 Regional 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:

"1982 Water Purveyor Contract" – That certain Water Purveyor Contract between Water Utility and Seattle having an effective date of September 8, 1982 and expiring on December 31, 2011.

"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 Regional Water Supply System.

"Block Purchase Contract" – A contract in which Seattle sells a fixed quantity of water to a wholesale customer on a take or pay basis.

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

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

"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 water system plan.

"Operating Board" – A board of representatives established by Section V hereof and having the powers and duties set forth in Sections II, III, and IV hereof.

"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.

"Partial Water Requirements" – The amount of water over and above Water Utility's own sources of supply as identified in Exhibits I and XIII and in accordance with this contract needed to meet the needs of its present and future water customers within its service area as shown in Water Utility's water system plan.

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

"Regional Water Conservation Program" - A program which addresses water conservation goals for the Seattle Regional Water Supply System for Seattle, Wholesale Customers, and other

customers who enter into a water supply contract with Seattle that includes participation in the Program.

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

"Seattle Retail Distribution System" – Seattle's retail water distribution system consisting of its retail customers within the Seattle retail service area as defined in its Water System Plan, and including storage facilities, distribution mains, pumps, disinfection facilities, service connections, and all other facilities not included in the Seattle Regional Water Supply System.

"Seattle Regional 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 the Seattle Retail Distribution System, Water Utility, and other wholesale customers. This definition does not include the Seattle Retail Distribution System.

"Seattle Transmission Facilities" – Those facilities serving the transmission needs of the Seattle Regional Water Supply System as set forth in Exhibit VIII.

"Seattle Water System Plan" - Seattle's Water System Plan dated April, 2007, and amendments thereto, prepared by Seattle to comply with the requirements of WAC 246-290-100, and successor regulations.

"Service Connection" - The water meter and associated appurtenances, including everything from the outlet from the supply pipeline to the end of the Seattle Public Utilities vault, through which water is delivered from the Seattle Regional Water Supply System to a Wholesale Customer's water system.

"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.

"Wholesale Customer" – Those customers who purchase water from Seattle under a Full or Partial Requirements Contract for the purposes of reselling to others.

"Wholesale Level of Service" – Water delivered by Seattle in accordance with this contract to the Service Connection intended for Wholesale Customers' distribution to their retail customers. Seattle is not responsible for compliance with Department of Health ("DOH") standards, including fire flow, emergency back-up and water quality within Water Utility's retail service area.

SECTION II. **TERM OF CONTRACT AND GUARANTEES**

II.A. Term of Contract

1. Term. This contract shall be in effect beginning at 12:01 AM on the Effective Date of this contract and shall remain in effect until 12:00 AM on January 1, 2062.

2. Effective Date. This contract shall be effective upon the date that both parties have signed the contract after approval by their respective legislative bodies ("Effective Date").

3. 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.

4. Periodic Review and Right to Change Certain Terms and Conditions. The parties may review and change certain terms and conditions governing the sale of water hereunder by January 1, 2022 and January 1, 2042, or as soon as practicable thereafter, 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 or Partial Water Requirements of Water Utility, as appropriate; (ii) cease to provide wholesale water to Water Utility at an equivalent Wholesale Level of Service as it provides to itself; (iii) charge a higher wholesale rate for water supply and transmission to Water Utility than that charged to the Seattle Retail Distribution System; (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 terminate the contract or reduce its purchase commitment; (vii) disband or significantly reduce the powers of the Operating Board; or (viii) amend any contract provision that will apply only to Water Utility.

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 its Full Water Requirements from Seattle.

[*Partial Requirements Commitment. Seattle shall supply the Partial Water Requirements of Water Utility for the term of this contract. Except as set forth in Exhibits I and XIII and Section II.B.5 below, Water Utility shall purchase its Partial Water Requirements 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 Exhibit X and 2) which is not already served with water from the Seattle Regional Water Supply System, then Seattle shall supply the Full or Partial Water Requirements, as appropriate,

of the additional service area subject to a) the availability of water in the Seattle Regional Water Supply System determined on the same basis as would be applied to determine the availability of water for new or expanded wholesale service customers of Seattle; b) the limitation of geographical boundaries in Seattle's water rights claims or permits; and c) Water Utility's payment of Facilities Charges ("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 or utilities, then this contract shall become null and void at the time the assumption or transfer becomes effective; 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 service area of Water Utility is annexed to Seattle, then this contract shall become null and void upon the effective date of 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 of termination or reduction, 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 ("MGD") of its average annual demand.

b. Reductions Requiring Permission. Water Utility may reduce quantities of water purchased from Seattle by more than 10 MGD 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 Regional 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 Regional Water Supply System shall include but not be limited to the following:

   i. The potential for Stranded Costs and impacts on rates to either the remaining Wholesale Customers or Seattle;

   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 Wholesale Level of Service that it provides to itself. In the event of a general emergency or weather-related water shortage affecting the entire Seattle Regional Water Supply System, general restrictions placed upon water deliveries to Water Utility shall be determined by the Operating Board and applied consistently to other Wholesale Customers and the Seattle Retail Distribution System. 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 adopted by Seattle to implement 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 emergency 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 water shortage contingency plans shall be developed and implemented by Seattle in consultation with the Operating Board. Water Utility shall assist with and support all procedures or emergency curtailment measures that are implemented under the Water Shortage Contingency Plan, or its successor.

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 Regional 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 deliveries of water 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 Regional Water Supply System. Seattle shall be responsible for water quality within the Seattle Regional 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, may 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 its own supply sources.

5. Monitoring. Water quality monitoring shall be performed by Seattle in the Seattle Regional 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 Regional 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 may develop best management practices ("BMPs") and adaptive management practices ("AMPs") as reasonably necessary to protect water quality within the Seattle Regional 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, including any direct or indirect potable reuse water, by Water Utility which mixes with water in the Seattle Regional Water Supply System, 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 and approved in writing by Seattle. The proposed Water Utility source must also meet all federal, state and Seattle water quality and treatment standards. Upon Seattle's request, 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 Seattle Regional Water Supply System, the appropriate method and level of treatment and the probable distribution of the new supply within the Seattle Regional Water Supply 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 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 the Seattle Regional Water Supply System. If, with the written consent of Seattle, water from the Seattle Regional Water Supply System is transferred between Water Utility and another water utility in a manner that does not use the Seattle Regional Water Supply System, Water Utility, the other water utility, or both, shall be fully responsible for meeting all applicable water quality standards related to the transfer of such water between their respective systems. Seattle will not be responsible for water quality outside of the Seattle Regional Water Supply System or Seattle Retail Distribution System except as may be agreed to under Section II.D.5.

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 the Regional Water Conservation Program, as it may be amended from time to time during the term of this contract. In accordance with Part 1, Section B.1.5 of the Settlement Agreement between the Muckleshoot Indian Tribe and the National Marine Fisheries Services and the City of Seattle (Civ. No. 03-3775JLR), Water Utility will implement, through its participation in the Regional Water

Conservation Program, conservation measures that are substantially similar to those implemented by Seattle within the Seattle Retail Distribution System.

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 the Regional 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 Regional Water Conservation Program. Water Utility acknowledges that water conservation beyond the Regional Water Conservation Program may be required as a 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 the Seattle Retail Distribution System. Except as provided in the next subsection, Water Utility shall implement such additional water conservation measures and meet the additional 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 Regional Water Conservation Program to meet conservation targets adopted by the Operating Board, or more stringent targets. Water Utility shall bear the additional costs thereof and shall be solely responsible for its implementation. Under this option, Water Utility shall

be evaluated for meeting the additional 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 Regional 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 the Seattle Regional 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 plans. Seattle shall operate and maintain the Seattle Transmission 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 Regional 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 Regional Water Supply System'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 revised to reflect such additions or adjustments.

III.B. Resale to Other Parties

Water Utility may sell water supplied by Seattle to other water utilities located outside of Water Utility's existing or future service area 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 and the installation of a meter. 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.

   a. 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 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 Regional 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 adjacent Wholesale Customer agrees to perform the interconnection in a location and according to a schedule which does not unduly disrupt Water Utility's operations, and to be responsible for the payment and indemnity obligations in Section III.C.2.b below.

b. Payment and Indemnity. Water Utility shall be paid its actual costs of providing such interconnection and water transmission service by the adjacent Wholesale Customer receiving the water, 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 by the adjacent Wholesale Customer. The Operating Board shall 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 Regional Water Supply System shall rest with the Seattle City Council. Capital construction activities include, but are not limited to installations, renewals, replacements, upgrades, expansions, and any other costs included in Seattle's comprehensive capital facilities plan.

III.E. Metering Equipment

Seattle shall own and perform testing, cleaning and recalibration on appropriate metering devices and associated appurtenances to measure the amount of water delivered to Water Utility at the Service Connection pursuant to this contract. Seattle shall perform all other work at Water Utility's expense regardless of the cause provided that the cause is consistent with AWWA and safety standards and practices. Water Utility shall operate and maintain its water system in a manner that the water flowing through the Service Connection meter operates within the normal operating range for the meter as specified by the manufacturer.

Until such time as Seattle determines it to be economical to install metering devices to measure the amount of water delivered from the Seattle Regional Water Supply System to the Seattle Retail Distribution System, the amount of water delivered to the Seattle Retail 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 SUPPLY & 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 and Cost-allocation Principles

The parties will apply the following general principles and policies to the establishment of all rates, charges, and cost allocations for water supply, transmission, and related services under this contract.

1. No expenses attributable to electric power development may be 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, as may be amended from time to time, 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 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. Capital costs associated with improvements or facilities which benefit or serve individual Wholesale Customers or the Seattle Retail Distribution System may be allocated to a sub-regional or regional cost pool to the extent necessary to alleviate a disproportionate adverse impact to that Wholesale Customer or the Seattle Retail Distribution System from a regional or sub-regional capital improvement and where (i) such impact could have been reasonably avoided through a different project design, or (ii) the other

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Wholesale Customers, including the Seattle Retail Distribution System, receive tangible benefits, directly or indirectly, from the adopted capital facilities plan.

10. The Seattle Retail Distribution System shall be treated as the equivalent of a Wholesale Customer of the Seattle Regional 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 to all Wholesale Customers and to the Seattle Retail Distribution System.

11. The allocation of costs associated with capital construction activities within the Seattle Regional 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.

12. All parties will use best efforts in establishing rates and cost allocations that reflect the rate-making and cost allocation principles set forth in this Section IV.A.

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

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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 include direct and indirect costs attributable to the delivery of water to the Wholesale Customers and to Seattle's Retail Distribution System 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 the Regional Water Conservation Program shall be allocated to the New Supply Cost Pool and the Operating Board will determine to recover those costs either through rates or Facility Charges "FCs" from Wholesale Customers and Seattle.

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 charged to recover the full costs of operating, maintaining, repairing, renewing and replacing the Existing Supply Resources incurred by Seattle.

ii. All regional conservation programs undertaken by Seattle prior to January 1, 2002, 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 after January 1, 2002 that expand the capacity of the Seattle Regional Water Supply System ("New Supply Resources"), including the costs of the Regional Water Conservation Program from January 1, 2002, 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 either through FCs or new supply rates charged to the holders of Full and Partial Requirements Contracts and the Seattle Retail Distribution System. The new supply rate shall be applied to all holders of Full and Partial Requirements Contracts and the Seattle Retail Distribution System.

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 shall be assessed the full marginal costs of the operation, including Rate of Return on Investment, of the New Supply Resources. 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 or maintain financial stability of the Seattle Regional Water Supply System, or both. Any such emergency surcharge shall be presented to the Operating Board prior to adoption by the Seattle City Council. Seattle shall consider the comments of the Operating Board but shall nevertheless have the full authority to adopt the emergency surcharge.

IV.D. Transmission Pricing - Basic Services

1. Transmission Costs Pools. For purposes of determining the cost of the transmission of water to the Wholesale Customers there shall be two [three if subregional pool applies] 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, renewals, 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 the Seattle Retail Distribution System. Therefore, the price of transmission for water transmitted within the Seattle Transmission Facilities shall be calculated on the same basis to holders of Full and Partial Requirements Contracts and the Seattle Retail Distribution System.

      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, upgrade, expansion, or modification of existing Seattle 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, upgrade, expansion or modification of existing Seattle Transmission Facilities may be allocated to the New Transmission Cost Pool and what portion of costs of a transmission project that extends the geographic extent of the transmission system that shall be allocated to the New Transmission Cost Pool or recovered from a new Wholesale Customer if the project benefits only that new Wholesale Customer. Except for costs allocated to a specific Wholesale Customer, New Transmission Cost Pool costs shall be recovered through new transmission rates or FCs as determined by the Operating Board. The new transmission rate shall be applied in a uniform manner to all holders of Full and Partial Requirements Contracts and the Seattle Retail Distribution System.

c. *[_____ Sub-regional Cost Pool. Water Utility is served, in part, by the sub-regional water transmission facilities listed in Exhibit XI. The costs of operating, maintaining, repairing and replacing these facilities shall be included in the _____ Sub-regional Cost Pool, together with any other costs Water Utility and Seattle agree to include.]*

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 requests a change in the location of the Service Connection to Water Utility for the benefit of the Seattle Regional Water Supply System, then the costs, including any retirement costs of the old Service Connection, shall be included in the appropriate transmission cost pool. If Water Utility requests a new Service Connection or a change in location of an existing Service Connection, then Water Utility shall pay the costs of the new or changed Service Connection, including any retirement costs of the old Service Connection regardless of the cause provided that the cause is consistent with AWWA and safety standards and practices.

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, as amended from time to time, consistently applied in developing the financial information for determining the costs of acquisition, construction, repair, renewal, replacement, upgrade, expansion, 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 industry-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 Resources and Seattle Transmission Facilities, as well as their replacements and betterments. The utility basis may also be used for New Supply Resources 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 Resources and 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. Disposition of any facilities under another basis will be determined at the same time in accordance with Section IV.E.4.

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, maintenance, and repair 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 capital 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 2010 shall be determined in accordance with the line item labeled "2010 Costs in identified

activities" under Existing Supply in Note 2 – Operations Costs, Notes to the Wholesale Statements for the City of Seattle, Seattle Public Utilities, Water Fund, during the annual cost-audit process for 2010 in accordance with Section IV.E.10, which occurs by the end of 2011 and applies to all Wholesale Customers and Seattle. Seattle will notify Water Utility of the actual 2010 operations cost base in the Existing Supply Cost Pool in writing, which shall become incorporated as part of this contract at that time. In each succeeding year, the amount of the operations cost base from the previous year shall be adjusted by the percentage increase in the operations cost in the Existing Supply cost centers identified in Exhibit IX, as amended from time to time.

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 2010 shall be determined in accordance with the line item labeled "2010 Costs in identified activities" under Existing Transmission in Note 2 – Operations Costs, Notes to the Wholesale Statements for the City of Seattle, Seattle Public Utilities, Water Fund, during the annual cost-audit process for 2010 in accordance with Section IV.E.10, which occurs by the end of 2011 and applies to all Wholesale Customers and Seattle. Seattle will notify Water Utility of the actual 2010 operations cost base in the Existing Transmission Cost Pool in writing, which shall become incorporated as part of this contract at that time. In each succeeding year, the amount of the operations cost base from the previous year

shall be adjusted by the percentage increase in the operations cost in the Existing Transmission cost centers identified in Exhibit IX, as amended from time to time.

c. New Supply Operations Costs. The operation costs of the Regional Water Conservation Program after January 1, 2002, together with the costs of operating facilities assigned to the New Supply Cost Pool and any other costs allocated by the Operating Board, shall be assigned to the New Supply Cost Pool. The operations cost base in the New Supply Cost Pool for 2010 shall be determined in accordance with the line item labeled "2010 Costs in identified activities" under New Supply in Note 2 – Operations Costs, Notes to the Wholesale Statements for the City of Seattle, Seattle Public Utilities, Water Fund, during the annual cost-audit process for 2010 in accordance with Section IV.E.10, which occurs by the end of 2011 and applies to all Wholesale Customers and Seattle. Seattle will notify Water Utility of the actual 2010 operations cost base in the New Supply Cost Pool in writing, which shall become incorporated as part of this contract at that time. In each succeeding year, the amount of the operations cost base shall be adjusted by the percentage increase in the operations costs in the New Supply cost centers as identified in Exhibit IX, as amended from time to time.

d. New Transmission Operations Costs. The actual costs of operating facilities assigned to the New Transmission Cost Pool and any other costs allocated by the Operating Board, shall be assigned to the New Transmission Cost Pool.

e. *[_____ Sub-regional Operations Costs. The actual costs of operating facilities assigned to the xxxxx Sub-regional Cost Pool, together with any additional operations costs approved by Water Utility and Seattle.]*

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 IV.E.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 Regional Water Supply System expands to include new infrastructure, operations, and 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 allocation to the existing cost pool.

6. Facilities Charge Revenues. Supply FC revenues, which consist of those revenues from FCs the Operating Board has determined are to recover a certain portion of New Supply Resources costs, shall offset infrastructure costs in the New Supply Cost Pool. Surpluses and deficits in actual Supply FC revenues over costs to be recovered through 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.

7. 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 and Partial Requirements Contracts and the Seattle Retail Distribution System 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 and Partial Requirements Contracts and the Seattle Retail Distribution System 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 and Partial Requirements Contracts and the Seattle Retail Distribution System 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 and Partial Requirements Contracts and the Seattle Retail Distribution System shall be allocated all costs in the New Supply Cost Pool.

e. Allocation of Additional Cost Pools. At the time an additional cost pool is created by Seattle pursuant to Section IV.E.5, the additional cost pool will be allocated by customer class.

If Applicable:

f. [*Allocation of _____ Sub-region Cost Pool. All costs in the _____ Sub-regional Cost Pool shall be allocated according to Exhibit XII.*]

8. 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, in a form acceptable to Seattle, of its retail water service 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 Wholesale Customers 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 any Wholesale Customer on the same basis.

c. Annual Calculation of ERU's. Until such time as Seattle develops another basis, the calculation of ERU's in any year shall be the annual growth in the number of

meters installed by Water Utility during the year taking into account the size of each meter.

d. Imposition of Facilities Charges. Seattle shall collect and Water Utility shall pay FCs based on the following:

i. 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 Regional Water Supply System on the same basis.

ii. Seattle Report on ERUs. Seattle shall prepare and distribute a report no later than March 31st of each year showing the ERU count of the Seattle Retail Distribution System and each Wholesale Customer on such basis for the previous year and each year since the effective date of this contract.

i. [*Growth Allowance for Independent Sources. Water Utility operates the sources of water supply independent of the Seattle Regional Water Supply System listed in Exhibits I and XII. These sources of independent supply are sufficient to serve an additional ____ ERUs within Water Utility's service area, and Water Utility shall have a growth allowance (the "Allowance") for these ____ ERUs as of the effective date of this contract. The Allowance shall be a credit against growth in ERUs within Water Utility's service area.*

ii. Increase in Allowance for New Independent Sources or Improvement of Existing Sources. Water Utility may develop new sources of independent supply in addition to those listed in Exhibits I and XIII or make improvements in the existing sources of supply in Exhibits I and XIII to increase the yield of

those sources, and shall provide Seattle with six months written notice before placing each such additional source or yield improvement into production. However, this provision shall in no way relieve Water Utility from the restrictions on reducing Water Utility's purchase commitment under Section II.B.5 of this contract. Water Utility shall maintain records of the monthly production of each independent source of supply in a manner consistent with industry standards, and shall allow Seattle, upon reasonable notice, to examine and copy these records at their customary location during normal business hours. The Allowance shall be adjusted as follows for each new or improved independent source of supply which produces at least of one-third of its annual production of water during the period between mid-May and mid-September. A trial period ("Trial Period") for a new or improved independent source of supply shall commence on January 1st of the calendar year following the year in which that source was placed into production, and the Trial Period shall extend for three calendar years. At the conclusion of the Trial Period, the Allowance shall be increased by the number of ERUs served by the average annual production of the new or improved source during the Trial Period for that source, and Exhibit XIII shall be revised to reflect the new source or improved production capacity of an existing source.

iii. *Decrease in Allowance. In the event that the annual water supply capacity of an Independent Source, or of all Independent Sources in aggregate, is found, under the provisions of Exhibit XIII, to be lower than the capacity listed in Exhibit XIII, the Allowance shall be reduced by the number of ERUs that could be served, on an annual basis, by a supply of the same size as the*

reduction in capacity of the Independent Source(s). In the event that this adjustment results in a negative Allowance, Water Utility shall pay Seattle an amount equal to the then-current ERU Fee multiplied by the (negative) Allowance multiplied by minus one. This amount shall be paid in annual installments over a period not to exceed five years. The Allowance shall be zero upon commencement of these payments.

iv. *Monthly Payment of Facilities Charges. Water Utility shall pay FCs based on the number of ERUs added during the previous month determined by the number of meters installed. Until the Allowance is zero, the Allowance shall be reduced by one for each ERU added by Water Utility during the previous month, and such reduction of the Allowance shall be in lieu of payment of an FC for that ERU.*

v. *Seattle Report on ERUs. Seattle shall prepare and distribute a report no later than March 31st of each year showing the ERU count of the Seattle Retail Distribution System and each Wholesale Customer on such basis for the previous year and each year since the effective date of this contract.]*

e. Rate Setting. The structure of FCs or water rates charged to the holders of Full and Partial Requirements Contracts shall be determined by Seattle, at 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.

9. 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.

10. Transition.

a. Settling the Purveyor Balance Account. The parties agree that they will settle the Purveyor Balance Account, as that term is used in Section III.I of the 1982 Water Purveyor Contract, in the following manner no later than December 31, 2011, unless the parties enter into a payment agreement in accordance with this subsection. The Purveyor Balance Account shall be credited if there is a surplus or charged if there is a deficit, to the Wholesale Customers who remained under the 1982 Water Purveyor Contract until the Effective Date of this contract. The Purveyor Balance Account as of December 31, 2010 (which will be finally audited in the 3rd quarter of 2011), shall be prorated by each of those Wholesale Customer's share of the total Purveyor demand (e.g flow) since the most recent year that the balance was at zero. There will be separate prorations for the Old Water and New Water accounts as those terms are defined in the 1982 Water Purveyor Contract. In the event the appropriate credits or charges are not or cannot be paid in full by December 31, 2011, the parties shall be entitled to pay the appropriate credits or charges over a term of up to three years with the then current interest at Seattle's Average Cost of Debt. The specific terms of any payment agreement between the parties shall be reasonable and subject to the review and approval of the parties.

b. Prior Operating Board Decisions. Water Utility acknowledges and agrees it will be bound by decisions the Operating Board has made under the authority in this contract that have been made prior to the Effective Date of this contract so that such decisions apply to all holders of Full and Partial Requirements Contracts.

c. Application of Facilities Charges based on Meter or Connection Size. Seattle and Water Utility acknowledge and agree that Water Utility has unresolved concerns relating to guidance issued by the Operating Board in 2002 regarding the application of FCs based on meter or connection size where other requirements (e.g. operational, regulatory) may dictate the meter or connection size, and therefore, may not be an appropriate indicator of the annual demand placed on water supplies. The parties agree that circumstances have changed since that guidance was issued that warrant reconsideration of the guidance. Therefore, Seattle will initiate a discussion with the Operating Board in 2011, which Water Utility may participate in to present its concerns, and will endeavor to resolve the issue for action by the Operating Board as soon as practicable after Water Utility becomes represented by the Operating Board.

d. Waiver of Facilities Charges. Seattle shall not charge Water Utility FCs until January 1, 2012 if the amount of water it purchases from Seattle does not exceed its old water allowance under the 1982 Water Purveyor Contract. This waiver, however, shall not relieve Water Utility from the record-keeping requirement of subsection IV.E.8 above.

e. 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 through December 31, 2011. 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.

f. Early Contract Signing Fee. Within two months of the Effective Date of this contract, Water Utility agrees to pay to Seattle an Early Contract Signing Fee of $_____. If a Wholesale Customer requires a longer period, they may pay the fee in monthly increments until December 2011 at 1% interest.

g. Transfer to Full and Partial Rates and Facilities Charges.

i. Within two months of the Effective Date of this contract, Seattle will: 1) make appropriate changes to its billing system to charge Water Utility for water supplied under this contract at the then current rates for Full or Partial Requirements Contracts under Seattle Municipal Code ("SMC") Section 21.04.440.E.2 ("Billing System Change Date"); and 2) credit back to Water Utility the difference between the amount Water Utility paid for water supplied at the then current rates for Water Purveyor Contracts under SMC 21.04.440.E.1 and what the Water Utility would have paid for water supplied at the then current rates for Full or Partial Requirements Contracts under SMC 21.04.440.E.2 from January 1, 2011 until the Billing System Change Date.

ii. Within two months of the Effective Date of this contract, Water Utility will submit to Seattle an accounting of the number of retail connections

made to its water system between January 1, 2011 and the Effective Date of the contract and payment of any FCs at the then current FC rate under SMC 21.04.440.E.2 that would have been paid in accordance with this contract from January 1, 2011 until the Effective Date of this contract.

h. Existing Regional Deficit. The parties acknowledge and agree that as of December 31, 2010, there may be an existing regional deficit or surplus in the running balance under Section IV.I.1 that was created by Wholesale Customers signing contracts prior to 2011 and the Seattle Regional Distribution System. Although Water Utility did not contribute to the existing deficit or surplus, it will have to pay higher or lower rates in the 2012-2014 rate period to help eliminate the deficit or surplus, respectively. In the event of a deficit, Seattle agrees to credit back to Water Utility, 70% of the amount that Water Utility will contribute to eliminating the existing deficit through higher rates. In the event of a surplus, Water Utility agrees to pay Seattle 70% of the amount that Water Utility will benefit from eliminating the existing surplus through lower rates. The actual amount of the existing deficit or surplus will be determined during the annual cost audit process for 2010, which is targeted for third quarter 2011. The amount to be credited or charged will be based on Water Utility's percentage of 2010 annual flow times the total existing regional deficit or surplus times 70%. Upon the completion of the 2010 annual cost audit process, Seattle will provide Water Utility with an accounting of the total credit or charge in writing. Beginning January 2012, Seattle will provide one or more monthly credits or charges on Water Utility's water bill until the entire credit or charge balance is paid off.

Seattle or Water utility, as appropriate, will pay the entire balance by December 31, 2012. Any outstanding credit or charge balance will accrue interest at Seattle's average cost of debt from December 31, 2010 until the entire balance is paid off.

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 Regional 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 request the services of that lab based on its published rates.

IV.G. Rate Adjustment

1. Rate Adjustment. Upon 120-days notice to Water Utility 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.6.
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 over policy and operational matters as they affect the Seattle Regional Water Supply System.

2. Structure and Authority. The Operating Board shall have the powers and authority as set forth herein. Exhibit IV describes the structure and authority of the Operating Board. In the event of a conflict between provisions of this contract which grant specific powers to the Operating Board and Exhibit IV, such grants of specific powers shall control.

3. Review. The structure and authority of the Operating Board may be reviewed as of January 1, 2012 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 herein and in Exhibit IV, 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. Its forecast of Full or Partial Water Requirements, as appropriate, 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 Water System Plans

Water Utility shall provide a copy of its water system plan, including any amendments, to Seattle for review.

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 or Partial Water Requirements of Water Utility, as appropriate. 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 Regional 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 or developed by individual water utilities, legally constituted groups of water utilities or utilities which are not presently supplied by the Seattle Regional 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 Regional 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 Regional Water Supply System, which provides for such improvements. Any capital facilities plan adopted by Seattle for the Seattle Regional Water Supply System shall comply with and implement the Rate-making and Cost Allocation Principles in Section IV.A of this contract. This plan shall identify any reasonable costs for capital improvements to alleviate a disproportionate adverse impact to the distribution system(s) of Water Utility, another Wholesale Customer represented on the Operating Board or Seattle, to the extent it is caused by a capital improvement in the capital facilities plan for the Seattle Regional Water Supply System. 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 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.

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. Billing Disputes

Water Utility may dispute the accuracy of any portion of charges billed by Seattle by notifying Seattle in writing within the 60-day payment period of the specific nature of the dispute and paying the undisputed portion of the charges. This provision is not intended to limit Water Utility's right to dispute billing errors or charges that are not reasonably discoverable by Water Utility within the 60-day payment period.

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 or Partial 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 as follows:

IX.A. Operating Board Review

Any dispute regarding this contract that remains unresolved after good faith negotiations between Water Utility and Seattle shall 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 party 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, if applicable, 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 of 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.G below.

IX.E. EFFICIENCY OF REVIEW

In order to facilitate a more efficient review of disputes under this Section, the Parties agree to skip the step in Section IX.A above in order to avoid a redundant act. The Parties may also

mutually agree to skip the step in Section IX.C, if it is in the best interests of the Parties in resolving the dispute.

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:	WATER UTILITY [*CITY OF*]:
Director	Manager
Seattle Public Utilities	
Key Tower, Suite 4900	
700 Fifth Ave.	
Seattle, WA 98104	

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 significant 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 the Effective Date of 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 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 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 the parties' performance under any provisions of this contract shall be extended for a reasonable period of time during which a party'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, the parties agree to immediately take all reasonable steps to alleviate, cure, minimize or avoid the cause preventing such performance, at their 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 __ 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 No.

LIST OF EXHIBITS

I. Contract Sections II.B and III.B List

II. Service Connections, Minimum Hydraulic Gradients, and Maximum Flow Rates of Water Supplied

III. Demand Charge Methodology

IV. Operating Board Structure

V. Reserved

VI. Calculation of ERU's as a Part of Facilities Charges

VII. Seattle Supply Facilities

VIII. Seattle Transmission Facilities

IX. Cost Centers Used for Operations Cost Indices

X. Water Utility Service Area

XI. *List of _____ Sub-region Transmission Facilities*

XII. *Allocating Costs and Setting Rates for _____ Sub-region*

XIII. *Water Utility Independent Sources of Supply*

EXHIBIT I

Contract Sections II.B and III.B List

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

1. Intertie Agreements:

Entity/location	Meter Size	Capacity	Type of Service	Comment

2. Independent Well Sources:

3. Water Supply Contracts To Other Water Utilities:

EXHIBIT II

SERVICE CONNECTIONS, MINIMUM HYDRAULIC GRADIENTS, AND MAXIMUM FLOW RATES OF WATER SUPPLIED

SERVICE CONNECTION[1]				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 [2]	PIPELINE SEGMENT NUMBER[2]	SIZE OF METER (IN.)		
				TOTAL:	

Notes:

(1) Water is provided to Service Connections at a Wholesale Level of Service.

(2) Station and Pipeline Segment Numbers pertain to cost allocations and the demand metering program.

(3) City of Seattle's estimate of Water Utility's average daily demand for 2020 with a peaking factor of 2.0 for peak day use.

EXHIBIT III

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 Facilities. 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 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 Seattle Transmission Facilities 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 Seattle Transmission Facilities 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 Regional 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 the holders of Full and Partial Requirements Contracts . Wholesale Customers will be sorted into three categories based on utility size. The selected categories will be small, medium and large utilities, which will be made up from approximately equal numbers of holders of Full and Partial Requirements Contracts. Each category of utility may elect, by majority vote (one vote per utility) its representative to the Operating Board. The Board will be recomposed on January 1, 2012 and every 5 years thereafter.

   d. 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 or any 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:

b. the Chairperson shall be selected at the first regularly scheduled meeting of each new year.
c. All Chairpersons shall be selected by the Board using a nomination and voting process.

d. Nomination 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.

e. 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 Seattle Public Utilities & Neighborhoods 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 it 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 Seattle Public Utilities & Neighborhoods, or successor City Council committee, on its decisions and recommendations in a timely manner.

6. Responsibilities and Authority of the Board. 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 - RESERVED

EXHIBIT VI

Calculation of ERU's 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 Resources 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 ERU's. 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 Resources 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 ERU's available at the then-current ERU fee and the number of new ERU's being added at the new ERU price. This weighted average shall be the new ERU Fee, and the number of ERU's available at the fee shall be the sum of the unsold ERU's 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 ERU's 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 its own) would be fully utilized in 10 years, and its ERU price is therefore $2,375. The average price of any of the 90,000 available ERU's is therefore $2,022.

EXHIBIT VI

ERU's by Connection Size

Connection Size	Number of ERU's
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.

EXHIBIT VII

Seattle Supply 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 Regional Water 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 Regional Water Supply System only to the extent of SPU share or responsibility.
   - Tolt Treatment Facility

3. **Seattle Wellfields**
   - 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**
   - One Percent Conservation Program through December 31, 2001
   - GIS Projects related to facilities identified herein as part of the Seattle Regional Water Supply System

EXHIBIT VIII

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

4. Service Connections to Wholesale Customers installed before January 1, 2002 are part of the Seattle Transmission Facilities. Service Connections to Wholesale Customers installed after December 31, 2001shall not be part of the Seattle Transmission Facilities.

The Seattle Transmission Facilities include all necessary and convenient appurtenances, including, but not limited to, rights of way, line valves, system meters, and remote automation devices.

EXHIBIT IX (as amended)

Cost Centers Used for Operations Cost Indices

The following costs centers or successor cost centers, as reflected in the amended Exhibit IX, and as amended further from time to time, that capture the direct costs of operation of Existing Supply Facilities, Seattle Transmission Facilities and the Regional Water Conservation Program shall be used as the indices for operations cost in the Existing Supply Cost Pool, Existing Transmission Cost Pool and for the Regional Water Conservation 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

Program	Project	Project Name	Activity
Watershed Management	N5410	Wildlife & Fisheries Programs	N541005 Habitat Enhancement/Restoration
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 UP0LAND 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
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
Program	**Project**	**Project Name**	**Activity**
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

Transmission

Program	Project	Project Name	Activity
Water Operation	N6540	WT - Headwork/Storage	N654001 Program Maintenance
Water Operation	N6540	WT - Headwork/Storage	N654002 Event Driven Repairs
Water Operation	N6541	WT - Transmission Pipeline Maint	N654101 Program Maintenance
Water Operation	N6541	WT - Transmission Pipeline Maint	N654102 Event Driven Repairs
Water Operation	N6542	WT - Value Op/Maint - Water Tran	N654201 Program Maintenance
Water Operation	N6542	WT - Value Op/Maint - Water Tran	N654202 Event Driven Repairs
Water Operation	N6543	WT - Grounds/Roads/ROW	N654301 Grade/gravel roads - P
Water Operation	N6543	WT - Grounds/Roads/ROW	N654302 Grade/gravel roads - E
Water Operation	N6543	WT - Grounds/Roads/ROW	N654303 Bridges/culverts - P
Water Operation	N6543	WT - Grounds/Roads/ROW	N654304 Bridges/culverts - E
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 Standy
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

Regional Water Conservation Program

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

Cost Centers Used for Operations Cost Indices

amended 12/31/2009

Existing Supply

Program	Project	Project Name	Activity	Description
SPU General Expense	N0108	Emergency Response	NN90036	4/23/09 Tolt Trmt Plant Emrgcy
SPU General Expense	N0503	Water Fund Contracts	N050302	Tolt DBO Contract Payments
SPU General Expense	N0503	Water Fund Contracts	N050303	Cedar DBO Contract Payments
Branch Administration	N3106	Water Wholesale Contracts	N310601	Wholesale Water Contracts Mgmt
Customer Billing Services	N3303	Customer Audit	N330303	Purveyor
Cedar & Tolt Watershed Srvcs	N5401	Program Management	N540198	Safety
Drainage & Wastewater	N6210	Landsburg Mgmt & HCP Support	N621001	Oprtn of Passage Facility-HCP
Drainage & Wastewater	N6210	Landsburg Mgmt & HCP Support	N621002	Interim Hatchery Ops-HCP
Water Operation	N6510	Misc Water Operations	N651004	Alternative Duty
Water Operation	N6540	Headwork/Storage	N654003	(Cedar) Chlorination Facility O&M
Water Operation	N6540	Headwork/Storage	N654004	Fluoridation Program O&M
Water Operation	N6540	Headwork/Storage	N654005	RMP/PSM Compliance
Water Operation	N6573	In-Town Reservoir Treatment	N657304	Highline Well F(Location Code)
Asset Data Systems	N6903	SCADA Development & Support	N690301	SCADA SYSTEM PLANNING
Asset Data Systems	N6903	SCADA Development & Support	N690302	SCADA INFRASTRUCTURE O&M
Asset Data Systems	N6903	SCADA Development & Support	N690303	DAM SAFETY SCADA
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731101	Fry Condition @ Release - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731102	Fry Marking & Evaluation - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731103	Fry Tapping & Counting - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731104	Fish Health – HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731105	Adult Survival Distribution - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731106	Pheno & Gen Study - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731107	Zooplnktn Stds (Sprng) - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731108	HCP Support
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731109	Operation of Passage Facility - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731110	Landsburg Fish Ladder - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731111	DW Quality Monitoring - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731112	Interim Hatchery Ops - HCP
Surface Water LOB	N7311	Landsburg Mtgtn & HCP Support	N731113	Adaptive Mgmt - Sockeye Hatch
Drinking Water LOB	N7503	Water LOB Planning & Perf	N750303	Network Hydraulic Model Dev
Drinking Water LOB	N7504	Water Resource Business	N750403	Hydrology Model Dev & Maintenance
Drinking Water LOB	N7504	Water Resource Business	N750404	Water Resource Operation Mgmt
Drinking Water LOB	N7504	Water Resource Business	N750406	Morse Lake Pump Plant
Drinking Water LOB	N7504	Water Resource Business	N750407	Anadromous Fishery Mgmt
Drinking Water LOB	N7504	Water Resource Business	NN90053	Tolt Spillway Leak Repair
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750501	Existing Stream Gage At Cedar F
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750502	Exist. Stream Gage Below Landsburg
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750503	New Stream Gag Above Powerhouse
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750504	New Gage At Renton
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750505	Temporary Gages In Lower River
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750506	Accretion Flow Study
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750507	Switching Criteria Study
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750509	Instream Flow Commission
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750511	Dead Strg Bull Trout Dlta Mdln
Drinking Water LOB	N7505	HCP Instream Flow Monitor & Res	N750512	Steelhead Redd Monitoring
Drinking Water LOB	N7507	Water Quality & Treatment Business Area	N750705	Tolt Management Costs

Drinking Water LOB	N7507	Water Quality & Treatment Business Area	N750707	Cedar DBO Management Costs
Drinking Water LOB	N7509	Operations Plan & System Control	N750802	Water System Monitor & Control
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751101	Fry Condition @ Release - HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751102	Fry Marking & Evaluation - HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751103	Fry Trapping & Counting - HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751104	Fish Health – HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751105	Adult Survival Distribution - HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751106	Pheno & Gen Study – HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751107	Zooplnktn Stds (Sprng) - HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751108	HCP Support
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751109	Operation of Passage Facility - HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751110	Landsburg Fish Ladder - HCP
Drinking Water LOB	N7511	Landsburg Mitigation. & HCP Support	N751112	Interim Hatchery Ops - HCP
Tech systems	N7705	SCADA Development & Support	N770501	SCADA System Planning
Tech systems	N7705	SCADA Development & Support	N770502	SCADA Infrastructure O&M
Watershed Management	N7801	Program Management	N780196	General Management
Watershed Management	N7803	Support Services	N780301	Procuring/Paying/Receiving
Watershed Management	N7804	Watershed Protection	N780401	Hydrological Data Collection
Watershed Management	N7804	Watershed Protection	N780402	Fire Protection
Watershed Management	N7804	Watershed Protection	N780403	Inspection
Watershed Management	N7804	Watershed Protection	N780404	Boundaries
Watershed Management	N7804	Watershed Protection	N780405	Facilities Security
Watershed Management	N7805	Facility Management	N780501	WS Grounds
Watershed Management	N7805	Facility Management	N780502	WS Buildings
Watershed Management	N7805	Facility Management	N780503	WS Edu Facilities Mgmt
Watershed Management	N7806	Watershed Road Maintenance	N780601	Grade/Gravel/Drain
Watershed Management	N7806	Watershed Road Maintenance	N780602	Bridges/Streams Culvert
Watershed Management	N7806	Watershed Road Maintenance	N780603	Roads/ROW/Vegetation Cutting
Watershed Management	N7806	Watershed Road Maintenance	N780604	Tolt Roads & Streams
Watershed Management	N7807	Watershed Operations Support	N780701	Vehicle/Equipment Management
Watershed Management	N7807	Watershed Operations Support	N780702	Vehicle/Equip/Tool Repair
Watershed Management	N7808	Water Quality & Hydrology	N780801	Hydrological Monitoring
Watershed Management	N7809	Public/Cultural Programs	N780901	Recreation Planning
Watershed Management	N7809	Public/Cultural Programs	N780902	CR Management & Research
Watershed Management	N7809	Public/Cultural Programs	N780903	Watershed Education
Watershed Management	N7809	Public/Cultural Programs	N780904	Watershed Public Information
Watershed Management	N7809	Public/Cultural Programs	N780905	Educational Center Operations
Watershed Management	N7809	Public/Cultural Programs	N780906	Cedar River Watershed Institute
Watershed Management	N7809	Public/Cultural Programs	N780907	Tolt WS MP Impl Cultural Rest
Watershed Management	N7810	Wildlife & Fisheries Programs	N781001	Program Planning & Evaluation
Watershed Management	N7810	Wildlife & Fisheries Programs	N781002	Interagency/Public Involvement
Watershed Management	N7810	Wildlife & Fisheries Programs	N781003	Ecological Monitoring & Research
Watershed Management	N7810	Wildlife & Fisheries Programs	N781004	Habitat & Species Inventory
Watershed Management	N7810	Wildlife & Fisheries Programs	N781005	Habitat Enhancement/Restoration
Watershed Management	N7811	Resource Information Mgmt	N781101	Information Services
Watershed Management	N7812	Special Projects	N781201	Silviculture
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781301	Assess Of Expand Forest Stand
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781302	Assess Expand Forest Attribute
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781303	Long-Term Forest Habitat Inventory
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781304	Old-Growth Classification
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781305	Riparian Restoration Project Monitoring
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781306	Upland Forest Restoration Project Mont
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781308	Experimental Murrelet Habitat
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781309	Spotted Owl Baseline Survey
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781311	OPTION SPECIES/HABITAT SURVEYS

Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781312	GIS Data Compatibility Study
Watershed Management	N7813	CRHCP WS Terestrl Mnitr/Resrch	N781313	Species Habitat Relation Modeling
Watershed Management	N7814	CRHCP Program Support	N781401	CRHCP Technical Support
Watershed Management	N7814	CRHCP Program Support	N781402	BPA Mitigation Program - Watershed
Watershed Management	N7815	CRHCP Watershed Road Managment	N781501	Road Maintenance
Watershed Management	N7816	CRHCP WS Aquatic Monitr/Resrch	N781601	Long-Term Stream Monitoring
Watershed Management	N7816	CRHCP WS Aquatic Monitr/Resrch	N781602	Aquatic Restoration Monitoring
Watershed Management	N7816	CRHCP WS Aquatic Monitr/Resrch	N781604	Bull Trout Spawning Survey
Watershed Management	N7816	CRHCP WS Aquatic Monitr/Resrch	N781605	Bull Trout Fry/Juvenile Survey
Watershed Management	N7816	CRHCP WS Aquatic Monitr/Resrch	N781606	Bull Trout Stream Distribution
Watershed Management	N7816	CRHCP WS Aquatic Monitr/Resrch	N781607	Common Loon Monitoring
Watershed Management	N7817	Watershed Svc MIT Implement	N781701	Watershed Tribal Relations Coordination
Watershed Management	N7818	Tolt WS MP Impl Habitat Rest	N781801	Tolt WS MP Impl Habitat Rest
Laboratory Services	N7903	WQ Regulatory Compliance	N790301	SWTR Monitoring, Reporting & Adm
Laboratory Services	N7903	WQ Regulatory Compliance	N790302	TCR Monitoring, Reporting & Adm
Laboratory Services	N7903	WQ Regulatory Compliance	N790303	LCR Monitoring, Reporting & Adm
Laboratory Services	N7903	WQ Regulatory Compliance	N790304	DBP Monitoring, Reporting & Adm
Laboratory Services	N7903	WQ Regulatory Compliance	N790305	Public Information/Notification
Laboratory Services	N7903	WQ Regulatory Compliance	N790306	Regulatory Support
Laboratory Services	N7904	WQ Monitoring	N790402	Operations Support
Laboratory Services	N7904	WQ Monitoring	N790403	Limnology
Laboratory Services	N7905	Customer Support	N790502	Applied Research
Laboratory Services	N7906	Lab Systems	N790601	WQ Lab Facility O&M
Laboratory Services	N7906	Lab Systems	N790602	Lab System Administration & Support
Laboratory Services	N7906	Lab Systems	N790603	QA Admin
Pre-Capital	N5001	E - Water Fund	E100078	Cedar Falls Railroad Hazard
Pre-Capital	N5001	E - Water Fund	E101008	Rock Creek Fishway
Pre-Capital	N5001	E - Water Fund	E105018	BPA - Rd Improve
Pre-Capital	N5001	E - Water Fund	E105019	BPA Roads Other Decommission
Pre-Capital	N5001	E - Water Fund	E105035	BPA Forest ROW Plant Removal
Pre-Capital	N5001	E - Water Fund	E105036	BPA Forest ROW Wood Rplment
Pre-Capital	N5001	E - Water Fund	E105038	BPA Old Forest Restore
Pre-Capital	N5001	E - Water Fund	E107004	Watershed Emergency/Opportunity
Pre-Capital	N5001	E - Water Fund	E107015	Watershed Vegetation Management
Pre-Capital	N5001	E - Water Fund	E107016	Muckleshoot Agreement Implementation Plan
Pre-Capital	N5001	E - Water Fund	E107019	Restoration Thinning Slash Tree
Pre-Capital	N5001	E - Water Fund	E109001	BPA Cedar Invasive Vegetation Mgmt
Pre-Capital	N5001	E - Water Fund	E109002	BPA Restoration Slash Treatment
Pre-Capital	N5001	E - Water Fund	E109003	BPA Information Mgmt Systems

Existing Transmission

SECTION XI. OGRAM	PR	Project	Project Name	Activity	
Water Operation		N6540	WT - Headwork/Storage	N654001	Program Maintenance
Water Operation		N6540	WT - Headwork/Storage	N654002	Event Driven Repairs
Water Operation		N6541	WT - Transmission Pipeline Mai	N654101	Program Maintenance
Water Operation		N6541	WT - Transmission Pipeline Mai	N654102	Event Driven Repairs
Water Operation		N6541	WT - Transmission Pipeline Mai	NN90043	CRPL4 at Airport Expressway
Water Operation		N6542	WT - Valve Op/Maint-Water Tran	N654201	Program Maintenance
Water Operation		N6542	WT - Valve Op/Maint-Water Tran	N654202	Event Driven Repairs
Water Operation		N6543	WT - Grounds/Roads/Row	N654301	Grade/Gravel Roads - P
Water Operation		N6543	WT - Grounds/Roads/Row	N654302	Grade/Gravel Roads - E
Water Operation		N6543	WT - Grounds/Roads/Row	N654303	Bridges/Culverts – P
Water Operation		N6543	WT - Grounds/Roads/Row	N654304	Bridges/Culverts – E
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	N6543	WT - Grounds/Roads/Row	NN90042	Derby Creek and Tolt ROW
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-Emergency Response

New Supply

Program	Project	Project Name	Activity	
Customer Service	N3904	Resource Conservation	N390401	Water Conservation
Customer Service	N3904	Resource Conservation	N390412	Water Conservation-Landscape

New Transmission

Program	Project	Project Name	Activity	
Branch Administration	N3106	Water Wholesale Contracts	N310602	Operating Board Website

EXHIBIT X

Water Utility Service Area

[Insert Map]

EXHIBIT XI

List of _____ Sub-region Transmission Facilities

[Insert list of facilities for appropriate subregion]

EXHIBIT XII

Allocating Costs and Setting Rates for _____ Sub-region

[Insert test for appropriate subregion]

EXHIBIT XIII

Water Utility Independent Sources of Supply

Water Utility operates the following independent sources of supply (each an "Independent Source"):

Source Description	*Average Annual Production*	*Allowance*

Water Utility shall use its best efforts to maintain and operate the Independent Sources in order to maintain their annual production capacity as listed above. Water Utility shall provide written notice to Seattle within thirty days of determining that it is not possible or not cost effective to maintain and operate an Independent Source at its listed production levels. Such written notice shall describe the new level of production expected for Independent Source, and shall trigger a decrease in the Allowance under Section IV.E.8.d.

Water Utility shall use its best efforts to cure any interruption of water supply from an Independent Source, shall provide oral notice to Seattle of an interruption of an Independent Source lasting longer than 1 week, and shall provide information on the expected additional demand for water deliveries from Seattle resulting from the interruption. Water Utility shall use its best efforts to minimize the impact of an interruption of an Independent Source on the Seattle Regional Water Supply System by utilizing its other Independent Sources unaffected by the interruption within their operating and maintenance constraints.

It is the intent of the parties that the production capacities listed in this Exhibit fairly represent the production capability of the Independent Sources. In the event that, over a five year period, (i) the actual total annual production, as may be adjusted to reflect a a reasonably unforeseeable interruption in Water Utility's Independent Source that lasts a substantial amount of time and is cured within a reasonable time, of the Independent Sources is consistently less than represented in this Exhibit, and (ii) the annual deliveries of water to Water Utility by Seattle are consistently increasing, the capacities of the Independent Sources listed in this Exhibit shall be reduced, and the reduction shall trigger a decrease in the Allowance under Section IV.E.8.d.

Judi Gladstone
SPU Wholesale Contracts ATT B
February 25, 2011
Version #2

EMERGENCY INTERTIE AGREEMENT

BETWEEEN

SEATTLE PUBLIC UTILITIES

AND

_____

This Agreement is made and entered into this____ day of _____, 20__ by and between the City of Seattle, a Washington municipal corporation, acting through its Seattle Public Utilities ("SPU") and _____, a Washington municipal corporation ("Water Utility").

WHEREAS, SPU and Water Utility each own and operate public water supply systems ("Water System") within their respective service areas in accordance with the laws of the State of Washington; and

WHEREAS, Water Utility has requested that SPU provide it with an emergency back-up water supply through an existing intertie connection between SPU's and Water Utility's Water Systems, which will increase reliability for operating Water Utility's Water System during temporary periods when its Water System is impaired or disrupted; and

WHEREAS, SPU agrees to use its best efforts to provide Water Utility an emergency back-up water supply under certain terms and conditions from its available existing sources of water supply.

NOW THEREFORE, both parties agree as follows:

1. TERM: The initial term of this Agreement shall be for fifty (50) years commencing on January 1, 2012 and expiring on December 31, 2062.

2. DESCRIPTION OF EMERGENCY INTERTIE: SPU will deliver water to Water Utility through service connection(s), which include the water meter and appurtenances ("Emergency Intertie"), as described below and as more particularly described, including the location(s) and specific operating conditions, in Exhibit I, a copy of which is attached and incorporated herein. Exhibit I may be revised in writing upon mutual agreement of the Director of SPU and the _____ of Water Utility, except that SPU may modify the minimum hydraulic gradient once during any fifteen (15) year period upon four

(4) years' advance written notice, unless a shorter notice is agreed to by Water Utility. SPU Facilities include: the outlet from the supply pipeline, the pipeline from the outlet to the meter vault, and the meter vault and its contents. Water Utility Facilities include: everything past the external wall of the meter vault. SPU will provide water for use at the Emergency Intertie at any time except as otherwise allowed by the terms of this Agreement.

3. USE OF EMERGENCY INTERTIE: Water Utility's use of the Emergency Intertie is limited to temporary, emergency backup water supply for up to one week, unless SPU approves a longer period in writing, which will not be unreasonably withheld. The parties agree that in the event a substantially longer period is approved, the Director of SPU may require additional reasonable terms and conditions that will be in effect during the approved longer period. For the purposes of this Agreement, an emergency means an unforeseen event that causes damage or disrupts Water Utility's normal operations of its Water System or requires immediate action to protect public health and safety, which includes fire flow purposes.

4. LIMITATIONS ON USE OF EMERGENCY INTERTIE:

a. The Emergency Intertie may not be used to respond to routine or seasonal peak demands or water shortages.

b. Before using the Emergency Intertie, Water Utility shall use best efforts to activate its own emergency sources of supply or alternative operations to cope with the emergency.

c. SPU will provide water at the point of delivery in accordance with this Agreement during use of the Emergency Intertie as defined in Exhibit I, as revised from time to time.

d. Water Utility will endeavor to not exceed flows defined in Exhibit I during use of the Emergency Intertie without specific written authorization by SPU.

e. Water Utility may use up to the number of gallons of water per year through the Emergency Intertie identified in Exhibit 1 for administrative purposes only, such as hydrant or valve exercising/testing, flushing or other measures taken to maintain water quality, which is included as part of the Annual Fee ("Administrative Allowance"). The Director of SPU and the _____ of Water Utility may revise the Administrative Allowance in Exhibit I as necessary, upon mutual written agreement between the Director of SPU and _____ of Water Utility.

f. Water Utility agrees and acknowledges that in the event of a general emergency or weather-related water shortage affecting SPU's Water System, SPU may interrupt or reduce its deliveries of water to its wholesale customers (except for fire protection), including Water Utility under this Agreement.

g. Water Utility agrees and acknowledges that in the event of a general emergency or weather-related water shortage affecting SPU's Water System or the region, SPU may implement emergency water use curtailment measures that impact Water Utility's retail customers' use of water in accordance with its Water Shortage Contingency Plan or other necessary action. Water Utility will assist and support any emergency curtailment measures that are implemented and related to use of the Emergency Intertie.

h. Water Utility agrees and acknowledges that SPU may temporarily interrupt use or reduce availability of water through the Emergency Intertie if SPU determines that the interruption or reduction is necessary or reasonable in case of a localized or SPU Water System emergency or in order to perform any required maintenance, improvement, repair, inspection or testing of SPU's Water System. Except in cases of emergency affecting SPU's Water System, SPU will provide Water Utility reasonable notice of any temporary interruptions or reductions and will endeavor to minimize interruptions and reductions of water available through the Emergency Intertie, especially when the Emergency Intertie is in active use by Water Utility. In the case of emergency, SPU will provide Water Utility notice as soon as practicable.

5. NOTIFICATION: Whenever general notice is required or prudent under this Agreement, notice shall be giving to the following representatives, which may be amended in writing:

SPU:	Water Utility:
Wholesale Contracts Manager PO Box 34018 Seattle, WA 98124-4018	_____ _____ _____
206-733-9815	_____
Email: first name.last name@seattle.gov	Email:_____

a. Water Utility will verbally notify SPU Operations Control Center at 206-386-1818 whenever the Emergency Intertie is used for emergency use. Water Utility will endeavor

to notify SPU within 1 hour after the use of the Emergency Intertie begins, or as soon as practicable, and will state the nature of the emergency and estimated/actual duration.

b. Water Utility will send written notice to SPU Wholesale Contracts Manager at the address above within 10 days after each use of the Emergency Intertie, in a form acceptable to SPU, stating the duration and estimated quantity of water use.

6. WATER QUALITY: SPU will provide water to the point of delivery that meets all state and federal drinking water standards and shall be of the same standard and quality as that normally delivered by SPU to its retail and wholesale customers. Water Utility acknowledges and agrees that because the Emergency Intertie is used intermittently, it may result in water being stagnant at the point of delivery for periods of time that may affect water quality. Water Utility is solely responsible for implementing operational best practices, such as flushing the service connection, prior to use of the Emergency Intertie for potable or other use. Water Utility is solely responsible for compliance with all applicable local, state and federal drinking water quality laws and regulations within its Water System.

7. INTERTIE MAINTENANCE: Each utility shall be responsible for maintenance of their portion of the Emergency Intertie as described in Section 2 of this Agreement as SPU and Water Utility Facilities respectively.

8. METER EQUIPMENT: SPU shall own, maintain and pay the cost of the metering equipment for the Emergency Intertie, including periodic inspection and testing. If Seattle changes the location of the intertie connection to Water Utility for Seattle's benefit, then Seattle shall pay the cost of constructing a new wholesale meter installation at the new location. If Water Utility requests the change in location, then Water Utility shall pay the cost of the new connection.

9. EMERGENCY INTERTIE FEES: Water Utility will pay the following charges within 30 days of an invoice from SPU:

a. An Annual Fee, paid in advance by January 1 of each calendar year, which covers SPU's expenses to administer this Agreement and the Administrative Allowance for Water Utility under Section 4.e and Exhibit 1 of this Agreement. The Director of SPU may revise the Annual Fee reasonably to account for any change in the Administrative Allowance mutually agreed under Section 4.e above. Each year during the term of this Agreement, the Director of SPU may revise the Annual Fee by the same

percentage as the change in the average of the Peak and Off-Peak Commodity Charge Rates from the prior year to the current year then in effect for wholesale customers under Seattle Municipal Code Section 21.04.440.E.2, as it may be amended from time to time. The initial Annual Fee due January 1, 2012 is $_____. SPU will provide 30 days' written notice of any subsequent revisions to the Annual Fee, which will become incorporated herein by this reference at the time the revised Annual Fee becomes effective.

b. A Commodity Charge for the metered amount of water used through the Emergency Intertie minus the Administrative Allowance at the then applicable average of the Peak and Off-Peak Commodity Charge Rates in effect for wholesale customers under Seattle Municipal Code Section 21.04.440.E.2, as it may be amended from time to time, plus any emergency surcharge, if applicable generally to the wholesale customers at that time.

c. A one-time transaction fee of $1500 is due January 1, 2012.

d. Any late payment will accrue interest at 1% per month.

10. LIMIT OF LIABILITY: Water Utility understands and agrees that SPU obligations under this Agreement are subject to the limitations herein. SPU shall not be held liable, under any circumstances, for loss or damage from a deficiency or failure to supply water caused by an emergency, unforeseen event, or for any other reason allowed under this Agreement.

11. TERMINATION: Water Utility may terminate this Agreement at any time upon twelve (12) months' written notice to SPU. SPU may terminate this Agreement upon sixty (60) days' written notice to Water Utility that it has materially breached this Agreement and does not cure the material breach within the 60-day cure period, or a longer time period as SPU may approve in writing if Water Utility is making substantial progress towards curing the material breach. In the event of termination under this provision, Water Utility will be responsible for any reasonable costs SPU incurs to disconnect or remove the service connection as may be required by industry or SPU operating practices then in effect.

12. DISPUTE RESOLUTION: If a dispute arises out of or relates to this Agreement, the parties agree to negotiate in good faith to resolve the dispute within 90 days. Unless the parties agree to a longer time, if the dispute remains unresolved after 90 days, the parties agree to try in good faith to settle

it by mediation before resorting to arbitration, litigation or some other legal dispute resolution procedure. Venue and jurisdiction shall lie in the King County Superior Court for the State of Washington in Seattle.

13. MISCELLANEOUS. This Agreement represents the entire agreement between the parties concerning the subject matter. This agreement shall be interpreted in accordance with the laws of the State of Washington. This agreement will inure to the benefit of and be binding upon the parties and their successors and assigns. If any of this Agreement or its application is determined by a court of law to be illegal, invalid, or void without rendering performance of this Agreement impossible or infeasible, then the Parties intend that the validity of the remaining provisions of this Agreement or their application shall not be affected and shall continue in full force and effect.

IN WITNESS WHEREOF, the parties hereby execute this Agreement.

WATER UTILITY:

BY: _____

TITLE: _____

DATE _____

THE CITY OF SEATTLE:

BY: _____
Director, Seattle Public Utilities

DATE: _____

EXHIBIT I: Service Connections, Minimum Hydraulic Gradients, Maximum and Minimum Flow Rates, and Annual Administrative Allowance of Water Supplied

EXHIBIT I to Attachment B

SERVICE CONNECTIONS, MINIMUM HYDRAULIC GRADIENTS, MAXIMUM AND MINIMUM FLOW RATES, AND ANNUAL ADMINISTRATIVE ALLOWANCE OF WATER SUPPLIED

SERVICE CONNECTION			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)	MINIMUM FLOW RATE	ANNUAL ADMINISTRATIVE ALLOWANCE
LOCATION	STATION NUMBER	SIZE OF METER (IN.)				
			TOTAL:			

Judi Gladstone
SPU Wholesale Contracts ATT B
February 25, 2011
Version #2

Judy Gladstone
SPU Wholesale Contracts ORD
February 8, 2011
Version #2a

Form revised: December 14, 2010

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Seattle Public Utilities	Judy Gladstone/4-4642	Karen Grove/4-5805

Legislation Title: An ordinance relating to Seattle Public Utilities; authorizing the Director of Seattle Public Utilities to enter into long-term full and partial requirement contracts and emergency intertie agreements with wholesale customers that have expiring water supply contracts with Seattle, and ratifying and confirming certain prior acts.

Summary of the Legislation: The legislation authorizes the Director of SPU to enter into long-term water supply contracts or emergency intertie agreements with eight wholesale customers that are currently being served under contracts that expire at the end of 2011.

Background: Seven wholesale customers purchase water from Seattle under contracts signed in 1982. These utilities include: Water Districts 49, 90, 119, and Lake Forest Park Water District; and the cities of Bothell, Duvall, and Edmonds. An eighth wholesale customer, the City of Renton, later signed a similar contract, with provisions specific to its circumstances. All of these contracts expire at the end of this year.

The six full or partial requirements contracts authorized by this ordinance are substantially the same as the full and partial requirements contracts authorized in 2001 by Ordinance 120362. They differ mostly in how they transition from the old to the new contract, and other small refinements. One of the partial requirements contracts, with the City of Renton, will also differ by including alternative provisions to recover costs for providing regional conservation services or other new supply in lieu of facilities charges or new supply rates to accommodate its interest in having SPU provide conservation services throughout its retail service area even though Seattle provides a small portion of its overall water supply. All of these contracts extend until 2062, which is when the existing full and partial contracts end, and have opportunities to amend the contract in 2021 and 2041.

The remaining two wholesale customers would be served under emergency intertie agreements since their future water supply needs are limited to emergency purposes only. These agreements are more limited in scope and have a different fee structure, but will similarly extend to 2062. These utilities will not participate in the Operating Board.

____ **This legislation does not have any financial implications.**

_X_ **This legislation has financial implications.**

Anticipated Revenue/Reimbursement: Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2011 Revenue	2012 Revenue
Water Fund 43000	Seattle Public Utilities	Wholesale Water Sales	$ (463,000)	$0
Water Fund 43000	Seattle Public Utilities	Facilities Charges	$ 34,000	$ 0
Water Fund 43000	Seattle Public Utilities	Other Purveyor Credits	$ 666,000	$ (60,000)
TOTAL			**$ 237,000**	**$ (60,000)**

Revenue/Reimbursement Notes:

Full and Partial Contracts

The Full and Partial Requirements contracts contain several transition mechanisms for customers moving from the 1982 contract to a full or partial requirements contract. The full and partial requirements contract rates will be effective for these utilities in 2011, meaning SPU will receive approximately $463,000 less rate revenue in 2011 than if it allowed the 1982 contract to expire at the end of 2011. This revenue loss is offset by the following payments from the utilities that are signing new full or partial contracts:

Approximately $34,000 in Facilities Charges, which were not required under the 1982 contracts.

A one-time payment in 2011 of $100,000 to Seattle as an early contract signing fee (prorated among the utilities).

A one-time payment in 2011 of approximately $563,000 to retire a deficit in the running balance under the annual true-up mechanism in the expiring contracts.

A one-time transaction charge of $3,000 related to the Emergency Intertie Agreements, as described below.

The 2012 revenues displayed in the 2011 Adopted and 2012 Endorsed Budget in the Water Fund Revenue table already assumed that these contracts would be signed and effective in 2012, so there is no further change to the Wholesale Water Charges or Facilities Charges revenue items. Not yet included in the 2012 revenue table is a discount in 2012 to promote equity for the six new full or partial requirements contract customers who will be joining the existing full and partial requirements contract customers at a time when they have a deficit in the running balance under the annual true-up mechanism in the contracts, estimated at $60,000.

Emergency Intertie Agreements

The revenue impact of these agreements is minor since the wholesale customers who will have these agreements do not currently purchase water in any significant quantities. The annual fee under the emergency intertie, which covers the cost of administration and a minor allowance of water to be used for administrative purposes (e.g. meter testing, keeping the water fresh), will result in approximately the same revenue as the monthly meter charges under the 1982 contract. Any water used for emergencies above the administrative allowance will be billed at the then

current average of full and partial requirements contract peak and off-peak rates. The table above does include a one-time transaction fee to Seattle of $3,000 in 2011 under Other Purveyor Credits.

Spending/Cash Flow Notes: N/A

What is the financial cost of not implementing the legislation?
The main cost of not implementing this legislation is related to the ambiguity caused by lack of a contract when the existing water supply contracts expire and the continuation of having to administer more than one contract relationship structure with various wholesale customers. This would cause inefficiencies such as multiple rate structures, multiple audit and monitoring procedures, etc. The new contracts will provide certainty for all parties surrounding issues such as:

- Water quality requirements, including limits on SPU's responsibilities
- Conditions of service, e.g. limits on the quantity and pressure of water at service connection, allocation of responsibilities for metering equipment, etc
- Consistent cost allocation and rate-making principles and procedures
- Coordination of water supply planning
- Dispute resolution procedures, including participation by the Operating Board
- Commitment to participate in the regional conservation program in accordance with the Muckleshoot Settlement Agreement

The risk costs are difficult to estimate in monetary terms.

Does this legislation affect any departments besides the originating department?
No

What are the possible alternatives to the legislation that could achieve the same or similar objectives?
None

Is the legislation subject to public hearing requirements?
No

Other Issues:
The contracts will be in effect until 2062, so the long term effect is certainty about roles and responsibilities of all parties and administrative efficiency for Seattle's contract management as a regional supplier of water.

List attachments to the fiscal note below:
None

City of Seattle
Office of the Mayor

February 22, 2011

Honorable Richard Conlin
President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Conlin:

I am pleased to transmit the attached proposed Council Bill that authorizes the Director of Seattle Public Utilities (SPU) to enter into long-term water supply contracts with six current wholesale customers whose contracts expire at the end of 2011. New contracts will enable SPU to continue serving these wholesale customers until 2062 with terms that are substantially the same as terms extended to existing full or partial requirements contract holders. The proposed Council Bill also authorizes the Director of SPU to enter into emergency intertie agreements with two other current wholesale customers whose contracts with SPU expire at the end of the year.

Water Districts 49, 90, and 119, and the cities of Bothell, Duvall and Renton have been negotiating with SPU for the past two years to reach agreement on new full or partial requirement contracts. Provisions were built into the new contracts to promote equity for these six customers as they leave the old contracts and enter the new. In addition, Renton will become a full partner in the Saving Water Partnership with a new supply block rate used to recover costs for providing regional conservation services throughout the City of Renton, even though SPU provides only a miniscule fraction of their water supply. All of these wholesale customers will become members of the Operating Board upon signing new contracts.

The City of Edmonds and the Lake Forest Park Water District will no longer have long-term water supply contracts with SPU. Given the limited nature and volume of their use of water from the Seattle regional water system, they will instead have emergency intertie agreements. These agreements make an emergency supply of water available should the City of Edmonds' or the Lake Forest Park Water District's water systems become temporarily impaired. The emergency intertie agreements have fewer provisions and a simple fee structure based on an annual fee, and will extend until 2062.

Once these contracts and agreements are signed, all current SPU wholesale customers will have contracts in force past 2011. Thank you for your consideration of this legislation. Should you have questions, please contact Judi Gladstone at 684-4642.

Sincerely,

Michael McGinn
Mayor of Seattle

cc: Honorable Members of the Seattle City Council

Michael McGinn, Mayor
Office of the Mayor
600 Fourth Avenue, 7th Floor
PO Box 94749
Seattle, WA 98124-4749

Tel (206) 684-4000
Fax (206) 684-5360
TDD (206) 615-0476
mike.mcginn@seattle.gov

CITY CLERK