



# Agenda Bill

AB# 25-XX

Duvall City Council

Meeting Date: 11/18/2025

Small Town. Real Life.

**Subject** Amendment 01 and Restated Water Supply Contract with City of Seattle

**Document Type** Contract

**Department** Public Works

**Contact** Steven Leniszewski, Public Works Director

**Attorney Review** Under Review

**Handling** Normal **Deadline Date** 12/2/2025

**Needed from Council** Informational Only

## Recommendation

ITEM IS SUBMITTED AS A WRITTEN REPORT FOR THE NOVEMBER 18, 2025 PACKET

***At a later meeting: Staff requests that Council suspend Council Procedures in Section 5.6, requiring additional review and finalizing this item at this meeting.***

Staff recommends City Council authorize the Mayor to execute the First Amended and Restated Water Supply Contract with the City of Seattle, effective January 1, 2026, through January 1, 2062, with automatic 10-year extensions.

## Council Review History

- New item

## Attachments

- 01 – Staff memorandum
- 02 – Contract Amendment Talking Points Detail Table; per Item
- 03 – Contract Periodic Review Period Letter Between City of Duvall and City of Seattle
- 04 – City of Seattle fiscal note for agenda item: Item passed Seattle City Council
- 05 – Redline Contract
- 06 – Clean Contract

## Routing

**Director:** Steven Leniszewski, Public Works Director

**Approved:** SJL 10/30/2025

**Administrator:** Cynthia McNabb, City Administrator

**Approved:** CJM 11/5/2025

---

## Budget Impacts No Budgetary Impact

### Expenditure

Fund	Account Description	Estimated Cost	Budget		
			2025/2026 Budget (Prev. Amended)	Budget Amendment Needed	Amended 2025/2026 Budget
401	Purchase of Wholesale Water	\$1,300,000	\$1,300,000	\$0	\$1,300,000
	<b>Total</b>	<b>\$1,300,000</b>	<b>\$1,300,000</b>	<b>\$0</b>	<b>\$1,300,000</b>

### Revenue

Fund	Account Description	Revenue Needed	Budget		
			2025/2026 Budget (Prev. Amended)	Budget Amendment Needed	Amended 2025/2026 Budget
401	Water Charges for Services	\$5,811,407	\$5,811,407	\$0	\$5,811,407
	<b>Total</b>	<b>\$5,811,407</b>	<b>\$5,811,407</b>	<b>\$0</b>	<b>\$5,811,407</b>

### Notes

The contract establishes cost-based rates and equitable allocation of costs among regional wholesale customers.

**Verified by Finance:** BAM 10/13/2025

---

## Key Facts and Information Summary

See staff memorandum for full details.

Briefly, the amendment incorporates updated terms and conditions, including governance by an Operating Board, financial structure (cost pools, facilities charges, rate setting), water quality and conservation requirements, dispute resolution procedures, and provisions for emergency interties and alternate supplies.

The City of Seattle passed the amended contract with their council on September 23<sup>rd</sup>, 2025, and authorized their General Manager to finalize the amendments with all wholesale customers including Duvall.

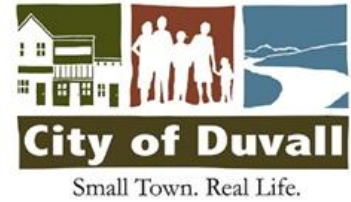
Approval of the updated and restated contract, and execution by the City, will allow us access to safe, high-quality water with sufficient flow and pressure through 2062. The proposed contract has been fully negotiated, is the same for all 16 wholesale customers, and is presented as a final version with no further revisions by either party. Failure to approve the updated and restated contract would jeopardize the utility's ability to provide long-term water supply.

---

## Recommended Motion

Approval under the consent agenda. If pulled from consent, and after discussion, a member of Council wants to make a motion to approve, then the recommended motion is: "I move to suspend

Council procedures in Section 5.6 regarding additional reviews and approve **Agenda Bill 25-XX**, authorizing the Mayor to execute the First Amended and Restated Water Supply Contract with the City of Seattle, effective January 1, 2026, through January 1, 2062, with automatic 10-year extensions.



# MEMORANDUM

**To:** City Administrator, Mayor, and City Council  
**From:** Steven Leniszewski, PE, Public Works Director  
**Date:** October 30, 2025  
**RE:** Fully Negotiated, First Amendment and Restated Water Supply Contract with City of Seattle (aka Seattle Public Utility – SPU)

## Background

---

The City of Duvall purchases potable water from Seattle Public Utilities (SPU) under a 2011 wholesale water supply contract. Per the contract initially signed in 2001, there are periodic openers to amend certain portions of the contract, of which SPU recently elected to exercise. SPU and the wholesale purveyor Operating Board have been working on the amendment and restatement of the contract since 2021, with the intent to bring it up to today's standards and to recognize changes in the water system's business and terms from the over 20-year-old contract. The 16 wholesale customers, including Duvall, have been in contract review and negotiations since 2021 and tentatively agreed to negotiated terms in August 2025. The contract is now in its fully negotiated form and ready for the parties to sign. The Seattle City Council approved the contract in September 2025.

Thirteen agencies contracted with the attorneys at Inslee Best, with Eric C. Frimodt representing them and negotiating in good faith on their behalf. The cities of Bothell, Renton, and Duvall did not participate in the shared legal counsel path, as the support contract amount and terms were unknown at the outset due to the expected length of the negotiation. As part of the process, the three outlier agencies were at the table the entire time and included in all meetings with SPU, as well as in caucus negotiation meetings without SPU. We have had our legal counsel review the amendments on our own, even though Inslee Best has examined the entire update, representing the other 13 contracted entities.

# Synopsis

---

SPU has completed negotiations with its full- and partial-requirements contract holders, who have tentatively agreed to the fully negotiated amendments, which provide certainty for future water planning through automatic 10-year extensions. The amendments include stranded cost protections that offer customers reimbursements if they choose to leave the system when supply is plentiful, and incentives if they go at a point in the future when the region needs additional supply.

Additionally, the contracts were updated to increase flexibility, respond to changes in the bond market and SPU's financial systems, and expand the joint Seattle-customer Operating Board's authority over contract administration. The last element may be the most crucial change, as it gives the 16 Wholesale Customers a stronger seat at the table when it comes to the costs we will incur to purchase water from SPU, which is how they set the prices of wholesale water on an annual basis.

Lastly, based on rates confirmed after each year's purchase by wholesale customers, SPU will refund the prior three years' stranded costs to each agency. The amounts are independently calculated based on purchases relative to the adjusted increase or reduction, based on purchase amounts, operational costs, capital costs, and other costs incurred by SPU, which determine the yearly purchase rate. During the consideration period, it was determined that SPU's costs were lower than expected, leading SPU to return funds to wholesale customers for "over purchase". SPU is a governmental entity and cannot operate in the red, so the premise is that SPU charges wholesale customers an estimated rate, and then a specific rate is calculated accurately the year after purchase was made, which they do on three-year cycles.

The contract establishes cost-based rates and equitable allocation of costs among regional, subregional, and wholesale customers. Financial considerations include:

- Facilities Charges (FCs) will be assessed based on Equivalent Residential Units (ERUs) and connection size, with credits/allowances for independent or purchased supplies. This is a connection charge per new connection (growth-related charge) that we pass on to the latest residential or commercial applicant.
- Monthly billing, penalties for late payment, demand charges, and emergency surcharges may apply.
- Financial reconciliation for any reduction or termination of purchase commitment will be managed through "stranded costs" and "avoided costs" methodologies.

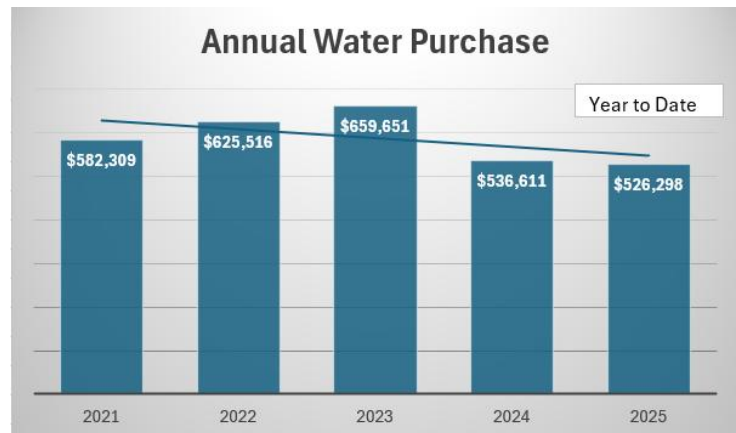
# Purchases

---

The City of Duvall has made the following annual purchases of wholesale water from SPU:

- 2021: \$582,309
- 2022: \$625,516
- 2023: \$659,651
- 2024: \$536,611 (Asked to conserve due to drought)
- 2025: \$526,298 (ytd)

Since contract negotiations took longer than expected, the three-year “true-up” spans two cycles, or six years. The City of Duvall expects a refund from the “true-up” process in the \$200,000 to \$400,000 range. The final number will be calculated at the conclusion of 2025 and refunded by April of 2026.



## Bulleed Contract Amendment Points (Summary)

---

The wholesale customers, along with SPU, provided negotiation and collaboration on the amendments to the contract, which can be summarized as providing for:

- **Modernized, Reorganized, and Updated Contract**
- **Contract Term:**
  - Automatic 10-year extensions subject to the customer's right to opt out
  - This means that since the planning period is the term of the contract, SPU's planning commitment could vary between customers (extended or not)
- **Right to amend:** (sunsetting for 2062 and additional limitations)
  - Seattle's right to amend: The existing contract had general language concerning Seattle's right to amend the contract unilaterally. The amended and restated contract restricts unilateral amendments to the first review period through 2042 and includes increased Operating Board input and agreement.
- **Stranded Cost:**
  - Automatically allowed reductions for all, in MGD/percentage
  - Numerous circumstances will not be considered reductions

- Stranded Cost – Designed to cover lost revenues if new supplies occur during periods of regional system surplus
- Billing credit (if applicable) – for the period when new independent supplies defer other regional supply development
- **Costs:**
  - The updated cost methodology has been modernized and stabilized
  - Over a “look-back” period, these updates would have been virtually cost-neutral
  - Consensus among F&P experts and managers that this revised method fairly addresses real costs
  - **BIGGEST IMMEDIATE IMPACT: Rebate based on change to rate of return FOR SIGNERS only**
  - O&M changes (updated since 2002 and include periodic updates to the multipliers)
- **True Up**
  - BIGGEST IMMEDIATE IMPACT: Return of current balance
  - OB to decide use of balance (keep, pay out, apply to assets, or any combination)
- **Board role and composition:**
  - Additional authorities included throughout the contract amendment
    - Additional Board review for new supply or transmission
    - Expanded review in several other areas
  - Eligibility criteria to reflect shared commitment to other regional utilities (all signers eligible for voting positions on Board, non-signers not eligible)
  - Wholesale customers that agree to the amended and restated contract will be included in future planning efforts and are eligible to be Operating Board voting members. A wholesale customer that does not agree to the amended contract will not be included in regional planning and will not be guaranteed future water supply.
  - A total of 11 of the 16 wholesale customers have signed the updated and amended contract, with the remaining five expected to sign in December, of which Duvall is one.

## First Amended and Restated Contract – Talking Points<sup>1</sup> Index of Key Amendments

<b>Contract Section</b>	<b>Description of amendment</b>	<b>Signers</b>	<b>Non-Signers</b>
<b>Section II.A.3</b> – Review of Contract Term	<b>New</b> - Successive 10-year contract extensions beginning Jan. 1 2032 – Utility can opt out at any extension.	X	NA
<b>Section II.A.4.b.</b> – Seattle’s Right to Amend	<b>New</b> - January 1, 2042 (1 <sup>st</sup> Review) & January 1, 2062 (2 <sup>nd</sup> Review) – Seattle’s last limited right to amend the contract without agreement will be during the 1 <sup>st</sup> Review period.	X	NA
<b>Section II.A.4.c.</b> – Limitations on Seattle’s Right to Amend.	<b>New</b> - At the request of the F&Ps, provisions ix-xiii were added.	X	NA
<b>*Section II.B.5.</b> – Water Utility’s Right to Terminate or Reduce Purchase Commitment	<b>New</b> – Stranded Cost (see below for details)	X	NA
<b>Section II.B.5.a.iii</b> – Pre-Notice Request for Calculation of Stranded Costs	<b>New</b> – Water Utility shall have the right to request Seattle perform a preliminary calculation of stranded cost that would be incurred by Water Utility if it issues a Notice to terminate or reduce purchase commitment.	X	NA

---

<sup>1</sup> This list of key amendments are provided to help identify key changes and their location in the contract. This information in no way replaces reading the Amended Contract in its entirety. The Amended Contract contains the entirety of the agreement between the parties, which is not altered in any way by these materials.

<b>Contract Section</b>	<b>Description of amendment</b>	<b>Signers</b>	<b>Non-Signers</b>
<b>Section II.B.6.</b> – New or Extended Water Supply Contracts	<b>New</b> – Any new or extended water supply contract will be submitted to Operating Board for review and comment.	X	X
<b>Section II.C.2.</b> – Emergency and Water Shortage Contingency Planning	<b>New</b> – Seattle may offer training or coordinate emergency preparedness activities among the water utilities.	X	X
<b>Section II.D.</b> – Water Quality	<b>Clarification</b> in monitoring roles and flushing allowance updates.	X	X
<b>Section II.D.1.</b> – Seattle Regional Water Supply System	<b>New</b> – Utility may request Operating Board review of water quality concerns that it believes are not reasonably resolved by Seattle.	X	X
<b>Section II.E.2.</b> – Regional Water Conservation - Role of Operating Board	<b>Formalized</b> OB role in setting WUE goal and program budget.	X	X
<b>Section II.F.</b> – Cedar River Watershed	<b>New</b> – Use of Cedar River Watershed Education Center and Tours.	X	X
<b>Section III.C.</b> – Interconnections with other Systems - <b>b.</b> Payment and Indemnity	<b>New</b> – Removed prescribed formula; instead, Wholesale customer may request review of Water Utility’s wheeling rate by Operating Board.	X	X
<b>Section III.E.</b> – Metering Equipment	<b>New</b> – Update to Seattle’s meter maintenance obligations and change to cost allocations when appropriate to regionalize costs.	X	X

<b>Contract Section</b>	<b>Description of amendment</b>	<b>Signers</b>	<b>Non-Signers</b>
<b>Section IV.A.8 &amp; 9.</b> – Rate Making Principles	<b>Clarifies/Documents</b> the existing practice that costs paid for by capital contributions, FEMA reimbursements, other payments, etc. are excluded when rate setting.	X	X
<b>Section IV.C.1.</b> – Existing Regional Cost Pool	<b>Modified</b> - Removed distinction between the Existing Supply and Existing Transmission Cost Pools, combining them into an Existing Regional Cost Pool for improved rate stability and clarity.	X	X
<b>Sections IV.C.1.a., 2.a., 3.a., and 5.a.</b> – Cost Pools	<b>New</b> – Seattle may add or delete regional or subregional assets if necessary to keep them up to date.	X	X
<b>Section IV.C.4.</b> – Operating Board Review	<b>New</b> – Operating Board review and comment period on design and construction of New Supply or New Transmission facilities.	X	X
<b>Section IV.C.5.</b> – Subregional Cost Pools	<b>Modified</b> – All contracts now contain information for all of the subregional cost pools.	X	X
<b>Section IV.D.2.a.</b> – Cost Basis	<b>New</b> – Operating Board authority to choose between utility basis and cash basis.	X	X
<b>Section IV.D.2.c.iii.</b> – Facility Charge Allowance for Supplies	<b>Modified</b> – Purchased supplies are now eligible for Facilities Charge Allowance for the period of the purchase contract.	X	X

Contract Section	Description of amendment	Signers	Non-Signers
<b>Section IV.D.3.a.i.</b> – Index O&M Costs, and <b>Section IV.D.3.a.ii.</b> – Mixed-use Multiplier	<b>Clarified</b> mechanics of current O&M calculation and updated 2002-vintage Multiplier.  <b>New</b> – Added 5-year update cycle for Multiplier.	X	X
<b>Section IV.D.3.a.iii.</b> – Non-index O&M Costs	<b>New</b> – Create mechanism to include non-index regional O&M (these are costs that originally were included as in the regional/subregional assets, but due to GASB changes were no longer included in wholesale rates), Operating Board authority to amortize any costs that exceed 1% of the Annual Index Costs	X	X
<b>Section IV.D.3.d.iii.</b> – Certain Large Net Disposition Costs	<b>New</b> – Operating Board authority to amortize disposition costs that exceed 1% of the Annual Index Costs.	X	X
<b>Section IV.G.4.</b> – Rate Study and Review Consultant	<b>New</b> – Operating Board to review and recommend revisions to scope work of independent rate consultant.  <b>New</b> – Seattle shall conduct a cost-of-service rate study no less frequently than once every 5 years.	X	X
<b>Section IV.G.5.b.</b> – Emergency Surcharge	<b>New</b> – For a surcharge not related to a specific cost pool, Operating Board shall determine to which cost pool the revenues shall be applied.	X	X

<b>Contract Section</b>	<b>Description of amendment</b>	<b>Signers</b>	<b>Non-Signers</b>
<b>Section IV.G.6.a.</b> – Initial Existing Regional System Running Balance Surplus	<b>New</b> – Seattle shall return the lesser of the Existing Regional System Cost Pool balance or \$82M via lump sum payments within 60 days following full execution/amendment of all F&P contracts, prorated by each utility’s water use since the balance became positive.	X	X
<b>Section IV.G.6.b.</b> – Initial Existing Regional System Running Balance Surplus	<b>New</b> – Seattle to begin cost-of-service rate study within 3 months following full execution/amendment of all F&P contracts.	X	X
<b>Section IV.G.6.c.</b> – Rebate based on Alternate Utility Costs	<b>New</b> – Provide rebate if alternative method of calculating rate of return on investment for assets is lower than method in current contracts.	X	N/A
<b>Section IV.H.1.a.</b> – Wholesale Statement Review, Scope of Review	<b>New</b> – Operating Board to determine procedures for annual review.	X	X
<b>Section IV.H.1.c.</b> – Wholesale Statement Review, Operating Board and Water Utility Right to Review	<b>New</b> – If utility’s accountant finds overcharges over 1% of the amount due are found, the costs of the accountant will be included in the Existing Regional Cost Pool.	X	X
<b>Section IV.H.2.a.</b> – Running Balances	<b>Modification</b> – Balances will earn or accrue interest at Seattle’s cash pool rate rather than the average cost of debt.	X	X

<b>Contract Section</b>	<b>Description of amendment</b>	<b>Signers</b>	<b>Non-Signers</b>
<b>Section IV.H.2.c.</b> – Running Balance Surpluses	<b>New</b> – Operating Board to decide annually if the surplus, if any, is retained, applied toward assets, or returned to customers. At time of rate study, Operating Board to decide amount to retain in balance versus amount to apply toward rates.	X	X
<b>Section IV.H.2.d.</b> – Facility Charge Running Balances	<b>Modification</b> – Upper limit of the Facility Charge surplus increased from one times Net Book Value of New Supply Facilities to two times Net Book Value.	X	X
<b>Section V.</b> – Operating Board	<b>New</b> - Wholesale Customers who have agreed to automatic extensions of contract, committed to purchasing their full or partial requirements as set in Exhibit I, and agree to Section II.B.5 are eligible to have their representatives voted onto the Operating Board.	X	X
<b>Section VI.C.3.</b> – Seattle as Water Planning Agency	<b>Clarified</b> – Seattle will plan for Water Utility for the duration of the contract, which may be different for different customers that may have opted out of contract extensions.	X	NA – No change to contract language is needed.
<b>Exhibit I</b> – Purchase Commitment, Emergency, Independent and Purchased Supplies	<b>Update</b> to each Utility’s Exhibit I.	X	X

<b>Contract Section</b>	<b>Description of amendment</b>	<b>Signers</b>	<b>Non-Signers</b>
<b>Exhibit VII</b> – Subregional Facilities and Allocations	<p>This Exhibit is now included in all contracts.</p> <p><b>New</b> – Memorializes historic adjustment of Mercer Island pipeline cost.</p> <p><b>New</b> - Sets the SW Subregional allocation percentages to their recent historical averages.</p>	X	X
<b>Exhibit VIII</b> – Index O&M Cost Categories	<b>Updated</b> descriptions of Regional O&M.		
<b>Exhibit IX</b> – Stranded & Avoided Costs	<b>New</b> - Stranded cost and/or billing credit calculations.	X	NA

\* **Section II.B.5. Stranded Cost section** - Water Utility may terminate or reduce its Purchase Commitment subject to the following terms and conditions:

- 5-year advance notice required.
- Pre-notice calculations on stranded cost may be requested prior to termination or reduction request
- Conditions/Effects of termination include:
  - Lost representation on OB
  - Contract will terminate
  - Water Utility to pay full cost to decommission connections
  - Water Utility will pay or receive credit for proportional share of any deficit or surplus running balances in any cost pool
  - Water Utility will pay the Final Net Stranded Cost Payment, or receive the Final Net Billing Credit as determined by Exhibit IX
  - Seattle, at its discretion, may offer Water Utility a new water supply contract if Water Utility wants to purchase water from Seattle again in the future, however any new contract will be subject to:
    - Seattle’s determination of the availability of water
    - No guarantee of Full or Partial Requirements Contract
    - Terms and conditions that may require, but are not limited to, special charges and rates.
- Conditions/Effects of reduction include:
  - Contract amendment including changes to Exhibit I
  - Water Utility to pay full cost to decommission connections
  - Water Utility will pay or receive credit for a Facilities Charge Allowance

- Water Utility will pay the Final Net Stranded Cost Payment, or receive the Final Net Billing Credit as determined by Exhibit IX
- If reduction is due to new or increased production from independent supplies Water Utility will be eligible for Billing Credits
- If reduction is due to purchased supplies, Water Utility will be converted to a Qualified Partial Requirements customer, subject to terms and conditions defined by Seattle
  
- Not Considered Reduction:
  - Emergency supplies listed in Exhibit I
  - Customer-driven demand fluctuations
  - Participation in Conservation programs
  - Participation in Regional Shortage Management Contingency Plan
  - Contraction of Water Utility's service area
  - Acquisition of additional independent supply through merger or acquisition.
  - Reduction notification prior to December 31, 2022
  - Reduction in demand equal or less than 5%
  - Demand fluctuations that are outside Seattle or Water Utility control as a result from laws or regulations (e.g., reuse water)



September 26, 2024

Mayor Amy Ockerlander  
City of Duvall  
PO Box 1300  
Duvall, WA 98019

Dear Ms. Ockerlander,

The City of Seattle, through its Seattle Public Utilities department (SPU) continues to appreciate the opportunity and good will these ongoing discussions have been with City of Duvall (Duvall) and the Full and Partial contract holders regarding the proposal to amend the City of Seattle Full or Partial Requirements Contracts. As you are aware, Section II.A.3 provides for the periodic review and the right to change certain terms and conditions. Last September, Duvall along with the Full and Partial contract holders agreed to extend Section II.A.3, for an additional year to consider the proposal. We are fast approaching the end of 2024 and discussions between SPU and Duvall are still ongoing. Although we are near agreement on all issues, we do not anticipate reaching a signed agreement before the end of this year. SPU recommends an additional one-year extension to allow for the finalization of these discussions and to obtain the contract signatures by the respective parties by the end of 2025.


SPU and Duvall therefore recognize the continued value of additional time to finalize the proposal and ensure all proposed changes are fully vetted and agreed to by each parties' elected officials. This letter memorializes our mutual agreement to extend last years' extension for an additional year.

### **Agreement**

Section II.A.3 of the 2001 City of Seattle Full Requirements Contract for the Supply of Water to City of Duvall (Contract) between SPU and Duvall provides for periodic review and right to change certain terms and conditions by January 1, 2022. The parties have extended that date three times. Most recently in September of 2023, Duvall and SPU agreed to amend Section II.A.3 of the Contract to extend that date for an additional 12 months to January 1, 2025. This letter amendment extends that date from the previous extension letter agreement an additional 12 months:

- The **one-year period** for parties to agree on a proposal using the Consensual Process defined in Section II.A.3 of the Contract is extended from a four-year period to a **five-year period**.
- Every reference to "January 1, 2022" or (per last year's letter agreement) "January 1, 2025" set forth in Section II.A.3 of the Contract is hereby changed to **January 1, 2026**.


The City of Seattle  
Seattle Public Utilities

  
Andrew Lee (Sep 26, 2024 11:58 PDT)

Andrew Lee, General Manager

ACKNOWLEDGED AND AGREED TO BY:

City of Duvall

  
Amy Ockerlander (Oct 23, 2024 17:44 PDT)  
Amy Ockerlander, Mayor

Date: Oct 23, 2024






# SPU - Contract Extension Letter

Final Audit Report

2024-10-24

Created:	2024-10-23
By:	John Botero (john.botero@duvallwa.gov)
Status:	Signed
Transaction ID:	CBJCHBCAABAAb9H8uvkdiyJz1--huAKLRxL4-hqMNgpH

## "SPU - Contract Extension Letter" History

-  Document created by John Botero (john.botero@duvallwa.gov)  
2024-10-23 - 9:10:07 PM GMT- IP address: 146.129.243.46
-  Document emailed to Amy Ockerlander (amy.ockerlander@duvallwa.gov) for signature  
2024-10-23 - 9:10:31 PM GMT
-  Email viewed by Amy Ockerlander (amy.ockerlander@duvallwa.gov)  
2024-10-24 - 0:44:03 AM GMT- IP address: 174.204.67.118
-  Document e-signed by Amy Ockerlander (amy.ockerlander@duvallwa.gov)  
Signature Date: 2024-10-24 - 0:44:26 AM GMT - Time Source: server- IP address: 174.204.67.118
-  Agreement completed.  
2024-10-24 - 0:44:26 AM GMT

## SUMMARY and FISCAL NOTE

<b>Department:</b>	<b>Dept. Contact:</b>	<b>CBO Contact:</b>
Seattle Public Utilities	Terri Gregg	Akshay Iyengar

### **1. BILL SUMMARY**

**Legislation Title:** AN ORDINANCE relating to Seattle Public Utilities; authorizing the General Manager/Chief Executive Officer of Seattle Public Utilities to execute the First Amended and Restated Contract between The City of Seattle and its long-term, full and partial requirements contract holders for the supply of water; authorizing the withdrawal of funds from the Water Fund Revenue Stabilization Subfund; providing budget authority to use such funds to provide payments to Water Utilities as required under the proposed contracts; amending Ordinance 127156, which adopted the 2025 Budget, including the 2025-2030 Capital Improvement Program; changing appropriations to various departments and budget control levels, and from various funds in the Budget; imposing a proviso; and ratifying and confirming certain prior acts; all by a 3/4 vote of the City Council.

#### **Summary and Background of the Legislation:**

Seattle Public Utilities serves 16 cities and water districts under long term wholesale water contracts signed in 2001 and 2011. These contracts have periodic reopeners to amend certain portions of the contracts, with the current reopener period concluding in 2025.

SPU has completed negotiations with its full and partial requirements contract holders who have agreed to amendments which provide certainty for future water planning through automatic extensions every 10 years. The amendments include stranded cost protections that provide reimbursements by customers if they choose to leave the system when supply is plentiful, and incentives if they leave at a point in the future when the region needs additional supply. Additionally, the contracts were updated to increase flexibility, to respond to changes in the bond market and SPU's financial systems, and to expand authority for the joint Seattle-customer Operating Board over contract administration.

The updated contract is anticipated to result in slightly higher revenues beginning in 2027, once new water rates are adopted. However, the larger impact in the near term is the mechanism used to return past overpayments. Under the current contracts, the \$27 million in overpayments that have accumulated primarily since 2018 would be returned in the form of lower rates over 2027-2029.

The amended contract would instead return these as a direct payment in 2025 or 2026, with the timing dependent on when all the customers have signed the amendment. This legislation requests budget authority for 2025, with carry forward to 2026 if unspent in 2025. The direct payment has two advantages: the earlier return to customers avoids accrual of additional interest to be paid by Seattle, and the ability to match the payment with a withdrawal from the Water Fund Revenue Stabilization Subfund (RSF) which itself represents past overpayments.

**2. CAPITAL IMPROVEMENT PROGRAM**

Does this legislation create, fund, or amend a CIP Project?  Yes  No

**3. SUMMARY OF FINANCIAL IMPLICATIONS**

Does this legislation have financial impacts to the City?  Yes  No

<b>Expenditure Change (\$);</b>	<b>2025</b>	<b>2026 est.</b>	<b>2027 est.</b>	<b>2028 est.</b>	<b>2029 est.</b>
<b>General Fund</b>	-	-	-	-	-
<b>Expenditure Change (\$);</b>	<b>2025</b>	<b>2026 est.</b>	<b>2027 est.</b>	<b>2028 est.</b>	<b>2029 est.</b>
<b>Other Funds</b>	27,000,000	-	-	-	-

<b>Revenue Change (\$);</b>	<b>2025</b>	<b>2026 est.</b>	<b>2027 est.</b>	<b>2028 est.</b>	<b>2029 est.</b>
<b>General Fund</b>		-	-	-	-
<b>Revenue Change (\$);</b>	<b>2025</b>	<b>2026 est.</b>	<b>2027 est.</b>	<b>2028 est.</b>	<b>2029 est.</b>
<b>Other Funds</b>	-	-	10,000,000	10,000,000	10,000,000

<b>Number of Positions</b>	<b>2025</b>	<b>2026 est.</b>	<b>2027 est.</b>	<b>2028 est.</b>	<b>2029 est.</b>
	-	-	-	-	-
<b>Total FTE Change</b>	<b>2025</b>	<b>2026 est.</b>	<b>2027 est.</b>	<b>2028 est.</b>	<b>2029 est.</b>
	-	-	-	-	-

The timing of the expenditure is dependent on when the last of the 16 wholesale water customers sign the amended contract, which could occur in *either* 2025 or 2026. Also, because the contracts require the payment to be made within 60 days of signing, the expenditure cannot simply be delayed until 2026.

**3.a. Appropriations**

This legislation adds, changes, or deletes appropriations.

<b>Fund Name and Number</b>	<b>Dept</b>	<b>Budget Control Level Name/Number</b>	<b>2025 Appropriation Change</b>	<b>2026 Estimated Appropriation Change</b>
Water Fund (43000)	Seattle Public Utilities	General Expense (BO-SU-N000B)	\$27,000,000	
<b>TOTAL</b>			<b>\$27,000,000</b>	

**Appropriations Notes:** The timing of the expenditure is dependent on when the last of the 16 wholesale water customers sign the amended contract, and this may occur in *either* 2025 or 2026. Also, because the contracts require the payment to be made within 60 days of signing, it cannot simply be delayed until 2026.

### 3.b. Revenues/Reimbursements

**This legislation adds, changes, or deletes revenues or reimbursements.**

**Revenue/Reimbursement Notes:** Changes in revenues will occur in 2027 and later as shown in the Financial Implications table.

### 3.c. Positions

**This legislation adds, changes, or deletes positions.**

### 3.d. Other Impacts

**Does the legislation have other financial impacts to The City of Seattle, including direct or indirect, one-time or ongoing costs, that are not included in Sections 3.a through 3.c? If so, please describe these financial impacts.**

All the impacts are described in the summary and shown in Financial Implications table.

Specifically, they are:

1. The direct return to customers of up to \$27M in past overpayments as an expense in 2025 or 2026. The exact amount will be determined by our financial auditor's final wholesale water cost allocated report for 2024, which is currently in progress.
2. The slightly higher revenues beginning in 2027 once new rates are adopted (\$200k/year)
3. The avoided impact of the return of the overpayment on revenues in 2027-2029 (\$9.8M/year for three years).
4. The RSF withdrawal to Water Fund operating cash (amount corresponds to the payment in item 1), which would decrease the 2025 year-end RSF balance from \$54.1M to \$27.1M. This is above the required balance of \$9.0M.

**If the legislation has costs, but they can be absorbed within existing operations, please describe how those costs can be absorbed. The description should clearly describe if the absorbed costs are achievable because the department had excess resources within their existing budget or if by absorbing these costs the department is deprioritizing other work that would have used these resources.**

There are no additional costs.

**Please describe any financial costs or other impacts of *not* implementing the legislation.**

The impact of not implementing the legislation would be loss of goodwill with wholesale customers that we have negotiated with for 5 years. Seattle would also be giving up on the hard-won stranded cost provisions that are being significantly strengthened by the amendment.

**Please describe how this legislation may affect any City departments other than the originating department.**

None

#### **4. OTHER IMPLICATIONS**

- a. **Is a public hearing required for this legislation?** No
- b. **Is publication of notice with The Daily Journal of Commerce and/or The Seattle Times required for this legislation?** No
- c. **Does this legislation affect a piece of property?** No
- d. **Please describe any perceived implication for the principles of the Race and Social Justice Initiative.**
  - i. **How does this legislation impact vulnerable or historically disadvantaged communities? How did you arrive at this conclusion? In your response please consider impacts within City government (employees, internal programs) as well as in the broader community.** The impact on communities is handled by retail rates and policies within each of the wholesale water customers' service areas. It is not affected by this contract amendment.
  - ii. **Please attach any Racial Equity Toolkits or other racial equity analyses in the development and/or assessment of the legislation.** N/A
  - iii. **What is the Language Access Plan for any communications to the public?** This is a contract between governmental agencies so there is no direct communication with the public.
- e. **Climate Change Implications**
  - i. **Emissions: How is this legislation likely to increase or decrease carbon emissions in a material way? Please attach any studies or other materials that were used to inform this response.** It is not likely to impact carbon emissions.
  - ii. **Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.** This legislation includes stranded cost provisions, which ensures additional regional water supplies are developed when needed, but not before. This potentially improves resiliency and impacts on the environment.

- f. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)? What mechanisms will be used to measure progress towards meeting those goals? N/A**
- g. Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization? No**

## **5. ATTACHMENTS**

**Summary Attachments:** None

**Seattle Public Utilities' Second Written Proposal to Amend Contract  
Terms by Mutual Agreement  
Section II.A.4.a  
December 2021**

~~**Note 1:** Areas where proposed language needs further development after discussions together will be indicated with a **Reserved for discussion** or [ ] notation. These items are also have a \* in the list below.~~

**Commented [EF1]:** These notes are largely outdated now. SPU and F&Ps decided to strike-through these notes. Strike-through text kept for historical documentation.

~~**Note 2:** Areas where specific revisions have been proposed are also open for discussion.~~

~~**Note 3:** SPU will consider additional proposals from wholesale customers that arise during the negotiations.~~

~~**Note 4:** For ease of review, the proposed revisions are being presented initially in a clean version. Redlines are also provided.~~

~~**Note 5:** Revisions to certain exhibits are being presented in template form and will require discussions with individual Wholesale Customers to confirm or update with tailored information.~~

~~**Note 6:** The proposed revisions are being presented with the intent and goal of reaching a mutually negotiated and agreed contract amendment that is consistent among all Full and Partial Requirements Wholesale Customers and with the understanding that:~~

- ~~A. SPU is inviting full and robust discussion.~~
- ~~B. Discussions and negotiations will result in revisions to the language presented here.~~
- ~~C. Agreements on any specific topics or areas will be considered interim or tentative until mutual agreement is reached on a whole final amendment package.~~

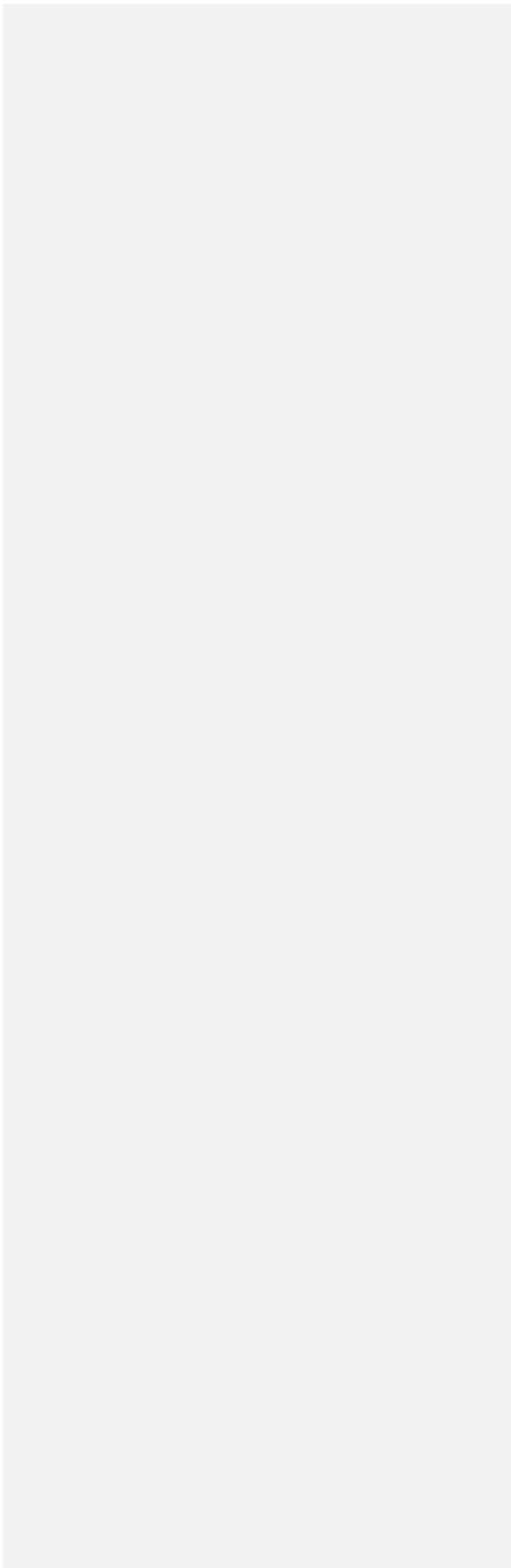
~~**Note 7:** The workshops have been an opportunity to discuss the issues and ideas on how to best update the contract.~~

~~**Note 8:** As a guideline for review, there are proposed revisions throughout the contract, but the main categories of proposed changes can be found as follows:~~

~~A. New ideas~~

- ~~○ How to manage end of contract term\* (Sections II.A.1 and 3) Rolling 10 year extensions timed with the 120 year periodic reviews.~~
- ~~○ Emergency preparedness resources and training (Section II.C)~~
- ~~○ How to optimize supply investments and balance purchase commitments\* (Section II.B.5 and new Exhibit IX)~~

- ~~Use of Cedar River Watershed Education Center and tours of other regional facilities (Section II.F)~~
- B. Major Updates and Clarifications**
  - ~~Water quality provisions and Notification Assistance (Section II.D)~~
  - ~~Clarifying stranded and avoided cost obligations if Water Utility has given prior notice to reduce Purchase Commitments (Section II.B.5.c)~~
  - ~~Regional water conservation program (Section II.E)~~
  - ~~Meter responsibility and cost allocations\* (Sections III.A and E, IV.C.1.e, and Exhibits II (Service Connections), VI (Regional Facilities) and VIII (Index O&M Cost Categories))~~
  - ~~Financial updates and clarifications (Section IV generally)~~
  - ~~Combine existing supply and transmission cost pools (Section IV.C.1)~~
  - ~~Update/clarify infrastructure costs (Section IV.D.2 generally)~~
  - ~~Flexibility to use cash basis (Section IV.D.2.a)~~
  - ~~Update Rate of Return on Investment\* (Sections I and IV.D.2.b)~~
  - ~~Clarify and update mixed use adder\* (Section IV.D.2.b)~~
  - ~~Updates to Seattle's average cost of debt\* (Section I)~~
  - ~~Update/clarify O&M costs (Section IV.D.3 generally)~~
  - ~~Update the O&M cost exhibit\* (Exhibit VIII, Index O&M Cost Categories)~~
  - ~~Clarify and update mixed use multiplier\* (Section IV.D.3.a.ii)~~
  - ~~Add flexibility to include some O&M costs without the multiplier\* (Section IV.D.3.a.iii)~~
  - ~~Clarify cost pool allocations by customer class (Section IV.E)~~
  - ~~True up balance process and rate smoothing;\* Flexibility to use surplus balance for rate smoothing or lower the surplus balance by paying for infrastructure more quickly using a Cash or Other basis (Section IV.H)~~
  - ~~Reporting and planning (Sections VI.A and B)~~
  - ~~CIP Process\* (Section VI.D)~~
  - ~~Non-Waiver (Section X.H)~~
  - ~~Stranded And Avoided Cost Methodology (Exhibit IX)~~
- C. General Clean up (throughout proposal document)**
  - ~~Improve clarity (e.g. clear language, consistent terminology, clear roles and responsibilities, clear processes, etc.)~~
  - ~~Restructure/reorganize in some places for efficiency (e.g. consolidation and reorganization of Facilities Charges provisions)~~
  - ~~Fixed typo in ERU Factor (Exhibit V.B)~~
  - ~~Fixed typo throughout: Seattle Capital Improvement **Program Plan**~~
- D. Provide tools for easier administration and adaptation to future changes (e.g. letter agreements to revise certain provisions administratively)**



|



**FIRST AMENDED AND RESTATED CONTRACT  
BETWEEN  
THE CITY OF SEATTLE AND  
[WATER UTILITY]  
FOR THE  
SUPPLY OF WATER**

**DATE:** \_\_\_\_\_

**TABLE OF CONTENTS**

	<b>Page(s)</b>
FIRST AMENDED AND RESTATED CONTRACT BETWEEN THE CITY OF SEATTLE AND [Water Utility] FOR THE SUPPLY OF WATER.....	1
RECITALS.....	1
SECTION I. DEFINITIONS.....	3
SECTION II. TERM OF CONTRACT AND GENERAL CONDITIONS.....	10
II.A. Term of Contract.....	10
II.B. Agreement to Supply and Purchase Water.....	14
II.C. Continuity of Service within the Term of the Contract.....	24
II.D. Water Quality.....	26
II.E. Regional Water Conservation Program.....	<a href="#">3433</a>
II.F. Cedar River Watershed Education Center and other facilities.....	36
SECTION III. CONDITIONS OF SERVICE.....	<a href="#">3736</a>
III.A. Minimum Hydraulic Gradient and Flow Rates.....	<a href="#">3736</a>
III.B. Resale to Other Parties.....	<a href="#">3938</a>
III.C. Interconnection With Other Systems.....	39
III.D. Development of Seattle Regional Water Supply System Infrastructure.....	41
III.E. Metering Equipment.....	<a href="#">4241</a>
SECTION IV. COST OF WATER SUPPLY & TRANSMISSION.....	43
IV.A. Rate-making and Cost-allocation Principles.....	43
IV.B. Ratemaking Framework.....	<a href="#">4645</a>
IV.C. Seattle Regional Water Supply System Cost Pools.....	<a href="#">4746</a>
IV.D. Allocation of Costs and Revenues into Cost Pools.....	52
IV.E. Allocation of Cost Pools by Customer or Customer Class.....	<a href="#">6664</a>
IV.F. Elective Services.....	<a href="#">6967</a>
IV.G. Rate Setting, Adjustments and Special Charges.....	<a href="#">7068</a>
IV.H. Cost Review and Truing Actual Costs and Actual Revenues.....	<a href="#">7876</a>
SECTION V. OPERATING BOARD.....	<a href="#">8381</a>
SECTION VI. PLANNING.....	<a href="#">8583</a>
VI.A. Reporting of Planning Data.....	<a href="#">8583</a>
VI.B. Submittal of Water Utility Water System Plans.....	<a href="#">8784</a>
VI.C. Seattle as Water Planning Agency.....	<a href="#">8785</a>
VI.D. Capital Improvement Plan.....	<a href="#">8886</a>
SECTION VII. PAYMENT.....	<a href="#">9087</a>
VII.A. Collection of Money Due City.....	<a href="#">9087</a>
VII.B. Penalties for Late Payment.....	<a href="#">9088</a>
VII.C. Billing Disputes.....	<a href="#">9088</a>

VII.D	Availability of Records .....	9188
SECTION VIII.	CONTRACT AMENDMENTS .....	9188
SECTION IX.	DISPUTE RESOLUTION .....	9189
IX.A.	Operating Board Review .....	9189
IX.B.	Seattle Mayor Review .....	9289
IX.C.	Mediation.....	9290
IX.D.	Resort to Litigation .....	9290
IX.E.	Efficiency of Review.....	9390
SECTION X.	MISCELLANEOUS .....	9391
X.A.	Notification .....	9391
X.B.	Severability .....	9491
X.C.	Consent .....	9492
X.D.	Emergency Situations .....	9592
X.E.	No Joint Venture - Individual Liability.....	9592
X.F.	Complete Agreement .....	9593
X.G.	Venue, Jurisdiction and Specific Performance .....	9593
X.H.	Default and Non-Waiver .....	9593
X.I.	Force Majeure.....	9694
X.J.	Successors .....	9694
X.K.	Exhibits .....	9694
	SIGNATURE PAGE .....	9795
	LIST OF EXHIBITS .....	9896
	EXHIBIT I .....	9997
	PURCHASE COMMITMENT & EMERGENCY, INDEPENDENT AND PURCHASED SUPPLIES.....	9997
	EXHIBIT II .....	10199
	SERVICE CONNECTIONS, MINIMUM HYDRAULIC GRADIENTS, AND FLOW RATES OF WATER SUPPLIED .....	10199
	EXHIBIT III .....	102100
	DEMAND CHARGE METHODOLOGY .....	102100
	EXHIBIT IV.....	105103
	OPERATING BOARD STRUCTURE .....	105103
	EXHIBIT V .....	107105
	FACILITIES CHARGES .....	107105
	EXHIBIT VI.....	109107
	REGIONAL FACILITIES .....	109107
	EXHIBIT VII .....	113111
	SUBREGIONAL FACILITIES AND ALLOCATIONS.....	113111
	EXHIBIT VIII .....	118116

<b>INDEX O&amp;M COST CATEGORIES.....</b>	<b><a href="#">118416</a></b>
<b>EXHIBIT IX.....</b>	<b><a href="#">123421</a></b>
<b>STRANDED AND AVOIDED COSTS.....</b>	<b><a href="#">123421</a></b>

**FIRST AMENDED AND RESTATED CONTRACT BETWEEN  
THE CITY OF SEATTLE AND [Water Utility] FOR THE  
SUPPLY OF WATER**

THIS FIRST AMENDED AND RESTATED CONTRACT (“Contract”) is entered into between the CITY OF SEATTLE (“Seattle”), a municipal corporation of the State of Washington, and the [Water Utility] (“Water Utility”), a municipal corporation of the State of Washington.

**RECITALS**

1. Seattle owns and operates a system for the supply, treatment, 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 retail and wholesale water service areas 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 the wholesale water service areas pursuant to long-term water supply contracts.
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 wholesale water service area are intended to provide those Wholesale Customers and Seattle with the assurance of a long-term service commitment for reliable and sustainable high quality water supply 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 from Seattle and Wholesale Customers, along with an independent representative, all pledged to represent the best interests of the region, to provide advice and direction in certain areas to the Administrator of the Seattle Regional Water Supply System.
8. Pursuant to Section II.A.4.a, Seattle, Water Utility and the other Wholesale Customers have undertaken a review of the Contract and have mutually agreed to amend certain terms and conditions of the Contract to update and clarify obligations of the parties and to strengthen the partnership, resiliency and sustainability of the Seattle Regional Water Supply System.

NOW, THEREFORE, in consideration of mutual covenants herein, the parties mutually agree as follows:

## SECTION I. DEFINITIONS

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

“Administrator” - The General Manager of Seattle Public Utilities or any other title given to that person who maintains the executive authority to operate and manage the Seattle Regional Water Supply System.

“Alternate Supply(ies)” – The Emergency, Independent and Purchased Supplies, if any, available to Water Utility.

“Annual O&M Costs” – The annual total O&M Costs included in each cost pool as determined in Section IV.D.34.

“Automatically Allowed Reduction”. – The purchase reduction amount automatically allowed as defined in sSection II.B.5.d.viii.

“Avoided Costs” –The proportional share of the projected capital and operating cost of the next planned source of supply of the Seattle Regional Water Supply System represented by the size of a Wholesale Customer's qualifying reduction in demand, as more particularly defined in Section II.B.5 and Exhibit IX.

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

“Customer-driven Demand Fluctuations” – Demand fluctuations that are out of Seattle or Water Utility's control and result from retail customer discretion or behavior, such as weather or economic-related demand, use of efficient fixtures, use of reuse water alternatives or redevelopment of property, etc.

“Eastern Subregional Facilities” – Certain subregional transmission facilities used, in part, to serve those Wholesale Customers in the Eastern Subregion as more particularly described in

Commented [EF2]: This is okay. I changed section to Section for consistency.

Commented [TG3R2]: Seattle agrees to change

Commented [TG4]: Seattle accepts this addition here; however; Seattle rejects the addition in II.B.5.d.ix. (pg 23).

Section I of Exhibit VII.

“Emergency Supply(ies)” – Water supplies that Water Utility receives or purchases from another water purveyor to use on an emergency or temporary basis as specifically identified in Section I of Exhibit I. Emergency Supplies do not include Independent or Purchased Supplies, or periodic or intermittent water supplies used for peak or seasonal demand or other domestic demand.

“Existing Regional Facilities” – Components of the Seattle Regional Water Supply System which consist of supply and transmission resources and facilities that Seattle exclusively owns and operates; related deferred costs; and facilities owned by others for which Seattle has entered into an agreement to use, all of which are used to produce, treat and convey water to the Seattle Retail Distribution System, Water Utility, other Wholesale Customers, and block or other wholesale customers as set forth in Section 1 of Exhibit VI. This does not include New Supply, New Transmission or Subregional Facilities.

~~“Facilities Charges” – An alternative to commodity rates. Facilities Charges (FCs) are the product of the Equivalent Residential Unit (ERU) Charge and the ERU Factor, as further described in Section IV.D.2.cb, and Exhibit V. FCs are only as described in this eContract, and are not connection charges, impact fees, or other charges as described in the Revised Code of Washington. FCs are also not considered capital contributions.~~

“Firm Yield” - Firm yield is the amount of water that Seattle is able to supply system-wide as published in the Seattle Water System Plan.

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

“Full Water Requirements” – All of the water, except for Emergency Supplies, if any, that Water Utility needs to meet the demand of its present and future retail water customers within its

**Commented [EF5]:** Font or formatting looks different.

FYI, there are a number of font and formatting issues throughout this document that should be cleaned up during the final review.

**Commented [GT6R5]:** We have gone through the entire document and fixed all the formatting that we could find. If we've missed anything we will fix it as we become aware of it.

**Commented [EF7]:** Used the revised language requested by SPU on 1-9-25. However, I did insert "Section" to be consistent with other references.

**Commented [MG8R7]:** Agreed.

**Commented [TG9]:** Seattle accepts all the changes in this document from the lower case "c" to the upper case "C".

**Commented [EF10]:** SPU's definition has raised some concerns. Generally, utilities recover costs through rates or connection charges. However, SPU is saying FCs are not connection charges. This would seem to be contrary to law. Is SPU subject to RCW 35.92.025 as it relates to the establishment of connection charges? We would like to discuss this issue with SPU to see if we can get clarification of SPU's intent.

**Commented [TG11R10]:** Facilities Charges defined in this contract are not related to connection charges under RCW 35.92.025 or RCW 57.08.005(11). RCW governs a relationship between a utility and the customer seeking to connect, and the basis for the charge is either the cost of the existing system and 10 years interest (35.92.025) or the existing system and 10 years interest plus 10 years of projected CIP (57.05.005(11)).

The Facilities Charges in this contract are between Seattle and each Wholesale Customer, and the basis for the charge is the projects assigned to the New Supply or New Transmission Cost Pool with the calculation being the estimated cost to create an ERU's worth of capacity by that project. If a Utility chooses to pass along the cost of the FC to its retail customers, it is free to do so, but that does not change the relationship between Seattle and the Wholesale Customer.

**Commented [TG12R10]:** Seattle agrees to end the sentence at the word "Contract" and delete the rest of the language.

retail distribution service area, as shown in Water Utility’s water system plan in effect on the Effective Date of this Contract, as may be amended according to the provisions of this Contract.

“Independent Supply(ies)” – Water supplies that are owned and operated by Water Utility pursuant to existing or transferred water rights, claims or permits as specifically identified in Section II of Exhibit I or new water supplies acquired by Water Utility through a merger with another water purveyor not supplied by Seattle water. Independent Supplies do not include Emergency or Purchased Supplies.

“Index O&M Costs” – The portion of O&M Costs used to support the Seattle Regional Water Supply System only, except those identified as Non-Index O&M Costs, as more particularly described by the O&M Cost categories specified in Exhibit VIII.

Commented [MG13]: This addition clarifies that Non-Index O&M Costs are NOT a subset of Index O&M Costs - they are 2 separate categories.  
Commented [EF14R13]: ok

“Infrastructure Adder” – ~~A certain percentage amount 1.5%~~ that is applied added as a component of the Rate of Return on Investment to the Net Book Value of facilities recognized under the Utility Basis, ~~which may be adjusted pursuant to Section IV.D.2.b.~~

“Mixed-use Assets” – Capitalized facilities or assets that are shared between or used to support both the Seattle Retail Distribution System and the Seattle Regional Water Supply System.

“Mixed-use O&M Costs” – The portion of O&M Costs that are shared between or used to support both the Seattle Retail Distribution System and the Seattle Regional Water Supply System.

“New Supply Facilities” – New resources and facilities developed after January 1, 2002, or portions of rehabilitated or replaced Existing Regional Facilities as may be allocated by the Operating Board, that expand the supply capacity of the Seattle Regional Water Supply System as set forth in Section II of Exhibit VI. This does not include Existing Regional, New Transmission or Subregional Facilities.

“New Transmission Facilities” – New resources and facilities developed after January 1, 2002,

or portions of rehabilitated or replaced Existing Regional Facilities as may be allocated by the Operating Board, that expand the transmission capacity of the Seattle Regional Water Supply System as set forth in Section III of Exhibit VI. This does not include Existing Regional, New Supply or Subregional Facilities.

“Non-index O&M Costs” – A portion of O&M Costs to support the Seattle Regional Water Supply System only, but not included in the Index O&M Costs because they are nonrecurring or other special circumstances, as determined by Seattle, which may include, but are not limited to pre-or post-capital expenses (e.g. E#s), claims or net disposition costs.

Commented [TG15]: Seattle accepts this change

“Operating Board” – A board of representatives established by Section IV of this Contract and having the specific roles and limited authorities as more particularly set forth throughout this Contract.

Commented [TG16]: This is Section V not IV. Seattle rejects change.

“O&M Costs” - The fully loaded costs of labor (i.e. all wages and fringe benefits); costs of materials, -supplies, and equipment; and other direct or indirect costs or expenses that are not capitalized; or portions thereof, required or expended to operate, maintain, repair and support the Seattle Regional Water Supply System and the Seattle Retail Distribution System in good working order consistent with all applicable local, state and federal laws, policies and standards and to meet the obligations of this Contract.

“Partial Requirements Contract” - A contract in which Seattle supplies a Wholesale Customer with its Partial Water Requirements during the Contract term.

“Partial Water Requirements” – All of the water that is over and above the aggregate amount of Water Utility’s Independent and Purchased Supplies that Water Utility needs to meet the demand of its present and future retail water customers within its service area as shown in Water Utility’s water system plan- in effect on the Effective Date of this Contract, as may be amended

according to the provisions of this Contract.

“Purchase Commitment” – Water Utility’s Full or Partial Water Requirements, as appropriate, as specified in Exhibit I.

“Purchased Supplies” – Water supplies Water Utility purchases from another water purveyor to meet the demand of its present or future retail water customers as specifically identified in Section III of Exhibit I.

“Qualified Partial Requirements Contract” - A contract in which Seattle supplies a Wholesale Customer with its future partial or full rQualified Partial Water Requirements during the Contract term - following a customer's demand reduction due to Purchased water Supplies.

“Qualified Partial Water Requirements” – Water Utility’s Partial Water Requirements less the amount of a new Purchased Supply that becomes effective pursuant to a reduction of Water Utility’s Purchase Commitment under Section II.B.5.

“Rate of Return on Investment” - Seattle’s Average Cost of Debt plus the Infrastructure Adder.

“Regional Facilities” – All of the Existing Regional, New Supply and New Transmission Facilities.

“Regional Water Conservation Program” - A regional program, implemented collaboratively between Seattle and Wholesale Customers, to help retail customers use water efficiently, defer development of new supply resources and meet applicable regulations and agreements as more particularly described in Section II.E.

“Renton Subregional Facilities” - Certain subregional transmission facilities used, in part, to serve those Wholesale Customers in the Renton Subregion as more particularly described in Section III of Exhibit VII.

Seattle’s Average Cost of Debt (“ACOD”) - 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 coupon interest rate on Seattle's water system debt outstanding over the course of a calendar year with adjustments to recognize i) outstanding amortized premium or discount on water system debt; ii) gains/losses on water system bond refundings; iii) issuance costs including third party costs paid by bond proceeds; plus 30%, which is an agreed upon allowance for internal City of Seattle issuance costs; iv) prepaid insurance costs; v) net interest expense on debt service reserves; and vi) any other appropriate ongoing debt costs, e.g. variable rate remarketing, ongoing credit rating agency monitoring fees, calculated at the end of each calendar year during the term of this Contract.~~

“Seattle’s Cash Pool Rate” - The interest rate earned by the Seattle Water Fund for cash deposited in the City of Seattle’s cash pool.

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

“Seattle Regional Water Supply System” - Seattle's regional water supply system consisting generally of water rights (including permits and claims), real property rights, dams, impounded water, supply and transmission mains, pumps, treatment facilities, Subregional Facilities, Service Connections and all other resources and facilities utilized in producing, treating and conveying water ~~up to but not including to~~ the Seattle Retail Distribution System, ~~and through to the end of the Service Connections of the~~ Water Utility and other Wholesale Customers, and block or other wholesale customers. ~~This definition does not include the Seattle Retail Distribution System.~~

“Seattle’s Service Area Boundary” - Seattle’s then current designated place of use of Seattle’s

water certificates, permits, claims or service area under Seattle’s approved Water System Plan.

“Seattle Water Enterprise Fund” - A public utility enterprise fund of the City of Seattle established to account for activities of the water system operated by Seattle City.

Commented [TG17]: Seattle accepts this change

“Seattle Water System Plan” - Seattle's 2019 Water System Plan, dated August 2019, and amendments and updates thereto, prepared by Seattle to comply with the requirements of WAC 246-290-100, and successor regulations, including each successive Water System Plan issued approximately every 10 years.

“Service Connection” - The Seattle-owned and operated metered delivery locations as specified in Exhibit II, beginning at the outlet from the regional supply pipeline (which may be a subregional pipeline) to the end of the Seattle-owned vault, or the first isolation valve downstream of the vault; including the water meter and associated appurtenances through which Seattle delivers water at a defined level of service from the Seattle Regional Water Supply System to a Wholesale Customer's retail distribution water system.

“Southwest Subregional Facilities” - Certain subregional transmission facilities used, in part, to serve those Wholesale Customers in the Southwest Subregion, as more particularly described in Section II of Exhibit VII.

“Stranded Costs” – Those portions of infrastructure costs that Seattle has incurred and fixed operations costs committed for the Seattle Regional Water Supply System, but not yet recovered through rates and charges, at the time a Wholesale Customer reduces or terminates its Purchase Commitment, that other Wholesale Customers, including Seattle, would have to pay due to the loss of expected revenue resulting from that Wholesale Customer’s reduction or termination as more particularly described in Exhibit IX.

“Subregional Facilities” – All of the Eastern, Southwestern and Renton Subregional Facilities, or

other subregions, if any, that may be added during the term of this Contract.

“Wholesale Customer” – Those water utilities who purchase water from Seattle under a Full or Partial Requirements Contract for the purposes of reselling to their retail customers.

“Wholesale Level of Service” – Water delivered by Seattle to the Service Connection(s) in accordance with the conditions listed in Exhibit II and this Contract intended for Wholesale Customers’ distribution to their retail customers through their own distribution systems. Except as may be specifically provided in this Contract, Seattle is not responsible for, and Wholesale Level of Service does not include, compliance with Department of Health (“DOH”) standards, including fire flow, emergency back-up and water quality within Water Utility’s retail service area or distribution system.

## SECTION II. TERM OF CONTRACT AND GENERAL CONDITIONS

### II.A. Term of Contract

1. Term. This First Amended and Restated Contract shall be in effect beginning at 12:01 AM on the Effective Date and shall remain in effect until 12:00 AM on January 1, 2062 ~~as amended herein~~.
2. Effective Date. This First Amended and Restated Contract shall be effective on ~~January 1, 2026~~ [Reserved for discussion] January 1, 2026 (“Effective Date”).
3. Review of the Contract Term. The parties acknowledge and agree that it is desirable to manage the expiration or extension of this Contract Term prior to expiration, and therefore agree that ~~the Contract Term in Seattle shall have the option to extend the Contract Term in~~ Section II.A.1 shall be automatically extended for an additional ten (10) years (“Extension”) on January 1, 2032, and every ten (10) years thereafter (“Extension Date”). The Water Utility may opt out of such extension of the Contract Term by providing

Commented [EF18]: Fix indentation issue.

Commented [TG19R18]: All indentation issues throughout the contract have been fixed.

Commented [EF20]: SPU has now inserted a specific effective date of January 1, 2026. This raises an issue about the timing of SPU billing credits relating to the large and growing balance in the true up account.

Commented [TG21R20]: Because the cost principles must be in place for the full fiscal year, an effective date must be at the start of the year. However, we can add a section in the Transition section that allows a return of a portion of the balance before the contract effective date. Also, Seattle has determined that we can provide checks rather than billing credits for a faster return.

Commented [TG22]: Seattle agrees to this change.

written notice to Seattle prior to the Extension Date. If Water Utility opts out of the Extension, Seattle shall plan to supply water to Water Utility for only the remaining Contract Term and shall plan for Water Utility to not purchase any water supplies from Seattle as of the expiration of such Contract Term. for an additional ten (10) years during the 2<sup>nd</sup> Review and each subsequent Periodic Review under Section II.A.4.b below.

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 under this Contract by January 1, 2042 (“1st Review”), and January 1, 2062 (“2nd Review”), and by January 1 every 20 years thereafter during the term of this Contract.~~January 1, 2022 (“1<sup>st</sup> Review”), January 1, 2032 (“2<sup>nd</sup> Review”), etc., and by January 1 every 10 years thereafter during the term of this Contract, e.g. 2042, 2052, etc.,~~ or as soon as practicable after the respective January 1, as follows.

a. Mutual Agreement. On or before January 1, ~~2021~~2041, and then again on or before January 1, ~~2061~~, and every ~~2~~20 years thereafter, respectively, Seattle, Water Utility or any Wholesale Customer may provide the other party and Wholesale Customers with a written proposal to amend the Contract terms. All parties, including Seattle, Water Utility, and other Wholesale Customers, shall consider the proposal(s), if any. If the parties mutually agree to the proposal(s), or as negotiated, prior to January 1, ~~2022-2042~~ or January 1, ~~2062~~, or every ~~10-20~~ years thereafter, respectively, or a date later than January 1 as may be mutually and reasonably agreed to by the parties to continue negotiations, 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 mutually agree on a proposal by Seattle pursuant to subsection II.A.4.a above within the ~~respective~~ one-year periods associated with the 1st Review, or mutually agreed later date, Seattle may propose in writing its desired amendment to the Operating Board by March 31, ~~2022/2042, 2032, 2042, or 2052/2062, or March 31 of any other 20-year review~~ ~~dates~~respectively, or by 90 days past the expiration of a mutually agreed later date. The Operating Board shall review and recommend revisions, if any, to the proposed amendment. Seattle and the Operating Board shall use reasonable efforts to resolve any concerns in the proposal. After 90 days from Seattle's written proposal to the Operating Board, Seattle may propose its desired amendment to the Seattle City Council. If the Operating Board does not agree with Seattle's 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 this subsection II.A.4, or by mutual agreement. Seattle shall not have the right to unilaterally amend the Contract after the First Review period and all subsequent Contract amendments must be mutually agreed to by Seattle and Water Utility.

c. Limitation on Seattle's Right to Amend. Notwithstanding subsection II.A.4.b

Commented [EF23]: inserted underline in title

Commented [GT24R23]: Seattle agrees with edit.

Commented [EF25]: The F&Ps have expressed their strong objection and concern about the unilateral amendment of the Contract. The F&Ps want Seattle's unilateral right to amend to end after the 1<sup>st</sup> Review period which is consistent with the terms of the original contracts with the F&Ps. After 2042, all amendments must be mutually agreeable to Seattle and the Water Utility.

Commented [GM26R25]: Agreed; Seattle provided language.

Commented [EF27]: The existing contracts contemplated a review period in Jan. 2022 and Jan. 2042. Seattle should not retain the unilateral right to amend beyond the Jan. 2042 review which is referred to in the draft contract as the 1<sup>st</sup> Review.

Commented [MG28R27]: Agreed.

above, Seattle shall not have the right to amend the Contract under that provision in a manner 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, ~~except pursuant to Water Utility's exercise of its rights to terminate or reduce its purchase commitment~~; (iv) reduce its water quality obligations for the Seattle Regional Water Supply System; (v) change the methodology for calculating Rate of Return on Investment; (vi) restrict Water Utility's right to terminate or reduce its Purchase Commitment, ~~except as provided in Section II.A.3~~; (vii) disband or significantly reduce the powers of the Operating Board; ~~or~~ (viii) amend any Contract provision that will apply only to Water Utility; ix) change the definition of the Seattle Regional Water Supply System; x) extend or expand its contractual rights to any portion of Water Utility's retail water distribution systems; ~~(xi) improperly include taxes or surcharges beyond what the water rate setting industry would consider normal in wholesale rates or that are not in accordance with applicable laws and regulations~~; ~~(xii) amend any Contract provision relating to Seattle's obligation to approve Water Utility's proposal to introduce Alternate Supplies into Water Utility's retail distribution system as provided in Section II.D.9~~; ~~(xiii) change the criteria for approval of Alternate Supplies~~.

d. Intent. The purpose and intent of the provisions allowing Seattle a limited right

Commented [TG29]: Seattle agrees to this change and the changes highlighted above in green.

Commented [MG30]: Should be d.

to amend the Contract as provided in Section II.A.4.b-c. are to provide Seattle with flexibility to administer numerous Full and Partial Requirements Contracts in a consistent manner when changes to the Contract are desired by Seattle but are not approved by the Operating Board and/or all of the Wholesale Customers as well as to make reasonable changes in response to changing conditions, laws, and regulations over the course of this long-term Contract. Any proposed amendments to the Contract are subject to the procedures and limitations provided in Section II.A.4.b-c. In 2062, when Seattle no longer has this limited right to amend, Wholesale Customers may agree to different contract terms which ~~could~~ necessitate the creation of separate Full and Partial Requirements Customer Classes each with their own Wholesale Statements and administered according to each Class's agreed-to contract terms.

Commented [EF31]: I think it is difficult to say for sure whether some future contract may necessitate the creation of different Wholesale Statements. As such, I changed "will" to "could".

Commented [TG32R31]: Seattle agrees with change.

## **II.B. Agreement to Supply and Purchase Water**

1. Full or Partial Requirements Commitment. Seattle shall supply, and Water Utility shall purchase, Water Utility's Full or Partial Water Requirements as specified in Exhibit I, for the term of this Contract, unless amended pursuant to the provisions below.
2. Expansions in Water Utility's Service Area. Seattle shall supply the Full or Partial Water Requirements, as appropriate, if Water Utility acquires additional service area that is: 1) located outside of the service area as defined in Water Utility's Water System Plan in effect on the Effective Date of this Contract and 2) which is not already served with water from the Seattle Regional Water Supply System, subject to a) the availability of water in

the Seattle Regional Water Supply System as reasonably determined by Seattle; b) the limitation of Seattle's Service Area Boundary; and c) Water Utility's payment of Facilities Charges ("FCs") for the retail service connections in that additional service area in accordance with Section IV.D. The parties will cooperate to amend, by letter agreement, ~~this Section II.B.2 and~~ Exhibits I and II, as appropriate, for the limited purpose of documenting the changed circumstances resulting from acquiring the additional service area.

Commented [EF33]: I don't think this reference is necessary.

Commented [TG34R33]: Seattle agrees with this change and will not need to amend the sections - only the Exhibits

3. Contractions in Water Utility's Service Area. In the event Water Utility's entire service area and service responsibilities, or portion thereof, are assumed by or are transferred to another utility or utilities, then this Contract shall become null and void at the time, and to the extent, the assumption or transfer becomes effective; provided, however, 1) this Contract will remain in full force and effect for Water Utility's remaining service area, if any; and 2) 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. Seattle, Water Utility and the transferee Wholesale Customer will cooperate to amend, by letter agreement, ~~this Section II.B.2 and~~ Exhibits I and II, as appropriate, for the limited purpose of documenting the changed circumstances resulting from the transfer. If the transferee is not a Wholesale Customer, then Seattle may offer the transferee a water supply contract for the transferred service area subject to terms and conditions as Seattle shall determine.

Commented [EF35]: I don't think this reference is necessary. If it is necessary, the reference needs to be corrected to Section II.B.3.

Commented [TG36R35]: Seattle agrees with change.

4. Annexation by Seattle. If Water Utility's entire service area, or a portion thereof, is annexed to Seattle, then this Contract shall become null and void to the extent of the annexation and upon the effective date of Seattle's assumption of Water Utility's water

system or a portion thereof. In the event Water Utility has remaining service area after the assumption, this Contract will remain in full force and effect for the remaining service area, and Seattle and Water Utility will cooperate to amend, by letter agreement ~~the~~ ~~Section II.A.4.b~~ and Exhibits I and II, as appropriate, for the limited purpose of documenting the changed circumstances resulting from the annexation of a portion of Water Utility's service area.

5. Water Utility's Right to Terminate or Reduce Purchase Commitment. Water Utility may terminate or reduce its Purchase Commitment subject to the terms and conditions set forth below.

a. Notice Required:

i. Timing: Water Utility must submit 5 years' advance written notice ("Notice Period") to Seattle indicating its desire to terminate or reduce its Purchase Commitment ("Notice"), except as provided below.

(a) If Seattle ~~unilaterally~~ amends the terms and conditions of this Contract pursuant to Section II.A.4.b above, Water Utility must submit 1 years' advance written notice to Seattle to terminate its Purchase Commitment within 1 year of the effective date of the amendment.

~~(a)(b)~~ Any notice previously issued by Water Utility to Seattle prior to December 31, 2022|December 21, 2020|in accordance with the terms and conditions of the Contract then in existence shall be effective to terminate or reduce Water Utility's Purchase Commitment under the Contract. All such notices will be described in Exhibit I,--

ii. Contents of Notice: The Notice shall include the following:

Commented [EF37]: I don't think this reference is necessary.

Commented [TG38R37]: Seattle agrees with change.

Commented [EF39]: Revised per SPU's email dated 1/2/22

Commented [MG40R39]: Agreed.

Commented [EF41]: This date does not capture OV's notice which was given on October 15, 2021. The intent was to grandfather in both RWD and OV. Needs to be revised

Commented [EF42R41]: SPU agreed to change the date to address OV's notice

Commented [MG43R41]: Agreed.

- (a) A resolution of Water Utility's governing body approving the Notice and acknowledging Water Utility is subject to the relevant conditions in Section II.B.5.c.
- (b) A description of the relevant information, including but not limited to: a description of any new Alternate Supply consistent with the information in Exhibit I; the scope (e.g. termination or reduction, amount); and brief description of actions necessary to put the proposed Alternate Supply into use (e.g. regulatory approvals, capital projects, water quality analysis, contract approvals, etc.) or that it is terminating based on Section II.B.5.a.i.(a) above.
- (c) Except for a termination pursuant to Section II.B.5.a.i.(a) above, Water Utility may include a request for a Notice Period shorter than 5 years, which request shall include a justification.
- (d) Water Utility will provide additional information upon reasonable request by Seattle or the Operating Board.

iii. Pre-Notice Request for Calculation of Stranded Costs. Water Utility shall have the right to request Seattle to perform a calculation of Stranded Costs that would be incurred by Water Utility if it issues a Notice to terminate or reduce its Purchase Commitment ("Pre-Notice Request"). A Pre-Notice Request shall be made by Water Utility in writing and shall include the amount of the reduction in its Purchase Commitment and the anticipated effective date of such reduction. Seattle shall respond to Water Utility's Pre-Notice Request by providing a written estimate to Water Utility within

thirty (30) days ("Pre-Notice Calculation Estimate"). Water Utility agrees to provide Seattle with additional information requested by Seattle that is necessary to allow Seattle to perform the estimated-Stranded-Cost calculation Pre-Notice Calculation Estimate. The Pre-Notice Calculation Estimate will not be binding on either party and will be based on Stranded Cost only; any Avoided Cost calculation will not be included. The Pre-Notice Calculation Estimate shall be completed as described in Exhibit IX, will be based on the current asset schedule, and will not include any changes that occur or information that becomes known between the estimate and the notice.

- b. **Effective Date:** The termination or reduction will become effective 5 years from the date of the Notice, or 1 year in the case of a termination under Section II.B.5.a.i.(a). Alternatively, if Water Utility requested, and the Operating Board approved a shorter notice period, the termination or reduction will become effective upon the date approved by the Operating Board. In either case, Water Utility must meet the relevant conditions in Section II.B.5.c. below for the termination or reduction to become effective. Additionally, upon Operating Board approval, the parties may mutually agree in writing to extend the 5-year or approved shorter Notice Period for a reasonable and specific amount of time to allow Water Utility additional time to meet the relevant conditions or complete actions to put the Alternate Supply into use. The Operating Board may approve a shorter or extended notice period upon a determination that it is in the best interests of the Seattle Regional Water Supply System. Water Utility may rescind its Notice in writing any time prior to the effective

**Commented [EF44]:** This is a new concept. However, we think it is important that any Water Utility have this information available to it before it decides to give a notice of reduction or termination.

**Commented [TG45R44]:** Seattle agrees in principle with this addition, however Seattle would add a disclaimer to this language as follows:

Disclaimer: Estimates provided will not be binding on either party. Estimate will include stranded cost side only unless a new supply project is imminent and cost are known. Estimates will be based on current asset schedule and will not include any changes that occur or information that becomes known between the estimate and the notice.

**Commented [TG46R44]:** Seattle will draft language for disclaimer. Will flush out language on "cost side only". Done.

date. For any notice other than those provided under Section II.B.5.a.i.(b), if Water Utility has not met the conditions by the effective date, the Notice will be rescinded automatically. In either case, when a Notice is rescinded, the Contract will remain in full force and effect.

Commented [TG47]: Seattle agrees to this change

c. Conditions/Effect of Termination or Reduction:

i. Termination: Water Utility will be subject to the following conditions if it terminates its Purchase Commitment in its entirety:

(a) Water Utility will lose representation or membership on the Operating Board upon the date of the Notice.

(b) This Contract will terminate in its entirety as of the effective date of the Notice as specified in Section II.B.5.b above.

(c) Water Utility will pay the full costs for Seattle to decommission Water Utility's Service Connections as listed in Exhibit II. This obligation will survive the termination of the Contract.

(d) Water Utility will pay, or receive credit, as the case may be, for its proportional share of any deficit or surplus running balances in any cost pool as of the end of the year of the Effective Date, which shall be prorated by Water Utility's share of total demand (e.g. flow) since the most recent year the running balances were zero.

(e) Water Utility will pay the Final Net Stranded Cost Payment, or receive the Final Net Billing Credit, as described below in Section II.B.5.c.ii (e)(i) as determined by Seattle pursuant to Exhibit IX.

Commented [TG48]: Seattle agrees with these changes highlighted in green.

(f) Seattle, in its sole discretion, may offer Water Utility a new water

supply contract if Water Utility wants to purchase water from the Seattle Regional Water Supply System again in the future, however any new contract will be subject to: i) Seattle's determination of the availability of water; ii) no guarantee of a Full or Partial Requirements Contract; and iii) terms and conditions as Seattle may require, including but not limited to, special charges and rates. ~~provided the terms and conditions are consistent with generally accepted guidelines and practices of the U.S. water industry, the Rate-Making Principles in this Contract.~~

ii. Reduction: Water Utility will be subject to the following conditions if it reduces its Purchase Commitment in part:

(a) The parties will cooperate to amend, by letter agreement, Exhibits I and II, as appropriate, for the limited purpose of documenting the reduction in Water Utility's Purchase Commitment, ~~and~~ the new Alternate Supply, and the amount and effective date of any Purchase Commitment reductions. ~~which may include converting~~ Water Utility's Full or Partial Requirements Contract may be converted to a Partial Water Requirements or Qualified Partial Water Requirements Contract, as the case may be, consistent with this Section II.B.5.c.

(b) Water Utility will pay the full costs for Seattle to decommission Water Utility's Service Connections listed in Exhibit II or add new Service Connections, if appropriate.

(c) Water Utility will pay the Final Net Stranded Cost Payment, or will

Commented [TG49]: Seattle rejects this change. Lets discuss.

Commented [TG50R49]: After discussions at the December 5<sup>th</sup> meeting. The following language has been added.

Commented [EF51]: Deleted the hyphen. Trying to stay consistent with the format I think we agreed upon (i.e. rate-making vs. rate-making).

Commented [MG52R51]: Agreed.

receive the Final Net Billing Credit, as described ~~defined~~ below in II.B.5.c.ii(e)(i), if applicable, as determined by Seattle pursuant to Exhibit IX, unless Water Utility provided Seattle with written notice of its intention to reduce its purchase commitment between January 1, 2009 and December 31, 2022, ~~1/1/2009 and 12/21/2020~~.

~~(e)~~(d) Will receive a Facilities Charge Allowance pursuant to Section IV.D.2.c

~~(d)~~(c) For reductions related to the use of new or increased production of Independent Supplies only, Water Utility:

~~(i) Will receive a Facilities Charge Allowance pursuant to Section IV.D.2.e:~~

~~(i)~~(i) May be eligible for an Avoided Cost offset to Stranded Costs (or if the offset is large enough, a Net Billing Credit) as determined by Seattle pursuant to Exhibit IX and if Seattle determines the Independent Supply:

1. Will be used entirely within Water Utility's retail distribution system;
2. Results in Avoided Costs of future supply for the Seattle Regional Water Supply System; and
3. Meets all applicable eligibility criteria that Seattle may develop in consultation with the Operating Board to ensure the offset (or Net Billing Credit) is only applicable to independent supplies that provide reliable,

~~high-quality~~high-quality water, which criteria will include, but not be limited to operational reliability, water quality, and environmental impact.

(e)(f) For reductions related to the use of new or increased Purchased Supplies, Water Utility:

(i) Will be converted to a Qualified Partial Requirements Contract.

If Water Utility loses its Purchased Supply, in whole or in part, and wants to purchase additional water from the Seattle Regional Water Supply System to replace the lost Purchased Supply, the purchase may be subject to: availability of water as determined by Seattle; ~~waiver of certain rights~~; or terms and conditions such as special charges to convert back to a Full or Partial Requirements Contract, ~~provided the terms and conditions are consistent with generally accepted guidelines and practices of the U.S. water industry.~~ the Rate-Making Principles in this Contract.

(ii) ~~(ii)~~ May not use Purchased Supplies in a manner that will have adverse impacts on the Seattle Regional Water Supply System due to constraints or other terms and conditions in the contract for the Purchased Supply. Seattle, in consultation with the Operating Board, reserves the right to require terms and conditions to protect against adverse impacts or constraints, such as prohibiting impacts to seasonal shaping

Commented [EF53]: Can SPU provide examples of what is contemplated by this waiver language?

Commented [TG54R53]: This is circumstantial. We will explain when we meet.

Commented [TG55R53]: Seattle agrees to remove "waiver of certain rights" as it is redundant here.

Commented [TG56]: Seattle rejects this change. Lets discuss.

Commented [TG57R56]: Seattle has made the following edits to address concerns.

Commented [EF58]: Deleted the hyphen for consistency purpose.

Commented [MG59R58]: Agreed.

or peak demands or waiving rights under Section II.C.2.

(ii)(iii) Exhibit I will be updated by Seattle whenever Water Utility  
or other Wholesale Customer or ~~Wholesale Customer~~  
terminates or reduces purchases pursuant to this section and  
such update will be provided to all Wholesale Customers  
and the Operating Board.

d. **Not Considered Reduction:** For the purposes of this Section II.B.5, reductions under the following circumstances are not considered a reduction of Water Utility's Purchase Commitment and this Section II.B.5 will not apply:

- i. The use of Emergency Supplies listed in Section I of Exhibit I;
- ii. Customer-driven Demand Fluctuations;
- iii. Participation in the Regional Water Conservation Program;
- iv. Participation in Regional Shortage Management Contingency Plan or similar plans requiring restrictions on water deliveries.
- v. Contraction of Water Utility's service area pursuant to Sections II.B.3 and 4 above.
- vi. Acquisition of additional Independent Supplies through a merger or acquisition of another water purveyor that is not currently a customer of Seattle.
- vii. Reductions defined in any notice previously issued by Water Utility to Seattle prior to December 31, 2022 December 31, 2020 in accordance with the terms and conditions of the Contract then in effect.
- viii. Reductions in demand, or portions thereof, that result in aggregate

Commented [TG60]: Let's discuss this request when we meet.

Commented [TG61R60]: Add language to include "and other Wholesale Customers"

Commented [TG62R60]: Seattle understood that Eric wanted to think about this change and get back to us.

Commented [EF63R60]: added "or other Wholesale Customer" which is highlighted in blue. I think "or" vs "and" is appropriate and singular "Customer" works. This change addresses SPU's comments about its intention to modify Exhibit I anytime a change is made.

Commented [MG64R60]: Agreed.

Commented [EF65]: These subparagraphs have some strange coding or formatting. Please correct the formatting and check to make sure the subparagraphs are numbered subsections i - ix.

Commented [TG66R65]: Seattle believes this is fixed.

Commented [EF67]: Question by one of the purveyors: What about a regional earthquake that results in inability to take or deliver SPU water? How would that situation be treated? I would think it would be considered a force majeure event and SPU would not impose stranded costs in this situation. Please advise.

Commented [GM68R67]: As stated in our email, Seattle would consider an earthquake a force majeure, which, if it necessitated the use of Emergency Supplies would not trigger stranded costs.

Commented [EF69R67]: Thanks for the confirmation.

Commented [EF70]: SPU agreed to this date per email dated 1-8-25.

Commented [MG71R70]: Agreed.

Commented [EF72]: This date does not capture the notice provided by OV. OV provided its notice on October 15, 2021. FWD and OV were to have been grandfathered in. Needs to be addressed.

Commented [MG73R72]: Agreed.

reductions under this contract for Water Utility that are equal to or less than the Automatically Allowed Reduction applicable to Water Utility, which shall be equal to 5.0% of Water Utility's average purchases from Seattle for the five three most recent calendar years at the time of Water Utility's initial Purchase Commitment Reduction for all signers of this First Amended and Restated Contract other total demand in the most recent calendar year/or specific mgd values for Highline Water District and Olympic View Water District, or 1.0 MGD for Highline Water District, or 0.5 MGD for Olympic View Water District, as described in Exhibit I.

Demand fluctuations that are out of Seattle or Water Utility's control and result from Reductions in demand relating to new federal, state or local laws or regulations, including legal rulings, that require or allow for the use of reuse water by Water Utility customers.

6. New or Extended Water Supply Contracts. The full terms and conditions of any new, amended, or extended water supply contracts, along with Seattle's analysis and explanation of the same, will be submitted to the Operating Board for review and comment prior to approval/adoption/adoption.

### 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 the Seattle Retail Distribution System.
2. Emergency and Water Shortage Contingency Planning. Seattle shall adopt, as part of its Water System Plan, emergency plans to provide for water supply in the event of drought or disaster. It is recognized by both parties that Seattle may adopt plans to manage

Commented [EF74]: What is SPU's intention regarding the language in the brackets? Will it keep the general reference to 5% for each Water Utility, except for HWD and OV?

Commented [EF75R74]: I don't think we talked about this in our last meeting. I think this is just a placeholder that will be filled out depending on which utility is involved.

Commented [MG76R74]: Yes; most utilities will have the 5% language; Highline and OV will get different language as shown.

Commented [EF77]: A purveyor commented that it would prefer a 5 year average to counter a potential anomalous year within the stated time period.

Commented [MG78R77]: Agreed.

Commented [EF79R77]: okay

Commented [TG80]: Seattle agrees with this change.

Commented [TG81]: Seattle rejects the addition of ix. This concept is included in the definition of customer driven demand fluctuations which is listed above.

Commented [TG82R81]: Seattle will discuss.

Commented [TG83R81]: Seattle has added the following language to address the concerns.

Commented [EF84R81]: This language is acceptable

Commented [MG85R81]: Agreed.

Commented [TG86]: Seattle would like further clarification on the reason for this change. Who's doing the approving?

Commented [TG87R86]: Agreement was reached to go back to the word "adoption".

emergencies or water shortages that are implemented on a regional basis in order to meet an emergency condition or a water shortage that impacts the Seattle Regional Water Supply System and may offer trainings or coordinate emergency preparedness activities amongst Water Utilities within the Seattle Regional Water Supply System. Seattle will follow the Seattle Water Shortage Contingency Plan or any other emergency plan in effect as of the effective date of this Contract, and as may be added or amended from time to time. The Operating Board may review and recommend revisions to any amended water shortage contingency plans or other relevant emergency plan before Seattle adopts the plan. Restrictions placed on water deliveries under any adopted plan will be applied consistently to Water Utility, other Wholesale Customers, and the Seattle Retail Distribution System. Water Utility shall assist with and support all procedures or emergency plans, including cooperating with restrictions on water deliveries, that are implemented under Seattle's then current Water Shortage Contingency Plan, or another adopted emergency plan that impacts the Seattle Regional Water Supply System. Water Utility is responsible for adopting its own plans for emergencies or water shortages from Alternate Supplies or within its retail distribution system. Seattle may offer assistance or coordinate with Water Utility to make mutual aid plans together, including via WA WARN or other platform as mutually agreed.

3. Other Emergencies or Interruptions to Service. It is recognized by both parties that Seattle may temporarily interrupt or reduce deliveries of water or revise conditions of service (e.g. minimum hydraulic gradient) (collectively "Temporary Interruptions"), to Water Utility if Seattle determines that Temporary Interruptions are necessary or reasonable in case of system emergencies or in order to conduct necessary operations and maintenance,

Commented [EF88]: Or use "Wholesale Customers".

Commented [TG89R88]: Water Utilities lower case is correct since these training and coordination activities can be put on for more than just the F & P Wholesale Customers.

including but not limited to, installing equipment, making repairs, replacements, investigations and inspections or performing 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 Temporary Interruptions, the reasons for and the probable duration. Seattle shall use its best efforts to minimize Temporary Interruptions to Water Utility.

4. Waiver of Charges. If Temporary Interruptions require that Water Utility draw water supply in a manner that would potentially subject Water Utility to demand charges under Section IV.G.45.a, Seattle shall waive the demand charges during the period of the Temporary Interruption.

#### **II.D. Water Quality**

1. Seattle Regional Water Supply System. Seattle shall be responsible for water quality within the Seattle Regional Water Supply System. Seattle and Water Utility shall work collaboratively to address water quality concerns raised by Water Utility. The Water Utility may request Operating Board review of any water quality concerns that it believes are not reasonably resolved by Seattle, from the supply sources to the Service Connection(s) as set forth below. Seattle shall construct, operate and maintain water quality treatment and other facilities and programs and use its best efforts to carry out its water quality responsibilities to deliver safe, high-quality water in the most cost-effective manner for the region.
2. Applicable Standards. Seattle shall at all times during the term of this Contract deliver water **delivered** the end of the Service Connection(s) that meets or exceeds all applicable

~~Federal, and State, and King County~~ ~~Federal, state, and local~~ regulations as may be amended from time to time. The parties acknowledge and agree that a minor regulatory violation (e.g. missed sample collection) is not considered a default of Seattle's water quality obligations under this Section II.D ~~to~~ except to the extent it is significant in duration and risk to public health and Seattle has not made good faith efforts to correct the violation consistent with the applicable regulations.

3. System-wide Water Quality Program. Seattle, in consultation with the Operating Board, may develop and implement a system-wide water quality program, portions of which will guide its obligations for water quality within the Seattle Regional Water Supply System under this Section II.D consistent with applicable regulatory requirements, industry standards and operational needs. The system-wide program may include, but not be limited to objectives, policies and procedures, and roles and responsibilities for water quality treatment, regulatory and non-regulatory monitoring, reporting, water quality incident response, cross-connection control, and best or adaptive management practices. Seattle will allocate ~~those these program costs portions of the system-wide water quality program costs that are related to Seattle's water quality obligations for the Seattle Regional Water Supply System under this Section II.D~~ to the appropriate cost pools as provided in Section IV.

4. Role of Operating Board. The Operating Board may:

- a. review and recommend revisions to the relevant portions of Seattle's system-wide water quality program related to the Seattle Regional Water Supply System or obligations under this Contract;
- b. recommend best or adaptive water quality management practices for the Seattle

Commented [MG90]: Inserted to clarify that Seattle is not obligated to comply with wholesale customer's local regulations - just King County.

Commented [EF91R90]: We would prefer to eliminate the reference to King County

Commented [MG92R90]: Agreed.

Commented [TG93]: Seattle rejects this change and we will explain why when we meet.

Commented [TG94R93]: Seattle has agreed to remove federal, state and local.

Commented [EF95R93]: This should now be resolved

~~Regional Water Supply System or Wholesale Customers;~~

Commented [TG96]: Seattle agrees with this addition.

c. approve allowances for flushing when Seattle or Operating Board determines flushing is the best available option to maintain or improve regional water quality~~Seattle recommends flushing within Wholesale Customers' retail distribution systems to maintain or improve water quality;~~

d. review and recommend revisions to the water quality criteria Seattle adopts and applies prior to: (1); approving the introduction of a new water source into the Seattle Regional Water Supply System or into Water Utility's retail distribution system if the new water source will be mixed with water from the Seattle Regional Water Supply System under Section II.D.9 and Seattle can establish that the revisions to the water quality criteria are related to the Seattle Regional Water Supply System, or (2) determining whether a new or increased Independent Supply may be eligible for an offset or Billing Credit under Section II.B.5.c.ii;

e. approve any changes to the water quality obligations under this Section II.D upon recommendation by Seattle, resulting from changes in regulatory requirements during the term of this Contract. The parties will amend this Section II.D by letter agreement in the event the Operating Board approves changes to the water quality obligations under this subsection; and

Commented [TG97]: Seattle agrees with this addition

f. establish a technical subcommittee(s) to assist in its roles under this Section II.D.4.

5. Distribution Systems. Water Utility shall be responsible for compliance with all applicable federal, ~~s~~State, and local water quality laws and regulations applicable to water w i t h in its retail distribution system. Seattle is not responsible for water quality compliance for water from Alternate Supplies.

6. Monitoring. Monitoring generally consists of sample collection, testing and reporting. Seattle is responsible for water quality monitoring for the Seattle Regional Water Supply System and Water Utility is responsible for water quality monitoring for its retail distribution system. Notwithstanding the foregoing, the parties acknowledge and agree that it is in the best interests of the region for Seattle to perform certain monitoring responsibilities as described below within those Wholesale Customers' retail distribution systems that have not opted out of the monitoring services as described below -and thatto include the these costs of such monitoring services in the appropriate cost pools under Section IV of this Contract. Seattle will not monitor the water within a Wholesale Customer's retail distribution system that opts out of monitoring services. A Wholesale Customer that elects to opt out of Seattle's monitoring services shall submit a written notice to Seattle of its election to opt out of these monitoring services. Water Utility may contract with Seattle to perform water quality monitoring and reporting services that are in addition to Seattle's obligations under this Section II.D as an elective service under Section IV.F. of this Contract. Specific monitoring procedures for Rules identified in the Federal Safe Drinking Water Act (40 CFR 141) and Chapter 246-290 WAC are described below:

- a. Surface Water Treatment Rule ("SWTR") and Groundwater Rule ("GWR").  
Seattle shall perform all monitoring for the water sources it owns in the Seattle Regional Water Supply System, and any chlorine residual sample collection and testing in Water Utility's distribution system, which is done in conjunction with Seattle's TCR monitoring consistent with Section II.D.6.c below. Seattle will report SWTR and GWR results to WA DOH and Water Utility, and chlorine residual data to Water Utility. Water Utility is responsible for any applicable

Commented [TG98]: Seattle agrees with these two changes in this section - highlighted in green.

Commented [EF99]: Comments received that the Water Utility would like to receive the results, in addition to DOH. I can't imagine this is objectionable. I would be okay with (with copy to Water Utility) or something substantially similar.aa

Commented [MG100R99]: Based on your most recent email, this was removed.

Commented [EF101R99]: Correct.

monitoring for its Independent or other Alternate Supplies and any other chlorine residual monitoring within its retail distribution system required under the SWTR.

- b. Lead and Copper Rule (“LCR”). Seattle shall perform monitoring within retail distribution systems for Wholesale Customers who hold Full Requirements Contracts under a regional LCR program. If Water Utility is a holder of a Full Requirements Contract, Water Utility is responsible for coordinating the location and collection of samples and reporting results to property owners as part of the regional LCR program. If Water Utility is a holder of a Partial Requirements Contract, Water Utility is responsible for all monitoring for LCR within its retail distribution system. In that case, Water Utility may elect to use the Seattle WQ Lab to test any LCR samples it collects as an Elective Service pursuant to Section IV.F.
- c. Total Coliform Rule (“TCR”). Seattle shall perform all routine sample collection and testing within Water Utility’s retail distribution system, unless Water Utility notifies Seattle in writing that it will be responsible for all routine TCR monitoring within its retail distribution system. When Seattle performs routine TCR monitoring, Seattle shall report results to Water Utility and WA DOH, and Water Utility shall verify number and location for routine sample collection. Water Utility is responsible for performing any repeat sample collection, testing, and required reporting to WA DOH. Water Utility may elect to use the Seattle WQ Lab to test any samples it collects as an Elective Service under Section IV.F and Seattle will report results to Water Utility and WA DOH.

- d. Disinfection By-Products Rule (“DBP”). Seattle shall perform all routine sample collection at designated sample stands and testing of those samples within Water Utility’s retail distribution system unless Water Utility notifies Seattle in writing that it will be responsible for all DBP monitoring within its retail distribution system. When Seattle performs routine DBP monitoring, Seattle shall report results to Water Utility and WA DOH, and Water Utility shall verify number and location for sample collection. Water Utility is responsible for any routine sample collection at sites that are not designated sample stands and any additional sample collection, testing of samples it collects, and required reporting to WA DOH. Water Utility may elect to use the Seattle WQ Lab to test any samples it collects as an Elective Service under Section IV.F and Seattle will report results to Water Utility and WA DOH.
- e. Unregulated Contaminant Monitoring Rule (“UCMR”). Seattle shall perform all applicable monitoring required under the UCMR within the Seattle Regional Water Supply System. Water Utility will be responsible for all applicable monitoring required under the UCMR within its retail distribution system. Upon recommendation by Seattle, the Operating Board may approve an alternate allocation of monitoring responsibilities under the UCMR when it is in the best interests of the Seattle Regional Water Supply System. The costs of any monitoring Seattle performs within the Seattle Regional Water Supply System or as approved by the Operating Board will be allocated to the appropriate cost pool under Section IV of this Contract.
- f. Other Monitoring. Seattle shall perform any other regulatory or non-regulatory

monitoring within the Seattle Regional Water Supply System it deems necessary to ensure safe, high quality water; including but not limited to, other source and miscellaneous monitoring; taste and odor sampling; and emerging contaminants. Water Utility will be responsible for any additional regulatory or non-regulatory monitoring within its retail distribution system.

7. Water Quality Reporting to Regulatory Agencies and Retail Customers (Consumer Confidence Reports). Each Wholesale Customer, including Water Utility, and Seattle, at its sole cost, is responsible for periodic water quality notifications and reporting to its respective retail customers and regulatory agencies as required by law. Seattle shall provide Water Utility all relevant water quality monitoring data consistent with its responsibilities in Section II.D.6 above in a timely manner so that Water Utility may incorporate the water quality data in its required notifications or reports and Seattle may offer public notification assistance, training, or other public notification resources to Water Utility.
8. Flushing. Water Utility shall be solely responsible for flushing water mains within its retail distribution system. Flushing allowances will be provided by Seattle when Seattle or the Operating Board determine flushing is the best available option to maintain or improve regional water quality. Seattle may provide a flushing allowance only when Seattle recommends that Water Utility flush its retail distribution system to maintain or improve regional water quality and the Operating Board approves the flushing allowance.
9. New Water Sources. To ensure public health and regional reliability, the parties agree that blending of water supplies is a matter of regional importance to be managed with the cooperation of the Water Utility, the Operating Board, and Seattle. Therefore, before

Water Utility may introduce a new Alternate Supply into its retail distribution system ~~that~~ ~~which~~ will mix with water from the Seattle Regional Water Supply System, Seattle must ~~1) approve the Alternate Supply in writing as a compatible source after an evaluation using customary and reasonable water quality criteria developed in consultation with the Operating Board from time to time,~~ and ~~2) verify that the proposed Alternate Supply meets all applicable federal, state and Seattle water quality and treatment standards. As part of the evaluation and verification, upon Seattle's request, Water Utility shall provide Seattle with~~ ~~Seattle is required to approve the proposed~~ Alternate Supply ~~when~~ ~~3) the evaluation~~ ~~must establish~~ that the proposed Alternate Supply ~~meets~~ the following criteria: 1) satisfactory results from a blending study to determine the compatibility of the new Alternate Supply with existing sources already in the Seattle Regional Water Supply System or Water Utility's retail distribution system; 2) the appropriate method and level of treatment and the probable distribution area of the new Alternate Supply within Water Utility's retail distribution system; ~~3) a flavor rating analysis result 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;~~ and ~~3) 4) satisfactory evidence that Water Utility has obtained all necessary and appropriate~~ ~~federal and state~~ regulatory permits, reviews, agreements and approvals for rights to and operational use of the Alternate Supply. The requirements under this Section II.D.9 are in addition to any other requirements, e.g. Section II.B.5, under this Contract to add a new Alternate Supply.

10. Transfers Outside Water Utility's Retail Distribution System. If Water Utility has approval pursuant to Section III.B and transfers water from the Seattle Regional Water Supply System through its retail distribution system to the distribution system of another

Commented [TG102]: Lets table this pending further internal discussion.

Commented [TG103R102]: Seattle agrees to new language.

Commented [EF104R102]: ~~This should resolve this issue~~

Commented [TG105]: Seattle rejects this change.

Commented [TG106R105]: Seattle has changed its position and agrees to remove federal and state.

Commented [EF107R105]: ~~This appears to be resolved~~

water utility, 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 for water transferred outside of Water Utility's retail distribution system.

### **II.E. Regional Water Conservation Program**

The parties acknowledge and agree that conservation is an important ongoing tool to manage water supply resources and that a regional program, implemented collaboratively between Seattle and Wholesale Customers, to assist retail customers in using water efficiently will help defer development of New Supply Facilities and meet applicable regulations and agreements including, but not limited to, Washington State's Municipal Water Law (~~Chapter~~ RCW 90.03 RCW), as may be amended from time to time) and associated Water Use Efficiently (WUE) Rule (WAC 246-290 Part 8, as amended from time to time), Seattle's 2000 Cedar River Habitat Conservation Plan (HCP) and the 2006 Muckleshoot Indian Tribe (MIT) Settlement Agreement. As a condition of service under this Contract, Water Utility agrees to participate in the Regional Water Conservation Program ("Program"), as it may be amended from time to time during the term of this Contract, consistent with the Program guidelines below.

Commented [TG108]: Seattle agrees with these two changes highlighted in green.

1. Program Elements. The Regional Water Conservation Program generally consists of the adoption of a regional WUE goal, good faith participation by all Wholesale Customers and Seattle, measurement of performance toward the regional WUE goal on a regional basis, and a combination of measures such as education, technical assistance and financial incentives to achieve the regional WUE goal.
2. Role of Operating Board. The Operating Board will approve the regional WUE goal subject to the additional approval under ~~sub~~Section II.E.5 below and the total Program

Commented [TG109]: Seattle agrees with change.

budget subject to further approval by Seattle City Council, and set the strategic priorities for the Program consistent with any applicable requirements from regulations, agreements or orders. The Operating Board will also determine the cost recovery mechanism for the infrastructure costs of the Program, i.e. New Supply Rates or FCs, pursuant to Section IV.C.2.b. The Operating Board may also establish and provide strategic direction to a technical subcommittee of the Operating Board, the Conservation Technical Forum (“CTF”), comprised of program level staff from each Wholesale Customer and Seattle.

3. Role of Conservation Technical Forum. The CTF participates in designing the Regional Water Conservation Program, consistent with the strategic direction from the Operating Board, and may include review or generation of proposed Program elements or measures.
4. Role of Seattle. Seattle will administer the Regional Water Conservation Program, consistent with the approved regional WUE goal and total Program Budget, Program priorities and in consultation with the CTF. Administration includes, but is not limited to: staffing, including any consultants, to implement the Program; maintaining the Program website; maintaining a system to accept, process, and pay rebates; providing technical assistance to retail customers; developing template education and outreach materials for Wholesale Customers and Seattle to use in their retail distribution service areas (“Program materials”); coordinating certain regional marketing efforts with CTF; and providing each Wholesale Customer, including Water Utility, information related to achievement of the regional WUE goal and Program activity level within their respective retail distribution service areas.

5. Role of Wholesale Customers. At their own cost and expense, Seattle and each Wholesale Customer, including Water Utility, is responsible for marketing the Program using the Program materials within their retail service area that are in addition to any regional marketing efforts coordinated with CTF; adopting the regional WUE goal by their governing body; any required reporting of the regional WUE goal and performance to the State and their respective retail customers; and data collection as needed to track the regional WUE goal in their respective retail distribution systems.
6. Conservation in Addition to the Regional Program. Water Utility may elect to implement its own water conservation program or measures, in addition to the Regional Water Conservation Program, at its own discretion and its sole cost.
7. Postponing the Need for New Supply Facilities. In order to avoid the necessity of developing or acquiring New Supply Facilities for as long as reasonably practicable, any water saved through the Regional Water Conservation Program- shall be dedicated first to the municipal water supply purposes of the Seattle Regional Water Supply System before any other use of such water may be undertaken.
8. Responding to changes in Conservation Program requirements. The parties acknowledge and agree that changes in conservation regulation, agreements, and other conservation requirements may occur from time to time. Upon Seattle's request, ~~Wholesale Customer~~Water Utility will cooperate to amend, by letter agreement, this ~~Agreement Contract~~ as appropriate, for the limited purpose of documenting adjustments to the Regional Water Conservation Program or documenting other ~~c~~Conservation activities resulting from such changed circumstances.

## **II.F Cedar River Watershed Education Center and ~~Other~~ Facilities**

Commented [TG110]: Seattle agrees with changes

Water Utility may use the Cedar River Watershed Education Center up to two times per year without charge, subject to availability. Water Utility may request occasional guided tours of the Cedar River Watershed or other facilities in the regional system. Water Utility may coordinate any use under this provision with the Wholesale Contracts Manager.

## **SECTION III. CONDITIONS OF SERVICE**

### **III.A. Minimum Hydraulic Gradient and Flow Rates**

1. Initial Minimum and Flow Rates. Seattle shall operate and maintain the Regional Facilities, and Subregional Facilities, if applicable, as necessary to maintain the minimum hydraulic gradients at each Service Connection as long as Water Utility does not exceed the flow rates at each Service Connection that are allocated from and based on maximum day demand, both of which are more specifically described in Exhibit II for each Service Connection. Seattle and Water Utility will include this information in their respective water system plans. Seattle, in consultation with the Operating Board, may increase the flow rates in Exhibit II from time to time based on updated average daily demand projections subject to transmission system capacity. Water Utility shall use best efforts to operate and maintain its retail distribution system in a manner consistent with the flow rates described in Exhibit II. Water Utility may use all or some of the flow rates allocated to each Service Connection on any other Service Connection that is located on the same Pipeline Segment Number, but in that case, the minimum hydraulic gradients are not guaranteed. Water Utility shall avoid taking water from a Service Connection in a manner that exceeds the flow rates for that Service Connection (or the aggregate flow rate for the Service Connections on the same Pipeline Segment Number) or take the flow at a rate faster than 24 hours, e.g. excessive intraday peaking, which could impact Regional

Facilities or other Wholesale Customers downstream or upstream of Water Utility's Service Connections. Upon notice by Seattle, Water Utility shall immediately reduce water deliveries at the Service Connection to no more than the flow rates for a Service Connection (or aggregate on same Pipeline Segment Number) in Exhibit II. In the event that Water Utility does not reduce deliveries as required under this provision, Seattle may install and operate flow restricting devices at the Service Connection(s), at Water Utility's expense. Water Utility shall maintain sufficient storage in its retail distribution system to manage peak demands in excess of the flow rates in Exhibit II and may be subject to the Demand Charges pursuant to Section IV.G.54.a if storage is insufficient. The parties will amend Exhibit II by letter agreement to reflect any modifications pursuant to this Section III.A.1.

2. Modifications. If Seattle proposes a capital improvement project that would result in needing to modify the minimum hydraulic gradient and the corresponding flow rates at one or more Service Connections, Seattle may modify the minimum hydraulic gradient and corresponding flow rates described in Exhibit II if Seattle finds, and the Operating Board concurs, that Seattle's proposed capital improvement project would benefit the Seattle Regional Water Supply System and that it is feasible from an economic, land use and engineering perspective for Water Utility to adapt to the modification at its expense. 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. The parties will amend Exhibit II by letter agreement to reflect any modifications pursuant to this Section III.A.2.
3. New or Changed Service Connections. Seattle, in consultation with the Operating Board,

and Water Utility may mutually agree, to new or relocated Service Connections or adjustments to the minimum hydraulic gradients and corresponding flow rates. The parties will amend Exhibit II by letter agreement to reflect any changes under this provision. Any costs associated with a new or changed Service Connection will be allocated consistent with Section IV.C.1.c.

### III.B. Resale to Other Parties

Water Utility may sell, or supply for emergency purposes, water supplied by Seattle to other water utilities located outside of Water Utility's existing or future retail service area and within Seattle's Service Area Boundary, or to Seattle's other Wholesale Customers, block customers or retail customers, only upon the prior written consent of Seattle (or oral, in case of emergency), which consent may include any terms and conditions or limitations Seattle may require. Agreements for resale or emergency supply of water by Water Utility listed in Sections I or IV of Exhibit I, as appropriate, are hereby approved by Seattle subject to whatever written terms, conditions and limitations that Seattle has imposed on such resale or emergency supply.

### III.C. Interconnection With Other Systems

1. Prohibition on Interconnection. Water Utility shall not interconnect any part of its retail distribution system supplied with water from Seattle with other water systems without the prior written approval of Seattle, in consultation with the Operating Board, or, in case of emergency, upon oral approval by Seattle, which shall not be unreasonably withheld. Any such interconnection also shall be subject to the approval of the Washington State Department of Health and the installation of a meter. The interconnecting systems must be in compliance with all applicable ~~local, state, and~~ ~~federal~~ laws and regulations including the requirement that they have a valid operating

Commented [TG111]: Seattle rejects change of removing local.

Commented [TG112R111]: Seattle has changed its position and agrees to remove local and state.

Commented [EF113R111]: Just to clarify, "local, state and federal" will all be removed? That would leave language stating that it must be "in compliance with all applicable laws and regulations."

Commented [MG114R111]: Yes; our intention was to leave the phrase "all applicable laws and regulations."

Commented [EF115R111]: ok

permit issued by the Washington State Department of Health. The parties will revise Exhibit H by letter agreement to include any interconnections approved under this Section III.C.1.

2. Requests by Seattle to Interconnect. Seattle may request that Water Utility interconnect its retail distribution system to the distribution system of an adjacent Wholesale Customer for the purposes of wheeling water from the Seattle Regional Water Supply System through Water Utility's retail distribution system to the adjacent Wholesale Customer, provided that the adjacent Wholesale Customer has agreed to be- subject to the provisions of Section III.C.2.b below. 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 submit its request to the Operating Board. Water Utility may present the reasons it does not consent to the interconnection to the Operating Board, and may include alternatives for consideration to serve the adjacent Wholesale Customer. The Operating Board shall consider the matter. Upon (a) a written finding by the Operating Board that the proposed interconnection with an adjacent Wholesale Customer for wheeling purposes 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 purposes of wheeling water to that Wholesale Customer through its retail

distribution system, provided that the adjacent Wholesale Customer has agreed to be subject to the provisions of Section III.C.2.b below.

- b. Payment and Indemnity. Seattle will require that the adjacent Wholesale Customer agree: 1) to perform or cause to perform the interconnection, at adjacent Wholesale Customer's cost, in a location and according to specifications and a schedule acceptable to Seattle and Water Utility that do not unduly disrupt Water Utility's operations; 2) pay Water Utility its actual costs incurred to review, inspect and accept the installation of the interconnection; 3) pay Water Utility a reasonable rate or charge for the cost of wheeling the water to the adjacent Wholesale Customer as determined by the Water Utility, which may include reasonable overhead, administration and a rate of return (equal to Rate of Return on Investment) on such costs; and 4) indemnify Water Utility from any liability that may result from operating the interconnection to deliver water to the adjacent Wholesale Customer. The Operating Board ~~shall may~~ adopt, ~~and Water Utility shall use in establishing a wheeling rate or charge,~~ a standard methodology based on industry standards for calculating costs that ensures that Water Utility is fairly compensated for wheeling water through its retail distribution system. The adjacent Wholesale Customer may request review of Water Utility's wheeling rate by the Operating Board. The Operating Board shall have the authority to revise any rate that it determines is in excess of the Water Utility's full costs of owning, operating, maintaining, repairing and replacing and supporting the water facilities necessary to wheel water to the adjacent Wholesale Customer;

#### **III.D. Development of Seattle Regional Water Supply System 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 Capital Improvement Plan as more particularly described in Section VI.D.

### III.E. Metering Equipment

1. Service Connection Meters. Seattle shall own and perform reading, testing, cleaning, routine maintenance and recalibration on the meters within each Service Connection to measure the amount of water delivered to Water Utility ~~at~~through the Service Connection pursuant to this Contract. Seattle shall perform all other work on the Service Connections including major maintenance, repairs, and replacements, at Water Utility's expense regardless of the cause, provided that the cause is consistent with AWWA and safety standards and practices (e.g. major maintenance, repairs and replacements) except to the extent the costs are a result of 1) Seattle's negligence, or 2) a meter failure within 5 years of the original installation; in which for both cases, the costs shall be allocated to the Existing Regional System Cost Pool. Water Utility shall operate and maintain its retail distribution 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. In the event Seattle fails to conduct routine maintenance on the meters, including vault structures, Water Utility may notify Seattle of its failure and request that Seattle conduct the necessary and appropriate maintenance within a period of 90 days. Water Utility may in its discretion install additional water meters within Water Utility's water system to measure the supply of water from Seattle under this Contract. In the

Commented [TG116]: Seattle agrees with change.

event of a discrepancy in meter readings, the parties will work in good faith to resolve the discrepancy.

2. Deliveries to Seattle. 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 and other wholesale customers, e.g. block contract holders, from 98% of the total amount of water exiting Seattle’s sources of supply as measured by the supply meters. Seattle shall perform routine maintenance and recalibration of its supply meters in accordance with industry standards to ensure the accuracy of the data and information being provided by the supply meter.

## 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.

Commented [EF117]: Revised for consistency purposes.

Commented [TG118R117]: Seattle agrees with the change to rate-making here and throughout the remainder of the contract.

2. Seattle shall utilize the governmental accounting and financial reporting standards established by the Governmental Accounting Standards Board (“GASB standards”) that follow 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, cost-efficient, and high-quality 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 designed to recover ~~all of~~ the costs to own, operate and support the Seattle Regional Water Supply System fairly and objectively.
8. Unless modified with the approval of the Operating Board or implemented prior to the initiation of the current **contract** review process in 2020, Seattle’s ratemaking processes will reflect the generally accepted guidelines and practices of the **US** water industry.
9. When revenues for regional or subregional assets are received outside of rates or Facilities Charges (such as but not limited to capital contributions, grants, donated plant, insurance or FEMA reimbursements, payments based on allowances or other agreed-upon terms), that portion of the asset equal to the amount of outside revenue received

shall be removed from the applicable cost pool. When revenues for Index O&M Costs or Non-Index O&M Costs are received outside of rates (such as but not limited to grants, fee for services, insurance or FEMA reimbursements, payments based on allowances or other agreed-upon terms), the Index O&M Costs or Non-Index O&M Costs shall be reduced by the corresponding amount.

10. Certain costs may be recovered through allowances or other mutually negotiated terms. Any costs recovered through such terms must be recognized and accounted for appropriately within Seattle's ratemaking processes to eliminate the possibility of double-recovery.

11. Any portion of Seattle's Non-Index O&M Costs or capital costs which benefit only an individual Wholesale Customer or serves growth of a customer having a Block Purchase Contract shall be allocated to that customer or to a cost pool in which the customer bears an appropriate share, and not to any cost pool described in this Contract, except as may be specifically provided in Sections IV.C.3.b, IV.D.2, and VI.D.2 of this Contract.

12. Only those costs incurred by the Seattle Water Enterprise Fund to own, operate, and reasonably support the Seattle Regional Water Supply System are eligible for recovery through the rates and charges pursuant to the terms of this Contract.

7-13. Seattle shall provide reasonable and early notice and appropriate information to the Operating Board so that it can carry out its roles with reasonable opportunity for meaningful input.

8-14. 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 applicable wholesale rates and charges as Water Utility for water supply

Commented [TG119]: Seattle agrees with add.

and transmission unless specifically provided otherwise in this Contract. Costs calculated under the costs pools described below shall apply to all Wholesale Customers and to the Seattle Retail Distribution System consistently.

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

16. Costs should be capitalized for Wholesale ratemaking purposes by applying the same capitalization policy as applied to the Seattle Water Enterprise Fund, except as allowed under Section IV.D.2.a.i.

#### **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 Services. The costs of water supply and transmission of water shall be accounted for in the cost pools described in Section IV.C below. Seattle will recover the costs in each cost pool by establishing separate rates or charges for each cost pool but may charge composite rates. Rates and charges will be applied consistently to Wholesale Customers within a Customer Class and the Seattle Retail Distribution System except as may be specifically defined as a charge to an individual or subset of Wholesale Customers, including Seattle.
2. Mixed-use Allowances. Seattle owns and operates Mixed-use Assets and performs Mixed-use O&M that are shared between or used to support both the Seattle Regional Water Supply System and the Seattle Retail Distribution System. The parties mutually agree to the recovery of the costs of the portion of the Mixed-use Assets and Mixed-use O&M used to support the Seattle Regional Water Supply System ~~through allowances~~.

**Commented [MG120]:** This change is part of the "caveat" we included regarding future possibility of more than one customer class.

**Commented [EF121R120]:** Acceptable.

as more particularly described in Sections IV.D.2.b and 3.a.ii below, to the extent specified in this Contract, including in Sections IV.D.2.b and 3.a.ii.

3. Seattle Retail Distribution System. Seattle may not allocate the costs of the Seattle Retail Distribution System or the portion of the Mixed-use Assets and Mixed-use O&M used to support the Seattle Retail Distribution System to any cost pools under this Contract.

#### **IV.C. Seattle Regional Water Supply System Cost Pools**

For the purposes of determining costs of water supply and transmission, there shall be the cost pools described below.

1. Existing Regional System Cost Pool.. The Existing Regional System Cost Pool shall be accounted for as follows:
  - a. A rate shall be charged to recover the full costs of owning, operating, maintaining, repairing, renewing, and replacing and supporting the Existing Regional Facilities, which are assigned to this cost pool. Seattle may amend the list of Existing Regional Facilities in Exhibit VI, if necessary, to add or delete Existing Regional Facilities, as appropriate. The amended Exhibit VI will be incorporated as part of this Contract.
  - b. The Operating Board may approve the allocation of 1) any portion of a New Supply or New Transmission Facility project that enhances reliability of Existing Regional Facilities to the Existing Regional System Cost Pool and 2) any portion of an Existing Regional Facility project that expands the supply capacity of the Seattle Regional Water Supply System to the New Supply Cost Pool or the transmission capacity of the Seattle Regional Water Supply system to the New Transmission Cost Pool. Seattle will amend the relevant lists of Regional

Facilities in Exhibit VI, as appropriate, to document any portion of a project or costs that are allocated by the Operating Board under this Section IV.C.1.b.

The amended Exhibit VI will be incorporated as part of this Contract.

- c. Costs of Service Connections and Metering Equipment. 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 or incurs costs for metering equipment that meet one of the exceptions in Section III.E, then the costs, including any retirement costs of the old Service Connection, shall be included in the Existing Regional System Cost Pool. If Water Utility requests a new Service Connection, a change in location, an adjustment to service conditions of an existing Service Connection or Seattle incurs any other costs that are allocated to Water Utility pursuant to Section III.E , then Seattle shall invoice Water Utility for the costs of the new, replaced/repared or changed Service Connection, including any retirement costs of the old Service Connection consistent with Section III.E.

2. New Supply Cost Pool. The New Supply Cost Pool shall be accounted for as follows:
- a. A rate shall be charged to recover the full costs of owning, constructing, operating, maintaining, repairing, renewing and replacing and supporting the New Supply Facilities, which are assigned to this cost pool, and which includes the costs of the Regional Water Conservation Program. Seattle may amend the list of New Supply Facilities in Exhibit VI, to add or delete New Supply Facilities, as appropriate. The amended Exhibit VI will be incorporated as part of this Contract.
- b. The Operating Board may approve the allocation of certain costs to the New

Supply Cost Pool consistent with **Sub** Section IV.C.1.b above. Seattle will amend the relevant lists of Regional Facilities in Exhibit VI, as appropriate, to document any portion of a project or costs that are allocated by the Operating Board under this **Sub** Section IV.C.2.b. The amended Exhibit VI will be incorporated as part of this Contract.

- c. The Operating Board shall determine whether the infrastructure costs of New Supply Facilities shall be recovered through **Facilities Charges ("FCs")** or new supply rates.
- d. The Operating Board may allocate the reasonable expenses of the Operating Board to this cost pool.

3. New Transmission Cost Pool. The New Transmission Cost Pool shall be accounted for as follows:

- a. A rate shall be charged to recover the full costs of owning, constructing, operating, maintaining, repairing, renewing, and replacing and supporting the New Transmission Facilities, which are assigned to this cost pool. Seattle may amend the list of New Transmission Facilities in Exhibit VI, if necessary, to add or delete New Transmission Facilities, as appropriate. The amended Exhibit VI will be incorporated as part of this Contract.
- b. The Operating Board may approve the allocation of certain costs to the New Transmission Cost Pool consistent with **Sub** Section IV.C.1.b above. In addition, the Operating Board may approve the allocation of any portion of a New Transmission Facility project that benefits only a subset of Wholesale Customers or an individual Wholesale Customer to a subregional cost pool or the individual

Wholesale Customer. Seattle will amend the relevant lists of Regional or Subregional Facilities in Exhibits VI or VII, as appropriate, to document any portion of a project or costs that are allocated by the Operating Board under this subsection IV.C.3.b. The amended Exhibits VI or VII will be incorporated as part of this Contract.

c. The Operating Board shall determine whether the infrastructure costs of New Transmission Facilities shall be recovered through FCs or new transmission rates.

d. The Operating Board may allocate the reasonable expenses of the Operating Board to this cost pool.

4. Operating Board Review. Prior to commencing in the design and construction of facilities eligible for inclusion in the New Supply or New Transmission Cost Pools, Seattle will review the purpose, timing, and need for said new supplies with the Operating Board. The Operating Board will have 90 days to provide Seattle with written comments on the proposed new supply or transmission development along with its recommendation on whether or not Seattle should proceed with the proposed plan. Nothing in this provision shall be interpreted to prevent Seattle from engaging in preliminary design efforts necessary to determine the feasibility of or costs associated with a particular project.

5. Subregional Cost Pools. Certain Wholesale Customers are served, in part, by subregional transmission facilities that only benefit those Wholesale Customers in the specific subregions. If Water Utility is served by subregional transmission facilities as described in Exhibit I, Water Utility is subject to the relevant provisions of this Section IV.C.45. If Water Utility is not served by subregional transmission facilities, this provision does not

Commented [MG122]: Matching language in first sentence.

Commented [EF123R122]: ok

apply. The following subregional cost pools shall be accounted for as follows:

- a. Eastside, Southwest and Renton Subregional Cost Pools. A rate for each subregion shall be charged to the appropriate Wholesale Customers who are served by the respective subregional facilities to recover the full costs, as defined by this Contract, of owning, constructing, operating, maintaining, repairing, renewing and replacing and supporting the Eastside, Southwest or Renton Subregional Facilities, respectively, which are assigned to the respective subregional cost pools. Seattle may amend the list of Subregional Facilities in Exhibit VII, if necessary, to add or delete Subregional Facilities. The amended Exhibit VII will be incorporated as part of this Contract.
- b. The Operating Board may approve the allocation of other costs that benefit the specific Wholesale Customers served by the Eastside, Southwest or Renton Subregional Cost Pools, as appropriate.

6. Renton New Supply Cost Pool. The Renton New Supply Cost Pool shall be accounted for as follows:

The full costs of owning, constructing, operating, maintaining, repairing, renewing and replacing and supporting the New Supply Facilities developed after January 1, 2012, including the costs of the Regional Water Conservation Program beginning January 1, 2012, shall be included in the Renton New Supply Cost Pool.

7. Creation of Additional Cost Pools. Seattle, in its discretion, may create additional cost pools, including its allocation by customer or customer class, 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

or responds to changed circumstances such as new regulatory requirements. The Operating Board may review and recommend revisions to the definition of the additional cost pool, and how it will be accounted for or allocated by customer or customer class. The Operating Board may approve the allocation of costs, or portion thereof, between a newly created additional cost pool and an existing cost pool if the costs to be allocated satisfy the criteria for allocation to the existing cost pool. Seattle and Water Utility will revise the Contract by letter agreement for the limited purposes of documenting the creation and allocation of an additional cost pool under this Section IV.C.67.

7.8. **Approval of Cost Allocation Method.** The Operating Board shall use its best efforts to determine and approve a cost allocation method for infrastructure projects and related capital costs within the Seattle Regional Water Supply System prior to the project obtaining construction approval from the Seattle City Council. Failure of the Operating Board to approve a cost allocation method, however, shall not hinder Seattle from approving such projects in order to assure Seattle's fulfillment of its obligations under this Contract.

#### **IV.D. Allocation of Costs and Revenues into Cost Pools**

1. Accounting. Seattle shall maintain and use a cost accounting system consistent with the provisions of this Contract and the GASB standards, as amended from time to time, consistently applied in developing the financial information for determining the costs of acquisition or ownership, construction, repair, renewal, replacement, upgrade, expansion, maintenance and operation of the Seattle Regional Water Supply System. Seattle's compliance with GASB standards will take precedence over any conflicting accounting provisions under this Contract.

- 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 the facilities assigned to each cost pool as more particularly listed in Exhibits VI and VII (Regional Facilities and Subregional Facilities, respectively) and recognized on a utility, ~~or cash or other cost~~ basis depending upon the facility and the cost pool as set forth below.

- a. Cost Basis. Seattle shall determine one of the following bases to recognize the infrastructure costs for ratemaking purposes and use it consistently throughout the life of the facility.
  - i. Utility Basis. Seattle shall use the Utility Basis to recognize the infrastructure costs for all Existing Regional and Subregional Facilities, as well as their replacements and betterments or portions thereof, ~~unless Seattle, in its discretion, determines that the infrastructure costs for a certain facility should be recognized using an alternative basis.~~ Seattle, ~~in its discretion, may shall~~

also use the Utility Basis for New Supply and New Transmission Facilities. 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 of that facility.

(a) Seattle, in its discretion, may consider interest costs as 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 recognizing infrastructure costs under the Utility Basis in future years.

~~(a)~~(b) For rate-making purposes and with the approval of the Operating Board, assets may be depreciated over a different time frame than that used by Seattle for financial reporting purposes in preparation of its audited Financial Statements.

ii. Cash Basis. Seattle, ~~in its discretion~~with the approval of the Operating Board, may use the Cash Basis to recognize infrastructure costs for any Regional or Subregional 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 listed in the asset account is less than the term of the debt issued to

finance all or a portion of the facility, Seattle will select debt maturities such that the construction cost of the facility will be fully amortized under the Cash Basis at the end of its depreciation lifetime.

~~iv. Other Basis. Seattle, with the approval of the Operating Board, may determine one or more other bases on which to recognize infrastructure costs and may apply these bases to facilities in any cost pool. Seattle will determine the recognition of disposition costs of any facilities under another basis at the same time the new basis is established. If a new basis is established under this Section VI.D.2.a.iii, it will be reflected in the Wholesale Statements pursuant to Section IV.~~

b. Infrastructure Adder. ~~The Parties mutually agree to use an initial Infrastructure Adder of 1.40%, which Seattle will apply as a component of the Rate of Return on Investment, to the Net Book Value of facilities that are recognized under the Utility Basis.~~ The parties agree the Infrastructure Adder provides a reasonable way to recover an allowance for 1) the regional portion of infrastructure costs of Mixed-use Assets; 2) the regional portion of mixed-use unrestricted cash assets; and 3) the equity or higher opportunity cost of cash financing Regional Facilities or the regional portion of Mixed-use Assets. ~~The parties agree that Seattle may adjust the Infrastructure Adder that is applied to facilities recognized under the Utility Basis from time to time as follows:~~

~~e. — In order to maintain an equitable allocation of costs through the allowance, Seattle may increase or decrease the then current Infrastructure Adder annually by 0.2412% for every 1.00% increase or decrease to Seattle's ACOD, or portion~~

~~thereof, as the case may be, e.g. if Seattle's ACOD increases from 4.08% to 5.08%, the Infrastructure Adder would increase from 1.40% to 1.6452%.~~

~~i. In the event Seattle determines to use the Cash Basis to recognize costs for a Regional or Subregional Facility, Seattle may adjust the then current Infrastructure Adder by multiplying it by an amount equal to the sum of the then current NBV of Regional and Subregional Facilities recognized under the Utility Basis plus the current NBV of such Facilities recognized under the Cash Basis, divided by the then current NBV of Regional and Subregional Facilities recognized under the Utility Basis only.~~

d.c. Facilities Charges.

i. Establishing Facilities Charges. If the Operating Board determines to recover infrastructure costs for certain New Supply or New Transmission Facilities through FCs, then Seattle will establish FCs as follows:

(a) ERU Charge. At the time the designated New Supply or New Transmission Facilities are put into service, Seattle shall establish a charge per one Equivalent Residential Unit (ERU Charge) for the Facility, or Facilities as the case may be, ~~pursuant to the methodology in Exhibit V, which may include adjusting existing ERU Charges, if any, to include the new ERU Charges being established.~~

(b) ERUs.

(i) ERU Definition. Seattle, in its discretion, shall set, or amend from time to time, the capacity of one ERU to reflect the typical

consumption of a single-family residence based on appropriate information consistent with accepted industry standards. The Operating Board may review and recommend revisions to Seattle's ERU definition. The then current ERU definition will be used in the methodology in Exhibit V to establish an ERU Charge.

(ii) ERU Factor. Seattle shall use the table of ERU Factors set forth in Exhibit V, which assigns a multiplier to each retail meter connection size. Seattle may propose, and the Operating Board may approve, adjustments to the table of ERU Factors. In the event the Operating Board approves an adjustment to the ERU Factors, the parties will amend Section B of Exhibit V by letter agreement for the limited purposes of documenting adjustments to the ERU Factors.

(c) Facilities Charges. Seattle shall adopt Facilities Charges for each meter connection size based on the then current ERU Charge multiplied by the ERU Factor.

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

(a) Water Utility's Retail Connections. Until such time as Seattle develops another basis, Water Utility shall track the number and size of each retail meter installed by Water Utility during each month and pay the appropriate Facilities Charges, taking into account the size of each meter, within 30 days of the end of the

next month, unless Water Utility has an FC Allowance balance pursuant to Section IV.D.2.c.iii below.

- (b) Seattle shall pay FCs on the same basis.
- (c) If Water Utility has an FC Allowance as listed in Section 2 of Exhibit ~~4~~, the FC Allowance balance will be reduced by an amount equal to the aggregate of the ERU Factors for each meter added by Water Utility during the previous month, and such reduction of the FC Allowance balance shall be in lieu of payment of FCs until the FC Allowance is zero.
- (d) Seattle will allocate FC revenues to offset infrastructure costs in the New Supply or New Transmission Cost Pools, respectively, based on which cost pool the Regional Facility whose infrastructure costs are being recovered through FCs is assigned. Seattle and Water Utility agree that FC revenues are the sole property of Seattle.

- iii. FC Allowance for ~~Independent Supplies~~. If Water Utility operates Independent Supplies or Purchased Supplies as listed in Exhibit I, Seattle ~~may~~ shall establish a growth allowance (“FC Allowance”) based on the amount of additional ERUs the Independent Supply or Purchased Supply is sufficient to serve within Water Utility's retail distribution service area as specifically described in Section 2 of Exhibit I as of the effective date of this Contract. The FC Allowance shall be a credit against the imposition of FCs until the FC Allowance reaches zero, then Water Utility shall pay

FCs in accordance with Section IV.D.2.c.ii above.

- (a) Increase in FC Allowance. If Water Utility develops new Independent Supplies ~~or~~ makes improvements to an existing Independent Supply, or acquires new Purchased Supplies that increases the average annual production listed in Section 2 and/or Section 3 of Exhibit 1, the FC Allowance shall be adjusted as follows. If the new or improved Independent Supply or Purchased Supply produces at least ~~of~~ one-third of its average annual production during the period between mid-May and mid-September, a trial period ("Trial Period") for the new or improved Independent Supply or Purchased Supply shall commence on January 1st of the calendar year following the year in which the new or improved Independent Supply or Purchased Supply was placed into production. The Trial Period shall extend for three calendar years. At the conclusion of the Trial Period, the FC Allowance shall be increased by the additional number of ERUs, using the then current ERU definition, served by the average annual production of the new or improved Independent Supply or Purchased Supply during the Trial Period. The parties will amend Exhibit I by letter agreement to document the adjusted FC Allowance and the average annual production of the new or improved Independent Supply or Purchased Supply.
- (b) Decrease in FC Allowance. In the event that the average annual

production of an Independent Supply or Purchased Supply, or of all Independent or Purchased Supplies in aggregate, is lower than the average annual production as listed and under the conditions provided in Section II or Section III of Exhibit 1-, the outstanding FC Allowance shall be reduced by the number of ERUs, at the then current ERU definition, that could be served, on an annual basis, by a supply of the same size as the reduction in average annual production of the Independent Supplies or Purchased Supplies. In the event that this adjustment results in a negative FC Allowance, Water Utility shall pay Seattle an amount equal to the then-current ERU Charge multiplied by the (negative) FC Allowance multiplied by minus one. The FC Allowance shall be zero upon full payment or commencement of payments under a payment agreement pursuant to Section VII.A.2.

**Commented [EF124]:** Given the inclusion of Purchased Supply, need to include the reference to Section III.

**Commented [TG125R124]:** Seattle agrees with the addition of Section III.

iv. Record-Keeping.

- (a) Monthly Report. Water Utility shall provide Seattle with a monthly report, in a form acceptable to Seattle, along with its monthly payment of FCs, showing the number of retail connections by size that Water Utility installed in the previous month.
- (b) Annual Report. Water Utility shall provide Seattle with an annual report by January 31st of each year for the previous year, in a form acceptable to Seattle, showing the total number of its retail

connections by size as of December 31 of each year.

- (c) Seattle Annual Report on ERUs. Seattle shall prepare and distribute a report, no later than March 31st of each year, showing the ERUs for the Seattle Retail Distribution System and each Wholesale Customer for the previous year and each year since the original effective date of this Contract.

- 3. O&M Costs. The parties mutually agree to handle the O&M Costs for each cost pool as follows:

- a. Annual O&M Costs. For each of the Existing Regional System, New Supply and New Transmission Cost Pools, the Annual O&M Costs shall consist of the relevant Index O&M Costs times the Mixed-Use Multiplier, plus any Non-index O&M Costs in that year, if any. ~~For the Existing Regional System, the Index O&M costs and corresponding Mixed-Use Multiplier are composed of two categories of costs: existing supply and existing transmission.~~

- i. Index O&M Costs. The Index O&M Costs are the O&M Costs for the regional O&M Cost categories for each cost pool as more particularly described in Exhibit VIII and are intended to reflect the O&M Costs for Regional Facilities and regional-only programs and support functions. ~~Existing Regional System Index O&M Costs are categorized into two categories in Exhibit VIII: existing supply and existing transmission.~~ Seattle, in consultation with the Operating Board, may amend the list of Index O&M Cost categories in Exhibit VIII, if necessary, when a Regional Facility is added to or deleted from Exhibit VI or a regional-only program

or support function is established or discontinued. The amended Exhibit VIII will be incorporated as part of this Contract.

ii. ~~Mixed-use Multipliers.~~ The parties agree to use ~~an an~~ initial Mixed-use Multipliers of ~~2.001-2.0011.4383 for the existing supply portion of the Existing Regional System Index O&M, 3.8095 for the existing transmission portion of the Existing Regional System Index O&M, and 2.2335 for New Supply Index O&M,~~ which, as applied above, results in an allowance for the portion of Mixed-use O&M Costs that support the Seattle Regional Water Supply System. ~~The initial Mixed-use Multipliers established in this Contract, and any adjusted Mixed-use Multipliers, shall be consistent with the Ratemaking Principles in Section IV.A of this Contract and will be subject to periodic adjustment and review as provided in subsection (a) and (i)-(iv)-(b) below, Section IV.G.4, and Section IV.H.1.a.~~

- (a) The Mixed-Use Multiplier shall be adjusted every five years as a part of the Wholesale Statements, following the procedure below.
- (i) Categorize the prior three years' O&M Costs of the Seattle Water Enterprise Fund, net of debt service and taxes on water sales, into the following: Index O&M Costs, Non-index O&M Costs, Mixed-use O&M Costs, and the remainder, which is assigned as Seattle's retail costs.
  - (ii) Divide the Index O&M Cost by the sum of the Index O&M

**Commented [EF126]:** The F&Ps have some questions. Why is SPU using cost data from 2001 or 2005 rather than current data?

The F&Ps would like to understand how these numbers were calculated.

**Commented [TG127R126]:** Lets discuss.

**Commented [TG128R126]:** Seattle has put together a separate document that explains the mix-use multipliers to answer the questions from the December 5<sup>th</sup> meeting.

**Commented [MG129R126]:** We have included language to address your concerns related to the MUM.

**Commented [EF130]:** New language added to address concerns about the MUM.

**Commented [GM131R130]:** Agreed.

**Commented [GM132R130]:** Agreed to with our revisions.

Cost and the retail cost. This calculation produces a percentage.

(iii) Apply the percentage produced in (ii) to the Mixed-use O&M Costs. The result is the portion of the Mixed-use O&M that will be recovered by the Mixed-use Multiplier.

(iv) To calculate the Mixed-use Multiplier, add the result from (iii) to the Index O&M Cost and divide that sum by the Index O&M Cost.

- (b) Seattle, in its discretion, may adjust the Mixed-use Multiplier from time to time when 1) it determines that the allowance produced by the then current Mixed-use Multiplier should not change in proportion to a change in the Index O&M Costs; and 2) the change in the Index O&M Costs was due to the addition or deletion of a Regional Facility resulting in a change of more than \$100,000 of Index O&Ms Costs. The calculation of the adjusted Mixed-use Multiplier shall follow the procedure outlined in Section IV.D.3.a.ii.(a) above, except that the anticipated change in cost for the added or deleted Regional Facility shall be added to or subtracted from the Index O&M Cost, respectively. In that case, Seattle shall establish a new Mixed-use Multiplier as follows:

~~Determine an appropriate amount to change the allowance for Mixed-use O&M Costs; then~~

- (i) ~~Multiply the Index O&M Costs without the change from the addition or deletion of the Regional Facility by the then~~

~~current Mixed-use Multiplier and then add the amount from~~

~~(i) above; then~~

~~(ii) Divide the amount from (ii) by the Index O&M Costs with~~

~~the change from the addition or deletion of the Regional~~

~~Facility.~~

- (c) The calculation of the adjusted Mixed-use Multiplier will be documented in the Wholesale Statements described in Section IV ~~HI~~.

Commented [TG133]: Seattle agrees with change.

~~iii.~~ Non-index O&M Costs. Seattle, in its discretion, may add certain regional O&M Costs that are unique or nonrecurring to the Annual O&M Cost in any year(s), as appropriate. For Non-Index O&M Costs larger than 1% of the annual Index O&M Costs, the Operating Board may elect to amortize the costs over a timeframe of the Board's choosing, not to exceed ten years. The annual amortization shall be included in the applicable cost pool, as well as the product of the unamortized cost and Seattle's Cash Pool Rate. Examples include, but are not limited to, net disposition costs, claims or pre- or post-capital expenses.

- b. Subregional O&M Costs. For each of the Subregional Cost Pools, the Annual O&M Costs shall consist of the actual O&M Costs for the respective Subregional Facilities assigned to each Subregional Cost Pool, including any net disposition costs for any of the Subregional Facilities in that cost pool, if any; together with any additional O&M Costs for the Subregional Facilities approved by Operating Board.

Commented [TG134]: Seattle agrees with this change.

- c. Renton New Supply O&M Costs. For the Renton New Supply Cost Pool, the Annual O&M Costs shall be the same as the Annual O&M Costs in the New Supply Cost Pool.
- d. Disposition Costs. The costs of disposing of Regional or Subregional Facilities shall be included in the cost pool to which the Regional or Subregional Facilities are assigned. In the case of Regional Facilities, the net disposition costs will be added as a Non-index O&M Cost. Net disposition costs shall be calculated as follows:
- i. 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. If an alternate life is being used for rate-making purposes as compared to Seattle's financial reporting and Financial Statement purposes, the Net Book Value refers to the remaining asset value under the alternate life.
  - ii. 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.
  - ~~iii. Disposition Under Other Basis. Disposition of any facilities whose infrastructure costs are calculated on another basis under Section IV.D.2.a.iii. above shall be determined at the time the other basis is defined.~~
  - iii. Certain Large Net Disposition Costs. For net disposition costs larger than

1% of the annual Index O&M Costs, the Operating Board may elect to amortize the net disposition costs over the remaining life of the asset(s), or another timeframe of the Board's choosing not to exceed ten years. The annual amortization shall be included in the applicable cost pool, as well as the product of the unamortized net disposition cost and Seattle's Cash Pool Rate.

#### **IV.E Allocation of Cost Pools by Customer or Customer Class.**

The costs and revenues in the cost pools shall be allocated within the pools as follows:

1. Allocation of Existing Regional System Cost Pool. The total cost of the Existing Regional System Cost Pool shall be allocated to customer classes as follows:
  - a. Block Purchase Customer Class. The portion of costs in the Existing Regional System Cost Pool allocated to holders of Block Purchase Contracts shall be determined pursuant to those contracts, if any.
  - b. Other wholesale customers. The portion of costs in the Existing Regional System Cost Pool or Existing Supply and Existing Transmission Cost Pools, depending how they are named in the Block Contracts, allocated to holders of other types of wholesale water supply contracts with Seattle shall be determined pursuant to those contracts, if any.
  - c. 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 Regional System Cost Pool after the allocations in Sections IV.E.1.a and b above.
2. Allocation of New Supply Cost Pool. The total costs of the New Supply Cost Pool shall

be allocated as follows:

- a. Block Purchase Customer Class. The portion of costs in the New Supply Cost Pool allocated to holders of Block Purchase Contracts shall be determined pursuant to those contracts, if any.
- b. Other wholesale customers. The portion of costs in the New Supply Cost Pool allocated to holders of other types of wholesale water supply contracts with Seattle shall be determined pursuant to those contracts, if any.
- c. Full and Partial Requirements Customer Class. The holders of Full and Partial Requirements Contracts, except for Renton, and the Seattle Retail Distribution System shall be allocated the remaining costs in the New Supply Cost Pool after the allocations to Block Purchase Customers or other wholesale customers, if any, pursuant to Sections IV.E.2.a and b above; and after deducting an equivalent amount of costs that are allocated to Renton under the Renton New Supply Cost Pool pursuant to Section IV.E.5 below.

3. Allocation of New Transmission Cost Pool. The costs allocated to the New Transmission Cost Pool shall be allocated as follows:

- a. Block Purchase Customer Class. The portion of costs in the New Transmission Cost Pool allocated to holders of Block Purchase Contracts shall be determined pursuant to those contracts, if any.
- b. Other wholesale customers. The portion of costs in the New Transmission Cost Pool allocated to holders of other types of wholesale water supply contracts with Seattle shall be determined pursuant to those contracts, if any.
- c. 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 New Transmission Cost Pool after allocations to Block Purchase Customers or other wholesale customers, if any, pursuant to Section IV.E.3.a and b above.

4. Allocation of Eastside, Southwest and Renton Sub regional Cost Pools. All costs in the Eastside, Southwest and Renton **Sub regional** Cost Pools shall be allocated to the Wholesale Customers served by the respective Subregional Facilities according to Exhibit VII.
5. Allocation of the Renton New Supply Cost Pool. A portion of the costs in the Renton New Supply Cost Pool shall be allocated as follows:
  - a. Block Purchase Customer Class and other wholesale customers. The holders of Block Purchase Contracts or other wholesale customers shall not be allocated any costs from the Renton New Supply Cost Pool.
  - b. Full and Partial Requirements Customers. Except for Renton, the holders of Full and Partial Requirements Contracts and the Seattle Retail Distribution System shall not be allocated any costs from the Renton New Supply Cost Pool.
  - c. Renton. Renton shall be allocated ~~6.36.8~~6.36.8% of the remaining costs in the Renton New Supply Cost Pool after deducting an amount equivalent to the amount of costs from the New Supply Cost Pool allocated to the Block Purchase Customer Class or other wholesale customers, if any, pursuant to Section IV.E.2.a and b above. Seattle will recover the costs allocated to Renton from the Renton New Supply Cost Pool by a block payment paid in 12 equal installments in lieu of paying new supply rates or Facilities Charges (FCs) from the New Supply Cost

Commented [TG135]: Seattle agrees with your change.

Pool.

- i. Seattle may update the percentage share of the costs in this cost pool allocated to Renton if Renton acquires additional retail distribution service area pursuant to Section II.B.2, or on January 1, 2022 and every 5 years thereafter during the term of this Contract. The basis for any adjustments to the percentage allocation will be based on the percentage of average annual flows of Renton's retail customers over the 5 prior years as compared to the average annual flows of all retail customers of the Wholesale Customers and the Seattle Regional Distribution System over the same 5 years.

6. Allocation of Additional Cost Pools. At the time an additional cost pool is created by Seattle pursuant to Section IV.C.67, the additional cost pool will be allocated by customer or customer class. The parties will enter into a letter agreement for the limited purposes of documenting the allocation of an additional cost pool.

#### **IV.F. Elective Services**

1. Elective Services. Seattle may provide certain elective services that are in addition to the services provided under this Contract to Water Utility upon request by Water Utility. Such services shall be negotiated and contracted for separately between Water Utility and Seattle or provided at then current standard charges, if applicable. Elective services may include:
  - a. Transmission Wheeling. Seattle, at its sole discretion, may provide Water Utility access to excess transmission capacity, if any, for a fee and under any conditions it deems reasonable to protect the Seattle Regional Water Supply System for

purposes of wheeling compatible water to or from Water Utility through the Seattle Regional Water Supply System. The Operating Board may review and recommend revisions to any policies or criteria Seattle may use to consider a request for wheeling services from a Wholesale Customer.

- b. 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 for testing of samples for water quality monitoring that Water Utility performs.

#### **IV.G. Rate Setting, Adjustments and Special Charges**

1. Wholesale Rate Setting. Seattle, in its sole discretion, shall determine the structure of FCs and wholesale water rates, except that the FCs or wholesale rates may not, without approval of the Operating Board, be set to collect more than the projected costs included in the cost pools as described in this Section IV.
2. 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, including the manner of passing through or incorporating any wholesale rates and charges due under this Contract.

3. Wholesale Rate Adjustment. Seattle may adjust water service rates and FCs from [time] to time. Rate adjustments will be effective only within five years of the completion of a rate study consistent with Section IV.G.34 below and provided that Seattle transmits its final rate adjustment proposal to the Operating Board and Water Utility for final review at least 30 days before it transmits it to Seattle City Council for consideration. The Operating Board may review and recommend revisions to the final rate proposal. Seattle will provide a written explanation of any recommendations that are not accepted and forwarded to Seattle City Council.

Commented [EF136]: Seems to be a font or formatting issue.

Commented [TG137R136]: Corrected.

4. Rate Study and Review Consultant. Seattle shall conduct a rate study in accordance with accepted industry standards and this Contract. Seattle shall provide Water Utility and the Operation Board 30 days' advance written notice of its intent to conduct a rate study and shall make detailed information and progress reports during the course of the rate study available to Water Utility, other Wholesale Customers and the Operating Board for review and comment. Seattle shall select an independent rate consultant to review the rate study, including an independent review of the allocation of costs and revenues between cost pools, ~~including the Mixed-use Multipliers.~~ The Operating Board may review and recommend revisions to the scope of work for the rate consultant. Seattle shall cause a final rate consultant report to be made available to Water Utility and the Operating Board not less than 30 days before Seattle formally transmits any resulting rate adjustment proposal to the Operating Board. Unless otherwise approved by the Operating Board, Seattle shall conduct an independent cost-of-service rate study no less frequently than once every five years. Provided, however, within three months after execution of the Contract amendments negotiated and agreed to in 2024/2025, Seattle agrees to begin performing a

Commented [EF138]: new language added to address concerns about the MUM.

Commented [MG139R138]: Will be handled as part of the review of the Wholesale Statement True Up.

~~cost of service rate study and associated true up adjustments.~~

5. Special Charges.

a. Demand Charge.

- i. Seattle, in its discretion, may adopt and implement a demand charge in accordance with the methodology described in Exhibit III. The demand charge consists of a calculation of Water Utility's deficient storage, if any, and a Storage Deficiency Rate (i.e., dollars per 1000 gallons of deficient storage) that is based on an equivalent annualized cost of providing the deficient storage, and which shall be updated with each rate study.
- ii. Seattle shall be exempt from the demand charge until such time as metering devices are installed pursuant to Section III.E.2.
- iii. The costs and revenues from implementing the demand charge will be allocated to the Existing Regional System Cost Pool. The Operating Board may approve the allocation of these costs and revenues to the New Transmission Cost Pool in the future to offset other costs that may be allocated to the New Transmission Cost Pool in the future.
- iv. Seattle shall suspend the implementation of demand charges, if any, in the event of emergencies and unforeseen conditions.

- b. Emergency Surcharge. In the event of a drought, catastrophe, or other extraordinary condition that requires emergency expenditures to maintain sufficient and safe water supply or transmission capacity, or both, Seattle, through its City Council, may impose an emergency surcharge on all Wholesale Customers, including Seattle, in order to pay for emergency expenditures or

maintain financial stability of the Seattle Regional Water Supply System, or both (“Emergency Surcharge”). The Operating Board may review and recommend revisions to any proposed Emergency Surcharge prior to submission to the Seattle City Council for consideration. Seattle shall provide a written explanation of any recommendations that are not accepted and forwarded to City Council. Revenues from an Emergency Surcharge will be applied to the appropriate cost pool that relates to the Emergency situation giving rise to the Emergency Surcharge. For the avoidance of doubt, and for example only, an emergency surcharge issued in response to a drought would be applied to offset costs in the Existing Regional System Cost Pool and an Emergency Surcharge issued to pay for extensive transmission repair on New Transmission Facilities assets would offset costs in the New Transmission Cost Pool. If the emergency is not related to any particular cost pool, the Operating Board shall make the final determination as to which cost pool the revenues shall be applied.

Commented [TG140]: Seattle accepts these changes in green in this section.

c. New Wholesale Customer Charge. Seattle will charge any new customer who signs a Full or Partial Requirements Contract after the Effective Date of this Contract and who has not previously contributed to the costs in the New Supply Cost Pool or the development of New Supply Facilities an appropriate charge for an equitable share of the New Supply Facilities. This charge may be satisfied by either paying FCs and new supply rates or arranging a special water supply rate in lieu of paying FCs. The revenue from this charge will be allocated to offset costs in the New Supply Cost Pool.

## 6. Transition

a. Initial Existing Regional System Running Balance Surplus

As part of the contract transition process, Seattle shall implement a one-time return of the lesser of the full amount of the Existing Regional System Cost Pool running balance surplus or \$XX82M to Wholesale Customers as credits on their monthly bills to be received over the 12-month period in lump sum payments in the year following completion of the updated contracts (either fully executed with mutual agreement or amended through the process identified in Section II.A.4(b)) with all Wholesale Customers. Water Utility will ~~begin to receive credits on its bill~~ payment ~~in the year~~ for its prorated portion of the amount above based on each Wholesale Customer's demand since the balance last crossed zero within 60 days following the completion of the updated contracts (as defined above), even if such payments are made the credits beginning before the Effective Date of the Contract, for its prorated portion of the amount above based on each Wholesale Customer's demand since the balance last crossed zero.

b. Initial Cost-of-Service Rate Study

Seattle agrees to begin performing a cost-of-service rate study no later than within three months of the date on which all Wholesale Customer contracts are either fully executed pursuant to Section II.A.4(a) or amended pursuant to Section II.A.4(b).

c. Rebate Based on Alternate Utility Basis Cost

As a result of negotiations pursuant to Section II.A.4.a, an Alternate Utility Basis will be applied as described below to calculate an annual rebate to

**Commented [EF141]:** In the last workshop, SPU indicated that this number could be \$65M, but we asked SPU to take another look at this and see if that could be adjusted upward to \$70-\$75M. What is the maximum number that SPU can offer without causing issues relating to SPU's bond rating?

**Commented [TG142R141]:** The maximum is \$82M (corrected), which is the projected balance as of 12/31/2024. The balance is projected to add an additional \$10M over 2025. The contract language has been amended to reflect the ability to issue checks and that the payment can be made before the effective date.

**Commented [EF143R141]:** I think this resolves this issue.

**Commented [MG144R141]:** Agreed.

**Commented [EF145]:** This language implies it could be the year after the updated contracts are done.

**Commented [TG146R145]:** Seattle will issue refund checks within 60 days of the signing and amending of the contracts.

**Commented [EF147]:** The language proposed by SPU would delay payment of the credits until after January 1, 2026. Based on our discussions, SPU indicated that it could immediately begin the process of applying billing credits. The F&Ps should not have to wait another year or more for the credits to begin.

**Commented [TG148R147]:** See our response above.

**Commented [EF149]:** It seems like SPU should be able to commit to beginning its rate study early in 2025.

**Commented [TG150R149]:** Seattle agrees with these changes highlighted in green.

**Commented [EF151]:** I just want to confirm my prior comments that some of the F&Ps have questioned the legality of this provision as it appears to be designed to avoid the requirements that SPU treat all Wholesale Customers equally.

**Commented [TG152R151]:** Let's discuss

**Commented [TG153R151]:** Seattle is awaiting a response from Eric regarding which provision he is basing this argument on.

**Commented [EF154R151]:** Non-signers reserve all rights.

**Commented [GM155R151]:** We are not sure what "reserve all rights" means in this scenario so do not specifically agree to your comment.

**Commented [EF156R151]:** I believe there are potential legal issues relating to this "annual rebate" that could be challenged by a non-signer. The comment is intended to avoid a situation where SPU take the position that a non-signer did not object to this provision and is somehow ... [1]

Wholesale Customers signing this First Amended and Restated Contract for the Supply of Water. Water Utility will be eligible for an annual rebate in the form of a credit on its bill for a portion of the difference between Utility Basis cost and the Alternative Utility Basis cost (for assets whose cost is calculated on a Utility Basis) as described below, if the Alternative Utility Basis results in a lower cost. This comparison will be conducted annually as part of the Wholesale Sstatement Review and the Water Utility's portion will be based on Water Utility's percentage of Wholesale Customer demand for each applicable Cost Pool in that year.

i. Definitions.

The following definitions will be used to calculate the Alternative Utility Basis cost:

"Alternate Infrastructure Adder" – A certain percentage amount that is applied as a component of the Rate of Return on Investment to the Net Book Value of facilities recognized under the Utility Basis, which may be adjusted pursuant to Section IV.G.6.c.iii below.

"Alternate Mixed-use Assets" – Capitalized facilities or assets that are shared between or used to support both the Seattle Retail Distribution System and the Seattle Regional Water Supply System.

"Alternate Rate of Return on Investment" – Alternate Seattle's Average Cost of Debt plus the Alternate Infrastructure Adder

"Alternate Seattle's Average Cost of Debt" ("Alternative ACOD") - The weighted average coupon interest rate on Seattle's water system debt

outstanding over the course of a calendar year with adjustments to recognize i) outstanding amortized premium or discount on water system debt; ii) gains/losses on water system bond refunding's; iii) issuance costs including third party costs paid by bond proceeds; iv) prepaid insurance costs; v) net interest expense on debt service reserves; and vi) any other appropriate ongoing debt costs, e.g. variable rate remarketing, ongoing credit rating agency monitoring fees, calculated at the end of each calendar year during the term of this Contract

ii. Under the Alternate 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 Alternate Rate of Return on Investment of that facility.

a. Seattle, in its discretion, may consider interest costs as 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 recognizing infrastructure costs under the Utility Basis in future years.

b. For ~~rate-making~~ purposes and with the approval of the Operating Board, assets may be depreciated over a different time frame than that used by Seattle for financial reporting purposes in preparation of its audited Financial Statements.

iii. Alternate Infrastructure Adder. The Parties mutually agree to use an

Commented [TG157]: Seattle agrees with change.

initial Alternate Infrastructure Adder of 1.40%, which Seattle will apply as a component of the Rate of Return on Investment, to the Net Book Value of facilities that are recognized under the Utility Basis. The parties agree the Alternate Infrastructure Adder provides a reasonable way to recover an allowance for 1) the regional portion of infrastructure costs of Mixed-use Assets; 2) the regional portion of mixed-use unrestricted cash assets; and 3) the equity or higher opportunity cost of cash financing Regional Facilities or the regional portion of Mixed-use Assets. The parties agree that Seattle may adjust the Alternate Infrastructure Adder that is applied to facilities recognized under the Alternate Utility Basis from time to time as follows:

a. In order to maintain an equitable allocation of costs through the allowance, Seattle may increase or decrease the then current Alternate Infrastructure Adder annually by 0.12% for every 1.00% increase or decrease to Seattle's Alternative ACOD, or portion thereof, as the case may be, e.g. if Seattle's Alternative ACOD increases from 4.08% to 5.08%, the Infrastructure Adder would increase from 1.40% to 1.52%.

~~a~~.b. In the event the Operating Board determines to use the Cash Basis to recognize costs for a Regional or Subregional Facility, Seattle may adjust the then current Alternate Infrastructure Adder by multiplying it by an amount equal to the sum of the then current NBV of Regional and Subregional Facilities recognized under the Alternate Utility Basis plus the current NBV of such Facilities recognized under the

Cash Basis, divided by the then current NBV of Regional and Subregional Facilities recognized under the Alternative Utility Basis only.

#### IV.H. Cost Review and Truing Actual Costs and Actual Revenues

1. Wholesale Statement Review. At the end of each fiscal year, Seattle shall cause an independent review of its statement of actual costs and revenues received allocated to each cost pool (“Wholesale Statements”). Seattle will select an independent accountant, which may be Seattle’s independent auditor for its audited financial statements, ~~and confirm agreed-upon procedures for the review of the Wholesale Statements. The Operating Board may review and recommend revisions to the scope of the agreed-upon procedures. Seattle will cause the independent accountant to present a copy of the review report to the Operating Board and Water Utility. The Operating Board, or Water Utility at its sole expense, may select its own independent accountant to review the Wholesale Statements under separate agreed-upon procedures at their discretion.~~

a. Scope of Review. The procedures for the annual review shall be set by the Operating Board and shall include, at a minimum: (i) a comparison of the actual costs and revenues received to Seattle’s accounting records, (ii) a comparison of the procedures used by Seattle to allocate costs and revenues to each cost pool to those procedures and requirements specified in this Contract, (iii) in years where the Mixed-use Multiplier is adjusted, the accuracy of the adjustment calculation, Mixed-use Multipliers, and (iv) identification of any corrective actions necessary. The scope of review may include additional elements identified by the independent accountant, as well as ~~and~~ procedures at Seattle’s discretion

Commented [EF158]: New language added to address concerns about the MUM.

Commented [GM159R158]: Yes; agreed with our revisions.

Commented [TG160]: Seattle agrees with deletion.

together with any reasonable requests of the Operating Board.

b. Operating Board and Water Utility Review of Report of Independent Accountant

Seattle will cause the independent accountant to present a copy of the review report to the Operating Board and Water Utility.

c. Operating Board and Water Utility Right to Review

The Operating Board, or Water Utility at its sole expense, may select its own independent accountant to review the Wholesale Statements ~~including or the~~ Mixed-use Multiplier ~~Multipliers~~ under separate agreed-upon procedures at their discretion. Subject to Seattle's reasonable requests for security and confidentiality procedures and agreement to the same, an independent accountant retained by Water Utility, may at any time upon prior reasonable notice to Seattle and in coordination with Seattle's reasonable scheduling ability, during normal business hours, review the books, records and accounts of Seattle to the extent that such books, records and accounts are directly used in the production of the Wholesale Statements or other allocations, charges or payments under this Contract. Seattle shall maintain all such books, records and accounts. Independent accountant's access shall include the right to make copies and discuss the books and records with Seattle's personnel having knowledge of the facilities, systems, processes and document contents. Water Utility's right to audit review shall survive the expiration or termination of this Contract for a period of three (3) years. If an inspection or examination pursuant to this section discloses overpricing or overcharges by Seattle in excess of one percent (1%) of the appropriate amount due, in addition to making adjustments for the overcharges, the reasonable actual

cost of Water Utility's review shall be reimbursed to Water Utility by Seattle, and the costs will be included in the Existing Regional ~~Cost~~ Pool. Any adjustments which must be made as a result of any such review shall be reflected in the Wholesale Statements.

Commented [TG161]: Seattle agrees with change.

2. Truing Actual Costs and Actual Revenues. Seattle shall reconcile the projected costs and revenue targets for the various cost pools and the actual expenses and revenues received during each year of this Contract as follows:

a. Running Balances. For each cost pool, Seattle shall maintain a running balance of the surplus or deficit of actual rate revenues collected from each class of customers less actual expenses incurred, except that Seattle shall maintain separate running balances for FC revenues pursuant to Section IV.H.2.c below. Each running balance shall earn simple interest at Seattle's Cash Pool Rate. At the end of each fiscal year, Seattle shall adjust each balance to reflect the operating results of that year. The year-end statement of these balances shall be reviewed as described in Section IV.H.1 above.

b. ~~Rate Design and Smoothing~~Running Balance Deficits. ~~During each wholesale rate study,~~ Seattle shall design rates to eliminate any surplus or deficit in the cost pool running balances, except as provided herein. ~~If there is a surplus balance at the time Seattle conducts a wholesale rate study, the Operating Board may determine that it is in the best interest of the Seattle Regional Water Supply System to lower the surplus balance by paying for infrastructure more quickly using a Cash or Other basis as per IV.D.2 or to retain all or a portion of the surplus balance for rate smoothing purposes, and may approve an amount up to 30% of~~

~~the annual projected costs in the relevant cost pool for the first year of the rate study to retain, instead of designing rates to eliminate the surplus balance in that rate study. Seattle's rate proposal shall include the Operating Board's approved balance, if any, made under this provision. The Operating Board may also approve Seattle to design rates to collect more than the projected costs in the cost pools pursuant to Section IV.G.1 above.~~

c. Running Balance Surpluses

i. Running Balance Surplus at True Up.

~~Annually, after presentation of the Wholesale Statements to the Operating Board, the Board shall decide the portions of any surplus to be a) returned to the Wholesale Customers as a credit on their bill in the following year, with the balance prorated to each Wholesale Customer based on each Wholesale Customer's demand since the balance last crossed zero, b) redeemed as a capital contribution towards specific assets assigned to the applicable Cost Pool, and or c) retained for rate smoothing purposes as determined by the Operating Board based on the review of the most recent rate study following the process in Section IV.H.2. in below. The Operating Board may select one or any combination of these options for implementation.~~ When returned as a credit on the bill or redeemed as a capital contribution, the surplus balance shall be reduced by those amounts.

ii. Running Surplus Balance Surplus at Contract Transition.

~~The running surplus balance existing as of December 31, 2024~~the Effective Date shall be fully or partially returned as provided in Section IV.G.6.

**Commented [TG162]:** Seattle agrees with the language highlighted in green.

**Commented [EF163]:** This title heading is not consistent with the other provisions in that section. The previous subsection does not have a title heading.

**Commented [TG164R163]:** Seattle made the change.

**Commented [EF165]:** The Effective Date is defined as Jan 1, 2026. That's too long and SPU said it could begin addressing the surplus balance by credits immediately. The F&Ps should not have to wait until January 1, 2026 for the credits to begin.

**Commented [TG166R165]:** The effective date is January 1, 2026, but the return of the surplus can occur before that (handled in Transition Section).

**Commented [EF167R165]:** I think the additional transition language addresses this issue.

**Commented [MG168R165]:** Agreed.

Contract Transition.

iii. Running Balance Surplus at Rate Study.

During each rate study, the Operating Board shall decide the portion of the surplus, up to an amount ~~not to exceed~~ equal to 30 percent of the annual projected costs in the relevant cost pool for the first year of the rate study, to retain for future rate smoothing purposes. Seattle shall design rates to eliminate any surpluses above this amount in the cost pool running balances, except as provided herein. The Operating Board may determine that it is in the best interest of the Seattle Regional Water Supply System for rate smoothing purposes to retain all or a portion of the surplus balance, and may approve a specific amount for retention. Seattle's rate proposal shall include the Operating Board's approved balance, if any, made under this provision. Except for retention of balances approved by the Operating Board, and the portion of the Running Balance used for rate smoothing, Seattle will remit all surpluses to the Wholesale Customers proportionately on an annual basis. Alternatively, upon agreement of the Operating Board, Seattle will record the surpluses as contributed capital in the appropriate Cost Pools. Seattle shall retain no surpluses other than those authorized by the Operating Board

**d.** FC Running Balances. Seattle shall maintain separate running balances within the New Supply and New Transmission Cost Pools, as appropriate, of the surplus or deficit balances of actual FC revenues received in any year over the facility's annual utility or cash basis costs to be recovered through FCs for that year. Running surplus FC balances shall earn simple interest at Seattle's Cash Pool

Commented [EF169]: This subsection does not have a title heading.

Commented [GT170R169]: Subsection now has a heading.

Commented [TG171]: Seattle agrees with change.

Rate. For any year with a running FC deficit balance, Seattle shall transfer an amount from the running balance of rate revenues in the New Supply or New Transmission Cost Pool, as the case may be, to eliminate the FC deficit balance for that year even if it results in a deficit running balance in rates. FC surplus balances in any subsequent year shall be transferred back to the running balance in the New Supply or New Transmission Cost Pools until the amount transferred to eliminate the prior deficit FC balance is repaid. Any remaining surplus FC balances, if any, may upon Operating Board approval, be transferred to the running balances of rate revenues in the New Supply or New Transmission cost pools for rate smoothing purposes. Otherwise, they shall be retained as a surplus FC balance in an amount up to two times the Net Book Value of the Regional Facilities whose infrastructure costs are being recovered by FCs. Any surplus FC balance that exceeds two times the Net Book Value of those facilities shall be transferred to the running balance for the New Supply or New Transmission Cost Pools, as appropriate, (and the FC surplus balance shall be reduced by the amount transferred). This transfer is permanent and not repaid. ERU Charges are based on Section IV.D.2.c and shall not be adjusted to reflect surpluses or deficits in FC balances.

## **SECTION V. OPERATING BOARD**

- 1. Purpose.** The purpose of the Operating Board is to provide advice and direction in certain areas of limited authority over policy, financial and operational matters as they affect the Seattle Regional Water Supply System. The representatives of the Operating Board shall, to the best of their ability, act in the best interests of the Seattle Regional Water Supply

System as a whole, not for the benefit of a group of ~~or individual~~ Wholesale Customers ~~of an individual Wholesale Customer.~~ ~~Therefore, only Wholesale Customers that have agreed to automatic extensions of this Contract, committed to purchase their Full or Partial Requirements as set out on Exhibit I, and agreed to the limitations on purchase reductions contained in Section II.B.5 are eligible to have their representative voted onto the Operating Board.~~ ~~Therefore, only Wholesale Customers that have agreed to automatic extensions of this Contract, committed to purchase their Full or Partial Requirements as set out on Exhibit I, and agreed to the limitations on purchase reductions contained in Section II.B.5, are eligible to have their representative voted onto the Operating Board.~~

- Structure and Authority. The Operating Board shall have only the roles and limited authorities as specifically and explicitly set forth in specific provisions of this Contract. The Operating Board shall have the structure described in Exhibit IV.
- Review. The parties may review the structure and roles and limited authorities of the Operating Board as of January 1, 2027 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 roles and limited authorities as set forth in the Contract and Exhibit IV. Any Wholesale Customer, including Water Utility, or Seattle may initiate the review. The initiating party shall provide all Wholesale Customers and Seattle, as the case may be, with its proposals. Water Utility and Seattle agree to consider each other's and any other Wholesale Customer'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~~

**Commented [EF172]:** This provision is obviously intended to be punitive. A non-signer is still a member. SPU should let the normal voting process determine whether a non-signer serves on the OB.

**Commented [TG173R172]:** Lets discuss.

**Commented [TG174R172]:** Seattle rejects the changes to this section.

**Commented [EF175R172]:** ~~Noted. I will advise the F&Ps of SPU's position.~~

**Commented [MG176R172]:** We are reinstating our language.

**Commented [EF177R172]:** F&Ps acknowledge SPU's position.

~~make changes in the structure and authority of the Operating Board, provided that Seattle shall not have the power to disband the Operating Board, nor significantly reduce the roles and limited authorities assigned to the Operating Board unless there is mutual agreement by Seattle, Water Utility and all other Wholesale Customers. Notwithstanding any other provisions in this Contract, any changes to the Operating Board structure shall be made through an Amendment to the Operating Board Bylaws; provided that any such changes shall be subject to the restrictions and limitations contained in this Contract.~~

Commented [TG178]: Seattle agrees to the changes in this last sentence.

## SECTION VI. PLANNING

### VI.A. Reporting of Planning Data

1. By no later than March 1 of each year, Water Utility shall report to Seattle and the Operating Board the following data for the previous calendar year as follows, except as otherwise provided in Section VI.A.4 below:
  - a. The amount of water produced each month from its Independent Supplies, listed by source.
  - b. The amount of water purchased each month from any other water utilities, listed by other utility name and whether Emergency or Purchased Supply.
  - c. The amount of water sold each month to any other water utilities, listed by other utility name and whether Emergency or Resale Supply.
  - d. The amount of water wheeled through Water Utility's distribution system each month, listed by both utility names that deliver water to and receive water from Water Utility.
  - e. The amount of water sold to retail and wholesale customers, by customer class

and by month


- f. The nNumber of accounts billed, by customer class and month.
- g. Other data reasonably necessary to track, report and plan for the metrics used for the regional WUE Goal, upon Seattle's request.

2. Water Utility shall report other data as may be reasonably requested by Seattle for water planning purposes or as may be required by amendments to applicable regulations from time to time, except as otherwise provided in Section VIA.4 below. This data may include, but not be limited to:

- a. Water Utility's forecasts of the amount of water to be used by Water Utility from Alternate Supplies. Forecasts will reflect best judgement of Water Utility and be consistent with industry standards.
- b. Water Utility's forecasts of annual growth in the number of meters installed by Water Utility by the size of the meter as necessary for establishing Facility Charges pursuant to Section IV.D.2.c.
- c. Water Utility's rates and charges, including background information such as rate studies.
- d. Water Utility's maps, land use and growth projections, and geographical information system ("GIS") layers of current and future retail service areas of Water Utility, provided that Water Utility shall be permitted to withhold information or records which Water Utility reasonably believes the release of such information and records presents a security risk associated with Water Utility's facilities, infrastructure and operations.

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.

~~3.4.~~ Water Utility shall not be required to provide records, including related information or data, that are exempt from disclosure under the Public Records Act, Chapter 42.56 RCW, or other applicable federal  state laws.

#### **VI.B. Submittal of Water Utility Water System Plans**

Water Utility shall provide a copy of its proposed water system plan, including any amendments, to Seattle for review and comment before adoption by its legislative body, and a copy of its final approved water system plan or amendments.

#### **VI.C. Seattle as Water Planning Agency**

1. 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.
2. 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.
3. Seattle, in consultation with the Operating Board, shall prepare and adopt a plan for acquiring new, high quality water supplies in a timely and cost-effective manner. 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. If Water Utility opts out of an Extension pursuant to Section II.A.3, Seattle shall begin planning for Water Utility to stop purchasing water from Seattle at the expiration of its Contract Term.

#### **VI.D. Capital Improvement Plan**

1. To fulfill the requirements of this Contract, Seattle shall make improvements to the Seattle Regional Water Supply System based on a Capital Improvement Plan adopted by the Seattle City Council. The projects and programs in the Capital Improvement Plan will include those that meet operational, regulatory, or contractual requirements, provide for growth, improve reliability and resiliency, and are cost-effective. Prior to submission of the proposed Capital Improvement Plan to the Seattle City of Seattle Mayor Council for approval, Seattle shall provide the Operating Board a reasonable and meaningful opportunity to review and recommend revisions to the relevant portions of the proposed Capital Improvement Plan that affect the Seattle Regional Water Supply System. Seattle shall give serious consideration to the recommendations of the Operating Board. Seattle will transmit the final adopted Capital Improvement Plan to the Operating Board and Water Utility within 30 days of adoption. Seattle ~~may shall~~ provide periodic updates of major projects and programs affecting the Seattle Regional Water Supply ~~System Program~~ upon request of the Operating Board. Seattle shall also review and respond to concerns expressed by the Operating Board or any Wholesale Customer regarding the scheduling

Commented [TG179]: Seattle agrees to change.

of or delays in completing projects included in Seattle's Capital Improvement Plan or questions about the budgets or actual costs incurred on projects included in Seattle's Capital Improvement Plan. Seattle ~~may, at its discretion, shall, upon request,~~ provide opportunities for the Operating Board, or a designee of the Operating Board, to participate in options analysis, design review or value engineering for relevant projects or programs that substantially affect the Seattle Regional Water Supply System or Wholesale Customers.

2. The Operating Board may approve the allocation to a cost pool in Section IV.C of reasonable costs for capital improvements that serve or benefit an individual Wholesale Customer, including Water Utility, that are reasonably necessary to alleviate a disproportionate adverse impact to the retail distribution system(s) of Water Utility or another Wholesale Customer, to the extent it is caused by a capital project in the Capital Improvement Plan for the Seattle Regional Water Supply System. Water Utility, or another Wholesale Customer may request consideration of this provision, and the Operating Board will make a determination of whether 1) there is a disproportionate adverse impact and either (i) such disproportional adverse impact could have been reasonably avoided through a different project design in the Capital Improvement Plan, or (ii) the other Wholesale Customers, including the Seattle Retail Distribution System, receive tangible benefits, directly or indirectly, from the project in the Capital Improvement Plan; 2) the proportion of capital costs to include, if any; and 3) the cost pool the costs would be allocated to, if any. Water Utility and Seattle will enter into a separate agreement consistent with this section if the Operating Board determines this provision applies to Water Utility and the costs will be allocated to the cost pool

identified by the Operating Board.

## **SECTION VII. PAYMENT**

### **VII.A. Collection of Money Due City**

1. Seattle shall bill Water Utility on a monthly basis for all charges due under this Contract unless the Contract expressly provides otherwise, in which case Water Utility will submit payment according to the Contract. Water Utility shall pay all charges within 60 days of the invoice or billing date or, if another provision is applicable, when due.
2. For those charges that are not monthly commodity charges or Facilities Charges, Water Utility and Seattle may mutually agree by letter agreement to a reasonable monthly payment plan and any outstanding balance shall be charged interest at Seattle's Cash Pool Rate until paid in full.

### **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**

1. 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.
2. 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.

#### **VII.D. Availability of Records**

Upon request with reasonable notice, Water Utility or Seattle shall make any public records that support the charges or payments under this Contract available to the other party for inspection and copying during normal business hours.

### **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 receiving the written statements, which shall include any applicable findings or interpretations of the applicable facts or contract provisions.
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 Mayor Review**

If the dispute remains unresolved, 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 Mayor for review.

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

#### **IX.C. Mediation**

Within 10 days of receiving the written rejection of the Seattle Mayor's recommendations by one or both parties, each party shall designate in writing not more than 5 candidates it proposes to act as an impartial 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, or other mutually agreed timeframe, with the assistance of the mediator.

#### **IX.D. Resort to Litigation or Arbitration**

If mediation fails to resolve the dispute within 30 days, or the other mutually agreed timeframe, of selection of the mediator, the parties may thereafter seek redress in court subject to Section X.G. below. Alternatively, the parties may mutually agree to resolve any disputes through

Commented [TG180]: Seattle agrees to the addition of Arbitration

arbitration using a single arbitrator acceptable to parties. Nothing in this provision shall be construed to require arbitration without the mutual agreement of the parties.

**IX.E. Efficiency of Review**

In order to facilitate a more efficient review of disputes under this Section, the **P**parties may agree to skip the step in Section IX.A above in order to avoid a redundant act. The **P**parties may also mutually agree to skip the step in Section IX.C, if it is in the best interests of the **P**parties in resolving the dispute.

Commented [TG181]: Seattle agrees to these edits

**SECTION X. MISCELLANEOUS**

**X.A. Notification**

1. Whenever written notice is required by this Contract, that notice shall be given to the following representatives, or their designees, by email with receipt requested, 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:

<u>SEATTLE:</u>	<u>WATER UTILITY:</u>
General Manager	Manager
Seattle Public Utilities	
Seattle Municipal Tower	
PO Box 34018	
700 Fifth Ave, Suite 4900	
Seattle, WA 98124-4018	

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

2. Seattle's Wholesale Contracts Manager will be the initial point of contact for all other issues arising under the Contract.

**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 the Seattle Regional Water Supply System. 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. 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.H. Default and Non-Waiver**

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. Any waiver of the breach or default of any provision, term or condition of this Contract shall not be deemed to be a waiver of any preceding or succeeding breach or default of the same or any other provision, term or condition.

**X.I. Force Majeure**

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 circumstances beyond the party's control such as fire, flood, earthquake, lockouts, strikes, embargoes, pandemics, 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.J. Successors**

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

**X.K. Exhibits**

Exhibits I through IX are attached hereto and incorporated herein. To the extent this Contract authorizes the parties to amend a specific exhibit by letter agreement, such amended exhibit will become attached and incorporated herein upon the effective date of the letter agreement.

**SIGNATURE PAGE**

IN WITNESS WHEREOF, the parties hereby execute this ontract.

[WATER UTILITY]

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE \_\_\_\_\_

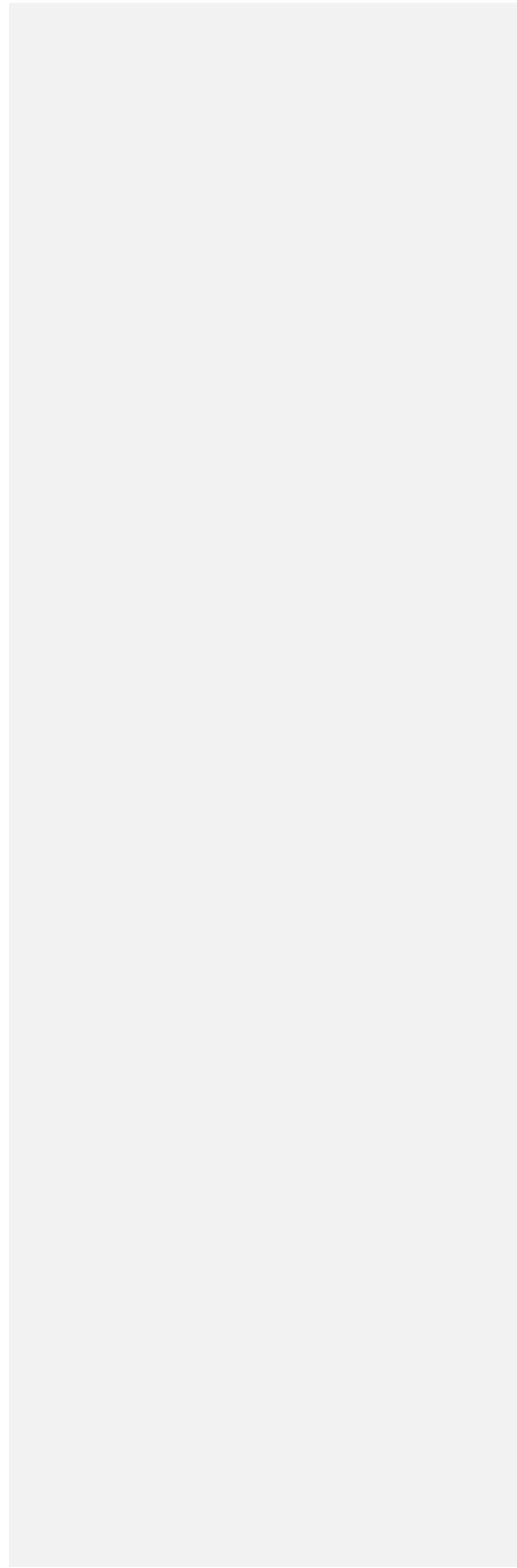
AUTHORIZING LEGISLATION: ORDINANCE/RESOLUTION \_\_\_\_\_

THE CITY OF SEATTLE

BY: \_\_\_\_\_  
General Manager, Seattle Public Utilities

DATE: \_\_\_\_\_

AUTHORIZING LEGISLATION:                      ORDINANCE No.



## **LIST OF EXHIBITS**

- I. Purchase Commitment & Emergency, Independent and Purchased Supplies**
- II. Service Connections, Minimum Hydraulic Gradients, and Flow Rates of Water Supplied**
- III. Demand Charge Methodology**
- IV. Operating Board Structure**
- V. Facilities Charges**
- VI. Regional Facilities**
- VII. Subregional Facilities**
- VIII. Index O&M Cost Categories**
- IX. Stranded and Avoided Costs**

## EXHIBIT I

### PURCHASE COMMITMENT & EMERGENCY, INDEPENDENT AND PURCHASED SUPPLIES

Water Utility's Purchase Commitment is its [Full or Partial] Water Requirements.

Water Utility [is/is not] served by [Eastern, Southwestern, or Renton] Subregion

Water Utility represents that it has access to the following Alternate Supplies:

#### I. EMERGENCY SUPPLIES

Create table

Name of Entity/location of intertie/meter size/capacity/agreement date/mutual?/

#### II. INDEPENDENT SUPPLIES

Create table

Source name/location/category (GW or SW)/permit or claim #/amt of right/average annual production /FC allowance

1. Water Utility shall use its best efforts to maintain and operate the Independent Supplies listed above, if any, in order to maintain the listed average annual production for each Independent Supply.
2. 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 Supply at its listed average annual production. Such written notice shall describe the new level of average annual production expected for Independent Supply. Seattle may decrease the FC Allowance under Section IV.D.2.c. The parties will revise this Section II of Exhibit I by letter agreement to reflect the new average annual production or decreased FC Allowance.
3. Water Utility shall use its best efforts to cure any temporary interruption of water supply from an Independent Supply. Water Utility shall provide oral notice to Seattle of any interruption lasting longer than 1 week and 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 Supply on the Seattle Regional Water Supply System by utilizing its other Independent Sources unaffected by the interruption within their operating and maintenance constraints.
4. It is the intent of the parties that the listed average annual production fairly represents the average annual production of the Independent Supplies. In the event that, over a 5 year period, (i) the actual average annual production, as may be adjusted to reflect a reasonably unforeseeable interruption

Commented [EF182]: F&Ps had questions about the timing and process for completing Exhibit I.

Commented [GT183R182]: The question on the Exhibits has been addressed.

Commented [EF184]: think this should be a roman numeral.

Commented [GT185R184]: Agreed. Seattle made the change.

in the Independent Supplies that lasts a substantial amount of time and is cured within a reasonable time, is consistently less than represented, and (ii) the annual deliveries of water to Water Utility by Seattle are consistently increasing, the listed average annual production shall be revised by letter agreement to reflect the reduction. Seattle may also decrease the FC Allowance under Section IV.D.2.e, which decrease shall also be revised in the letter agreement.

5. Water Utility shall provide Seattle with six months written notice before placing any new or improved Independent Supply into production and the parties will revise this Section II of Exhibit I to reflect the new or improved Independent Supply and new or increased average annual production capacity. This condition is independent of and in addition to any other applicable provisions in the Contract relating to adding a new or improved Independent Supply (e.g. Sections II.B.5, reducing Purchase Commitment and II.D.9, WQ provisions for introducing new Alternate Supply).

6. Water Utility shall maintain records of the monthly production of each Independent Supply in a manner consistent with industry standards.

### III. PURCHASED SUPPLIES

Create table

Name of entity/location/size of meter for delivery/amount/conditions on use/expiration date

### IV. REDUCTIONS IN PURCHASE COMMITMENTS - STRANDED COST

Create table to include the following information for all Wholesale Customers:

Reduction notices received prior to December 31, 2022, December 2, 2020 as per II.B.5.a.i.(b)

Automatically Allowed Reductions in II.B.5.d.viii

Reduction notices received after Effective Date of Contract

Related Stranded Cost information for reductions

### IV. APPROVED RESALE OF SEATTLE WATER

Create table

Name of entity/location/size of meter for delivery/amount/conditions/expiration date

Commented [EF186]: This new section implies that this is a placeholder for additional information. The last two items suggest additional contract language will be added. We should discuss SPU's intentions regarding the completion of additional terms.

Commented [TG187R186]: Seattle clarified the language was a placeholder to Exhibit I.

Commented [EF188]: Does not capture OV's notice. Needs to be revised.

Commented [EF189R188]: SPU agreed to revise the table

Commented [MG190R188]: Agreed.

**EXHIBIT II**

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

SERVICE CONNECTION <sup>(1)</sup>				MINIMUM HYDRAULIC GRADIENT FOR PLANNING PURPOSES AT STATION UPSTREAM OF METER (FEET NAVD-88 Datum)	FLOW RATE UP TO WHICH THE MINIMUM HYDRAULIC GRADIENT APPLIES (gpm) <sup>(3)(4)</sup>
LOCATION	STATION NUMBER <sup>(2)</sup>	PIPELINE SEGMENT NUMBER <sup>(2)</sup>	SIZE OF METER (IN.)		

**Notes:**

- (1) Water is provided to Service Connections at a Wholesale Level of Service.
- (2) Station and Pipeline Segment Numbers are for information purposes and pertain to cost allocations and the demand metering program.
- (3) The Total is based on City of Seattle’s estimate of Water Utility’s average daily demand for 2040 multiplied by a peaking factor of 2.0 for peak day use. Seattle and Water Utility agreed to the allocations of the Total to each Service Connection.
- (4) Pursuant to Section III.A of the Contract, Water Utility may use all or some of the flows rates allocated to each Service Connection on any other Service Connection that is located on the same Pipeline Segment Number, but in that case the minimum hydraulic gradients are not guaranteed.

**Commented [EF191]:** F&Ps had questions about the timing and process for completing Exhibit II.

**Commented [GT192R191]:** Seattle has addressed the question.

## EXHIBIT III

### DEMAND CHARGE METHODOLOGY

In order to meet the conditions of service in Section III and Exhibit II of the Contract, each Wholesale Customer has to construct adequate storage volume within their individual retail distribution system to avoid excessive peak flow withdrawals at the Service Connection and potential adverse impacts to the Seattle Regional Water Supply System or other Wholesale Customers.

When Seattle has determined to implement demand charges for any period, Water Utility shall be subject to a demand charge if its average peak hourly flow rate from its 10 highest daily flow days exceeds its average daily flow rate from the same 10 days by more than 30% as more particularly described below.

The demand charge and method of application shall be as follows:

1. At Water Utility's cost, Seattle shall install metering devices that record hourly water deliveries at Service Connections. All other costs Seattle incurs to implement demand charges shall be allocated to the Existing Regional System Cost Pool; or New Transmission Cost Pool, upon approval by the Operating Board.
2. There shall be no requirement for Seattle to install demand-metering equipment or monitor water deliveries at all Service Connections for the purposes of implementing demand charges. Seattle, in its discretion, may choose to monitor water deliveries at all Service Connections, or the Service Connections of one or more Wholesale Customers based on considerations such as hydraulic capacity or other operational constraints in the Seattle Regional Water Supply System may be occurring.
3. When calculating Water Utility's deficient storage and whether demand charges apply:
  - a. Seattle may consider Service Connections to Water Utility on the same pipeline segment, or Service Connections that are on the same pipeline segment and subject to a joint operating agreement between Water Utility and another Wholesale Customer, as 1 Service Connection; and
  - b. A "Day" commences at 9:00 a.m. and ends at 9:00 a.m. the following calendar day.
  - c. The "Monitoring Period" will generally consist of the summer months of June, July, and August. However, if peak flow rates create adverse hydraulic or other operating conditions at other times, Seattle, in consultation with the Operating Board, may establish a different Monitoring Period.
4. For each Service Connection, Seattle will determine the ten Days within the Monitoring Period with the highest daily volume of water delivered.

Commented [EF193]: Clean up font or formatting on this page.

Commented [TG194R193]: Done.

5. For each of those ten Days, Seattle will determine the “Demand Factor” for each Service Connection by dividing the peak hourly flow rate by the average flow rate for the same Day expressed in gallons per hour.
6. Seattle will average: a) the Demand Factors for the ten Days to get an “Average Demand Factor” and b) the daily volume for the same ten Days to get an “Average Daily Quantity” of water in gallons for each Service Connection.
7. If Water Utility’s Average Demand Factor exceeds 1.30 at any Service Connection(s), Water Utility will be subject to a demand charge.
8. If Water Utility is subject to a demand charge, Seattle will determine Water Utility’s deficient storage volume at each Service Connection where the Average Demand Factor exceeds 1.3 using the following formula:  $S = (F-1) Q$ ; where S = deficient storage volume in gallons, F = Average Demand Factor and Q = Average Daily Quantity.
9. Seattle shall establish a Storage Deficiency Rate each rate study that is based on Seattle’s most recent actual cost to construct a reservoir, inflated to the most recent year that the Engineering News Record “ENR” index or equivalent inflation data is available. The Storage Deficiency Rate is the flat debt service payment required to finance the storage facility over 30 years at Seattle’s Average Cost of Debt at the time of each rate study, prorated for 1,000 gallons of storage.  
Example:

<u>Annual debt service cost of new reservoir at Average Cost of Debt</u>		
Actual cost of new reservoir in 2012	\$	60,000,000
ENR Index in 2012		100.00
ENR Index in 2019		125.00
Increase in Index		1.25
Cost of new reservoir inflated to 2019	\$	75,000,000
Term of Debt		30 Years
Seattle Average Cost of Debt in 2020		4.15%
Annual Cost	\$	4,416,596
Volume of new reservoir		61,000,000 Gallons
Annual Debt Service per 1,000 Gallons	\$	72
Storage Deficiency Rate	\$	72

10. At each Service Connection subject to the demand charge, the demand charge shall be calculated as S/1000 times the Storage Deficiency Rate. The total demand charge for Water Utility shall be the sum of the demand charges for each Service Connection. The demand charge shall be due by March 31 the following calendar year, or Water Utility may request a payment agreement pursuant to Section VII of the Contract.

11. Peak flows caused by emergencies in the Seattle Regional Water Supply System or Water Utility's retail distribution system during any Monitoring Period will be excluded in determining the demand charge. Peak flows caused by other unusual situations may also be excluded at Seattle's sole discretion. Seattle may request documentation of any emergency or other situation from Water Utility to support a determination to exclude certain flows from demand charges during a Monitoring Period.
12. At Seattle sole discretion, Seattle may disallow daily flow rates which differ substantially from customer's daily consumption patterns in calculating the demand charge.
13. In case of malfunction of metering equipment during certain period causing loss of data, Seattle shall use the remaining data to determine the demand charge, if any.

## 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, not 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. Except for SPU members, 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, the First Amended and Restated Contract for the Supply of Water, mutually agreed to pursuant to Section II.A.4.a.~~ 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. ~~Only Wholesale Customers demonstrating their commitment to the region by agreeing to limits on purchase reductions contained in II.B.5 shall be eligible to be elected as a member of the Operating Board.~~ Only Wholesale customers demonstrating their commitment to the region by agreeing to limits on purchase reductions contained in Section II.B.5 shall be eligible to be elected as a member of the Operating Board.
- 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:

**Commented [EF195]:** This provision is obviously intended to be punitive. A non-signer is still a member and shares most of the regional goals and commitments of the Contract, with the exception of giving up existing stranded cost rights. SPU should let the normal voting process determine whether a non-signer serves on the OB.

**Commented [TG196R195]:** This question is in conjunction with Section V pg 81.

**Commented [TG197R195]:** Seattle rejects this change.

**Commented [EF198R195]:** worded. It will provide the F&Ps of SPU's position.

**Commented [MG199R195]:** We have reinstated our language.

**Commented [EF200R195]:** F&Ps acknowledge SPU's position.

- a. The Chairperson shall be selected at the first regularly scheduled meeting of each new year.
- b. All Chairpersons shall be selected by the Board using a nomination and voting process.
- c. 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, Seattle shall designate one of the SPU members to be the Acting Chairperson until such time as the Board elects a Chairperson.
- d. The Chairperson shall have the responsibility to call meetings, determine the agenda and preside over meetings. In the absence of the Chairperson, for whatever reason, Seattle shall designate one of the SPU members to 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 then current Seattle City Council's Committee that considers matters related to Seattle Public Utilities.

Commented [EF201]: Fix the font or formatting.

Commented [TG202R201]: Done.

4. Schedule/Procedures/Bylaws. The Board shall adopt a regular meeting schedule and notify all Wholesale Customers of the schedule. The Operating Board may adopt its own internal procedures and Bylaws. 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, SPU and to the appropriate Seattle City Council Committee, on its decisions and recommendations in a timely manner.

~~6. Responsibilities and Authority of the Board. The Operating Board shall have only those powers and authorities specifically and explicitly established by the clear terms of this Contract. 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 or the Administrator, consistent with Seattle City Charter and Municipal Code.~~

Commented [EF203]: Fix the paragraph formatting (should be subsection 6) and check to make sure the following subsection numbers are correct.

Commented [TG204R203]: This has been fixed.

~~6-7. 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 New Supply Cost Pools.

## EXHIBIT V

### FACILITIES CHARGES

#### A. Methodology to Calculate ERU Charges

The ERU Charge is:

- the flat annual debt service payment required to finance the New Supply or New Transmission Facility for the lesser of (i) the facility life or (ii) the period over which new demand is projected to fully utilize the facility's projected supply or transmission capacity  
- divided by -
- the average annual number of new ERUs of demand expected in each year.

Seattle's Average Cost of Debt at the time the facility is put into service shall be used to determine the flat debt service payment above. In the event that several New Supply or New Transmission Facilities are put into service simultaneously, the facilities may be considered together as providing a total new supply or new transmission capacity for a total construction cost.

Example: A New Supply Facility costing \$100 million is built with a projected total capacity of 100,000 ERUs and a 50-year facility life. Growth of 5,000 ERUs per year is projected over the next 20 years, so the facility is projected to be supplying its full capacity in 20 years. If this facility were financed over 20 years at Seattle's Average Cost of Debt of 6% interest, the flat annual debt service payment would be \$8.7 million and the ERU Charge would be \$1,740 ( $8,700,000/5,000$ ).

At the time a subsequent New Supply or New Transmission Facility is put into service, but the capacity of a prior New Supply Facility has not yet been fully utilized, an ERU Charge for the subsequent facility shall be calculated separately according to the formula above, then averaged with the then-current ERU Charge from the prior facility. This average shall be weighted by the remaining number of ERUs at the then-current ERU Charge and the number of new ERUs being added at the new ERU Charge. This weighted average shall be the new ERU Charge, and the number of ERUs available at that weighted ERU Charge shall be the sum of the remaining ERUs for the prior facility plus the number of new ERUs for the subsequent facility.

Example: 10 years ago, a \$100 million New Supply Facility was constructed that can supply 100,000 ERUs. 50,000 ERUs remain at the ERU Charge of \$1,740. This year, we construct a New Supply Facility costing \$70 million and a 50-year facility life, with a projected capacity of 40,000 ERUs that is projected to be fully utilized in 10 years. The ERU Charge of the subsequent New Supply Facility alone using the formula above is \$2,375. The weighted average ERU Charge for any of the 90,000 available ERUs is \$2,022 ( $50,000 * \$1,740 + 40,000 * \$2,375 / 90,000$ ).

**B. ERU Factors by Connection Size**

<b>Connection Size</b>	<b>ERU Factors</b>
1" and smaller	1.122
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 retail water service connection used to serve a retail customer depends upon both the total demand and the instantaneous flow required by that retail customer. For this reason, connection size is only a general indicator of the annual demand placed on water supplies by any particular retail customer.

## EXHIBIT VI

### REGIONAL FACILITIES

#### I. Existing Regional Facilities

##### 1. Cedar Source

- All roads, buildings, structures, water supply facilities, other equipment and infrastructure, recreational and educational facilities, downstream habitat enhancement, fisheries enhancement and mitigation facilities located within or close to the Cedar River Hydrographic Watershed boundary as defined by Seattle land ownership or other contractual rights, including the land itself, and any capitalized or amortized studies or obligations 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 roads, buildings, structures, water supply facilities, and other equipment and infrastructure located within the Lake Youngs Reservation as defined by Seattle ownership of the land, including the land itself and any capitalized or amortized studies or obligations related to the above.
- All facilities, structures, and other equipment and infrastructure located within the Lake Youngs Aqueduct, the Landsburg Tunnel, and the Lake Youngs Supply Lines right-of-way, including the right-of-way itself.

##### 2. Tolt Source

- All roads, buildings, structures, water supply facilities, other equipment and infrastructure, recreational and educational facilities, downstream habitat enhancement, fisheries enhancement and mitigation facilities located within or close to the South Fork Tolt River Hydrographic Watershed boundary as defined by Seattle land ownership or other contractual rights, including the land itself, and any capitalized or amortized studies or obligations 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 Pipeline No. 1, from the Tolt Regulating Basin to the outlet of the Tolt Treatment Facility, including any transfer and ancillary small diameter parallel pipes.
- Tolt Pipeline No. 2, from the Tolt Regulating Basin to the inlet of the Tolt Treatment Facility, including any transfer and ancillary small diameter parallel pipes, and including the connection to Tolt Pipeline No. 1 (a.k.a. TPL2 Phase 6b).
- Tolt Treatment Facility, including its outlet line up to the connection to Tolt Pipeline No. 1.

##### 3. Seattle Wellfields (formerly known as Highline Wells)

- 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.
- Any facilities related to operation of the Seattle Wellfields, such as for streamflow augmentation or mitigation.

#### 4. Other

- GIS Projects related to facilities identified herein as part of the Seattle Regional Water Supply System.
- Hardware and Software projects related to facilities identified herein as part of the Seattle Regional Water Supply System.

#### 5. Pipelines

- Tolt Pipeline No. 1, from the outlet pipeline of the Tolt Treatment Facility to Lake Forest Reservoir, including any transfer and ancillary small diameter parallel pipes.
- Tolt Pipeline No. 2, where constructed, west of the outlet of the Tolt Treatment Facility (a.k.a TPL2 Phases 1, 2, 3, and 4), including any transfer and ancillary small diameter parallel pipes.
- Tolt Tieline
- Tolt Eastside Supply Line (from TESS Junction to the intersection of SE 16th Street and 145th Place SE).
- Tolt Eastside Line Extension (from the intersection of SE 16th Street and 145th Place SE to Eastside Reservoir).
- The 550 head Pipeline from Maple Leaf Reservoir to Lake Forest Reservoir, sections of which also known as “The Haller Lake Pipeline”, and “The 195th Street Pipeline”.
- Lake Youngs Bypass No. 4 from the outlet of each of the Cedar Treatment Facility clearwells to Control Works, including Flow Control Facility 4.
- Lake Youngs Bypass No. 5 from the outlet of each of the Cedar Treatment Facility clearwells to the Lake Youngs Tunnel, including Flow Control Facility 5.
- 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 (CRPL1) from Control Works to the 24-inch remote controlled valve (a.k.a. “The CRPL1 to CRPL2 Valve” in the vicinity and east of Beacon Reservoir (primarily 66-inch pipeline).
- The primarily 54-inch Pipeline known as “The Old Cedar River Pipeline No. 2”, from the 24-inch remote controlled valve (a.k.a. “The CRPL1 to CRPL2 Valve”) in the vicinity of Beacon Reservoir to the intersection of 18th Avenue E and E Prospect Street.
- Cedar River Pipeline No. 2 (CRPL2) from Control Works to the 20-inch butterfly valve (a.k.a. “The CRPL2 to CRPL1 Valve”) in the vicinity and east of Beacon Reservoir (primarily 54-inch pipeline).
- The primarily 42-inch pipeline known as “The Old Cedar River Pipeline No. 1”, from the 20-inch butterfly valve (a.k.a. “The CRPL2 to CRPL1 Valve”) in the vicinity and east of Beacon Reservoir to the intersection of 12th Avenue and E Olive Street.
- The short pipeline sections of various diameters in the vicinity and east of Beacon Reservoir connecting CRPL1, CRPL2, Old CRPL1 and Old CRPL2.

Commented [EF205]: Is this reference correct?

Commented [GT206R205]: Tolt Tieline is correct.

- Cedar River Pipeline No. 3 from Control Works to the intersection of 18th Avenue E. and E. Prospect Street (primarily 66-inch).
- 30" intertie pipeline between "The Old CRPL1" and CRPL3 in E Olive Street, from 12th Avenue to 18th Avenue.
- The interconnections between the Maple Leaf Pipeline, Cedar River Pipeline No. 3, and the Old Cedar River Pipeline No. 2 in the vicinity of the intersection of 18th Avenue E and E Prospect Street.
- Cedar River Pipeline No. 4 from Control Works to the West Seattle Pipeline.
- West Seattle Pipeline from Augusta Gatehouse to Cedar River Pipeline 4.
- The interconnections between the Cedar River Pipelines 1, 2, and 3 in the vicinity of 51st Avenue S and S Leo Street.
- Cedar Eastside Supply Line (from the Cedar Wye to the intersection of SE 16th Street and 145th Place SE).
- 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.

## 6. Reservoirs

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

## 7. Pump Stations

Pump Stations, Major Valve Structures, and other transmission 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
  - Duvall Shops
8. Service Connections to Wholesale Customers installed before January 1, 2002, and Service Connections assigned to the Existing Regional System Cost Pool pursuant to Section III.E.1., are part of the Existing Regional Facilities. Unless otherwise identified as regional, Service Connections to Wholesale Customers installed after December 31, 2001 shall not be considered Existing Regional Facilities.
9. The Existing Regional Facilities include all necessary and convenient appurtenances, including, but not limited to, rights of way, land ownership or contractual rights to use, e.g. easements, security infrastructure, dewatering facilities, line valves, system meters, and remote automation devices.

## **II. New Supply Facilities**

1. Regional Water Conservation Program. The capitalized or deferred cost of the Regional Water Conservation Program, which generally consists of rebate programs for customers to upgrade fixtures or equipment to more efficient models

## **III. New Transmission Facilities**

[Reserved.]

## EXHIBIT VII

### SUBREGIONAL FACILITIES AND ALLOCATIONS

#### I. Eastern Subregion

##### A. List of Eastern Subregional Facilities

###### SEGMENT 1

(Cascade, Mercer Island, and Seattle)

1. The portion of the of the original Mercer Island Pipeline from the tee off the Cedar Eastside Supply Line in Factoria Boulevard SE to the west flange of the main line tee at the east end of the 16-inch Mercer Slough Bridge Pipeline (30-inch).

###### SEGMENT 2

(Cascade, Mercer Island, and Seattle)

1. The portion of the of the original Mercer Island Pipeline from the west flange of the main line tee at the east end of the 16-inch Mercer Slough Bridge Pipeline to the west flange of the 20-inch valve west of the -wye to the East Channel Bridge Pipeline -(30-inch).
2. The entire 16-inch Mercer Slough Bridge Pipeline (16-inch).
3. The portion of the East Channel Bridge 16-inch Pipeline, from the wye off item 1 of Segment 2 above to the north flange of the 16-inch line valve, including the valve bypass line.

###### SEGMENT 3

■(Mercer Island and Seattle)

1. The portion of the original Mercer Island Pipeline from the west flange of the 20-inch valve west of the Enatai service to Bellevue to the west flange of the tee for the Shorewood Apartments service on Mercer Island (20-inch across the East Channel, 24inch on Mercer Island).
2. The 16-inch East Channel Bridge Pipeline, except for the portion listed as item 3 of Segment 2 above.

###### SEGMENT 4

(Mercer Island only)

1. The portion of the original Mercer Island Pipeline from the west flange of the tee for the Shorewood Apartments service on Mercer Island to the west end of the original Mercer Island pipeline near SE 43rd Street & 89th Ave SE on Mercer Island (24-inch).

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

## B. Allocation of Costs in the Eastern Subregional Cost Pool

In each year, the costs of each Eastside Subregional Facility shall be allocated by the segments identified in Section I.A above based on Peak 7 Day flows through each segment. In the event that Peak 7 Day flow data is not available, Peak Month flows may be substituted. The annual cost of each segment is adjusted by the annual utility basis cost of the following initial amounts, amortized over 50 years starting in 1998.

Segment 1:	\$73,157.01 increase
Segment 2:	\$1,296,845.17 decrease
Segment 3:	\$136,782.17 increase
Segment 4:	\$72,442.13 increase

Seattle shall establish a common rate for each Eastside Subregional segment that recovers the costs allocated to that segment plus any costs allocated from preceding segments to downstream segments based on the flow data used. Wholesale Customers served by Eastern Subregional Facilities as may be identified in Exhibit I will pay the applicable segment rates for every unit of water delivered to the Service Connection(s), or in Seattle's case to the retail connection, on the identified segment, e.g. Service Connections on Segment 3 would pay the rate for Segment 3, which rate would recover costs allocated from Segments 1, 2 and 3.

Seattle will track running balances and actual costs and actual revenues for each segment within the Eastside Subregional Cost Pool and shall true up each segment in a manner consistent with Section IV.H, except that Seattle may adjust the running balances between Segments 3 and 4 for a Wholesale Customer served by both Segments as follows:

Commented [TG207]: Seattle agrees with change.

Seattle will track the portion of surplus or deficit balance created by each Wholesale Customer, including Seattle, in Segment 3 based on the percentage of revenues paid by each. If there is a surplus balance for Segment 3, Seattle may transfer all or a portion of the surplus created by the Wholesale Customer served by both Segments to reduce a running deficit balance for Segment 4 and credit Seattle for a proportionate share of the Segment 3 surplus. If there is a surplus balance for Segment 4, Seattle may transfer all or a portion of the surplus in Segment 4 to reduce the portion of a running deficit balance in Segment 3 created by the Wholesale Customer served by both Segments and charge Seattle for a proportionate share of the Segment 3 deficit balance.

## II. Southwestern Subregion

### A. List of Southwest Subregion Transmission Facilities

#### 585 ZONE FACILITIES

##### Pipelines

1. The discharge pipeline of Burien Pump Station, from the pump station to Ambaum Boulevard SW.
2. The pipeline in 8 Ave SW from SW Kenyon Street to SW 108 Street.

3. The discharge pipeline of Highland Park Pump Station to SW 108th Street.
4. The 585 Pipeline in SW 108-th Street between 4th Avenue SW and 12th Avenue SW.
5. The 585 head Pipeline in 4th Avenue SW between SW 108-th Street and SW 146th Street.
6. The 585 Pipeline in 12th Avenue SW and Ambaum Boulevard SW between SW 108-th Street and SW 146th Street.
7. The 585 Pipeline in Ambaum Boulevard SW between SW 146-th Street and SW 149th Street.
8. The 585 pipeline in SW 149th Street between Ambaum Boulevard SW and 14th Avenue SW.
9. The 585 pipeline in 12 Ave SW from SW 108 Street to SW 106 Street.
10. The discharge of the Trenton Turbines pump station within the West Seattle Reservoir property, and up to SW Cloverdale Street.
11. The 585 pipeline in 5 Ave SW from SW Cloverdale Street to SW Kenyon Street.
12. The 585 pipeline in SW Kenyon Street from 5 Ave SW to 8 Ave SW.
13. The 585 pipeline in SW Kenyon Street from 8 Ave SW to 35 Ave SW.
14. The 585 pipeline in 35 Ave SW from SW Kenyon Street to SW Myrtle Street.
15. The 585 pipeline in SW Myrtle Street from 35 Ave SW to Myrtle Tanks.

#### Pump Stations

1. Burien Pump Station, including its suction line from the 24-inch tee to the pump station.
2. Highland Park Pump Station, including its suction line from the tee off the 42-inch West Seattle Reservoir inlet-outlet line to the pump station.
3. Trenton Turbines Pump Station, including the suction/supply line from the pump station to the 36x36x20 tee.

#### Tanks

1. Beverly Park Tank, and all associated appurtenances and connections to the 585 zone.
2. Myrtle Tanks, and all associated appurtenances and connections to the 585 zone.

### **WEST SEATTLE RESERVOIR FACILITIES**

1. The reservoir Gate House, except for the West Seattle Low Service Pump Station.
2. All reservoir appurtenances, including but not limited to the reservoir drain, washout, and overflow pipelines.
3. The reservoir bypass from the tee off the West Seattle Pipeline to the reservoir easterly outlet pipeline.

Commented [TG208]: We agree to change.

**WEST SEATTLE PIPELINE FACILITY**

From the connection to Cedar River Pipeline No. 4 to the West Seattle Reservoir Gate House.

**DES MOINES WAY PIPELINE FACILITIES**

- 1. From the connection to the Bow Lake Pipeline as relocated outside Seatac Airport, to S 168 Street.
- 2. South 168 Street to the terminus of the pipeline near S **208 Street, 218 Street (until purchased by the Highline WD);**

**MILITARY ROAD FEEDER FACILITY**

**THE EAST MARGINAL WAY FEEDER FACILITY**

From the West Seattle Pipeline to S 115 Street, including pressure reducing and pressure relief facilities from the West Seattle Pipeline to that feeder.

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

**B. Allocation of Costs in the Southwest Subregional Cost Pool**

In each year, the cost of each Southwest Subregional Facility identified in Section II.A above shall be allocated between the Seattle Retail Distribution System and Wholesale Customers served by the Southwest Subregional Facilities as may be identified in Exhibit I as a group based on the following agreed upon allocations to the Wholesale Customers:

<u>FACILITY</u>	<u>Allocation to Wholesale Customers</u>
585 Zone	50%
West Seattle Reservoir	10%
West Seattle Pipeline	22%
Des Moines Way Pipeline	100%
Military Road Feeder	100%
East Marginal Way Feeder	100%

Wholesale Customers served by the Southwest Subregional Facilities shall pay a uniform rate to recover the costs from the Southwest Subregional Cost Pool allocated to the Wholesale Customers. This rate shall apply to every unit of water delivered to a Wholesale Customer served by Southwest Subregional Facilities without regard to the specific location at which that water was delivered. Actual costs and actual revenues for the Southwest Sub-region shall be trued up in a manner consistent with Section IV. II.

Commented [TG209]: Seattle agrees with change.

### **III. Renton Subregion**

#### **A. List of Renton Subregional Facilities**

The 12-inch pipelines, from the outlets off the CRPLs 1, 2, and 3 up to the south wall of the SPU meter vaults in Logan Avenue South.

#### **B. Allocation of Costs in the Renton Subregional Cost Pool**

In each year, the cost of all Renton Subregional Facilities shall be allocated to the Wholesale Customer(s) served by the Renton Subregional Facilities as may be identified in Exhibit 1.

The Wholesale Customer(s) served by the Renton Subregional Facilities shall pay either a rate established by Seattle or a lump sum, to recover the costs allocated to the Renton Subregional Cost Pool. The rate shall apply to every unit of water delivered to Wholesale Customer(s) served by the Renton Subregional Facilities. The parties may agree to a payment agreement for a lump sum pursuant to Section VII.A.

## EXHIBIT VIII

### INDEX O&M COST CATEGORIES

The following cost categories as may be amended further from time to time, that capture the portion of O&M Costs to support Seattle Regional Water Supply System only shall be used as the Index O&M Costs in the Existing Regional System, New Supply and New Transmission Cost Pools.

Commented [EF210]: Fix the font or formatting on this exhibit.

Commented [TG211R210]: Done.

#### 1. Existing Regional System Cost Pool

##### ~~Conceptually, these costs include:~~

- Cedar, Tolt, and Lake Youngs Watersheds, including but not limited to
  - Infrastructure and land: buildings, equipment, pipelines, security, roads, bridges, communication, IT
  - Forest management, ecological management including ecological thinning net of timber sales revenue
  - Dam safety
  - Limnology
  - Costs to comply with external requirements such as those imposed by Ecology, Tribes, FERC
  - Management of the public, Patrols, Recreation
  - Fire Protection including Wildland Fire Teams
- Transmission
  - Infrastructure and land: buildings, equipment, pipelines, security, roads, bridges, communication, IT, for the Pipelines, reservoirs, pump stations, major valve structures, and other transmission facilities as listed in Exhibit VII
  - Vegetation Management
  - Litter and vehicle removal
  - Property costs including Fire Protection, permits, easements, and franchise fees
- Treatment
  - Infrastructure and land: buildings, equipment, pipelines, security, roads, bridges, communication, IT
    - Cedar Treatment Plant
    - Tolt Filtration Facility
    - Landsburg Treatment Facility
    - Other treatment in the Seattle Regional Water Supply System
  - Water Quality Testing for tests described in ~~Section~~ II.D.6.
- Regional planning
  - Water rights
  - Climate as it pertains to water supply or infrastructure in the Seattle Regional Water Supply System

~~The parties agree that the following cost centers or successor cost centers that capture the direct cost of supply related elements of the Existing Regional System shall be included as the existing supply portion of Existing Regional System Index O&M.~~

Activity ID	Activity Name
2022_CFHQ_HVAC	2022 CF HQ HVAC leak
2022SNOWTOLTLBG	2022 Snow CF Tolt Landsburg
2022_RAINSTORM	2022 Rainstorm Response
CF_WELL	Repair Rewind Motor 1
CLEAN_FOREBAY	Landsburg forebay Cleaning
CLOSE_OUT_NOT	Close Out Not HCP
CR_FLOODWATCH	Cedar River Flood Watch
DEER_FIRE_2022	Deer Fire ICS Assist Texas
HOMESTEAD_FIRE	Homestead Fire
IXS_ANDESH_MGT	N750407-Anadromous Fishery Mgt
IXS_APPLD_RSRCH	N751501-Applied Research
IXS_AQ_REST_MON	N781602-AQUATIC RESTORTN MONIT
IXS_BULL_TROUT	N541804 Bull Trout Monitoring
IXS_CDRCHLR_OM	N750101-Cedar Chlor Fac OM
IXS_CDRDBO_MGT	N750707-Cedar DBO Mgmt-costs
IXS_CMNLOON_MON	N781607-COMMON LOON MONITOR
IXS_CR_MGTRSRCH	N780902-CR Mgt. Research
IXS_DAM_SAFETY	N690303-Dam Safety
IXS_DBP_MRA	N751303-DBP Monitor, Rpt, Adm
IXS_ECO_MNTRRSR	N781003-Ecological Mntr, Rsrch
IXS_FLRDTN_OM	N750102-Fluoridation Pgm OM
IXS_FRSTOPS_MGT	N781201-Forest Ops Mgt
IXS_HAB_ENRSTR	N781005-Habitat Enhance/Rstr
IXS_HAB_LTINV	N781303-Forest Habitat LT Inv
IXS_HAB_SPCINV	N781004-Habitat and Species In
IXS_HCP_DOWNSTR	N751111-HCP Downstream Hab
IXS_HCP_SUPP	N751108-HCP Support
IXS_HCP_SUPP	IXS HCP SUPP
IXS_HCP_TECHSPT	N781401-CRHCP TECHNICAL SUPPORT
IXS_HLWF_MAINT	N671910-Highline Well Field
IXS_HYDRLGY_MDL	N750403-Hydrology Mdl Dev, Mnt
IXS_INFO_SVCS	N781101-Information Services
IXS_INTAG_PBINV	N781002-Interagency Public Inv
IXS_LCR_MRA	N751302-LCR Monitor, Rpt, Adm
IXS_LCR_MRA	IXS LCR MRA
IXS_LIMNOLOGY	N751402-Limnology
IXS_LND_FISHLAD	Landsburg Fish Ladder
IXS_LND_FISHSCR	Landsburg Fish Screen
IXS_LNDFB_CLN	NN16011-Lndsbrg Frby Cleaning
IXS_LNDSWTR_OPS	N750104-Landsburg Water Ops
IXS_LT_STRM_MON	N781601-LONG TERM STREAM MONIT
IXS_MLPP_MOB	NN15125-MLPP Mobilization
IXS_MRSLK_MAINT	N750406-Morse Lake PP Ops
IXS_MURRELET	N781308-MURRELET HAB
IXS_PGMPLEVL	N781001-Program Plan & Eval
IXS_PSGFAC_OPS	N751109-HCP Passage Fac Ops

<u>IXS_PSGFAC_PRJ</u>	<u>Fish page facility small prj</u>
<u>IXS_PURVEYOR</u>	<u>N330303-Purveyor</u>
<u>IXS_RATTLEGRANT</u>	<u>N780915-Rattlesnake Grant</u>
<u>IXS_REC_PLAN</u>	<u>N780901-Recreation Planning</u>
<u>IXS_RMPPSM_CMP</u>	<u>N750103-RMPPSM Compliance</u>
<u>IXS_ROCKCR_HYDR</u>	<u>Rock Creek Event Monitoring</u>
<u>IXS_RPRRST_MON</u>	<u>N781305-Riparian Restore Mntr</u>
<u>IXS_SCADA_ADMIN</u>	<u>N672401-SCADA Admin</u>
<u>IXS_SCADA_ENG</u>	<u>N672402-SCADA-System Engr-WF</u>
<u>IXS_SCADA_OM</u>	<u>N672404-SCADA-IT OM-WF</u>
<u>IXS_SCKY_RM</u>	<u>N751114-Soekeye Rsrch, Monitor</u>
<u>IXS_SCKYHCH_AM</u>	<u>N751113-Adptv Mgt Soekey Hteh</u>
<u>IXS_SCKYWR_MNT</u>	<u>E114068-Soekeye Brdstk Wr Mnt</u>
<u>IXS_SKYHTCH_OPS</u>	<u>N751115-New Soekeye Hteh Ops</u>
<u>IXS_SPCHAB_SRVY</u>	<u>N781311-Species/Hab Opnt Srvy</u>
<u>IXS_STGBL_MNT</u>	<u>N750502-Exist Gage Below Lndsb</u>
<u>IXS_STHDRD_MON</u>	<u>N750512-Steelhead Redd Monitor</u>
<u>IXS_STORYMAP</u>	<u>N780904-Watershed Public Info</u>
<u>IXS_STORYMAP</u>	<u>N781101-Information Services</u>
<u>IXS_STRMFLW_CMS</u>	<u>N750509-Instream Flow Commiss</u>
<u>IXS_STRMGA_CF</u>	<u>N750501-Exist Strm Gage Cedar</u>
<u>IXS_STRMGA_PH</u>	<u>N750503-Nw Strm Gage Abv Pwrhs</u>
<u>IXS_SWTR_MRA</u>	<u>N751300-SWTR Monitor, Rpt, Adm</u>
<u>IXS_TAYLOR_DB</u>	<u>Taylor Ditch Berm</u>
<u>IXS_TCR_MRA</u>	<u>N751301-TCR Monitor, Rpt, Adm</u>
<u>IXS_TCRSM_MAINT</u>	<u>N600607-TCR Flush Smp1-Std Mnt</u>
<u>IXS_TLT_LIME_BL</u>	<u>NN14206-Tolt Lime Bldg Deconst</u>
<u>IXS_TLTDBO_MGT</u>	<u>N750705-Tolt DBO Mgmt costs</u>
<u>IXS_TLTRS_MAINT</u>	<u>N780604-WS Crw Tolt Rd/Str Mnt</u>
<u>IXS_TLTWS_DIVLK</u>	<u>NN15107-Tolt Div Conduit Leak</u>
<u>IXS_TLTWSMPIMPL</u>	<u>N781801-ToltWS MP Impl HabRest</u>
<u>IXS_TOLT_VLV25</u>	<u>NN16008-TOLT VALVE #25</u>
<u>IXS_ULRSTR_MON</u>	<u>N781306-UL Forest Restor Mntr</u>
<u>IXS_WHSL_CNTRCT</u>	<u>N750304-Wholesale Contract Mgt</u>
<u>IXS_WILDFIRE_PR</u>	<u>N782002-Wildfire Protection</u>
<u>IXS_WQLABFAC_OM</u>	<u>N751600-WQ Lab Facility O&amp;M</u>
<u>IXS_WQLABQA_ADM</u>	<u>N751602-QA Admin</u>
<u>IXS_WQLABSYS_AS</u>	<u>N751601-Lab System Adm, Supp</u>
<u>IXS_WRKFC_SFTY</u>	<u>N205302-Workforce Safety</u>
<u>IXS_WS_DATACOLL</u>	<u>N782001-Watershed Data Collect</u>
<u>IXS_WS_ED</u>	<u>N780903-Watershed Education</u>
<u>IXS_WS_EDCR_OPS</u>	<u>N780905-Educational Center Ops</u>
<u>IXS_WS_GEN_MGT</u>	<u>NW03196-WS General Mgt</u>
<u>IXS_WS_INVS_MGT</u>	<u>N781203-Watershed Invasive Mgt</u>
<u>IXS_WS_PI</u>	<u>N780904-Watershed Public Info</u>
<u>IXS_WS_REC_MON</u>	<u>N782005-WS Recreation Monitori</u>
<u>IXS_WS_SEC</u>	<u>N782003-WS Monitoring</u>

<u>IXS_WS_TRBL_REL</u>	<u>N781701-Watershd Tribal Relatin</u>
<u>IXS_WS_TRBL_SNO</u>	<u>N781701-Snoqualmie Coord</u>
<u>IXS_WSBC_MAINT</u>	<u>N780602-WS Crw Brdg/Civ Mnt</u>
<u>IXS_WSBLD_MAINT</u>	<u>N780502-WS Crw Bldgs Mnt</u>
<u>IXS_WSEDFAC_MGT</u>	<u>N780503-WS Ed Facilities Mgt</u>
<u>IXS_WSFLEET_IDLE</u>	<u>N781102-Watershed Fleet Idle</u>
<u>IXS_WSFIRST_RSL</u>	<u>N781202-WS Forest Resiliency</u>
<u>IXS_WSGR_MAINT</u>	<u>N780501-WS Crw Grounds Mnt</u>
<u>IXS_WSHQ_MAINT</u>	<u>N780505-WS CRW HQ BLDGS</u>
<u>IXS_WSHYD_MNTR</u>	<u>N780801-WS Hydro Monitor</u>
<u>IXS_WSOPS_MGT</u>	<u>N780193-WS Operations Mgt</u>
<u>IXS_WSRD_MAINT</u>	<u>N780601/3/5-WS Crw Road Mnt</u>
<u>IXS_WSVEQ_MGT</u>	<u>N780701-WS Crw Vch/Eq Mgt</u>
<u>IXS_WSVEQ_RPR</u>	<u>N780702-WS Crw Vch/Eq/Tool Rpr</u>
<u>IXS_WTRRSRC_MGT</u>	<u>N750404-Watr Resre Ops Mgmt</u>
<u>IXS_WTRSUPP_OS</u>	<u>N751401-Operations Support</u>
<u>IXS_WTRSUPP_PI</u>	<u>N751304-Public Info/Notify</u>
<u>IXS_WTRSUPP_RS</u>	<u>N751305-Regulatory Support</u>
<u>IXS_WTRSYS_MC</u>	<u>N674002-Water Sys Mntr Cntrl</u>
<u>N7IXS_WSOPS_MGT</u>	<u>N780193-WS Operations Mgt</u>
<u>NOT_HCP</u>	<u>Not HCP Costs</u>
<u>PLANT_CWM</u>	<u>FORTERRA CWM</u>
<u>PLANT_SFRB</u>	<u>FORTERRA SFRB</u>
<u>PLANT_WOIP</u>	<u>FORTERRA WOIP</u>
<u>POSTFIRE_MONIT</u>	<u>Post Fire Response Monitoring</u>
<u>RAINSTORM_2020</u>	<u>2020 Rainstorm</u>
<u>REMOVE_RAM_PUMP</u>	<u>Landsburg Ramp Pump Removal</u>
<u>SCT_HW_REPAIR</u>	<u>Repair Flooded SC Room</u>
<u>SERVICES_CWM</u>	<u>OTHER COSTS CWM</u>
<u>SERVICES_SFRB</u>	<u>OTHER COSTS SFRB</u>
<u>SO_CAL_FIRE</u>	<u>South California Fire Assist</u>
<u>SOOTY_BARK_2022</u>	<u>Sooty Bark Hazard Tree Removal</u>
<u>TOLT_BOOM_RPR</u>	<u>S Fork Tolt Debris Boom Rpr</u>
<u>TOLT_STORM</u>	<u>Tolt Watershed Storm Response</u>
<u>TREAT</u>	<u>Cedar DBO Contract Payments</u>
<u>TREAT</u>	<u>Tolt DBO Contract Payments</u>
<u>WEEDS_SFRB</u>	<u>KING COUNTY SFRB</u>
<u>WINDSTORM_012021</u>	<u>Windstorm Jan 2021</u>
<u>WTSH_PWROUT</u>	<u>Watershed Power Outage</u>

The parties agree that the following cost centers or successor cost centers that capture the direct cost of transmission related elements of the Existing Regional System shall be included as the existing transmission portion of Existing Regional System Index O&M:

Activity ID	Activity Name
CULVERT_LY	Culverts, Lake Youngs
IXT_CASTING_ADJ	N654501-Trn Crw Casting Adist
IXT_HWSTR_MAINT	N654001-Trn Crw Hdwrk Strg Mnt
IXT_PLRWF_MAINT	N654701-Trn Crw PL/ROW/Fac Mnt
IXT_TLEQP_MAINT	N654905-Trn Crw Tool/Eq Mnt
IXT_TLP2SLP_STB	E109041-TLP2-Slope Stabilizati
IXT_TRANS_DWNTM	N654908-Trn Crw Job Downtime
IXT_TREAC_MAINT	N654401-Trn Crw Fac Mnt
IXT_TRN_COMMDSP	N654601-COMM/DISPATCH
IXT_TRN_LOCATE	N654602-Trn Crw Locate/Mark
IXT_TRN_STANDBY	N654906-STANDBY
IXT_TRN_TRCKINV	N654907-TRUCK INVENTORY
IXT_TRNBC_MAINT	N654303-Trn Crw Brdg/Clv Mnt
IXT_TRNFG_MAINT	N654305-Trn Crw Fnc/Gt Mnt
IXT_TRNOTHR_MOW	N654309-Trn Crw Mow OTHER
IXT_TRNPL_MAINT	N654101-Trn Crw Tran P/L Mnt
IXT_TRNRD_MAINT	N654301/2-Trn Crw Road Mnt
IXT_TRNRROW_MOW	N654307-Trn Crw Mow ROW
IXT_TRNSHP_FAB	N654801-Trn Crw Shops/Fab
IXT_VL_VOP_MAINT	N654201-Trn Crw Valve Op Mnt

## 2. New Supply Cost Pool

The parties agree that the following cost centers or successor cost centers that capture the direct cost of Regional Conservation shall be included as the New Supply Index O&M:

- o The Regional Water Conservation Program
- o Operating Board expenses, if allocated

The parties agree that the following cost centers or successor cost centers that capture the direct cost of Regional Conservation shall be included as the New Supply Index O&M:

Activity ID	Activity Name
INS_WTRCNSRV	N390401-Water Conservation
INS_WTRCNSRV_LS	N390412-Water Conserv-Lndsep

## 2.3. New Transmission Cost Pool

- o [Reserved]

## EXHIBIT IX

### STRANDED AND AVOIDED COSTS

#### 1. General Provisions

Within 30 days of receipt of a Notice to reduce or terminate Water Utility's Purchase Commitment under Section II.B.5.a, Seattle shall send a written notice to Water Utility, with a copy to the Operating Board, defining the amount of the reduction or termination that results in aggregate Water Utility reductions under this Contract that is in excess of the Water Utility's total Automatically Allowed Reduction, and providing an annual schedule of the preliminary Net Stranded Cost, or preliminary Net Billing Credit, if applicable, calculated pursuant to the methodology in Section 2 below using the available documented information as of the time of the Notice. If any reduction by Water Utility results in it having aggregate reductions greater than 5% of the average purchases from Seattle for the most recent five three years but less than or equal to its Automatically Allowed Reduction, the Stranded Cost for the portion above 5% will be paid by Seattle, through annual Stranded Cost payments as calculated below. Note: This basis for Seattle payments will apply both to Regional Stranded Cost calculations and to Subregional Stranded Cost calculations, as further defined below.

On or before 180 days prior to the effective date of the Notice under Section II.B.5.b, Seattle shall send a written notice to Water Utility, with a copy to the Operating Board, providing a revised schedule of the Final Net Stranded Cost, or Final Net Billing Credit, if applicable, calculation pursuant to the methodology in Section 2 below using the available documented information as of 180 days prior to the effective date of the Notice under Section II.B.5.b which may reflect appropriate adjustments for changed circumstances during the Notice Period, as well as a calculation of any Stranded Cost obligation to be met by Seattle, as defined above.

The Final Net Stranded Cost, or Final Net Billing Credit, if applicable, will be the payment, or credit, if applicable, required pursuant to Section II.B.5.c. Water Utility will pay the Final Net Stranded Cost, or agree to a schedule of payments with equivalent discounted present value, or receive the Final Net Billing Credit, if applicable, on or before the effective date of the Notice under Section II.B.5.b.

If Water Utility is reducing its Purchase Commitment and will remain a Wholesale Customer, the parties may mutually agree to a payment schedule agreement to pay the Final Net Stranded Cost pursuant to Section VII.A of the Contract.

For rate smoothing or financial performance purposes, Seattle, in consultation with the Operating Board, may select which cost pool the revenues are applied to and whether or not to delay revenue recognition to future years.

In the event that Seattle ~~acquires a new wholesale customer~~ ~~or extends the size of the block contract to Cascade Water Alliance~~ ~~or other existing block wholesale customers~~, these new regional sales will reduce prior demand reductions that are subject to Stranded Costs as follows: i) adjustments to prior reductions will be effective for all remaining years of the ~~Contract~~, beginning with the first year of the new sales; ii) new customer sales or ~~Additional Cascade Water Alliance~~ block sales amounts will be assigned to past Wholesale Customer demand reductions in order of their effective dates; ~~iii) if the new sales amount is greater than the size of the first-in-time prior demand reduction, the remainder will be applied to the next-in-time demand reduction, and so on until either the new sales amount is exhausted or all prior reductions have been reduced to zero.~~ In such cases, the schedule(s) of ~~Water Utility's Annual Stranded Costs~~ for remaining years will be reduced proportionately or entirely as the case may be, and Water Utility will pay the reduced amount from that year forward or, if it has made a prior payment in excess of its Annual Stranded Costs, it will receive a credit of equivalent present value.

Commented [TG212]: Seattle agrees with these changes highlighted in green within this paragraph.

## 2. ~~Reserved for discussion~~–Stranded and Avoided Cost Methodology

A. Annual Regional Stranded Costs and Annual Regional Avoided Costs: Seattle will first calculate Annual Regional Stranded Costs, and Annual Regional Avoided Costs, if applicable, for each year beginning with the first year Water Utility's reduction or termination of its Purchase Commitment is effective through the last year of the ~~current~~ Contract term using the formula below. Seattle will use the most up to date and available documented information from its then current Water System Plan, or annual plans and statements including financial and accounting statements, official demand forecasts, etc. for all the projections required in the methodology i) as of the date of the Notice for the ~~p~~Preliminary Net Stranded Costs, or ~~p~~Preliminary Net Billing Credit, if applicable; and ii) as of 180 days prior to the effective date of the Notice for the ~~f~~Final Net Stranded Costs or ~~f~~Final Net Billing Credit, if applicable.

Commented [TG213]: Seattle agrees with this change.

**Annual Regional Stranded Costs for Year X = [DEP + NBV\*RORI + FOC] \* Share**

where:

- **DEP** - the projected annual depreciation for the Regional Facilities as of the effective date of the Notice of the reduction or termination of Water Utility's Purchase Commitment for year X,
- **NBV** - the projected Net Book Value of the Regional Facilities as of the effective date of the Notice of the reduction or termination of Water Utility's Purchase Commitment for year X,
- **RORI** - the Rate of Return on Investment in effect at the time of the calculation (remains constant for all years),
- **FOC** - the projected fixed portion of the Annual O&M Costs for year X, calculated as the Annual O&M Costs for the first year after the Effective Date ("year 1") (i.e. Annual O&M Costs in year 1 \* 90% , which represents a deduction of an agreed upon amount for variable operations costs that are reduced in proportion to Water Utility's reduction or termination and therefore not included as Stranded Costs in the methodology), and escalated at 2.5% per year for each of the remaining years' calculations through year X.
- **Share** - -the amount of Water Utility's reduction or termination in excess of its Automatically Allowed Reduction, divided by the projected total F&PWholesale Customer demand for year X, multiplied by the total F&PWholesale Customer share of revenue requirements for year X (i.e. (Firm yield – block contract demand)/Firm yield). For this calculation, block demand priced at F&PWholesale Customer rates shall be considered F&PWholesale Customer demand.

**Annual Regional Avoided Costs for Year X = [DSN + NOC] \* NSS**

where:

**DSN** - The projected annual debt service payment for year X of 30-year debt at the then current Seattle Average Cost of Debt to finance the full cost of the any deferred New Supply Facility deferred by the reduction or termination, based on the then most current Seattle Water System Plan.

**NOC** – The projected operations cost for year X for the SPU nNew sSupply sourceFacility, escalated at 2.5% per year from the first year through the end of the contract period, and

**NSS** - The New Supply Share, defined as the ratio of the Water Utility's reduction in demand divided by the projected design capacity of the deferred New Supply Facility, as measured by average daily demand (ADD).

**B. Annual Subregional Stranded Costs:** If Water Utility is served by Subregional Facilities, Seattle will calculate Annual Subregional Stranded Costs for each year beginning with the first year

Water Utility's reduction or termination of its Purchase Commitment is effective through the last year of the Contract term using the formula below.

**Annual Subregional Stranded Costs for Year X = [SRDEP + SRNBV\*RORI + SRFOC] \* SRShare**

where:

- **SRDEP** - the projected annual depreciation for the Subregional Facilities for year X
- **SRNBV** - the projected Net Book Value of the Subregional Facilities for year X,
- **RORI** - the Rate of Return on Investment in effect at the time of the calculation (remains constant for all years),
- **SRFOC** - the projected fixed portion of the Annual O&M Costs for year X, calculated as the Annual O&M Costs for the first year after the Effective Date ("year 1") (i.e. Annual O&M Costs in year 1 \* 90% , which represents a deduction of an agreed upon amount for variable operations costs that are reduced in proportion to Water Utility's reduction or termination and therefore not included in the methodology), and escalated at 2.5% per year for each of the remaining years' calculations through year X.
- **SRShare** - the amount of Water Utility's reduction or termination divided by the projected total Subregional demand for year X in the relevant subregion.

**C. Totaling the Stranded Costs or Billing Credit/Avoided Costs for all years:** Seattle will then calculate the Net Stranded Costs or Net Billing Credit, if applicable, as follows by discounting each year of Annual Regional Stranded Costs and Annual Regional Avoided Costs (except year 1) and Annual Subregional Stranded Costs (if any, and except year 1) to its present value and then adding the first year and each of the discounted remaining years of the Annual Regional Stranded Costs; and subtracting first year and each of the discounted remaining years of the Annual Avoided Costs, if applicable; and adding the first year and each of the discounted remaining years of the Annual Subregional Stranded Costs, if any. If the difference is positive, a total Final Net Stranded Cost Payment is due from Water Utility and will reflect any applicable offset from Annual Avoided Costs. If the difference is negative, a total Final Net Billing Credit will be due from Seattle to Water Utility.

Net Stranded Cost (or Net Billing Credit if negative) =

**Annual Regional Stranded Cost(1) – Annual Regional Avoided Cost(1) + Annual Subregional Stranded Cost(1) +**

**[Annual Regional Stranded Cost (2) – Annual Regional Avoided Cost (2)+ Annual Subregional Stranded cost (2)]\*Discount Factor(2) +**

**...calculated for each year from 3 to n (see Illustrative Example of Annual Stranded & Avoided Cost Calculation)... +**

**[Annual Regional Stranded Cost(n) -Annual Regional Avoided Cost(n) + Annual Stranded Subregional Cost(n), if applicable]\*Discount Factor(n)**

where:

- Annual Regional Stranded Cost(1) – the Annual Regional Stranded Cost in the first year the reduction or termination is in effect,
- Annual Regional Avoided Cost(1) – the Annual Avoided Cost in the first year the reduction or termination is in effect,
- Annual Subregional Stranded Cost(1) – the Annual Subregional Stranded Cost in the first year the reduction or termination is in effect,
- Annual Regional Stranded Cost(2) - the Annual Regional Stranded Cost in the second year the reduction or termination is in effect,
- Annual Regional Avoided Cost(2) – the Annual Avoided Cost in the second year the reduction or termination is in effect,
- Annual Subregional Stranded Cost(2) – the Annual Subregional Stranded Cost in the second year the reduction or termination is in effect,
- Discount Factor(2) - the factor for discounting costs in the second year by one year, deemed to be the Annual O&M Cost escalation plus 2.5%.
- Annual Regional Stranded Cost(n) - the Annual Regional Stranded Cost in the last year of the Contract term, deemed to be the Annual O&M Cost escalation plus 2.5%,
- Annual Regional Avoided Cost(n) - the Avoided Cost in the last year of the Contract term,
- Annual Subregional Stranded Cost(n) - the Annual Subregional Stranded Cost in the last year of the Contract term, and
- Discount Factor(n) is the multiplied factor for discounting costs in the last year of the Contract term back to the first year the reduction is in effect, deemed to be the Annual O&M Cost escalation plus 2.5% per year, with the calculation including each of the years of the Contract term.

<b>Illustrative Example of Annual Stranded &amp; Avoided Cost Calculation: Reduction of 1.0 mgd (Million Gallons/Day) of Demand, not in a Subregion</b>		
<b>Annual Cost for 1 Year (2030)</b>		
Projected Annual Depreciation	\$22 M	
Projected Net Book Value	\$400 M	
ROR <sub>F</sub>	6.0%	
Total Annual Capital Costs	$\$22\text{ M} + (\$400\text{M} \times 6\%) = \$46\text{ M}$	\$46 M
Projected Annual O&M Cost in Year 1	\$60 M	
Projected Fixed Operations Costs (FOC) in Year 1	$\$60\text{ M} \times .90$	\$54 M <sup>1</sup>
Total Annual Regional System Cost	$\$46\text{ M} + \$54\text{ M} = \$100\text{ M}$	<b>\$100 M</b>
<b>Share of Annual Cost Associated with Reduction</b>		
Regional System Firm Yield	172 mgd	
Block Contracts Demand Share Portion of Firm Yield <sup>2</sup>	34.4 mgd	
Wholesale Customer plus Cascade Supplemental Block F&P (including Seattle) Share of Annual Revenue Requirements <sup>3</sup>	$(172 - 34.4)/172\text{ mgd} = 80\%$	
F&P Wholesale Customer Forecasted Demand plus Cascade Supplemental Block	<b>100 mgd</b>	
Water Utility's Reduction	<b>1 mgd</b>	
Water Utility's Share of F&P Wholesale Customer plus Cascade Supplemental Block Demand Share associated with Reduction	$80\% \times (1.0/100) = 0.80\%$	<b>0.80%</b>
<b>Annual Stranded Cost</b>		
Water Utility's Share = Annual Stranded Cost (2030)	$0.80\% \times \$100\text{ M} = \$800,000$	<b>\$800,000</b>
<b>Annual Regional Avoided Cost, New Supply (beginning 2055)</b>		
New Supply Facility (2055 Cost)	\$600 M	
New Supply Facility Financing	30 years, 4% interest => \$34.7 M/yr	
New Supply Facility -O&M Cost in 2055	\$8.5 M <sup>4</sup>	
New System Supply Capacity	24 mgd	
Water Utility's Avoided Supply Share (beginning in 2055)	$(1.0/24.0) \times (\$34.7\text{ M} + \$8.5\text{ M}) = \$1.80\text{M}$	<b>\$1,800,000</b>

<sup>1</sup> Each Year X after Year 1, the projected FOC will be escalated at 2.5%.

<sup>2</sup> As of the Effective Date of this Contract, includes Cascade (Base Block only, not Supplemental Block) and Northshore Utility District block contract demand in each Year X at the full amount of their Blocks.

<sup>3</sup> Cascade's Supplemental Block is priced at the same regional rate paid by Wholesale Customers and is therefore included with Wholesale Customer demand at its full Supplemental Block size.

<sup>4</sup> Each Year X after 2055, the projected NOC will be escalated at 2.5%.

**Total Present Value of Annual Stranded Costs and Avoided Costs for a 1.0 mgd (Million Gallons/Day) Reduction Beginning in 2030, Reducing New Supply Needs in 2055**

Year	Annual Stranded Cost (\$000)	Annual Avoided Cost (\$000)	Annual Net Cost or Credit	PV of Stranded & Avoided Costs (\$000)
2030	\$800	\$0	\$800	\$800
2031	\$796	\$0	\$796	\$758
2032	\$792	\$0	\$792	\$718
2033	\$788	\$0	\$788	\$681
2034	\$784	\$0	\$784	\$645
2035	\$780	\$0	\$780	\$611
2036	\$776	\$0	\$776	\$579
2037	\$772	\$0	\$772	\$549
2038	\$768	\$0	\$768	\$520
2039	\$764	\$0	\$764	\$492
2040	\$760	\$0	\$760	\$467
2041	\$768	\$0	\$768	\$449
2042	\$776	\$0	\$776	\$432
2043	\$784	\$0	\$784	\$416
2044	\$792	\$0	\$792	\$400
2045	\$800	\$0	\$800	\$385
2046	\$808	\$0	\$808	\$370
2047	\$816	\$0	\$816	\$356
2048	\$824	\$0	\$824	\$342
2049	\$832	\$0	\$832	\$329
2050	\$840	\$0	\$840	\$317
2051	\$850	\$0	\$850	\$305
2052	\$860	\$0	\$860	\$294
2053	\$870	\$0	\$870	\$283
2054	\$880	\$0	\$880	\$273
2055	\$890	\$1,800	(\$910)	(\$269)
2056	\$900	\$1,809	(\$909)	(\$256)
2057	\$910	\$1,818	(\$908)	(\$243)
2058	\$920	\$1,827	(\$907)	(\$231)
2059	\$930	\$1,837	(\$907)	(\$220)
2060	\$940	\$1,846	(\$906)	(\$210)
2061	\$950	\$1,856	(\$906)	(\$200)
<b>Total Net Stranded Cost</b>				<b>\$10,143</b>

I believe there are potential legal issues relating to this “annual rebate” that could be challenged by a non-signer. The comment is intended to avoid a situation where SPU take the position that a non-signer did not object to this provision and is somehow bound by this provision. No further comment is necessary.

**FIRST AMENDED AND RESTATED CONTRACT**  
**BETWEEN**  
**THE CITY OF SEATTLE AND**  
**THE CITY OF DUVALL**  
**FOR THE**  
**SUPPLY OF WATER**

DATE:

## TABLE OF CONTENTS

	<b>Page(s)</b>
FIRST AMENDED AND RESTATED CONTRACT BETWEEN THE CITY OF SEATTLE AND CITY OF DUVALL FOR THE SUPPLY OF WATER.....	1
RECITALS.....	1
SECTION I. DEFINITIONS.....	3
SECTION II. TERM OF CONTRACT AND GENERAL CONDITIONS .....	10
II.A. Term of Contract .....	10
II.B. Agreement to Supply and Purchase Water.....	13
II.C. Continuity of Service within the Term of the Contract .....	23
II.D. Water Quality .....	25
II.E. Regional Water Conservation Program.....	32
II.F Cedar River Watershed Education Center and other facilities.....	34
SECTION III. CONDITIONS OF SERVICE.....	35
III.A. Minimum Hydraulic Gradient and Flow Rates .....	35
III.B. Resale to Other Parties.....	37
III.C. Interconnection With Other Systems .....	37
III.D. Development of Seattle Regional Water Supply System Infrastructure.....	39
III.E. Metering Equipment.....	40
SECTION IV. COST OF WATER SUPPLY & TRANSMISSION.....	41
IV.A. Rate-making and Cost-allocation Principles .....	41
IV.B. Ratemaking Framework .....	44
IV.C. Seattle Regional Water Supply System Cost Pools .....	45
IV.D. Allocation of Costs and Revenues into Cost Pools.....	50
IV.E Allocation of Cost Pools by Customer or Customer Class. ....	61
IV.F Elective Services .....	65
IV.G Rate Setting, Adjustments and Special Charges .....	65
IV.H. Cost Review and Truing Actual Costs and Actual Revenues .....	73
SECTION V. OPERATING BOARD.....	77
SECTION VI. PLANNING .....	78
VI.A. Reporting of Planning Data .....	78
VI.B. Submittal of Water Utility Water System Plans.....	80
VI.C. Seattle as Water Planning Agency.....	80
VI.D. Capital Improvement Plan.....	81
SECTION VII. PAYMENT .....	83
VII.A. Collection of Money Due City .....	83
VII.B. Penalties for Late Payment .....	83

<b>VII.C.</b>	<b>Billing Disputes .....</b>	<b>83</b>
<b>VII.D</b>	<b>Availability of Records .....</b>	<b>84</b>
<b>SECTION VIII.</b>	<b>CONTRACT AMENDMENTS .....</b>	<b>84</b>
<b>SECTION IX.</b>	<b>DISPUTE RESOLUTION .....</b>	<b>84</b>
<b>IX.A.</b>	<b>Operating Board Review .....</b>	<b>84</b>
<b>IX.B.</b>	<b>Seattle Mayor Review .....</b>	<b>85</b>
<b>IX.C.</b>	<b>Mediation.....</b>	<b>85</b>
<b>IX.D.</b>	<b>Resort to Litigation .....</b>	<b>86</b>
<b>IX.E.</b>	<b>Efficiency of Review.....</b>	<b>86</b>
<b>SECTION X.</b>	<b>MISCELLANEOUS .....</b>	<b>86</b>
<b>X.A.</b>	<b>Notification .....</b>	<b>86</b>
<b>X.B.</b>	<b>Severability.....</b>	<b>87</b>
<b>X.C.</b>	<b>Consent .....</b>	<b>88</b>
<b>X.D.</b>	<b>Emergency Situations .....</b>	<b>88</b>
<b>X.E.</b>	<b>No Joint Venture - Individual Liability.....</b>	<b>88</b>
<b>X.F.</b>	<b>Complete Agreement .....</b>	<b>88</b>
<b>X.G.</b>	<b>Venue, Jurisdiction and Specific Performance .....</b>	<b>89</b>
<b>X.H.</b>	<b>Default and Non-Waiver .....</b>	<b>89</b>
<b>X.I.</b>	<b>Force Majeure.....</b>	<b>89</b>
<b>X.J.</b>	<b>Successors .....</b>	<b>90</b>
<b>X.K.</b>	<b>Exhibits .....</b>	<b>90</b>
	<b>SIGNATURE PAGE .....</b>	<b>91</b>
	<b>LIST OF EXHIBITS .....</b>	<b>92</b>
	<b>EXHIBIT I .....</b>	<b>93</b>
	<b>PURCHASE COMMITMENT &amp; EMERGENCY, INDEPENDENT AND PURCHASED SUPPLIES.....</b>	<b>93</b>
	<b>EXHIBIT II.....</b>	<b>97</b>
	<b>SERVICE CONNECTIONS, MINIMUM HYDRAULIC GRADIENTS, AND FLOW RATES OF WATER SUPPLIED .....</b>	<b>97</b>
	<b>EXHIBIT III .....</b>	<b>98</b>
	<b>DEMAND CHARGE METHODOLOGY.....</b>	<b>98</b>
	<b>EXHIBIT IV.....</b>	<b>101</b>
	<b>OPERATING BOARD STRUCTURE .....</b>	<b>101</b>
	<b>EXHIBIT V .....</b>	<b>103</b>
	<b>FACILITIES CHARGES .....</b>	<b>103</b>
	<b>EXHIBIT VI.....</b>	<b>105</b>
	<b>REGIONAL FACILITIES .....</b>	<b>105</b>
	<b>EXHIBIT VII .....</b>	<b>109</b>
	<b>SUBREGIONAL FACILITIES AND ALLOCATIONS.....</b>	<b>109</b>

**EXHIBIT VIII .....114**  
**INDEX O&M COST CATEGORIES.....114**  
**EXHIBIT IX.....116**  
**STRANDED AND AVOIDED COSTS.....116**

# **FIRST AMENDED AND RESTATED CONTRACT BETWEEN THE CITY OF SEATTLE AND THE CITY OF DUVALL FOR THE SUPPLY OF WATER**

THIS FIRST AMENDED AND RESTATED CONTRACT (“Contract”) is entered into between the CITY OF SEATTLE (“Seattle”), a municipal corporation of the State of Washington, and the City of Duvall (“Water Utility”), a municipal corporation of the State of Washington.

## **RECITALS**

1. Seattle owns and operates a system for the supply, treatment, 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 retail and wholesale water service areas 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 the wholesale water service areas pursuant to long-term water supply contracts.
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 wholesale water service area are intended to provide those Wholesale Customers and Seattle with the assurance of a long-term service commitment for reliable and sustainable high quality water supply 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 from Seattle and Wholesale Customers, along with an independent representative, all pledged to represent the best interests of the region, to provide advice and direction in certain areas to the Administrator of the Seattle Regional Water Supply System.
8. Pursuant to Section II.A.4.a, Seattle, Water Utility and the other Wholesale Customers have undertaken a review of the Contract and have mutually agreed to amend certain terms and conditions of the Contract to update and clarify obligations of the parties and to strengthen the partnership, resiliency and sustainability of the Seattle Regional Water Supply System.

NOW, THEREFORE, in consideration of mutual covenants herein, the parties mutually agree as follows:

## SECTION I. DEFINITIONS

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

“Administrator” - The General Manager of Seattle Public Utilities or any other title given to that person who maintains the executive authority to operate and manage the Seattle Regional Water Supply System.

“Alternate Supply(ies)” – The Emergency, Independent and Purchased Supplies, if any, available to Water Utility.

“Annual O&M Costs” – The annual total O&M Costs included in each cost pool as determined in Section IV.D.3.

“Automatically Allowed Reduction” – The purchase reduction amount automatically allowed as defined in Section II.B.5.d.viii.

“Avoided Costs” – The proportional share of the projected capital and operating cost of the next planned source of supply of the Seattle Regional Water Supply System represented by the size of a Wholesale Customer's qualifying reduction in demand, as more particularly defined in Section II.B.5 and Exhibit IX.

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

“Customer-driven Demand Fluctuations” – Demand fluctuations that are out of Seattle or Water Utility’s control and result from retail customer discretion or behavior, such as weather or economic-related demand, use of efficient fixtures, use of reuse water alternatives or redevelopment of property, etc.

“Eastern Subregional Facilities” – Certain subregional transmission facilities used, in part, to serve those Wholesale Customers in the Eastern Subregion as more particularly described in

Section I of Exhibit VII.

“Emergency Supply(ies)” – Water supplies that Water Utility receives or purchases from another water purveyor to use on an emergency or temporary basis as specifically identified in Section I of Exhibit I. Emergency Supplies do not include Independent or Purchased Supplies, or periodic or intermittent water supplies used for peak or seasonal demand or other domestic demand.

“Existing Regional Facilities” – Components of the Seattle Regional Water Supply System which consist of supply and transmission resources and facilities that Seattle exclusively owns and operates; related deferred costs; and facilities owned by others for which Seattle has entered into an agreement to use, all of which are used to produce, treat and convey water to the Seattle Retail Distribution System, Water Utility, other Wholesale Customers, and block or other wholesale customers as set forth in Section I of Exhibit VI. This does not include New Supply, New Transmission or Subregional Facilities.

“Facilities Charges” – Facilities Charges (FCs) are the product of the Equivalent Residential Unit (ERU) Charge and the ERU Factor, as further described in Section IV.D.2.c. and Exhibit V. FCs are only as described in this Contract.

“Firm Yield” - Firm yield is the amount of water that Seattle is able to supply system-wide as published in the Seattle Water System Plan.

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

“Full Water Requirements” – All of the water, except for Emergency Supplies, if any, that Water Utility needs to meet the demand of its present and future retail water customers within its retail distribution service area, as shown in Water Utility’s water system plan in effect on the Effective Date of this Contract, as may be amended according to the provisions of this Contract.

“Independent Supply(ies)” – Water supplies that are owned and operated by Water Utility pursuant to existing or transferred water rights, claims or permits as specifically identified in Section II of Exhibit I or new water supplies acquired by Water Utility through a merger with another water purveyor not supplied by Seattle water. Independent Supplies do not include Emergency or Purchased Supplies.

“Index O&M Costs” – The portion of O&M Costs used to support the Seattle Regional Water Supply System only, except those identified as Non-Index O&M Costs, as more particularly described by the O&M Cost categories specified in Exhibit VIII.

“Infrastructure Adder” – 1.5% that is added as a component of the Rate of Return on Investment to the Net Book Value of facilities recognized under the Utility Basis.

“Mixed-use Assets” – Capitalized facilities or assets that are shared between or used to support both the Seattle Retail Distribution System and the Seattle Regional Water Supply System.

“Mixed-use O&M Costs” – The portion of O&M Costs that are shared between or used to support both the Seattle Retail Distribution System and the Seattle Regional Water Supply System.

“New Supply Facilities” – New resources and facilities developed after January 1, 2002, or portions of rehabilitated or replaced Existing Regional Facilities as may be allocated by the Operating Board, that expand the supply capacity of the Seattle Regional Water Supply System as set forth in Section II of Exhibit VI. This does not include Existing Regional, New Transmission or Subregional Facilities.

“New Transmission Facilities” – New resources and facilities developed after January 1, 2002, or portions of rehabilitated or replaced Existing Regional Facilities as may be allocated by the Operating Board, that expand the transmission capacity of the Seattle Regional Water Supply System as set forth in Section III of Exhibit VI. This does not include Existing Regional, New

Supply or Subregional Facilities.

“Non-index O&M Costs” – A portion of O&M Costs to support the Seattle Regional Water Supply System only, but not included in the Index O&M Costs because they are nonrecurring or other special circumstances, as determined by Seattle, which may include, but are not limited to pre-or post-capital expenses claims or net disposition costs.

“Operating Board” – A board of representatives established by Section V of this Contract and having the specific roles and limited authorities as more particularly set forth throughout this Contract.

“O&M Costs” - The fully loaded costs of labor (i.e. all wages and fringe benefits); costs of materials, supplies, and equipment; and other direct or indirect costs or expenses that are not capitalized; or portions thereof, required or expended to operate, maintain, repair and support the Seattle Regional Water Supply System and the Seattle Retail Distribution System in good working order consistent with all applicable local, state and federal laws, policies and standards and to meet the obligations of this Contract.

“Partial Requirements Contract” - A contract in which Seattle supplies a Wholesale Customer with its Partial Water Requirements during the Contract term.

“Partial Water Requirements” – All of the water that is over and above the aggregate amount of Water Utility’s Independent and Purchased Supplies that Water Utility needs to meet the demand of its present and future retail water customers within its service area as shown in Water Utility’s water system plan in effect on the Effective Date of this Contract, as may be amended according to the provisions of this Contract.

“Purchase Commitment” – Water Utility’s Full or Partial Water Requirements, as appropriate, as specified in Exhibit I.

“Purchased Supplies” – Water supplies Water Utility purchases from another water purveyor to meet the demand of its present or future retail water customers as specifically identified in Section III of Exhibit I.

“Qualified Partial Requirements Contract” - A contract in which Seattle supplies a Wholesale Customer with its future partial or full requirements during the Contract term- following a customer's demand reduction due to Purchased Supplies.

“Qualified Partial Water Requirements” – Water Utility’s Partial Water Requirements less the amount of a new Purchased Supply that becomes effective pursuant to a reduction of Water Utility’s Purchase Commitment under Section II.B.5.

“Rate of Return on Investment” - Seattle’s Average Cost of Debt plus the Infrastructure Adder.

“Regional Facilities” – All of the Existing Regional, New Supply and New Transmission Facilities.

“Regional Water Conservation Program” - A regional program, implemented collaboratively between Seattle and Wholesale Customers, to help retail customers use water efficiently, defer development of new supply resources and meet applicable regulations and agreements as more particularly described in Section II.E.

“Renton Subregional Facilities” - Certain subregional transmission facilities used, in part, to serve those Wholesale Customers in the Renton Subregion as more particularly described in Section III of Exhibit VII.

Seattle Average Cost of Debt (“ACOD”) – 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’s Cash Pool Rate” - The interest rate earned by the Seattle Water Fund for cash deposited

in the City of Seattle's cash pool.

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

"Seattle Regional Water Supply System" - Seattle's regional water supply system consisting generally of water rights (including permits and claims), real property rights, dams, impounded water, supply and transmission mains, pumps, treatment facilities, Subregional Facilities, Service Connections and all other resources and facilities utilized in producing, treating and conveying water up to but not including the Seattle Retail Distribution System, and through to the end of the Service Connections of the Water Utility and other Wholesale Customers, and block or other wholesale customers.

"Seattle's Service Area Boundary" - Seattle's then current designated place of use of Seattle's water certificates, permits, claims or service area under Seattle's approved Water System Plan.

"Seattle Water Enterprise Fund" - A public utility enterprise fund of the City of Seattle established to account for activities of the water system operated by Seattle.

"Seattle Water System Plan" - Seattle's 2019 Water System Plan, dated August 2019, and amendments and updates thereto, prepared by Seattle to comply with the requirements of WAC 246-290-100, and successor regulations, including each successive Water System Plan issued approximately every 10 years.

"Service Connection" - The Seattle-owned and operated metered delivery locations as specified in Exhibit II, beginning at the outlet from the regional supply pipeline (which may be a subregional pipeline) to the end of the Seattle-owned vault, or the first isolation valve downstream

of the vault; including the water meter and associated appurtenances through which Seattle delivers water at a defined level of service from the Seattle Regional Water Supply System to a Wholesale Customer's retail distribution water system.

“Southwest Subregional Facilities” - Certain subregional transmission facilities used, in part, to serve those Wholesale Customers in the Southwest Subregion, as more particularly described in Section II of Exhibit VII.

“Stranded Costs” – Those portions of infrastructure costs that Seattle has incurred and fixed operations costs committed for the Seattle Regional Water Supply System, but not yet recovered through rates and charges, at the time a Wholesale Customer reduces or terminates its Purchase Commitment, that other Wholesale Customers, including Seattle, would have to pay due to the loss of expected revenue resulting from that Wholesale Customer’s reduction or termination as more particularly described in Exhibit IX.

“Subregional Facilities” – All of the Eastern, Southwestern and Renton Subregional Facilities, or other subregions, if any, that may be added during the term of this Contract.

“Wholesale Customer” – Those water utilities who purchase water from Seattle under a Full or Partial Requirements Contract for the purposes of reselling to their retail customers.

“Wholesale Level of Service” – Water delivered by Seattle to the Service Connection(s) in accordance with the conditions listed in Exhibit II and this Contract intended for Wholesale Customers’ distribution to their retail customers through their own distribution systems. Except as may be specifically provided in this Contract, Seattle is not responsible for, and Wholesale Level of Service does not include, compliance with Department of Health (“DOH”) standards, including fire flow, emergency back-up and water quality within Water Utility’s retail service area or distribution system.

## SECTION II. TERM OF CONTRACT AND GENERAL CONDITIONS

### II.A. Term of Contract

1. Term. This First Amended and Restated Contract shall be in effect beginning at 12:01 AM on the Effective Date and shall remain in effect until 12:00 AM on January 1, 2062 (“Contract Term”).
2. Effective Date. This First Amended and Restated Contract shall be effective on January 1, 2026 (“Effective Date”).
3. Review of the Contract Term. The parties acknowledge and agree that it is desirable to manage the expiration or extension of this Contract Term prior to expiration, and therefore agree that the Contract Term in Section II.A.1 shall be automatically extended for an additional ten (10) years (“Extension”) on January 1, 2032, and every ten (10) years thereafter (“Extension Date”). The Water Utility may opt out of such extension of the Contract Term by providing written notice to Seattle prior to the Extension Date. If Water Utility opts out of the Extension, Seattle shall plan to supply water to Water Utility for only the remaining Contract Term and shall plan for Water Utility to not purchase any water supplies from Seattle as of the expiration of such Contract Term.
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 under this Contract by January 1, 2042 (“1st Review”), and January 1, 2062 (“2nd Review”), and by January 1 every 20 years thereafter during the term of this Contract or as soon as practicable after the respective January 1, as follows.
  - a. Mutual Agreement. On or before January 1, 2041, and then again on or before January 1, 2061, and every 20 years thereafter, respectively, Seattle, Water Utility

or any Wholesale Customer may provide the other party and Wholesale Customers with a written proposal to amend the Contract terms. All parties, including Seattle, Water Utility, and other Wholesale Customers, shall consider the proposal(s), if any. If the parties mutually agree to the proposal(s), or as negotiated, prior to January 1, 2042 or January 1, 2062, or every 20 years thereafter, respectively, or a date later than January 1 as may be mutually and reasonably agreed to by the parties to continue negotiations, 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 mutually agree on a proposal by Seattle pursuant to subsection II.A.4.a above within the one-year period associated with the 1st Review, or mutually agreed later date, Seattle may propose in writing its desired amendment to the Operating Board by March 31, 2042, or by 90 days past the expiration of a mutually agreed later date. The Operating Board shall review and recommend revisions, if any, to the proposed amendment. Seattle and the Operating Board shall use reasonable efforts to resolve any concerns in the proposal. After 90 days from Seattle's written proposal to the Operating Board, Seattle may propose its desired amendment to the Seattle City Council. If the Operating Board does not agree with Seattle's 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 this subsection II.A.4, or by mutual agreement. Seattle shall not have the right to unilaterally amend the Contract after the First Review period and all subsequent Contract amendments must be mutually agreed to by Seattle and Water Utility.

- c. Limitation on Seattle's Right to Amend. Notwithstanding subsection II.A.4.b above, Seattle shall not have the right to amend the Contract under that provision in a manner 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 for the Seattle Regional Water Supply System; (v) change the methodology for calculating Rate of Return on Investment; (vi) restrict Water Utility's right to terminate or reduce its Purchase Commitment; (vii) disband or significantly reduce the powers of the Operating Board; (viii) amend any Contract provision that will apply only to Water Utility; (ix) change the definition of the Seattle Regional Water Supply System; (x) extend or expand its contractual rights to any portion of Water Utility's retail water distribution systems; (xi) include taxes or surcharges beyond what the water rate setting industry would consider normal in wholesale rates or that are not in accordance with applicable laws and regulations; (xii) amend any Contract

provision relating to Seattle's obligation to approve Water Utility's proposal to introduce Alternate Supplies into Water Utility's retail distribution system as provided in Section II.D.9; (xiii) change the criteria for approval of Alternate Supplies.

- d. Intent. The purpose and intent of the provisions allowing Seattle a limited right to amend the Contract as provided in Section II.A.4.b-c. are to provide Seattle with flexibility to administer numerous Full and Partial Requirements Contracts in a consistent manner when changes to the Contract are desired by Seattle but are not approved by the Operating Board and/or all of the Wholesale Customers as well as to make reasonable changes in response to changing conditions, laws, and regulations over the course of this long-term Contract. Any proposed amendments to the Contract are subject to the procedures and limitations provided in Section II.A.4.b-c. When Seattle no longer has this limited right to amend, Wholesale Customers may agree to different contract terms which could necessitate the creation of separate Full and Partial Requirements Customer Classes each with their own Wholesale Statements and administered according to each Class's agreed-to contract terms.

## **II.B. Agreement to Supply and Purchase Water**

1. Full or Partial Requirements Commitment. Seattle shall supply, and Water Utility shall purchase, Water Utility's Full or Partial Water Requirements as specified in Exhibit I, for the term of this Contract, unless amended pursuant to the provisions below.
2. Expansions in Water Utility's Service Area. Seattle shall supply the Full or Partial Water Requirements, as appropriate, if Water Utility acquires additional service area that is: 1)

located outside of the service area as defined in Water Utility's Water System Plan in effect on the Effective Date of this Contract and 2) which is not already served with water from the Seattle Regional Water Supply System, subject to a) the availability of water in the Seattle Regional Water Supply System as reasonably determined by Seattle; b) the limitation of Seattle's Service Area Boundary; and c) Water Utility's payment of Facilities Charges ("FCs") for the retail service connections in that additional service area in accordance with Section IV.D. The parties will cooperate to amend, by letter agreement Exhibits I and II, as appropriate, for the limited purpose of documenting the changed circumstances resulting from acquiring the additional service area.

3. Contractions in Water Utility's Service Area. In the event Water Utility's entire service area and service responsibilities, or portion thereof, are assumed by or are transferred to another utility or utilities, then this Contract shall become null and void at the time, and to the extent, the assumption or transfer becomes effective; provided, however, 1) this Contract will remain in full force and effect for Water Utility's remaining service area, if any; and 2) 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. Seattle, Water Utility and the transferee Wholesale Customer will cooperate to amend, by letter agreement Exhibits I and II, as appropriate, for the limited purpose of documenting the changed circumstances resulting from the transfer. If the transferee is not a Wholesale Customer, then Seattle may offer the transferee a water supply contract for the transferred service area subject to terms and conditions as Seattle shall determine.
4. Annexation by Seattle. If Water Utility's entire service area, or a portion thereof, is

annexed to Seattle, then this Contract shall become null and void to the extent of the annexation and upon the effective date of Seattle's assumption of Water Utility's water system or a portion thereof. In the event Water Utility has remaining service area after the assumption, this Contract will remain in full force and effect for the remaining service area, and Seattle and Water Utility will cooperate to amend, by letter agreement Exhibits I and II, as appropriate, for the limited purpose of documenting the changed circumstances resulting from the annexation of a portion of Water Utility's service area.

5. Water Utility's Right to Terminate or Reduce Purchase Commitment. Water Utility may terminate or reduce its Purchase Commitment subject to the terms and conditions set forth below.

a. Notice Required:

i. Timing: Water Utility must submit 5 years' advance written notice ("Notice Period") to Seattle indicating its desire to terminate or reduce its Purchase Commitment ("Notice"), except as provided below.

(a) If Seattle amends the terms and conditions of this Contract pursuant to Section II.A.4.b above, Water Utility must submit 1 years' advance written notice to Seattle to terminate its Purchase Commitment within 1 year of the effective date of the amendment.

(b) Any notice previously issued by Water Utility to Seattle prior to December 31, 2022 in accordance with the terms and conditions of the Contract then in existence shall be effective to terminate or reduce Water Utility's Purchase Commitment under the Contract. All such notices will be described in Exhibit I.

- ii. Contents of Notice: The Notice shall include the following:
  - (a) A resolution of Water Utility’s governing body approving the Notice and acknowledging Water Utility is subject to the relevant conditions in Section II.B.5.c.
  - (b) A description of the relevant information, including but not limited to: a description of any new Alternate Supply consistent with the information in Exhibit I; the scope (e.g. termination or reduction, amount); and brief description of actions necessary to put the proposed Alternate Supply into use (e.g. regulatory approvals, capital projects, water quality analysis, contract approvals, etc.) or that it is terminating based on Section II.B.5.a.i.(a) above.
  - (c) Except for a termination pursuant to Section II.B.5.a.i.(a) above, Water Utility may include a request for a Notice Period shorter than 5 years, which request shall include a justification.
  - (d) Water Utility will provide additional information upon reasonable request by Seattle or the Operating Board.
- iii. Pre-Notice Request for Calculation of Stranded Costs: Water Utility shall have the right to request Seattle to perform a calculation of Stranded Costs that would be incurred by Water Utility if it issues a Notice to terminate or reduce its Purchase Commitment (“Pre-Notice Request”). A Pre-Notice Request shall be made by Water Utility in writing and shall include the amount of the reduction in its Purchase Commitment and the anticipated effective date of such reduction. Seattle shall respond to Water Utility’s

Pre-Notice Request by providing a written estimate to Water Utility within thirty (30) days (“Pre-Notice Calculation Estimate”). Water Utility agrees to provide Seattle with additional information requested by Seattle that is necessary to allow Seattle to perform the Pre-Notice Calculation Estimate. The Pre-Notice Calculation Estimate will not be binding on either party and will be based on Stranded Cost only; any Avoided Cost calculation will not be included. The Pre-Notice Calculation Estimate shall be completed as described in Exhibit IX, will be based on the current asset schedule, and will not include any changes that occur or information that becomes known between the estimate and the Notice.

- b. Effective Date: The termination or reduction will become effective 5 years from the date of the Notice, or 1 year in the case of a termination under Section II.B.5.a.i.(a). Alternatively, if Water Utility requested, and the Operating Board approved a shorter notice period, the termination or reduction will become effective upon the date approved by the Operating Board. In either case, Water Utility must meet the relevant conditions in Section II.B.5.c. below for the termination or reduction to become effective. Additionally, upon Operating Board approval, the parties may mutually agree in writing to extend the 5-year or approved shorter Notice Period for a reasonable and specific amount of time to allow Water Utility additional time to meet the relevant conditions or complete actions to put the Alternate Supply into use. The Operating Board may approve a shorter or extended notice period upon a determination that it is in the best interests of the Seattle Regional Water Supply System. Water Utility may rescind its Notice in writing any time prior to the effective

date. For any notice other than those provided under Section II.B.5.a.i.(b), if Water Utility has not met the conditions by the effective date, the Notice will be rescinded automatically. In either case, when a Notice is rescinded, the Contract will remain in full force and effect.

c. Conditions/Effect of Termination or Reduction:

i. Termination: Water Utility will be subject to the following conditions if it terminates its Purchase Commitment in its entirety:

(a) Water Utility will lose representation or membership on the Operating Board upon the date of the Notice.

(b) This Contract will terminate in its entirety as of the effective date of the Notice as specified in Section II.B.5.b above.

(c) Water Utility will pay the full costs for Seattle to decommission Water Utility's Service Connections as listed in Exhibit II. This obligation will survive the termination of the Contract.

(d) Water Utility will pay, or receive credit, as the case may be, for its proportional share of any deficit or surplus running balances in any cost pool as of the end of the year of the Effective Date, which shall be prorated by Water Utility's share of total demand (e.g. flow) since the most recent year the running balances were zero.

(e) Water Utility will pay the Final Net Stranded Cost Payment, or receive the Final Net Billing Credit, as described below in Section II.B.5.c.ii

(e)(i) as determined by Seattle pursuant to Exhibit IX.

(f) Seattle, in its sole discretion, may offer Water Utility a new water

supply contract if Water Utility wants to purchase water from the Seattle Regional Water Supply System again in the future, however any new contract will be subject to: i) Seattle's determination of the availability of water; ii) no guarantee of a Full or Partial Requirements Contract; and iii) terms and conditions as Seattle may require, including but not limited to, special charges and rates, provided the terms and conditions are consistent with the Ratemaking Principles in this Contract.

ii. Reduction: Water Utility will be subject to the following conditions if it reduces its Purchase Commitment in part:

(a) The parties will cooperate to amend, by letter agreement, Exhibits I and II, as appropriate, for the limited purpose of documenting the reduction in Water Utility's Purchase Commitment, the new Alternate Supply, and the amount and effective date of any Purchase Commitment reductions. Water Utility's Full or Partial Requirements Contract may be converted to a Partial Water Requirements or Qualified Partial Water Requirements Contract, as the case may be, consistent with this Section II.B.5.c.

(b) Water Utility will pay the full costs for Seattle to decommission Water Utility's Service Connections listed in Exhibit II or add new Service Connections, if appropriate.

(c) Water Utility will pay the Final Net Stranded Cost Payment, or will receive the Final Net Billing Credit, as described below in

II.B.5.c.ii(e)(i), if applicable, as determined by Seattle pursuant to Exhibit IX, unless Water Utility provided Seattle with written notice of its intention to reduce its purchase commitment between January 1, 2009 and December 31, 2022.

(d) Will receive a Facilities Charge Allowance pursuant to Section IV.D.2.c.

(e) For reductions related to the use of new or increased production of Independent Supplies only, Water Utility:

(i) May be eligible for an Avoided Cost offset to Stranded Costs (or if the offset is large enough, a Net Billing Credit) as determined by Seattle pursuant to Exhibit IX and if Seattle determines the Independent Supply:

1. Will be used entirely within Water Utility's retail distribution system;
2. Results in Avoided Costs of future supply for the Seattle Regional Water Supply System; and
3. Meets all applicable eligibility criteria that Seattle may develop in consultation with the Operating Board to ensure the offset (or Net Billing Credit) is only applicable to independent supplies that provide reliable, high-quality water, which criteria will include, but not be limited to operational reliability, water quality, and environmental impact.

(f) For reductions related to the use of new or increased Purchased Supplies, Water Utility:

(i) Will be converted to a Qualified Partial Requirements Contract.

If Water Utility loses its Purchased Supply, in whole or in part, and wants to purchase additional water from the Seattle Regional Water Supply System to replace the lost Purchased Supply, the purchase may be subject to: availability of water as determined by Seattle; or terms and conditions such as special charges to convert back to a Full or Partial Requirements Contract, provided the terms and conditions are consistent with the Ratemaking Principles in this Contract.

(ii) May not use Purchased Supplies in a manner that will have adverse impacts on the Seattle Regional Water Supply System due to constraints or other terms and conditions in the contract for the Purchased Supply. Seattle, in consultation with the Operating Board, reserves the right to require terms and conditions to protect against adverse impacts or constraints, such as prohibiting impacts to seasonal shaping or peak demands or waiving rights under Section II.C.2.

(iii) Exhibit I will be updated by Seattle whenever Water Utility or other Wholesale Customer terminates or reduces purchases pursuant to this section and such update will be provided to all Wholesale Customers and the Operating

Board.

- d. Not Considered Reduction: For the purposes of this Section II.B.5, reductions under the following circumstances are not considered a reduction of Water Utility's Purchase Commitment and this Section II.B.5 will not apply:
- i. The use of Emergency Supplies listed in Section I of Exhibit I;
  - ii. Customer-driven Demand Fluctuations;
  - iii. Participation in the Regional Water Conservation Program;
  - iv. Participation in Regional Shortage Management Contingency Plan or similar plans requiring restrictions on water deliveries.
  - v. Contraction of Water Utility's service area pursuant to Sections II.B.3 and 4 above.
  - vi. Acquisition of additional Independent Supplies through a merger or acquisition of another water purveyor that is not currently a customer of Seattle.
  - vii. Reductions defined in any notice previously issued by Water Utility to Seattle prior to December 31, 2022 in accordance with the terms and conditions of the Contract then in effect.
  - viii. Reductions in demand, or portions thereof, that result in aggregate reductions under this Contract for Water Utility that are equal to or less than the Automatically Allowed Reduction applicable to Water Utility, which shall be equal to 5.0% of Water Utility's average purchases from Seattle for the five most recent calendar years at the time of Water Utility's initial Purchase Commitment Reduction as described in Exhibit I.

- ix. Demand fluctuations that are out of Seattle or Water Utility's control and result from new laws or regulations, including legal rulings, that require the use of reuse water by Water Utility.
6. New or Extended Water Supply Contracts. The full terms and conditions of any new, amended, or extended water supply contracts, along with Seattle's analysis and explanation of the same, will be submitted to the Operating Board for review and comment prior to adoption.

### **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 the Seattle Retail Distribution System.
2. Emergency and Water Shortage Contingency Planning. Seattle shall adopt, as part of its Water System Plan, emergency plans to provide for water supply in the event of drought or disaster. It is recognized by both parties that Seattle may adopt plans to manage emergencies or water shortages that are implemented on a regional basis in order to meet an emergency condition or a water shortage that impacts the Seattle Regional Water Supply System and may offer trainings or coordinate emergency preparedness activities amongst water utilities within the Seattle Regional Water Supply System. Seattle will follow the Seattle Water Shortage Contingency Plan or any other emergency plan in effect as of the effective date of this Contract, and as may be added or amended from time to time. The Operating Board may review and recommend revisions to any amended water shortage contingency plans or other relevant emergency plan before Seattle adopts the plan. Restrictions placed on water deliveries under any adopted plan will be applied consistently to Water Utility, other Wholesale Customers, and the Seattle Retail

Distribution System. Water Utility shall assist with and support all procedures or emergency plans, including cooperating with restrictions on water deliveries, that are implemented under Seattle's then current Water Shortage Contingency Plan, or another adopted emergency plan that impacts the Seattle Regional Water Supply System. Water Utility is responsible for adopting its own plans for emergencies or water shortages from Alternate Supplies or within its retail distribution system. Seattle may offer assistance or coordinate with Water Utility to make mutual aid plans together, including via WA WARN or other platform as mutually agreed.

3. Other Emergencies or Interruptions to Service. It is recognized by both parties that Seattle may temporarily interrupt or reduce deliveries of water or revise conditions of service (e.g. minimum hydraulic gradient) (collectively "Temporary Interruptions"), to Water Utility if Seattle determines that Temporary Interruptions are necessary or reasonable in case of system emergencies or in order to conduct necessary operations and maintenance, including but not limited to, installing equipment, making repairs, replacements, investigations and inspections or performing 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 Temporary Interruptions, the reasons for and the probable duration. Seattle shall use its best efforts to minimize Temporary Interruptions to Water Utility.
4. Waiver of Charges. If Temporary Interruptions require that Water Utility draw water supply in a manner that would potentially subject Water Utility to demand charges under Section IV.G.5.a, Seattle shall waive the demand charges during the period of the

Temporary Interruption.

#### **II.D. Water Quality**

1. Seattle Regional Water Supply System. Seattle shall be responsible for water quality within the Seattle Regional Water Supply System. Seattle and Water Utility shall work collaboratively to address water quality concerns raised by Water Utility. The Water Utility may request Operating Board review of any water quality concerns that it believes are not reasonably resolved by Seattle. Seattle shall construct, operate and maintain water quality treatment and other facilities and programs and use its best efforts to carry out its water quality responsibilities to deliver safe, high-quality water in the most cost-effective manner for the region.
2. Applicable Standards. Seattle shall at all times during the term of this Contract deliver water through the end of the Service Connection(s) that meets or exceeds all applicable Federal and State regulations as may be amended from time to time. The parties acknowledge and agree that a minor regulatory violation (e.g. missed sample collection) is not considered a default of Seattle's water quality obligations under this Section II.D except to the extent it is significant in duration and risk to public health and Seattle has not made good faith efforts to correct the violation consistent with the applicable regulations.
3. System-wide Water Quality Program. Seattle, in consultation with the Operating Board, may develop and implement a system-wide water quality program, portions of which will guide its obligations for water quality within the Seattle Regional Water Supply System under this Section II.D consistent with applicable regulatory requirements, industry standards and operational needs. The system-wide program may include, but not be

limited to objectives, policies and procedures, and roles and responsibilities for water quality treatment, regulatory and non-regulatory monitoring, reporting, water quality incident response, cross-connection control, and best or adaptive management practices. Seattle will allocate these program costs to the appropriate cost pools as provided in Section IV.

4. Role of Operating Board. The Operating Board may:
  - a. review and recommend revisions to the relevant portions of Seattle's system-wide water quality program related to the Seattle Regional Water Supply System or obligations under this Contract;
  - b. recommend best or adaptive water quality management practices for the Seattle Regional Water Supply System;
  - c. approve allowances for flushing when Seattle or Operating Board determines flushing is the best available option to maintain or improve regional water quality;
  - d. review and recommend revisions to the water quality criteria Seattle adopts and applies prior to: (1) approving the introduction of a new water source into the Seattle Regional Water Supply System or into Water Utility's retail distribution system if the new water source will be mixed with water from the Seattle Regional Water Supply System under Section II.D.9 and Seattle can establish that the revisions to the water quality criteria are related to the Seattle Regional Water Supply System, or (2) determining whether a new or increased Independent Supply may be eligible for an offset or Billing Credit under Section II.B.5.c.ii;
  - e. approve any changes to the water quality obligations under this Section II.D upon recommendation by Seattle, resulting from changes in regulatory requirements during the

term of this Contract. The parties will amend this Section II.D by letter agreement in the event the Operating Board approves changes to the water quality obligations under this subsection; and

f. establish a technical subcommittee(s) to assist in its roles under this Section II.D.4.

5. Distribution Systems. Water Utility shall be responsible for compliance with all applicable federal, state, and local water quality laws and regulations with in its retail distribution system. Seattle is not responsible for water quality compliance for water from Alternate Supplies.
6. Monitoring. Monitoring generally consists of sample collection, testing and reporting. Seattle is responsible for water quality monitoring for the Seattle Regional Water Supply System and Water Utility is responsible for water quality monitoring for its retail distribution system. Notwithstanding the foregoing, the parties acknowledge and agree that it is in the best interests of the region for Seattle to perform certain monitoring responsibilities as described below within those Wholesale Customers' retail distribution systems that have not opted out of the monitoring services as described below and to include the costs of such monitoring services in the appropriate cost pools under Section IV of this Contract. Seattle will not monitor the water within a Wholesale Customer's retail distribution system that opts out of monitoring services. A Wholesale Customer that elects to opt out of Seattle's monitoring services shall submit a written notice to Seattle of its election to opt out of these monitoring services. Water Utility may contract with Seattle to perform water quality monitoring and reporting services that are in addition to Seattle's obligations under this Section II.D as an elective service under Section IV.F. of this Contract. Specific monitoring procedures for Rules identified in the Federal Safe

Drinking Water Act (40 CFR 141) and Chapter 246-290 WAC are described below:

- a. Surface Water Treatment Rule (“SWTR”) and Groundwater Rule (“GWR”).  
Seattle shall perform all monitoring for the water sources it owns in the Seattle Regional Water Supply System, and any chlorine residual sample collection and testing in Water Utility’s distribution system, which is done in conjunction with Seattle’s TCR monitoring consistent with Section II.D.6.c below. Seattle will report SWTR and GWR results to WA DOH and chlorine residual data to Water Utility. Water Utility is responsible for any applicable monitoring for its Independent or other Alternate Supplies and any other chlorine residual monitoring within its retail distribution system required under the SWTR.
- b. Lead and Copper Rule (“LCR”). Seattle shall perform monitoring within retail distribution systems for Wholesale Customers who hold Full Requirements Contracts under a regional LCR program. If Water Utility is a holder of a Full Requirements Contract, Water Utility is responsible for coordinating the location and collection of samples and reporting results to property owners as part of the regional LCR program. If Water Utility is a holder of a Partial Requirements Contract, Water Utility is responsible for all monitoring for LCR within its retail distribution system. In that case, Water Utility may elect to use the Seattle WQ Lab to test any LCR samples it collects as an Elective Service pursuant to Section IV.F.
- c. Total Coliform Rule (“TCR”). Seattle shall perform all routine sample collection and testing within Water Utility’s retail distribution system, unless Water Utility notifies Seattle in writing that it will be responsible for all routine TCR

monitoring within its retail distribution system. When Seattle performs routine TCR monitoring, Seattle shall report results to Water Utility and WA DOH, and Water Utility shall verify number and location for routine sample collection. Water Utility is responsible for performing any repeat sample collection, testing, and required reporting to WA DOH. Water Utility may elect to use the Seattle WQ Lab to test any samples it collects as an Elective Service under Section IV.F and Seattle will report results to Water Utility and WA DOH.

- d. Disinfection By-Products Rule (“DBP”). Seattle shall perform all routine sample collection at designated sample stands and testing of those samples within Water Utility’s retail distribution system unless Water Utility notifies Seattle in writing that it will be responsible for all DBP monitoring within its retail distribution system. When Seattle performs routine DBP monitoring, Seattle shall report results to Water Utility and WA DOH, and Water Utility shall verify number and location for sample collection. Water Utility is responsible for any routine sample collection at sites that are not designated sample stands and any additional sample collection, testing of samples it collects, and required reporting to WA DOH. Water Utility may elect to use the Seattle WQ Lab to test any samples it collects as an Elective Service under Section IV.F and Seattle will report results to Water Utility and WA DOH.
- e. Unregulated Contaminant Monitoring Rule (“UCMR”). Seattle shall perform all applicable monitoring required under the UCMR within the Seattle Regional Water Supply System. Water Utility will be responsible for all applicable monitoring required under the UCMR within its retail distribution system. Upon

recommendation by Seattle, the Operating Board may approve an alternate allocation of monitoring responsibilities under the UCMR when it is in the best interests of the Seattle Regional Water Supply System. The costs of any monitoring Seattle performs within the Seattle Regional Water Supply System or as approved by the Operating Board will be allocated to the appropriate cost pool under Section IV of this Contract.

- f. Other Monitoring. Seattle shall perform any other regulatory or non-regulatory monitoring within the Seattle Regional Water Supply System it deems necessary to ensure safe, high quality water; including but not limited to, other source and miscellaneous monitoring; taste and odor sampling; and emerging contaminants. Water Utility will be responsible for any additional regulatory or non-regulatory monitoring within its retail distribution system.
7. Water Quality Reporting to Regulatory Agencies and Retail Customers (Consumer Confidence Reports). Each Wholesale Customer, including Water Utility, and Seattle, at its sole cost, is responsible for periodic water quality notifications and reporting to its respective retail customers and regulatory agencies as required by law. Seattle shall provide Water Utility all relevant water quality monitoring data consistent with its responsibilities in Section II.D.6 above in a timely manner so that Water Utility may incorporate the water quality data in its required notifications or reports and Seattle may offer public notification assistance, training, or other public notification resources to Water Utility.
8. Flushing. Water Utility shall be solely responsible for flushing water mains within its retail distribution system. Flushing allowances will be provided by Seattle when Seattle

or the Operating Board determine flushing is the best available option to maintain or improve regional water quality.

9. New Water Sources. To ensure public health and regional reliability, the parties agree that blending of water supplies is a matter of regional importance to be managed with the cooperation of the Water Utility, the Operating Board, and Seattle. Therefore, before Water Utility may introduce a new Alternate Supply into its retail distribution system that will mix with water from the Seattle Regional Water Supply System, Seattle must approve the Alternate Supply in writing as a compatible source after an evaluation using customary and reasonable water quality criteria developed in consultation with the Operating Board from time to time. Seattle is required to approve the proposed Alternate Supply when the evaluation establishes that the proposed Alternate Supply meets the following criteria: 1) satisfactory results from a blending study to determine the compatibility of the new Alternate Supply with existing sources already in the Seattle Regional Water Supply System or Water Utility's retail distribution system; 2) the appropriate method and level of treatment and the probable distribution area of the new Alternate Supply within Water Utility's retail distribution system; and 3) satisfactory evidence that Water Utility has obtained all necessary and appropriate regulatory permits, reviews, agreements and approvals for rights to and operational use of the Alternate Supply. The requirements under this Section II.D.9 are in addition to any other requirements, e.g. Section II.B.5, under this Contract to add a new Alternate Supply.
  
10. Transfers Outside Water Utility's Retail Distribution System. If Water Utility has approval pursuant to Section III.B and transfers water from the Seattle Regional Water Supply System through its retail distribution system to the distribution system of another

water utility, 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 for water transferred outside of Water Utility's retail distribution system.

## **II.E. Regional Water Conservation Program**

The parties acknowledge and agree that conservation is an important ongoing tool to manage water supply resources and that a regional program, implemented collaboratively between Seattle and Wholesale Customers, to assist retail customers in using water efficiently will help defer development of New Supply Facilities and meet applicable regulations and agreements including, but not limited to, Washington State's Municipal Water Law (Chapter 90.03 RCW, as may be amended from time to time) and associated Water Use Efficiently (WUE) Rule (WAC 246-290 Part 8, as amended from time to time), Seattle's 2000 Cedar River Habitat Conservation Plan (HCP) and the 2006 Muckleshoot Indian Tribe (MIT) Settlement Agreement. As a condition of service under this Contract, Water Utility agrees to participate in the Regional Water Conservation Program ("Program"), as it may be amended from time to time during the term of this Contract, consistent with the Program guidelines below.

1. Program Elements. The Regional Water Conservation Program generally consists of the adoption of a regional WUE goal, good faith participation by all Wholesale Customers and Seattle, measurement of performance toward the regional WUE goal on a regional basis, and a combination of measures such as education, technical assistance and financial incentives to achieve the regional WUE goal.
2. Role of Operating Board. The Operating Board will approve the regional WUE goal subject to the additional approval under Section II.E.5 below and the total Program

budget subject to further approval by Seattle City Council, and set the strategic priorities for the Program consistent with any applicable requirements from regulations, agreements or orders. The Operating Board will also determine the cost recovery mechanism for the infrastructure costs of the Program, i.e. New Supply Rates or FCs, pursuant to Section IV.C.2.b. The Operating Board may also establish and provide strategic direction to a technical subcommittee of the Operating Board, the Conservation Technical Forum (“CTF”), comprised of program level staff from each Wholesale Customer and Seattle.

3. Role of Conservation Technical Forum. The CTF participates in designing the Regional Water Conservation Program, consistent with the strategic direction from the Operating Board, and may include review or generation of proposed Program elements or measures.
4. Role of Seattle. Seattle will administer the Regional Water Conservation Program, consistent with the approved regional WUE goal and total Program Budget, Program priorities and in consultation with the CTF. Administration includes, but is not limited to: staffing, including any consultants, to implement the Program; maintaining the Program website; maintaining a system to accept, process, and pay rebates; providing technical assistance to retail customers; developing template education and outreach materials for Wholesale Customers and Seattle to use in their retail distribution service areas (“Program materials”); coordinating certain regional marketing efforts with CTF; and providing each Wholesale Customer, including Water Utility, information related to achievement of the regional WUE goal and Program activity level within their respective retail distribution service areas.

5. Role of Wholesale Customers. At their own cost and expense, Seattle and each Wholesale Customer, including Water Utility, is responsible for marketing the Program using the Program materials within their retail service area that are in addition to any regional marketing efforts coordinated with CTF; adopting the regional WUE goal by their governing body; any required reporting of the regional WUE goal and performance to the State and their respective retail customers; and data collection as needed to track the regional WUE goal in their respective retail distribution systems.
6. Conservation in Addition to the Regional Program. Water Utility may elect to implement its own water conservation program or measures, in addition to the Regional Water Conservation Program, at its own discretion and its sole cost.
7. Postponing the Need for New Supply Facilities. In order to avoid the necessity of developing or acquiring New Supply Facilities for as long as reasonably practicable, any water saved through the Regional Water Conservation Program shall be dedicated first to the municipal water supply purposes of the Seattle Regional Water Supply System before any other use of such water may be undertaken.
8. Responding to changes in Conservation Program requirements. The parties acknowledge and agree that changes in conservation regulation, agreements, and other conservation requirements may occur from time to time. Upon Seattle's request, Water Utility will cooperate to amend, by letter agreement, this Contract as appropriate, for the limited purpose of documenting adjustments to the Regional Water Conservation Program or documenting other conservation activities resulting from such changed circumstances.

## **II.F Cedar River Watershed Education Center and Other Facilities**

Water Utility may use the Cedar River Watershed Education Center up to two times per year

without charge, subject to availability. Water Utility may request occasional guided tours of the Cedar River Watershed or other facilities in the regional system. Water Utility may coordinate any use under this provision with the Wholesale Contracts Manager.

## **SECTION III. CONDITIONS OF SERVICE**

### **III.A. Minimum Hydraulic Gradient and Flow Rates**

1. Initial Minimum and Flow Rates. Seattle shall operate and maintain the Regional Facilities, and Subregional Facilities, if applicable, as necessary to maintain the minimum hydraulic gradients at each Service Connection as long as Water Utility does not exceed the flow rates at each Service Connection that are allocated from and based on maximum day demand, both of which are more specifically described in Exhibit II for each Service Connection. Seattle and Water Utility will include this information in their respective water system plans. Seattle, in consultation with the Operating Board, may increase the flow rates in Exhibit II from time to time based on updated average daily demand projections subject to transmission system capacity. Water Utility shall use best efforts to operate and maintain its retail distribution system in a manner consistent with the flow rates described in Exhibit II. Water Utility may use all or some of the flow rates allocated to each Service Connection on any other Service Connection that is located on the same Pipeline Segment Number, but in that case, the minimum hydraulic gradients are not guaranteed. Water Utility shall avoid taking water from a Service Connection in a manner that exceeds the flow rates for that Service Connection (or the aggregate flow rate for the Service Connections on the same Pipeline Segment Number) or take the flow at a rate faster than 24 hours, e.g. excessive intraday peaking, which could impact Regional Facilities or other Wholesale Customers downstream or upstream of Water Utility's

Service Connections. Upon notice by Seattle, Water Utility shall immediately reduce water deliveries at the Service Connection to no more than the flow rates for a Service Connection (or aggregate on same Pipeline Segment Number) in Exhibit II. In the event that Water Utility does not reduce deliveries as required under this provision, Seattle may install and operate flow restricting devices at the Service Connection(s), at Water Utility's expense. Water Utility shall maintain sufficient storage in its retail distribution system to manage peak demands in excess of the flow rates in Exhibit II and may be subject to the Demand Charges pursuant to Section IV.G.5.a. if storage is insufficient. The parties will amend Exhibit II by letter agreement to reflect any modifications pursuant to this Section III.A.1.

2. Modifications. If Seattle proposes a capital improvement project that would result in needing to modify the minimum hydraulic gradient and the corresponding flow rates at one or more Service Connections, Seattle may modify the minimum hydraulic gradient and corresponding flow rates described in Exhibit II if Seattle finds, and the Operating Board concurs, that Seattle's proposed capital improvement project would benefit the Seattle Regional Water Supply System and that it is feasible from an economic, land use and engineering perspective for Water Utility to adapt to the modification at its expense. 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. The parties will amend Exhibit II by letter agreement to reflect any modifications pursuant to this Section III.A.2.
3. New or Changed Service Connections. Seattle, in consultation with the Operating Board, and Water Utility may mutually agree, to new or relocated Service Connections or

adjustments to the minimum hydraulic gradients and corresponding flow rates. The parties will amend Exhibit II by letter agreement to reflect any changes under this provision. Any costs associated with a new or changed Service Connection will be allocated consistent with Section IV.C.1.c.

### **III.B. Resale to Other Parties**

Water Utility may sell, or supply for emergency purposes, water supplied by Seattle to other water utilities located outside of Water Utility's existing or future retail service area and within Seattle's Service Area Boundary, or to Seattle's other Wholesale Customers, block customers or retail customers, only upon the prior written consent of Seattle (or oral, in case of emergency), which consent may include any terms and conditions or limitations Seattle may require. Agreements for resale or emergency supply of water by Water Utility listed in Sections I or IV of Exhibit I, as appropriate, are hereby approved by Seattle subject to whatever written terms, conditions and limitations that Seattle has imposed on such resale or emergency supply.

### **III.C. Interconnection With Other Systems**

1. Prohibition on Interconnection. Water Utility shall not interconnect any part of its retail distribution system supplied with water from Seattle with other water systems without the prior written approval of Seattle, in consultation with the Operating Board, or, in case of emergency, upon oral approval by Seattle, which shall not be unreasonably withheld. Any such interconnection also shall be subject to the approval of the Washington State Department of Health and the installation of a meter. The interconnecting systems must be in compliance with all applicable laws and regulations including the requirement that they have a valid operating permit issued by the Washington State Department of Health. The parties will revise Exhibit I by letter

agreement to include any interconnections approved under this Section III.C.1.

2. Requests by Seattle to Interconnect. Seattle may request that Water Utility interconnect its retail distribution system to the distribution system of an adjacent Wholesale Customer for the purposes of wheeling water from the Seattle Regional Water Supply System through Water Utility's retail distribution system to the adjacent Wholesale Customer, provided that the adjacent Wholesale Customer has agreed to be subject to the provisions of Section III.C.2.b below. 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 submit its request to the Operating Board. Water Utility may present the reasons it does not consent to the interconnection to the Operating Board, and may include alternatives for consideration to serve the adjacent Wholesale Customer. The Operating Board shall consider the matter. Upon (a) a written finding by the Operating Board that the proposed interconnection with an adjacent Wholesale Customer for wheeling purposes 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 purposes of wheeling water to that Wholesale Customer through its retail distribution system, provided that the adjacent Wholesale Customer has agreed to be subject to the provisions of Section III.C.2.b below.

- b. Payment and Indemnity. Seattle will require that the adjacent Wholesale Customer agree: 1) to perform or cause to perform the interconnection, at adjacent Wholesale Customer's cost, in a location and according to specifications and a schedule acceptable to Seattle and Water Utility that do not unduly disrupt Water Utility's operations; 2) pay Water Utility its actual costs incurred to review, inspect and accept the installation of the interconnection; 3) pay Water Utility a reasonable rate or charge for the cost of wheeling the water to the adjacent Wholesale Customer as determined by the Water Utility; and 4) indemnify Water Utility from any liability that may result from operating the interconnection to deliver water to the adjacent Wholesale Customer. The Operating Board may adopt a standard methodology based on industry standards for calculating costs that ensures that Water Utility is fairly compensated for wheeling water through its retail distribution system. The adjacent Wholesale Customer may request review of Water Utility's wheeling rate by the Operating Board. The Operating Board shall have the authority to revise any rate that it determines is in excess of the Water Utility's full costs of owning, operating, maintaining, repairing and replacing and supporting the water facilities necessary to wheel water to the adjacent Wholesale Customer.

#### **III.D. Development of Seattle Regional Water Supply System 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 Capital Improvement Plan as more

particularly described in Section VI.D.

### **III.E. Metering Equipment**

1. Service Connection Meters. Seattle shall own and perform reading, testing, cleaning, routine maintenance and recalibration on the meters within each Service Connection to measure the amount of water delivered to Water Utility through the Service Connection pursuant to this Contract. Seattle shall perform all other work on the Service Connections including major maintenance, repairs, and replacements, at Water Utility's expense regardless of the cause, provided that the cause is consistent with AWWA and safety standards and practices (e.g. major maintenance, repairs and replacements) except to the extent the costs are a result of 1) Seattle's negligence, or 2) a meter failure within 5 years of the original installation; in which for both cases, the costs shall be allocated to the Existing Regional System Cost Pool. Water Utility shall operate and maintain its retail distribution 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. In the event Seattle fails to conduct routine maintenance on the meters, including vault structures, Water Utility may notify Seattle of its failure and request that Seattle conduct the necessary and appropriate maintenance within a period of 90 days. Water Utility may in its discretion install additional water meters within Water Utility's water system to measure the supply of water from Seattle under this Contract. In the event of a discrepancy in meter readings, the parties will work in good faith to resolve the discrepancy.
2. Deliveries to Seattle. 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 and other wholesale customers, e.g. block contract holders, from 98% of the total amount of water exiting Seattle's sources of supply as measured by the supply meters. Seattle shall perform routine maintenance and recalibration of its supply meters in accordance with industry standards to ensure the accuracy of the data and information being provided by the supply meter.

## **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 ratemaking principles, policies and methodologies set forth in this Section IV are intended to meet the objective of equitable and cost-based rates.

### **IV.A. Ratemaking 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 the governmental accounting and financial reporting standards established by the Governmental Accounting Standards Board ("GASB standards") that follow 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, cost-efficient, and high-quality 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 ratemaking policies.
6. The rate structure should be simple to administer and easily understandable.
7. The rate structure should be designed to recover the costs to own, operate and support the Seattle Regional Water Supply System fairly and objectively.
8. Unless modified with the approval of the Operating Board or implemented prior to the initiation of the current Contract review process in 2020, Seattle's ratemaking processes will reflect the generally accepted guidelines and practices of the U.S. water industry.
9. When revenues for regional or subregional assets are received outside of rates or Facilities Charges (such as but not limited to capital contributions, grants, donated plant, insurance or FEMA reimbursements, payments based on allowances or other agreed-upon terms), that portion of the asset equal to the amount of outside revenue received shall be removed from the applicable cost pool. When revenues for Index O&M Costs or Non-Index O&M Costs are received outside of rates (such as but not limited to grants, fee for services, insurance or FEMA reimbursements, payments based on allowances or other agreed-upon terms), the Index O&M Costs or Non-Index O&M Costs shall be reduced by the corresponding amount.

10. Certain costs may be recovered through allowances or other mutually negotiated terms. Any costs recovered through such terms must be recognized and accounted for appropriately within Seattle's ratemaking processes to eliminate the possibility of double-recovery.
11. Any portion of Seattle's Non-Index O&M Costs or capital costs which benefit only an individual Wholesale Customer or serves growth of a customer having a Block Purchase Contract shall be allocated to that customer or to a cost pool in which the customer bears an appropriate share, except as specifically provided in Sections IV.C.3.b, IV.D.2, and VI.D.2 of this Contract.
12. Only those costs incurred by the Seattle Water Enterprise Fund to own, operate, and reasonably support the Seattle Regional Water Supply System are eligible for recovery through the rates and charges pursuant to the terms of this Contract.
13. Seattle shall provide reasonable and early notice and appropriate information to the Operating Board so that it can carry out its roles with reasonable opportunity for meaningful input.
14. 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 applicable wholesale rates and charges as Water Utility for water supply and transmission unless specifically provided otherwise in this Contract. Costs calculated under the costs pools described below shall apply to all Wholesale Customers and to the Seattle Retail Distribution System consistently.
15. All parties will use best efforts in establishing rates and cost allocations that reflect the ratemaking and cost allocation principles set forth in this Section IV.A.

16. Costs should be capitalized for wholesale ratemaking purposes by applying the same capitalization policy as applied to the Seattle Water Enterprise Fund, except as allowed under Section IV.D.2.a.i.

#### **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 Services. The costs of water supply and transmission of water shall be accounted for in the cost pools described in Section IV.C below. Seattle will recover the costs in each cost pool by establishing separate rates or charges for each cost pool but may charge composite rates. Rates and charges will be applied consistently to Wholesale Customers within a Customer Class and the Seattle Retail Distribution System except as may be specifically defined as a charge to an individual or subset of Wholesale Customers, including Seattle.
2. Mixed-use Allowances. Seattle owns and operates Mixed-use Assets and performs Mixed-use O&M that are shared between or used to support both the Seattle Regional Water Supply System and the Seattle Retail Distribution System. The parties mutually agree to the recovery of costs of the portion of the Mixed-use Assets and Mixed-use O&M used to support the Seattle Regional Water Supply System to the extent specified in this Contract, including in Sections IV.D.2.b and 3.a.ii.
3. Seattle Retail Distribution System. Seattle may not allocate the costs of the Seattle Retail Distribution System or the portion of the Mixed-use Assets and Mixed-use O&M used to support the Seattle Retail Distribution System to any cost pools under this Contract.

#### **IV.C. Seattle Regional Water Supply System Cost Pools**

For the purposes of determining costs of water supply and transmission, there shall be the cost pools described below.

1. Existing Regional System Cost Pool. The Existing Regional System Cost Pool shall be accounted for as follows:
  - a. A rate shall be charged to recover the full costs of owning, operating, maintaining, repairing, renewing, and replacing and supporting the Existing Regional Facilities, which are assigned to this cost pool. Seattle may amend the list of Existing Regional Facilities in Exhibit VI, if necessary, to add or delete Existing Regional Facilities, as appropriate. The amended Exhibit VI will be incorporated as part of this Contract.
  - b. The Operating Board may approve the allocation of 1) any portion of a New Supply or New Transmission Facility project that enhances reliability of Existing Regional Facilities to the Existing Regional System Cost Pool and 2) any portion of an Existing Regional Facility project that expands the supply capacity of the Seattle Regional Water Supply System to the New Supply Cost Pool or the transmission capacity of the Seattle Regional Water Supply system to the New Transmission Cost Pool. Seattle will amend the relevant lists of Regional Facilities in Exhibit VI, as appropriate, to document any portion of a project or costs that are allocated by the Operating Board under this Section IV.C.1.b. The amended Exhibit VI will be incorporated as part of this Contract.
  - c. Costs of Service Connections and Metering Equipment. 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 or incurs costs for metering equipment that meet one of the exceptions in Section III.E, then the costs, including any retirement costs of the old Service Connection, shall be included in the Existing Regional System Cost Pool. If Water Utility requests a new Service Connection, a change in location, an adjustment to service conditions of an existing Service Connection or Seattle incurs any other costs that are allocated to Water Utility pursuant to Section III.E., then Seattle shall invoice Water Utility for the costs of the new, replaced/repared or changed Service Connection, including any retirement costs of the old Service Connection consistent with Section III.E.

2. New Supply Cost Pool. The New Supply Cost Pool shall be accounted for as follows:
  - a. A rate shall be charged to recover the full costs of owning, constructing, operating, maintaining, repairing, renewing and replacing and supporting the New Supply Facilities, which are assigned to this cost pool, and which includes the costs of the Regional Water Conservation Program. Seattle may amend the list of New Supply Facilities in Exhibit VI, to add or delete New Supply Facilities, as appropriate. The amended Exhibit VI will be incorporated as part of this Contract.
  - b. The Operating Board may approve the allocation of certain costs to the New Supply Cost Pool consistent with Section IV.C.1.b above. Seattle will amend the relevant lists of Regional Facilities in Exhibit VI, as appropriate, to document any portion of a project or costs that are allocated by the Operating Board under this Section IV.C.2.b. The amended Exhibit VI will be incorporated as part of this Contract.

- c. The Operating Board shall determine whether the infrastructure costs of New Supply Facilities shall be recovered through FCs or new supply rates.
  - d. The Operating Board may allocate the reasonable expenses of the Operating Board to this cost pool.
3. New Transmission Cost Pool. The New Transmission Cost Pool shall be accounted for as follows:
- a. A rate shall be charged to recover the full costs of owning, constructing, operating, maintaining, repairing, renewing, and replacing and supporting the New Transmission Facilities, which are assigned to this cost pool. Seattle may amend the list of New Transmission Facilities in Exhibit VI, if necessary, to add or delete New Transmission Facilities, as appropriate. The amended Exhibit VI will be incorporated as part of this Contract.
  - b. The Operating Board may approve the allocation of certain costs to the New Transmission Cost Pool consistent with Section IV.C.1.b above. In addition, the Operating Board may approve the allocation of any portion of a New Transmission Facility project that benefits only a subset of Wholesale Customers or an individual Wholesale Customer to a subregional cost pool or the individual Wholesale Customer. Seattle will amend the relevant lists of Regional or Subregional Facilities in Exhibits VI or VII, as appropriate, to document any portion of a project or costs that are allocated by the Operating Board under this subsection IV.C.3.b. The amended Exhibits VI or VII will be incorporated as part of this Contract.
  - c. The Operating Board shall determine whether the infrastructure costs of New

Transmission Facilities shall be recovered through FCs or new transmission rates.

- d. The Operating Board may allocate the reasonable expenses of the Operating Board to this cost pool.
4. Operating Board Review. Prior to commencing in the design and construction of facilities eligible for inclusion in the New Supply or New Transmission Cost Pools, Seattle will review the purpose, timing, and need for said new supplies with the Operating Board. The Operating Board will have 90 days to provide Seattle with written comments on the proposed new supply or transmission development along with its recommendation on whether or not Seattle should proceed with the proposed plan. Nothing in this provision shall be interpreted to prevent Seattle from engaging in preliminary design efforts necessary to determine the feasibility of, or costs associated with, a particular project.
5. Subregional Cost Pools. Certain Wholesale Customers are served, in part, by subregional transmission facilities that only benefit those Wholesale Customers in the specific subregions. If Water Utility is served by subregional transmission facilities as described in Exhibit I, Water Utility is subject to the relevant provisions of this Section IV.C.5. If Water Utility is not served by subregional transmission facilities, this provision does not apply. The following subregional cost pools shall be accounted for as follows:
  - a. Eastside, Southwest and Renton Subregional Cost Pools. A rate for each subregion shall be charged to the appropriate Wholesale Customers who are served by the respective subregional facilities to recover the full costs, as defined by this Contract, of owning, constructing, operating, maintaining, repairing, renewing and replacing and supporting the Eastside, Southwest or Renton

Subregional Facilities, respectively, which are assigned to the respective subregional cost pools. Seattle may amend the list of Subregional Facilities in Exhibit VII, if necessary, to add or delete Subregional Facilities. The amended Exhibit VII will be incorporated as part of this Contract.

- b. The Operating Board may approve the allocation of other costs that benefit the specific Wholesale Customers served by the Eastside, Southwest or Renton Subregional Cost Pools, as appropriate.
6. Renton New Supply Cost Pool. The Renton New Supply Cost Pool shall be accounted for as follows:

The full costs of owning, constructing, operating, maintaining, repairing, renewing and replacing and supporting the New Supply Facilities developed after January 1, 2012, including the costs of the Regional Water Conservation Program beginning January 1, 2012, shall be included in the Renton New Supply Cost Pool.

7. Creation of Additional Cost Pools. Seattle, in its discretion, may create additional cost pools, including its allocation by customer or customer class, 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 or responds to changed circumstances such as new regulatory requirements. The Operating Board may review and recommend revisions to the definition of the additional cost pool, and how it will be accounted for or allocated by customer or customer class. The Operating Board may approve the allocation of costs, or portion thereof, between a newly created additional cost pool and an existing cost pool if the costs to be allocated satisfy the criteria for allocation to the existing cost pool. Seattle and Water Utility will

revise the Contract by letter agreement for the limited purposes of documenting the creation and allocation of an additional cost pool under this Section IV.C.7.

8. Approval of Cost Allocation Method. The Operating Board shall use its best efforts to determine and approve a cost allocation method for infrastructure projects and related capital costs within the Seattle Regional Water Supply System prior to the project obtaining construction approval from the Seattle City Council. Failure of the Operating Board to approve a cost allocation method, however, shall not hinder Seattle from approving such projects in order to assure Seattle's fulfillment of its obligations under this Contract.

#### **IV.D. Allocation of Costs and Revenues into Cost Pools**

1. Accounting. Seattle shall maintain and use a cost accounting system consistent with the provisions of this Contract and the GASB standards, as amended from time to time, consistently applied in developing the financial information for determining the costs of acquisition or ownership, construction, repair, renewal, replacement, upgrade, expansion, maintenance and operation of the Seattle Regional Water Supply System. Seattle's compliance with GASB standards will take precedence over any conflicting accounting provisions under this Contract.
  - 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 the facilities assigned to each cost pool as more particularly listed in Exhibits VI and VII (Regional Facilities and Subregional Facilities, respectively) and recognized on a utility or cash basis depending upon the facility and the cost pool as set forth below.
    - a. Cost Basis. Seattle shall determine one of the following bases to recognize the infrastructure costs for ratemaking purposes and use it consistently throughout the life of the facility.
      - i. Utility Basis. Seattle shall use the Utility Basis to recognize the infrastructure costs for all Existing Regional and Subregional Facilities, as well as their replacements and betterments or portions thereof. Seattle shall also use the Utility Basis for New Supply and New Transmission Facilities. 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 of that facility.
        - (a) Seattle, in its discretion, may consider interest costs as 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 recognizing infrastructure costs under the Utility Basis in future years.

(b) For ratemaking purposes and with the approval of the Operating Board, assets may be depreciated over a different time frame than that used by Seattle for financial reporting purposes in preparation of its audited Financial Statements.

ii. Cash Basis. Seattle, with the approval of the Operating Board, may use the Cash Basis to recognize infrastructure costs for any Regional or Subregional 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 listed in the asset account is less than the term of the debt issued to finance all or a portion of the facility, Seattle will select debt maturities such that the construction cost of the facility will be fully amortized under the Cash Basis at the end of its depreciation lifetime.

b. Infrastructure Adder. The parties agree the Infrastructure Adder provides a reasonable way to recover an allowance for 1) the regional portion of infrastructure costs of Mixed-use Assets; 2) the regional portion of mixed-use unrestricted cash assets; and 3) the equity or higher opportunity cost of cash financing Regional Facilities or the regional portion of Mixed-use Assets.

c. Facilities Charges.

i. Establishing Facilities Charges. If the Operating Board determines to recover infrastructure costs for certain New Supply or New Transmission Facilities through FCs, then Seattle will establish FCs as follows:

(a) ERU Charge. At the time the designated New Supply or New Transmission Facilities are put into service, Seattle shall establish a charge per one Equivalent Residential Unit (ERU Charge) for the Facility, or Facilities as the case may be, pursuant to the methodology in Exhibit V, which may include adjusting existing ERU Charges, if any, to include the new ERU Charges being established.

(b) ERUs.

(i) ERU Definition. Seattle, in its discretion, shall set, or amend from time to time, the capacity of one ERU to reflect the typical consumption of a single-family residence based on appropriate information consistent with accepted industry standards. The Operating Board may review and recommend revisions to Seattle's ERU definition. The then current ERU definition will be used in the methodology in Exhibit V to establish an ERU Charge.

(ii) ERU Factor. Seattle shall use the table of ERU Factors set forth in Exhibit V, which assigns a multiplier to each retail meter connection size. Seattle may propose, and the Operating Board may approve, adjustments to the table of ERU Factors. In the event the Operating Board approves an adjustment to the ERU Factors, the

parties will amend Section B of Exhibit V by letter agreement for the limited purposes of documenting adjustments to the ERU Factors.

(c) Facilities Charges. Seattle shall adopt Facilities Charges for each meter connection size based on the then current ERU Charge multiplied by the ERU Factor.

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

(a) Water Utility's Retail Connections. Until such time as Seattle develops another basis, Water Utility shall track the number and size of each retail meter installed by Water Utility during each month and pay the appropriate Facilities Charges, taking into account the size of each meter, within 30 days of the end of the next month, unless Water Utility has an FC Allowance balance pursuant to Section IV.D.2.c.iii below.

(b) Seattle shall pay FCs on the same basis.

(c) If Water Utility has an FC Allowance as listed in Section 2 of Exhibit I, the FC Allowance balance will be reduced by an amount equal to the aggregate of the ERU Factors for each meter added by Water Utility during the previous month, and such reduction of the FC Allowance balance shall be in lieu of payment of FCs until the FC Allowance is zero.

(d) Seattle will allocate FC revenues to offset infrastructure costs in

the New Supply or New Transmission Cost Pools, respectively, based on which cost pool the Regional Facility whose infrastructure costs are being recovered through FCs is assigned. Seattle and Water Utility agree that FC revenues are the sole property of Seattle.

iii. FC Allowance for Supplies. If Water Utility operates Independent Supplies or Purchased Supplies as listed in Exhibit I, Seattle shall establish a growth allowance (“FC Allowance”) based on the amount of additional ERUs the Independent Supply or Purchased Supply is sufficient to serve within Water Utility's retail distribution service area as specifically described in Section 2 of Exhibit I as of the effective date of this Contract. The FC Allowance shall be a credit against the imposition of FCs until the FC Allowance reaches zero, then Water Utility shall pay FCs in accordance with Section IV.D.2.c.ii above.

(a) Increase in FC Allowance. If Water Utility develops new Independent Supplies, makes improvements to an existing Independent Supply, or acquires new Purchased Supplies that increases the average annual production listed in Section 2 and/or Section 3 of Exhibit 1, the FC Allowance shall be adjusted as follows. If the new or improved Independent Supply or Purchased Supply produces at least one-third of its average annual production during the period between mid-May and mid-September, a trial period ("Trial Period") for the new or improved Independent

Supply or Purchased Supply shall commence on January 1st of the calendar year following the year in which the new or improved Independent Supply or Purchased Supply was placed into production. The Trial Period shall extend for three calendar years. At the conclusion of the Trial Period, the FC Allowance shall be increased by the additional number of ERUs, using the then current ERU definition, served by the average annual production of the new or improved Independent Supply or Purchased Supply during the Trial Period. The parties will amend Exhibit I by letter agreement to document the adjusted FC Allowance and the average annual production of the new or improved Independent Supply or Purchased Supply.

- (b) Decrease in FC Allowance. In the event that the average annual production of an Independent Supply or Purchased Supply, or of all Independent or Purchased Supplies in aggregate, is lower than the average annual production as listed and under the conditions provided in Section II or Section III of Exhibit 1, the outstanding FC Allowance shall be reduced by the number of ERUs, at the then current ERU definition, that could be served, on an annual basis, by a supply of the same size as the reduction in average annual production of the Independent Supplies or Purchased Supplies. In the event that this adjustment results in a negative FC Allowance, Water Utility shall pay Seattle an amount equal to the then-current

ERU Charge multiplied by the (negative) FC Allowance multiplied by minus one. The FC Allowance shall be zero upon full payment or commencement of payments under a payment agreement pursuant to Section VII.A.2.

iv. Record-Keeping.

(a) Monthly Report. Water Utility shall provide Seattle with a monthly report, in a form acceptable to Seattle, along with its monthly payment of FCs, showing the number of retail connections by size that Water Utility installed in the previous month.

(b) Annual Report. Water Utility shall provide Seattle with an annual report by January 31st of each year for the previous year, in a form acceptable to Seattle, showing the total number of its retail connections by size as of December 31 of each year.

(c) Seattle Annual Report on ERUs. Seattle shall prepare and distribute a report, no later than March 31st of each year, showing the ERUs for the Seattle Retail Distribution System and each Wholesale Customer for the previous year and each year since the original effective date of this Contract.

3. O&M Costs. The parties mutually agree to handle the O&M Costs for each cost pool as follows:

a. Annual O&M Costs. For each of the Existing Regional System, New Supply and New Transmission Cost Pools, the Annual O&M Costs shall consist of the

relevant Index O&M Costs times the Mixed-Use Multiplier, plus any Non-index O&M Costs in that year, if any.

- i. Index O&M Costs. The Index O&M Costs are the O&M Costs for the regional O&M Cost categories for each cost pool as more particularly described in Exhibit VIII and are intended to reflect the O&M Costs for Regional Facilities and regional-only programs and support functions. Seattle, in consultation with the Operating Board, may amend the list of Index O&M Cost categories in Exhibit VIII, if necessary, when a Regional Facility is added to or deleted from Exhibit VI or a regional-only program or support function is established or discontinued. The amended Exhibit VIII will be incorporated as part of this Contract.
- ii. Mixed-use Multipliers. The parties agree to use an initial Mixed-use Multiplier of 2.001, which, as applied above, results in an allowance for the portion of Mixed-use O&M Costs that support the Seattle Regional Water Supply System. The initial Mixed-use Multiplier established in this Contract, and any adjusted Mixed-use Multiplier, shall be consistent with the Ratemaking Principles in Section IV.A of this Contract and will be subject to periodic adjustment and review as provided in subsection (a) and (b) below and Section IV.H.1.a.
  - (a) The Mixed-Use Multiplier shall be adjusted every five years as a part of the Wholesale Statements, following the procedure below.
    - (i) Categorize the prior three years' O&M Costs of the Seattle Water Enterprise Fund, net of debt service and taxes on water

sales, into the following: Index O&M Costs, Non-index O&M Costs, Mixed-use O&M Costs, and the remainder, which is assigned as Seattle's retail costs.

(ii) Divide the Index O&M Cost by the sum of the Index O&M Cost and the retail cost. This calculation produces a percentage.

(iii) Apply the percentage produced in (ii) to the Mixed-use O&M Costs. The result is the portion of the Mixed-use O&M that will be recovered by the Mixed-use Multiplier.

(iv) To calculate the Mixed-use Multiplier, add the result from (iii) to the Index O&M Cost and divide that sum by the Index O&M Cost.

(b) Seattle, in its discretion, may adjust the Mixed-use Multiplier from time to time when 1) it determines that the allowance produced by the then current Mixed-use Multiplier should not change in proportion to a change in the Index O&M Costs; and 2) the change in the Index O&M Costs was due to the addition or deletion of a Regional Facility resulting in a change of more than \$100,000 of Index O&M Costs. The calculation of the adjusted Mixed-use Multiplier shall follow the procedure outlined in Section IV.D.3.a.ii.(a) above, except that the anticipated change in cost for the added or deleted Regional Facility shall be added to or subtracted from the Index O&M Cost, respectively. The calculation of the adjusted Mixed-use

Multiplier will be documented in the Wholesale Statements described in Section IV.H.

- iii. Non-index O&M Costs. Seattle, in its discretion, may add certain regional O&M Costs that are unique or nonrecurring to the Annual O&M Cost in any year(s), as appropriate. For Non-Index O&M Costs larger than 1% of the annual Index O&M Costs, the Operating Board may elect to amortize the costs over a timeframe of the Board's choosing, not to exceed ten years. The annual amortization shall be included in the applicable cost pool, as well as the product of the unamortized cost and Seattle's Cash Pool Rate..
- b. Subregional O&M Costs. For each of the Subregional Cost Pools, the Annual O&M Costs shall consist of the actual O&M Costs for the respective Subregional Facilities assigned to each Subregional Cost Pool, including any net disposition costs for any of the Subregional Facilities in that cost pool, if any; together with any additional O&M Costs for the Subregional Facilities approved by Operating Board.
- c. Renton New Supply O&M Costs. For the Renton New Supply Cost Pool, the Annual O&M Costs shall be the same as the Annual O&M Costs in the New Supply Cost Pool.
- d. Disposition Costs. The costs of disposing of Regional or Subregional Facilities shall be included in the cost pool to which the Regional or Subregional Facilities are assigned. In the case of Regional Facilities, the net disposition costs will be added as a Non-index O&M Cost. Net disposition costs shall be calculated as follows:

- i. 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. If an alternate life is being used for ratemaking purposes as compared to Seattle's financial reporting and Financial Statement purposes, the Net Book Value refers to the remaining asset value under the alternate life.
- ii. 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.
- iii. Certain Large Net Disposition Costs. For net disposition costs larger than 1% of the annual Index O&M Costs, the Operating Board may elect to amortize the net disposition costs over the remaining life of the asset(s), or another timeframe of the Board's choosing not to exceed ten years. The annual amortization shall be included in the applicable cost pool, as well as the product of the unamortized net disposition cost and Seattle's Cash Pool Rate.

#### **IV.E Allocation of Cost Pools by Customer or Customer Class.**

The costs and revenues in the cost pools shall be allocated within the pools as follows:

1. Allocation of Existing Regional System Cost Pool. The total cost of the Existing Regional System Cost Pool shall be allocated to customer classes as follows:
  - a. Block Purchase Customer Class. The portion of costs in the Existing Regional System Cost Pool allocated to holders of Block Purchase Contracts shall be

determined pursuant to those contracts, if any.

- b. Other wholesale customers. The portion of costs in the Existing Regional System Cost Pool or Existing Supply and Existing Transmission Cost Pools, depending how they are named in the Block Contracts, allocated to holders of other types of wholesale water supply contracts with Seattle shall be determined pursuant to those contracts, if any.
  - c. 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 Regional System Cost Pool after the allocations in Sections IV.E.1.a and b above.
2. Allocation of New Supply Cost Pool. The total costs of the New Supply Cost Pool shall be allocated as follows:
- a. Block Purchase Customer Class. The portion of costs in the New Supply Cost Pool allocated to holders of Block Purchase Contracts shall be determined pursuant to those contracts, if any.
  - b. Other wholesale customers. The portion of costs in the New Supply Cost Pool allocated to holders of other types of wholesale water supply contracts with Seattle shall be determined pursuant to those contracts, if any.
  - c. Full and Partial Requirements Customer Class. The holders of Full and Partial Requirements Contracts, except for Renton, and the Seattle Retail Distribution System shall be allocated the remaining costs in the New Supply Cost Pool after the allocations to Block Purchase Customers or other wholesale customers, if any, pursuant to Sections IV.E.2.a and b above; and after deducting an equivalent

amount of costs that are allocated to Renton under the Renton New Supply Cost Pool pursuant to Section IV.E.5 below.

3. Allocation of New Transmission Cost Pool. The costs allocated to the New Transmission Cost Pool shall be allocated as follows:
  - a. Block Purchase Customer Class. The portion of costs in the New Transmission Cost Pool allocated to holders of Block Purchase Contracts shall be determined pursuant to those contracts, if any.
  - b. Other wholesale customers. The portion of costs in the New Transmission Cost Pool allocated to holders of other types of wholesale water supply contracts with Seattle shall be determined pursuant to those contracts, if any.
  - c. 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 New Transmission Cost Pool after allocations to Block Purchase Customers or other wholesale customers, if any, pursuant to Section IV.E.3.a and b above.
4. Allocation of Eastside, Southwest and Renton Subregion Cost Pools. All costs in the Eastside, Southwest and Renton Subregional Cost Pools shall be allocated to the Wholesale Customers served by the respective Subregional Facilities according to Exhibit VII.
5. Allocation of the Renton New Supply Cost Pool. A portion of the costs in the Renton New Supply Cost Pool shall be allocated as follows:
  - a. Block Purchase Customer Class and other wholesale customers. The holders of Block Purchase Contracts or other wholesale customers shall not be allocated any

costs from the Renton New Supply Cost Pool.

- b. Full and Partial Requirements Customers. Except for Renton, the holders of Full and Partial Requirements Contracts and the Seattle Retail Distribution System shall not be allocated any costs from the Renton New Supply Cost Pool.
  - c. Renton. Renton shall be allocated 6.8% of the remaining costs in the Renton New Supply Cost Pool after deducting an amount equivalent to the amount of costs from the New Supply Cost Pool allocated to the Block Purchase Customer Class or other wholesale customers, if any, pursuant to Section IV.E.2.a and b above. Seattle will recover the costs allocated to Renton from the Renton New Supply Cost Pool by a block payment paid in 12 equal installments in lieu of paying new supply rates or Facilities Charges (FCs) from the New Supply Cost Pool.
    - i. Seattle may update the percentage share of the costs in this cost pool allocated to Renton if Renton acquires additional retail distribution service area pursuant to Section II.B.2, or on January 1, 2022 and every 5 years thereafter during the term of this Contract. The basis for any adjustments to the percentage allocation will be based on the percentage of average annual flows of Renton's retail customers over the 5 prior years as compared to the average annual flows of all retail customers of the Wholesale Customers and the Seattle Regional Distribution System over the same 5 years.
6. Allocation of Additional Cost Pools. At the time an additional cost pool is created by Seattle pursuant to Section IV.C.7, the additional cost pool will be allocated by customer or customer class. The parties will enter into a letter agreement for the limited purposes

of documenting the allocation of an additional cost pool.

#### **IV.F. Elective Services**

1. Elective Services. Seattle may provide certain elective services that are in addition to the services provided under this Contract to Water Utility upon request by Water Utility. Such services shall be negotiated and contracted for separately between Water Utility and Seattle or provided at then current standard charges, if applicable. Elective services may include:
  - a. Transmission Wheeling. Seattle, at its sole discretion, may provide Water Utility access to excess transmission capacity, if any, for a fee and under any conditions it deems reasonable to protect the Seattle Regional Water Supply System for purposes of wheeling compatible water to or from Water Utility through the Seattle Regional Water Supply System. The Operating Board may review and recommend revisions to any policies or criteria Seattle may use to consider a request for wheeling services from a Wholesale Customer.
  - b. 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 for testing of samples for water quality monitoring that Water Utility performs.

#### **IV.G. Rate Setting, Adjustments and Special Charges**

1. Wholesale Rate Setting. Seattle, in its sole discretion, shall determine the structure of FCs and wholesale water rates, except that the FCs or wholesale rates may not, without approval of the Operating Board, be set to collect more than the projected costs included in the cost pools as described in this Section IV.

2. 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, including the manner of passing through or incorporating any wholesale rates and charges due under this Contract.
3. Wholesale Rate Adjustment. Seattle may adjust water service rates and FCs from time to time. Rate adjustments will be effective only within five years of the completion of a rate study consistent with Section IV.G.4 below and provided that Seattle transmits its final rate adjustment proposal to the Operating Board and Water Utility for final review at least 30 days before it transmits it to Seattle City Council for consideration. The Operating Board may review and recommend revisions to the final rate proposal. Seattle will provide a written explanation of any recommendations that are not accepted and forwarded to Seattle City Council.
4. Rate Study and Review Consultant. Seattle shall conduct a rate study in accordance with accepted industry standards and this Contract. Seattle shall provide Water Utility and the Operating Board 30 days' advance written notice of its intent to conduct a rate study and shall make detailed information and progress reports during the course of the rate study available to Water Utility, other Wholesale Customers and the Operating Board for review and comment. Seattle shall select an independent rate consultant to review the rate study, including an independent review of the allocation of costs and revenues between cost pools. The Operating Board may review and recommend revisions to the scope of work for the rate consultant. Seattle shall cause a final rate consultant report to be made available to Water Utility and the Operating Board not less than 30 days before Seattle formally transmits any resulting rate adjustment proposal to the Operating Board. Unless otherwise

approved by the Operating Board, Seattle shall conduct a cost-of-service rate study no less frequently than once every five years.

5. Special Charges.

a. Demand Charge.

- i. Seattle, in its discretion, may adopt and implement a demand charge in accordance with the methodology described in Exhibit III. The demand charge consists of a calculation of Water Utility's deficient storage, if any, and a Storage Deficiency Rate (i.e., dollars per 1000 gallons of deficient storage) that is based on an equivalent annualized cost of providing the deficient storage, and which shall be updated with each rate study.
- ii. Seattle shall be exempt from the demand charge until such time as metering devices are installed pursuant to Section III.E.2.
- iii. The costs and revenues from implementing the demand charge will be allocated to the Existing Regional System Cost Pool. The Operating Board may approve the allocation of these costs and revenues to the New Transmission Cost Pool in the future to offset other costs that may be allocated to the New Transmission Cost Pool in the future.
- iv. Seattle shall suspend the implementation of demand charges, if any, in the event of emergencies and unforeseen conditions.

- b. Emergency Surcharge. In the event of a drought, catastrophe, or other extraordinary condition that requires emergency expenditures to maintain sufficient and safe water supply or transmission capacity, or both, Seattle, through its City Council, may impose an emergency surcharge on all Wholesale

Customers, including Seattle, in order to pay for emergency expenditures or maintain financial stability of the Seattle Regional Water Supply System, or both (“Emergency Surcharge”). The Operating Board may review and recommend revisions to any proposed Emergency Surcharge prior to submission to the Seattle City Council for consideration. Seattle shall provide a written explanation of any recommendations that are not accepted and forwarded to City Council. Revenues from an Emergency Surcharge will be applied to the appropriate cost pool that relates to the emergency situation giving rise to the Emergency Surcharge. For the avoidance of doubt, and for example only, an Emergency Surcharge issued in response to a drought would be applied to offset costs in the Existing Regional System Cost Pool and an Emergency Surcharge issued to pay for extensive transmission repair on New Transmission Facilities would offset costs in the New Transmission Cost Pool. If the emergency is not related to any particular cost pool, the Operating Board shall make the final determination as to which cost pool the revenues shall be applied.

- c. New Wholesale Customer Charge. Seattle will charge any new customer who signs a Full or Partial Requirements Contract after the Effective Date of this Contract and who has not previously contributed to the costs in the New Supply Cost Pool or the development of New Supply Facilities an appropriate charge for an equitable share of the New Supply Facilities. This charge may be satisfied by either paying FCs and new supply rates or arranging a special water supply rate in lieu of paying FCs. The revenue from this charge will be allocated to offset costs in the New Supply Cost Pool.

6. Transition.

a. Initial Existing Regional System Running Balance Surplus.

As part of the contract transition process, Seattle shall implement a one-time return of the lesser of the full amount of the Existing Regional System Cost Pool running balance surplus or \$82M to Wholesale Customers in lump sum payments following completion of the updated contracts (either fully executed with mutual agreement or amended through the process identified in Section II.A.4(b)) with all Wholesale Customers. Water Utility will receive payment for its prorated portion of the amount above based on each Wholesale Customer's demand since the balance last crossed zero within 60 days following the completion of the updated contracts (as defined above), even if such payments are made before the Effective Date of the Contract.

b. Cost-of-Service Rate Study.

Seattle agrees to begin performing a cost-of-service rate study no later than three months of the date on which all Wholesale Customer contracts are either fully executed pursuant to Section II.A.4.a or amended pursuant to Section II.A.4.b.

c. Rebate Based on Alternate Utility Basis Cost.

As a result of negotiations pursuant to Section II.A.4.a, an Alternate Utility Basis will be applied as described below to calculate an annual rebate to Wholesale Customers signing this First Amended and Restated Contract for the Supply of Water. Water Utility will be eligible for an annual rebate in the form of a credit on its bill for a portion of the difference between Utility Basis cost

and the Alternate Utility Basis cost (for assets whose cost is calculated on a Utility Basis) as described below, if the Alternate Utility Basis results in a lower cost. This comparison will be conducted annually as part of the Wholesale Statement Review and the Water Utility's portion will be based on Water Utility's percentage of Wholesale Customer demand for each applicable Cost Pool in that year.

i. Definitions.

The following definitions will be used to calculate the Alternate Utility Basis cost:

"Alternate Infrastructure Adder" – A certain percentage amount that is applied as a component of the Rate of Return on Investment to the Net Book Value of facilities recognized under the Utility Basis, which may be adjusted pursuant to Section IV.G.6.c.iii below.

"Alternate Mixed-use Assets" – Capitalized facilities or assets that are shared between or used to support both the Seattle Retail Distribution System and the Seattle Regional Water Supply System.

"Alternate Rate of Return on Investment" – Alternate Seattle's Average Cost of Debt plus the Alternate Infrastructure Adder.

"Alternate Seattle's Average Cost of Debt" ("Alternate ACOD") - The weighted average coupon interest rate on Seattle's water system debt outstanding over the course of a calendar year with adjustments to recognize i) outstanding amortized premium or discount on water system debt; ii) gains/losses on water system bond refunding's; iii) issuance costs

including third party costs paid by bond proceeds; iv) prepaid insurance costs; v) net interest expense on debt service reserves; and vi) any other appropriate ongoing debt costs, e.g. variable rate remarketing, ongoing credit rating agency monitoring fees, calculated at the end of each calendar year during the term of this Contract.

- ii. Under the Alternate 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 Alternate Rate of Return on Investment of that facility.
  - a. Seattle, in its discretion, may consider interest costs as 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 recognizing infrastructure costs under the Utility Basis in future years.
  - b. For ratemaking purposes and with the approval of the Operating Board, assets may be depreciated over a different time frame than that used by Seattle for financial reporting purposes in preparation of its audited Financial Statements.
- iii. Alternate Infrastructure Adder. The parties mutually agree to use an initial Alternate Infrastructure Adder of 1.40%, which Seattle will apply as a component of the Rate of Return on Investment, to the Net Book Value of facilities that are recognized under the Utility Basis. The parties agree the

Alternate Infrastructure Adder provides a reasonable way to recover an allowance for 1) the regional portion of infrastructure costs of Mixed-use Assets; 2) the regional portion of mixed-use unrestricted cash assets; and 3) the equity or higher opportunity cost of cash financing Regional Facilities or the regional portion of Mixed-use Assets. The parties agree that Seattle may adjust the Alternate Infrastructure Adder that is applied to facilities recognized under the Alternate Utility Basis from time to time as follows:

- a. In order to maintain an equitable allocation of costs through the allowance, Seattle may increase or decrease the then current Alternate Infrastructure Adder annually by 0.12% for every 1.00% increase or decrease to Seattle's Alternative ACOD, or portion thereof, as the case may be, e.g. if Seattle's Alternative ACOD increases from 4.08% to 5.08%, the Infrastructure Adder would increase from 1.40% to 1.52%.
- b. In the event the Operating Board determines to use the Cash Basis to recognize costs for a Regional or Subregional Facility, Seattle may adjust the then current Alternate Infrastructure Adder by multiplying it by an amount equal to the sum of the then current NBV of Regional and Subregional Facilities recognized under the Alternate Utility Basis plus the current NBV of such Facilities recognized under the Cash Basis, divided by the then current NBV of Regional and Subregional Facilities recognized under the Alternative Utility Basis only.

#### **IV.H. Cost Review and Truing Actual Costs and Actual Revenues**

1. Wholesale Statement Review. At the end of each fiscal year, Seattle shall cause an independent review of its statement of actual costs and revenues received allocated to each cost pool (“Wholesale Statements”). Seattle will select an independent accountant, which may be Seattle’s independent auditor for its audited financial statements.,
  - a. Scope of Review. The procedures for the annual review shall be set by the Operating Board and shall include, at a minimum: (i) a comparison of the actual costs and revenues received to Seattle’s accounting records, (ii) a comparison of the procedures used by Seattle to allocate costs and revenues to each cost pool to those procedures and requirements specified in this Contract, (iii) in years where the Mixed-use Multiplier is adjusted, the accuracy of the adjustment calculation, and (iv) identification of any corrective actions necessary. The scope of review may include additional elements identified by the independent accountant, as well as procedures at Seattle’s discretion together with any reasonable requests of the Operating Board.
  - b. Operating Board and Water Utility Review of Report of Independent Accountant. Seattle will cause the independent accountant to present a copy of the review report to the Operating Board and Water Utility.
  - c. Operating Board and Water Utility Right to Review. The Operating Board, or Water Utility at its sole expense, may select its own independent accountant to review the Wholesale Statements including the Mixed-use Multiplier under separate agreed-upon procedures at their discretion. Subject to Seattle’s reasonable requests for security and confidentiality procedures and agreement to

the same, an independent accountant retained by Water Utility, may at any time upon prior reasonable notice to Seattle and in coordination with Seattle's reasonable scheduling ability, during normal business hours, review the books, records and accounts of Seattle to the extent that such books, records and accounts are directly used in the production of the Wholesale Statements or other allocations, charges or payments under this Contract. Seattle shall maintain all such books, records and accounts. Independent accountant's access shall include the right to make copies and discuss the books and records with Seattle's personnel having knowledge of the facilities, systems, processes and document contents. Water Utility's right to review shall survive the expiration or termination of this Contract for a period of three (3) years. If an inspection or examination pursuant to this section discloses overpricing or overcharges by Seattle in excess of one percent (1%) of the appropriate amount due, in addition to making adjustments for the overcharges, the reasonable actual cost of Water Utility's review shall be reimbursed to Water Utility by Seattle, and the costs will be included in the Existing Regional Cost Pool. Any adjustments which must be made as a result of any such review shall be reflected in the Wholesale Statements.

2. Truing Actual Costs and Actual Revenues. Seattle shall reconcile the projected costs and revenue targets for the various cost pools and the actual expenses and revenues received during each year of this Contract as follows:
  - a. Running Balances. For each cost pool, Seattle shall maintain a running balance of the surplus or deficit of actual rate revenues collected from each class of

customers less actual expenses incurred, except that Seattle shall maintain separate running balances for FC revenues pursuant to Section IV.H.2.c below. Each running balance shall earn simple interest at Seattle's Cash Pool Rate. At the end of each fiscal year, Seattle shall adjust each balance to reflect the operating results of that year. The year-end statement of these balances shall be reviewed as described in Section IV.H.1 above.

- b. Running Balance Deficits. Seattle shall design rates to eliminate any deficit in the cost pool running balances, except as provided herein.
- c. Running Balance Surpluses.
  - i. Running Balance Surplus at True Up.

Annually, after presentation of the Wholesale Statements to the Operating Board, the Board shall decide the portions of any surplus to be a) returned to the Wholesale Customers as a credit on their bill in the following year, with the balance prorated to each Wholesale Customer based on each Wholesale Customer's demand since the balance last crossed zero, b) redeemed as a capital contribution towards specific assets assigned to the applicable Cost Pool, and/or c) retained for rate smoothing purposes as determined by the Operating Board based on the review of the most recent rate study following the process in Section IV.H.2.iii below. The Operating Board may select one or any combination of these options for implementation. When returned as a credit on the bill or redeemed as a capital contribution, the surplus balance shall be reduced by those amounts.

ii. Running Balance Surplus at Contract Transition.

The running surplus balance existing as of December 31, 2024 shall be fully or partially returned as provided in Section IV.G.6, Contract Transition.

iii. Running Balance Surplus at Rate Study.

During each rate study, the Operating Board shall decide the portion of the surplus, up to an amount not to exceed 30 percent of the annual projected costs in the relevant cost pool for the first year of the rate study, to retain for future rate smoothing purposes. Seattle shall design rates to eliminate any surpluses above this amount in the cost pool running balances.

- d. FC Running Balances. Seattle shall maintain separate running balances within the New Supply and New Transmission Cost Pools, as appropriate, of the surplus or deficit balances of actual FC revenues received in any year over the facility's annual utility or cash basis costs to be recovered through FCs for that year. Running surplus FC balances shall earn simple interest at Seattle's Cash Pool Rate. For any year with a running FC deficit balance, Seattle shall transfer an amount from the running balance of rate revenues in the New Supply or New Transmission Cost Pool, as the case may be, to eliminate the FC deficit balance for that year even if it results in a deficit running balance in rates. FC surplus balances in any subsequent year shall be transferred back to the running balance in the New Supply or New Transmission Cost Pools until the amount transferred to eliminate the prior deficit FC balance is repaid. Any remaining surplus FC balances, if any, may upon Operating Board approval, be transferred to the running balances of rate revenues in the New

Supply or New Transmission cost pools for rate smoothing purposes. Otherwise, they shall be retained as a surplus FC balance in an amount up to two times the Net Book Value of the Regional Facilities whose infrastructure costs are being recovered by FCs. Any surplus FC balance that exceeds two times the Net Book Value of those facilities shall be transferred to the running balance for the New Supply or New Transmission Cost Pools, as appropriate, (and the FC surplus balance shall be reduced by the amount transferred). This transfer is permanent and not repaid. ERU Charges are based on Section IV.D.2.c and shall not be adjusted to reflect surpluses or deficits in FC balances.

## **SECTION V. OPERATING BOARD**

1. Purpose. The purpose of the Operating Board is to provide advice and direction in certain areas of limited authority over policy, financial and operational matters as they affect the Seattle Regional Water Supply System. The representatives of the Operating Board shall, to the best of their ability, act in the best interests of the Seattle Regional Water Supply System as a whole, not for the benefit of a group of Wholesale Customers or an individual Wholesale Customer. Therefore, only Wholesale Customers that have agreed to automatic extensions of this Contract, committed to purchase their Full or Partial Requirements as set out on Exhibit I, and agreed to the limitations on purchase reductions contained in Section II.B.5, are eligible to have their representative voted onto the Operating Board.
2. Structure and Authority. The Operating Board shall have only the roles and limited authorities as specifically and explicitly set forth in specific provisions of this Contract.

The Operating Board shall have the structure described in Exhibit IV.

3. Review. The parties may review the structure and roles and limited authorities of the Operating Board as of January 1, 2027 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 roles and limited authorities as set forth in the Contract and Exhibit IV. Any Wholesale Customer, including Water Utility, or Seattle may initiate the review. The initiating party shall provide all Wholesale Customers and Seattle, as the case may be, with its proposals. Water Utility and Seattle agree to consider each other's and any other Wholesale Customer's comments and proposals and to respond in writing stating its reasons for rejecting any proposals and the reasons for its own counter proposal. Notwithstanding any other provisions in this Contract, any changes to the Operating Board structure shall be made through an Amendment to the Operating Board Bylaws; provided that any such changes shall be subject to the restrictions and limitations contained in this Contract.

## **SECTION VI. PLANNING**

### **VI.A. Reporting of Planning Data**

1. By no later than March 1 of each year, Water Utility shall report to Seattle and the Operating Board the following data for the previous calendar year as follows, except as otherwise provided in Section VI.A.4 below:
  - a. The amount of water produced each month from its Independent Supplies, listed by source.
  - b. The amount of water purchased each month from any other water utilities, listed by other utility name and whether Emergency or Purchased Supply.

- c. The amount of water sold each month to any other water utilities, listed by other utility name and whether Emergency or Resale Supply.
  - d. The amount of water wheeled through Water Utility's distribution system each month, listed by both utility names that deliver water to and receive water from Water Utility.
  - e. The amount of water sold to retail and wholesale customers, by customer class and by month.
  - f. The number of accounts billed, by customer class and month.
  - g. Other data reasonably necessary to track, report and plan for the metrics used for the regional WUE Goal, upon Seattle's request.
2. Water Utility shall report other data as may be reasonably requested by Seattle for water planning purposes or as may be required by amendments to applicable regulations from time to time, except as otherwise provided in Section VI.A.4 below. This data may include, but not be limited to:
- a. Water Utility's forecasts of the amount of water to be used by Water Utility from Alternate Supplies. Forecasts will reflect best judgement of Water Utility and be consistent with industry standards.
  - b. Water Utility's forecasts of annual growth in the number of meters installed by Water Utility by the size of the meter as necessary for establishing Facility Charges pursuant to Section IV.D.2.c.
  - c. Water Utility's rates and charges, including background information such as rate studies.
  - d. Water Utility's maps, land use and growth projections, and geographical

information system (“GIS”) layers of current and future retail service areas of Water Utility, provided that Water Utility shall be permitted to withhold information or records which Water Utility reasonably believes the release of such information and records presents a security risk associated with Water Utility’s facilities, infrastructure and operations.

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.
4. Water Utility shall not be required to provide records, including related information or data, that are exempt from disclosure under the Public Records Act, Chapter 42.56 RCW, or other applicable federal and state laws.

#### **VI.B. Submittal of Water Utility Water System Plans**

Water Utility shall provide a copy of its proposed water system plan, including any amendments, to Seattle for review and comment before adoption by its legislative body, and a copy of its final approved water system plan or amendments.

#### **VI.C. Seattle as Water Planning Agency**

1. 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.
2. 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.
3. Seattle, in consultation with the Operating Board, shall prepare and adopt a plan for acquiring new, high quality water supplies in a timely and cost-effective manner. 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. If Water Utility opts out of an Extension pursuant to Section II.A.3, Seattle shall begin planning for Water Utility to stop purchasing water from Seattle at the expiration of its Contract Term.

#### **VI.D. Capital Improvement Plan**

1. To fulfill the requirements of this Contract, Seattle shall make improvements to the Seattle Regional Water Supply System based on a Capital Improvement Plan adopted by the Seattle City Council. The projects and programs in the Capital Improvement Plan will include those that meet operational, regulatory, or contractual requirements, provide for growth, improve reliability and resiliency, and are cost-effective. Prior to submission of the proposed Capital Improvement Plan to the Seattle City Council for approval, Seattle shall provide the Operating Board a reasonable and meaningful opportunity to review and recommend revisions to the relevant portions of the proposed Capital Improvement Plan that affect the Seattle Regional Water Supply System. Seattle shall give serious

consideration to the recommendations of the Operating Board. Seattle will transmit the final adopted Capital Improvement Plan to the Operating Board and Water Utility within 30 days of adoption. Seattle shall provide periodic updates of major projects and programs affecting the Seattle Regional Water Supply System upon request of the Operating Board. Seattle shall also review and respond to concerns expressed by the Operating Board or any Wholesale Customer regarding the scheduling of or delays in completing projects included in Seattle's Capital Improvement Plan or questions about the budgets or actual costs incurred on projects included in Seattle's Capital Improvement Plan. Seattle shall, upon request, provide opportunities for the Operating Board, or a designee of the Operating Board, to participate in options analysis, design review or value engineering for relevant projects or programs that substantially affect the Seattle Regional Water Supply System or Wholesale Customers.

2. The Operating Board may approve the allocation to a cost pool in Section IV.C of reasonable costs for capital improvements that serve or benefit an individual Wholesale Customer, including Water Utility, that are reasonably necessary to alleviate a disproportionate adverse impact to the retail distribution system(s) of Water Utility or another Wholesale Customer, to the extent it is caused by a capital project in the Capital Improvement Plan for the Seattle Regional Water Supply System. Water Utility, or another Wholesale Customer may request consideration of this provision, and the Operating Board will make a determination of whether 1) there is a disproportionate adverse impact and either (i) such disproportional adverse impact could have been reasonably avoided through a different project design in the Capital Improvement Plan, or (ii) the other Wholesale Customers, including the Seattle Retail Distribution System,

receive tangible benefits, directly or indirectly, from the project in the Capital Improvement Plan; 2) the proportion of capital costs to include, if any; and 3) the cost pool the costs would be allocated to, if any. Water Utility and Seattle will enter into a separate agreement consistent with this section if the Operating Board determines this provision applies to Water Utility and the costs will be allocated to the cost pool identified by the Operating Board.

## **SECTION VII. PAYMENT**

### **VII.A. Collection of Money Due City**

1. Seattle shall bill Water Utility on a monthly basis for all charges due under this Contract unless the Contract expressly provides otherwise, in which case Water Utility will submit payment according to the Contract. Water Utility shall pay all charges within 60 days of the invoice or billing date or, if another provision is applicable, when due.
2. For those charges that are not monthly commodity charges or Facilities Charges, Water Utility and Seattle may mutually agree by letter agreement to a reasonable monthly payment plan and any outstanding balance shall be charged interest at Seattle's Cash Pool Rate until paid in full.

### **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**

1. 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.

2. 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.

#### **VII.D. Availability of Records**

Upon request with reasonable notice, Water Utility or Seattle shall make any public records that support the charges or payments under this Contract available to the other party for inspection and copying during normal business hours.

### **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 receiving the written statements, which shall include any applicable findings or interpretations of the applicable facts or contract provisions.
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 Mayor Review**

If the dispute remains unresolved, 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 Mayor for review.

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

#### **IX.C. Mediation**

Within 10 days of receiving the written rejection of the Seattle Mayor's recommendations by one or both parties, each party shall designate in writing not more than 5 candidates it proposes to act as an impartial 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, or other mutually agreed timeframe, with the assistance of the mediator.

#### **IX.D. Resort to Litigation or Arbitration**

If mediation fails to resolve the dispute within 30 days, or the other mutually agreed timeframe, of selection of the mediator, the parties may thereafter seek redress in court subject to Section X.G. below. Alternatively, the parties may mutually agree to resolve any disputes through arbitration using a single arbitrator acceptable to parties. Nothing in this provision shall be construed to require arbitration without the mutual agreement of the parties.

#### **IX.E. Efficiency of Review**

In order to facilitate a more efficient review of disputes under this Section, the parties may 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**

1. Whenever written notice is required by this Contract, that notice shall be given to the following representatives, or their designees, by email with receipt requested, 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:

<u>SEATTLE:</u>	<u>WATER UTILITY:</u>
General Manager	Public Works Director
Seattle Public Utilities	City of Duvall
Seattle Municipal Tower	15535 Main St NE
PO Box 34018	Duvall, WA 98019
700 Fifth Ave, Suite 4900	
Seattle, WA 98124-4018	

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

2. Seattle’s Wholesale Contracts Manager will be the initial point of contact for all other issues arising under the Contract.

**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 the Seattle Regional Water Supply System. 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. 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.H. Default and Non-Waiver**

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. Any waiver of the breach or default of any provision, term or condition of this Contract shall not be deemed to be a waiver of any preceding or succeeding breach or default of the same or any other provision, term or condition.

### **X.I. Force Majeure**

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 circumstances beyond the party's control such as fire, flood, earthquake, lockouts, strikes, embargoes, pandemics, 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.J. Successors**

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

**X.K. Exhibits**

Exhibits I through IX are attached hereto and incorporated herein. To the extent this Contract authorizes the parties to amend a specific exhibit by letter agreement, such amended exhibit will become attached and incorporated herein upon the effective date of the letter agreement.

# SIGNATURE PAGE

IN WITNESS WHEREOF, the parties hereby execute this Contract.

THE CITY OF DUVALL

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

DATE \_\_\_\_\_

AUTHORIZING LEGISLATION: ORDINANCE/RESOLUTION \_\_\_\_\_

THE CITY OF SEATTLE

BY: \_\_\_\_\_  
General Manager, Seattle Public Utilities

DATE: \_\_\_\_\_

AUTHORIZING LEGISLATION:

ORDINANCE No.

## **LIST OF EXHIBITS**

- I. Purchase Commitment & Emergency, Independent and Purchased Supplies**
- II. Service Connections, Minimum Hydraulic Gradients, and Flow Rates of Water Supplied**
- III. Demand Charge Methodology**
- IV. Operating Board Structure**
- V. Facilities Charges**
- VI. Regional Facilities**
- VII. Subregional Facilities**
- VIII. Index O&M Cost Categories**
- IX. Stranded and Avoided Costs**

## EXHIBIT I

### PURCHASE COMMITMENT & EMERGENCY, INDEPENDENT AND PURCHASED SUPPLIES

City of Duvall Purchase Commitment is its **Full Water Requirements**.

City of Duvall is not served by a **Subregion**

City of Duvall represents that it has access to the following **Alternate Supplies**:

#### I. EMERGENCY SUPPLIES

##### A. Purchased Supplies/Interties:

WATER UTILITY	LOCATION OF INTERTIE	METER SIZE	CAPACITY	TYPE OF SERVICE	AGREEMENT DATE	WATER SUPPLY To / From

##### B. Independent Supplies/Wells (No Facilities Charge Allowance):

SOURCE NAME	LOCATION	CATEGORY (GW / SW*)	PERMIT or CLAIM #	AMOUNT OF WATER RIGHT	AVERAGE ANNUAL PRODUCTION
Taylor Landing	16201 Main St. NE	GW Non-Potable Use only	674D	35 acre-feet	65 gpm

**II. INDEPENDENT SUPPLIES (Continuous Use)**

SOURCE NAME	LOCATION	CATEGORY (GW / SW)	PERMIT or CLAIM #	AMOUNT OF WATER RIGHT	AVERAGE ANNUAL PRODUCTION	FACILITY CHARGE ALLOWANCE

1. Water Utility shall use its best efforts to maintain and operate the Independent Supplies listed above, if any, in order to maintain the listed average annual production for each Independent Supply.
2. 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 Supply at its listed average annual production. Such written notice shall describe the new level of average annual production expected for Independent Supply. Seattle may decrease the FC Allowance under Section IV.D.2.c. The parties will revise this Section II of Exhibit I by letter agreement to reflect the new average annual production or decreased FC Allowance.
3. Water Utility shall use its best efforts to cure any temporary interruption of water supply from an Independent Supply. Water Utility shall provide oral notice to Seattle of any interruption lasting longer than 1 week and 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 Supply on the Seattle Regional Water Supply System by utilizing its other Independent Supplies, if any, unaffected by the interruption within their operating and maintenance constraints.
4. It is the intent of the parties that the listed average annual production fairly represents the average annual production of the Independent Supplies. In the event that, over a 5 year period, (i) the actual average annual production, as may be adjusted to reflect a reasonably unforeseeable interruption in the Independent Supplies that lasts a substantial amount of time and is cured within a reasonable time, is consistently less than represented, and (ii) the annual deliveries of water to Water Utility by Seattle are consistently increasing, the listed average annual production shall be revised by letter agreement to reflect the reduction. Seattle may also decrease the FC Allowance under Section IV.D.2.c, which decrease shall also be revised in the letter agreement.
5. Water Utility shall provide Seattle with six months' written notice before placing any new or improved Independent Supply into production and the parties will revise this Section II of Exhibit I to reflect the new or improved Independent Supply and new or increased average annual production capacity. This condition is independent of and in addition to any other applicable provisions in the Contract relating to adding a new or improved Independent Supply (e.g. Sections II.B.5, reducing Purchase Commitment and II.D.9, Water Quality provisions for introducing new Alternate Supply).
6. Water Utility shall maintain records of the monthly production of each Independent Supply in a manner consistent with industry standards.

**III. PURCHASED SUPPLIES (Continuous Use)**

NAME	LOCATION	METER SIZE	AMOUNT	CONDITIONS ON USE	DATE RECEIVED REQUEST	EFFECTIVE DATE	EXPIRATION DATE	FACILITIES CHARGE ALLOWANCE

1. Water Utility shall use its best efforts to maintain use of Purchased Supplies listed above, if any, in order to maintain the listed average annual production for each Purchased Supply.
2. Water Utility shall provide written notice to Seattle within thirty days of determining that it is not possible or not cost effective to maintain use of Purchased Supply at its listed average annual production. Such written notice shall describe the new level of average annual production expected for Purchased Supply. Seattle may decrease the FC Allowance under Section IV.D.2.c. The parties will revise this Section III of Exhibit I by letter agreement to reflect the new average annual production or decreased FC Allowance.
3. Water Utility shall use its best efforts to cure any temporary interruption of water supply from a Purchased Supply. Water Utility shall provide oral notice to Seattle of any interruption lasting longer than 1 week and 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 a Purchased Supply on the Seattle Regional Water Supply System by utilizing its other Purchased Supply Sources unaffected by the interruption within their operating and maintenance constraints.
4. It is the intent of the parties that the listed amount fairly represents the average annual amount of the Purchased Supplies. In the event that, over a 5 year period, (i) the actual average annual amount, as may be adjusted to reflect a reasonably unforeseeable interruption in the Purchased Supplies that lasts a substantial amount of time and is cured within a reasonable time, is consistently less than represented, and (ii) the annual deliveries of water to Water Utility by Seattle are consistently increasing, the listed average annual production shall be revised by letter agreement to reflect the reduction. Seattle may also decrease the FC Allowance under Section IV.D.2.c, which decrease shall also be revised in the letter agreement.
5. Water Utility shall provide Seattle with six months' written notice before placing any new or improved Purchased Supply into production and the parties will revise this Section III of Exhibit I to reflect the new or improved Purchased Supply and new or increased amount. This condition is independent of and in addition to any other applicable provisions in the Contract relating to adding a new or improved Purchased Supply (e.g. Sections II.B.5, reducing Purchase Commitment and II.D.9, Water Quality provisions for introducing new Alternate Supply).
6. Water Utility shall maintain records of the monthly amount of each Purchased Supply in a manner consistent with industry standards.

**IV. REDUCTONS IN PURCHASE COMMITMENTS – STRANDED COST**

NAME	REDUCTION NOTICE RECEIVED	AMOUNT OF REDUCTION	AUTOMATICALLY ALLOWED REDUCTIONS IN II.B.5.d.viii	REDUCTION NOTICES RECEIVED AFTER EFFECTIVE DATE	STRANDED COST

**V. APPROVED RESALE OF SEATTLE WATER**

NAME	LOCATION	METER SIZE	AMOUNT	CONDITIONS ON USE	EFFECTIVE DATE	EXPIRATION DATE
Water District 119	Near intersection of Big Rock Rd & Tolt River Pipeline	NA	Continuous	Water supply to 5 (max 10) properties within Water District 119 water service territory*	January 1988	Reviewed biannually
*See Section VI. - Agreement to Provide Water Service & Amending Water Planning Boundaries and Service Area – City of Duvall and Water District 119						

**VI. WATER SUPPLY CONTRACTS OR AGREEMENTS WITH OTHER WATER UTILITIES**

- Agreement to Provide Water Service & Amending Water Planning Boundaries and Service Area – City of Duvall and Water District 119. Water District 119 requests water service from the City of Duvall so as to provide water service to five (5-10 max) properties within Water District 119 service area boundary.

## EXHIBIT II

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

SERVICE CONNECTION <sup>(1)</sup>				MINIMUM HYDRAULIC GRADIENT FOR PLANNING PURPOSES AT STATION UPSTREAM OF METER (FEET NAVD-88 Datum)	FLOW RATE UP TO WHICH THE MINIMUM HYDRAULIC GRADIENT APPLIES (gpm) <sup>(3)(4)</sup>
LOCATION	STATION NUMBER <sup>(2)</sup>	PIPELINE SEGMENT NUMBER <sup>(2)</sup>	SIZE OF METER (IN.)		
Tolt Pipeline near Pipeline Station 714 (275 <sup>th</sup> Ave NE)	111	23	4	640	backup
Tolt Pipeline & Big Rock Road NE	112	23	6	645	1,800
				Total	1,800

**Notes:**

- (1) Water is provided to Service Connections at a Wholesale Level of Service.
- (2) Station and Pipeline Segment Numbers are for information purposes and pertain to cost allocations and the demand metering program.
- (3) The Total is based on City of Seattle's estimate of Water Utility's average daily demand for 2040 multiplied by a peaking factor of 2.0 for peak day use. Seattle and Water Utility agreed to the allocations of the Total to each Service Connection.
- (4) Pursuant to Section III.A of the Contract, Water Utility may use all or some of the flows rates allocated to each Service Connection on any other Service Connection that is located on the same Pipeline Segment Number, but in that case the minimum hydraulic gradients are not guaranteed.

## EXHIBIT III

### DEMAND CHARGE METHODOLOGY

In order to meet the conditions of service in Section III and Exhibit II of the Contract, each Wholesale Customer has to construct adequate storage volume within their individual retail distribution system to avoid excessive peak flow withdrawals at the Service Connection and potential adverse impacts to the Seattle Regional Water Supply System or other Wholesale Customers.

When Seattle has determined to implement demand charges for any period, Water Utility shall be subject to a demand charge if its average peak hourly flow rate from its 10 highest daily flow days exceeds its average daily flow rate from the same 10 days by more than 30% as more particularly described below.

The demand charge and method of application shall be as follows:

1. At Water Utility's cost, Seattle shall install metering devices that record hourly water deliveries at Service Connections. All other costs Seattle incurs to implement demand charges shall be allocated to the Existing Regional System Cost Pool; or New Transmission Cost Pool, upon approval by the Operating Board.
2. There shall be no requirement for Seattle to install demand-metering equipment or monitor water deliveries at all Service Connections for the purposes of implementing demand charges. Seattle, in its discretion, may choose to monitor water deliveries at all Service Connections, or the Service Connections of one or more Wholesale Customers based on considerations such as hydraulic capacity or other operational constraints in the Seattle Regional Water Supply System may be occurring.
3. When calculating Water Utility's deficient storage and whether demand charges apply:
  - a. Seattle may consider Service Connections to Water Utility on the same pipeline segment, or Service Connections that are on the same pipeline segment and subject to a joint operating agreement between Water Utility and another Wholesale Customer, as 1 Service Connection; and
  - b. A "Day" commences at 9:00 a.m. and ends at 9:00 a.m. the following calendar day.
  - c. The "Monitoring Period" will generally consist of the summer months of June, July, and August. However, if peak flow rates create adverse hydraulic or other operating conditions at other times, Seattle, in consultation with the Operating Board, may establish a different Monitoring Period.
4. For each Service Connection, Seattle will determine the ten Days within the Monitoring Period with the highest daily volume of water delivered.

5. For each of those ten Days, Seattle will determine the “Demand Factor” for each Service Connection by dividing the peak hourly flow rate by the average flow rate for the same Day expressed in gallons per hour.
6. Seattle will average: a) the Demand Factors for the ten Days to get an “Average Demand Factor” and b) the daily volume for the same ten Days to get an “Average Daily Quantity” of water in gallons for each Service Connection.
7. If Water Utility’s Average Demand Factor exceeds 1.30 at any Service Connection(s), Water Utility will be subject to a demand charge.
8. If Water Utility is subject to a demand charge, Seattle will determine Water Utility’s deficient storage volume at each Service Connection where the Average Demand Factor exceeds 1.3 using the following formula:  $S = (F-1) Q$ : where S = deficient storage volume in gallons, F = Average Demand Factor and Q = Average Daily Quantity.
9. Seattle shall establish a Storage Deficiency Rate each rate study that is based on Seattle’s most recent actual cost to construct a reservoir, inflated to the most recent year that the Engineering News Record “ENR” index or equivalent inflation data is available. The Storage Deficiency Rate is the flat debt service payment required to finance the storage facility over 30 years at Seattle’s Average Cost of Debt at the time of each rate study, prorated for 1,000 gallons of storage.

Example:

<u>Annual debt service cost of new reservoir at Average Cost of Debt</u>		
Actual cost of new reservoir in 2012	\$	60,000,000
ENR Index in 2012		100.00
ENR Index in 2019		125.00
Increase in Index		1.25
Cost of new reservoir inflated to 2019	\$	75,000,000
Term of Debt	30	Years
Seattle Average Cost of Debt in 2020	4.15%	
Annual Cost	\$	4,416,596
Volume of new reservoir	61,000,000	Gallons
Annual Debt Service per 1,000 Gallons	\$	72
Storage Deficiency Rate	\$	72

10. At each Service Connection subject to the demand charge, the demand charge shall be calculated as S/1000 times the Storage Deficiency Rate. The total demand charge for Water Utility shall be the sum of the demand charges for each Service Connection. The demand charge shall be due by March 31 the following calendar year, or Water Utility may request a payment agreement pursuant to Section VII of the Contract.

11. Peak flows caused by emergencies in the Seattle Regional Water Supply System or Water Utility's retail distribution system during any Monitoring Period will be excluded in determining the demand charge. Peak flows caused by other unusual situations may also be excluded at Seattle's sole discretion. Seattle may request documentation of any emergency or other situation from Water Utility to support a determination to exclude certain flows from demand charges during a Monitoring Period.
12. At Seattle sole discretion, Seattle may disallow daily flow rates which differ substantially from customer's daily consumption patterns in calculating the demand charge.
13. In case of malfunction of metering equipment during certain period causing loss of data, Seattle shall use the remaining data to determine the demand charge, if any.

## 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, not 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. Except for SPU members, 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 the First Amended and Restated Contract for the Supply of Water, mutually agreed to pursuant to Section II.A.4.a. 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. Only Wholesale customers demonstrating their commitment to the region by agreeing to limits on purchase reductions contained in Section II.B.5 shall be eligible to be elected as a member of the Operating Board.
- 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:

- a. The Chairperson shall be selected at the first regularly scheduled meeting of each new year.
  - b. All Chairpersons shall be selected by the Board using a nomination and voting process.
  - c. 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, Seattle shall designate one of the SPU members to be the Acting Chairperson until such time as the Board elects a Chairperson.
  - d. The Chairperson shall have the responsibility to call meetings, determine the agenda and preside over meetings. In the absence of the Chairperson, for whatever reason, Seattle shall designate one of the SPU members to 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 then current Seattle City Council's Committee that considers matters related to Seattle Public Utilities.
4. Schedule/Procedures/Bylaws. The Board shall adopt a regular meeting schedule and notify all Wholesale Customers of the schedule. The Operating Board may adopt its own internal procedures and Bylaws. 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, SPU and to the appropriate Seattle City Council Committee, on its decisions and recommendations in a timely manner.
  6. Responsibilities and Authority of the Board. The Operating Board shall have only those powers and authorities specifically and explicitly established by the clear terms of this Contract.
  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 New Supply Cost Pools.

# EXHIBIT V

## FACILITIES CHARGES

### A. Methodology to Calculate ERU Charges

The ERU Charge is:

- the flat annual debt service payment required to finance the New Supply or New Transmission Facility for the lesser of (i) the facility life or (ii) the period over which new demand is projected to fully utilize the facility's projected supply or transmission capacity
- divided by -
- the average annual number of new ERUs of demand expected in each year.

Seattle's Average Cost of Debt at the time the facility is put into service shall be used to determine the flat debt service payment above. In the event that several New Supply or New Transmission Facilities are put into service simultaneously, the facilities may be considered together as providing a total new supply or new transmission capacity for a total construction cost.

Example: A New Supply Facility costing \$100 million is built with a projected total capacity of 100,000 ERUs and a 50-year facility life. Growth of 5,000 ERUs per year is projected over the next 20 years, so the facility is projected to be supplying its full capacity in 20 years. If this facility were financed over 20 years at Seattle's Average Cost of Debt of 6% interest, the flat annual debt service payment would be \$8.7 million and the ERU Charge would be \$1,740 ( $8,700,000/5,000$ ).

At the time a subsequent New Supply or New Transmission Facility is put into service, but the capacity of a prior New Supply Facility has not yet been fully utilized, an ERU Charge for the subsequent facility shall be calculated separately according to the formula above, then averaged with the then-current ERU Charge from the prior facility. This average shall be weighted by the remaining number of ERUs at the then-current ERU Charge and the number of new ERUs being added at the new ERU Charge. This weighted average shall be the new ERU Charge, and the number of ERUs available at that weighted ERU Charge shall be the sum of the remaining ERUs for the prior facility plus the number of new ERUs for the subsequent facility.

Example: 10 years ago, a \$100 million New Supply Facility was constructed that can supply 100,000 ERUs. 50,000 ERUs remain at the ERU Charge of \$1,740. This year, we construct a New Supply Facility costing \$70 million and a 50-year facility life, with a projected capacity of 40,000 ERUs that is projected to be fully utilized in 10 years. The ERU Charge of the subsequent New Supply Facility alone using the formula above is \$2,375. The weighted average ERU Charge for any of the 90,000 available ERUs is \$2,022 ( $50,000 * \$1,740 + 40,000 * \$2,375 / 90,000$ ).

## B. ERU Factors by Connection Size

Connection Size	ERU Factors
1" and smaller	1.12
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 retail water service connection used to serve a retail customer depends upon both the total demand and the instantaneous flow required by that retail customer. For this reason, connection size is only a general indicator of the annual demand placed on water supplies by any particular retail customer.

# EXHIBIT VI

## REGIONAL FACILITIES

### I. Existing Regional Facilities

#### 1. Cedar Source

- All roads, buildings, structures, water supply facilities, other equipment and infrastructure, recreational and educational facilities, downstream habitat enhancement, fisheries enhancement and mitigation facilities located within or close to the Cedar River Hydrographic Watershed boundary as defined by Seattle land ownership or other contractual rights, including the land itself, and any capitalized or amortized studies or obligations 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 roads, buildings, structures, water supply facilities, and other equipment and infrastructure located within the Lake Youngs Reservation as defined by Seattle ownership of the land, including the land itself and any capitalized or amortized studies or obligations related to the above.
- All facilities, structures, and other equipment and infrastructure located within the Lake Youngs Aqueduct, the Landsburg Tunnel, and the Lake Youngs Supply Lines right-of-way, including the right-of-way itself.

#### 2. Tolt Source

- All roads, buildings, structures, water supply facilities, other equipment and infrastructure, recreational and educational facilities, downstream habitat enhancement, fisheries enhancement and mitigation facilities located within or close to the South Fork Tolt River Hydrographic Watershed boundary as defined by Seattle land ownership or other contractual rights, including the land itself, and any capitalized or amortized studies or obligations 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 Pipeline No. 1, from the Tolt Regulating Basin to the outlet of the Tolt Treatment Facility, including any transfer and ancillary small diameter parallel pipes.
- Tolt Pipeline No. 2, from the Tolt Regulating Basin to the inlet of the Tolt Treatment Facility, including any transfer and ancillary small diameter parallel pipes, and including the connection to Tolt Pipeline No. 1 (a.k.a. TPL2 Phase 6b).
- Tolt Treatment Facility, including its outlet line up to the connection to Tolt Pipeline No. 1.

#### 3. Seattle Wellfields (formerly known as Highline Wells)

- 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.
- Any facilities related to operation of the Seattle Wellfields, such as for streamflow augmentation or mitigation.

#### **4. Other**

- GIS Projects related to facilities identified herein as part of the Seattle Regional Water Supply System.
- Hardware and Software projects related to facilities identified herein as part of the Seattle Regional Water Supply System.

#### **5. Pipelines**

- Tolt Pipeline No. 1, from the outlet pipeline of the Tolt Treatment Facility to Lake Forest Reservoir, including any transfer and ancillary small diameter parallel pipes.
- Tolt Pipeline No. 2, where constructed, west of the outlet of the Tolt Treatment Facility (a.k.a TPL2 Phases 1, 2, 3, and 4), including any transfer and ancillary small diameter parallel pipes.
- Tolt Tieline.
- Tolt Eastside Supply Line (from TESS Junction to the intersection of SE 16th Street and 145th Place SE).
- Tolt Eastside Line Extension (from the intersection of SE 16th Street and 145th Place SE to Eastside Reservoir).
- The 550 head Pipeline from Maple Leaf Reservoir to Lake Forest Reservoir, sections of which also known as “The Haller Lake Pipeline”, and “The 195th Street Pipeline”.
- Lake Youngs Bypass No. 4 from the outlet of each of the Cedar Treatment Facility clearwells to Control Works, including Flow Control Facility 4.
- Lake Youngs Bypass No. 5 from the outlet of each of the Cedar Treatment Facility clearwells to the Lake Youngs Tunnel, including Flow Control Facility 5.
- 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 (CRPL1) from Control Works to the 24-inch remote controlled valve (a.k.a. “The CRPL1 to CRPL2 Valve” in the vicinity and east of Beacon Reservoir (primarily 66-inch pipeline).
- The primarily 54-inch Pipeline known as “The Old Cedar River Pipeline No. 2”, from the 24-inch remote controlled valve (a.k.a. “The CRPL1 to CRPL2 Valve”) in the vicinity of Beacon Reservoir to the intersection of 18th Avenue E and E Prospect Street.
- Cedar River Pipeline No. 2 (CRPL2) from Control Works to the 20-inch butterfly valve (a.k.a. “The CRPL2 to CRPL1 Valve”) in the vicinity and east of Beacon Reservoir (primarily 54-inch pipeline).
- The primarily 42-inch pipeline known as “The Old Cedar River Pipeline No. 1”, from the 20-inch butterfly valve (a.k.a. “The CRPL2 to CRPL1 Valve”) in the vicinity and east of Beacon Reservoir to the intersection of 12th Avenue and E Olive Street.
- The short pipeline sections of various diameters in the vicinity and east of Beacon Reservoir

connecting CRPL1, CRPL2, Old CRPL1 and Old CRPL2.

- Cedar River Pipeline No. 3 from Control Works to the intersection of 18th Avenue E. and E. Prospect Street (primarily 66-inch).
- 30” intertie pipeline between “The Old CRPL1” and CRPL3 in E Olive Street, from 12th Avenue to 18th Avenue.
- The interconnections between the Maple Leaf Pipeline, Cedar River Pipeline No. 3, and the Old Cedar River Pipeline No. 2 in the vicinity of the intersection of 18th Avenue E and E Prospect Street.
- Cedar River Pipeline No. 4 from Control Works to the West Seattle Pipeline.
- West Seattle Pipeline from Augusta Gatehouse to Cedar River Pipeline 4.
- The interconnections between the Cedar River Pipelines 1, 2, and 3 in the vicinity of 51st Avenue S and S Leo Street.
- Cedar Eastside Supply Line (from the Cedar Wye to the intersection of SE 16th Street and 145th Place SE).
- 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.

## **6. Reservoirs**

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

## **7. Pump Stations**

Pump Stations, Major Valve Structures, and other transmission 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
  - Duvall Shops
8. Service Connections to Wholesale Customers installed before January 1, 2002, and Service Connections assigned to the Existing Regional System Cost Pool pursuant to Section III.E.1., are part of the Existing Regional Facilities. Unless otherwise identified as regional, Service Connections to Wholesale Customers installed after December 31, 2001 shall not be considered Existing Regional Facilities.
9. The Existing Regional Facilities include all necessary and convenient appurtenances, including, but not limited to, rights of way, land ownership or contractual rights to use, e.g. easements, security infrastructure, dewatering facilities, line valves, system meters, and remote automation devices.

## **II. New Supply Facilities**

1. Regional Water Conservation Program. The capitalized or deferred cost of the Regional Water Conservation Program, which generally consists of rebate programs for customers to upgrade fixtures or equipment to more efficient models

## **III. New Transmission Facilities**

[Reserved.]

## EXHIBIT VII

### SUBREGIONAL FACILITIES AND ALLOCATIONS

#### I. Eastern Subregion

##### A. List of Eastern Subregional Facilities

###### SEGMENT 1

(Cascade, Mercer Island, and Seattle)

1. The portion of the of the original Mercer Island Pipeline from the tee off the Cedar Eastside Supply Line in Factoria Boulevard SE to the west flange of the main line tee at the east end of the 16-inch Mercer Slough Bridge Pipeline (30-inch).

###### SEGMENT 2

(Cascade, Mercer Island, and Seattle)

1. The portion of the of the original Mercer Island Pipeline from the west flange of the main line tee at the east end of the 16-inch Mercer Slough Bridge Pipeline to the west flange of the 20-inch valve west of the wye to the East Channel Bridge Pipeline (30-inch).
2. The entire 16-inch Mercer Slough Bridge Pipeline (16-inch).
3. The portion of the East Channel Bridge 16-inch Pipeline, from the wye off item 1 of Segment 2 above to the north flange of the 16-inch line valve, including the valve bypass line.

###### SEGMENT 3

(Mercer Island and Seattle)

1. The portion of the original Mercer Island Pipeline from the west flange of the 20-inch valve west of the Enatai service to Bellevue to the west flange of the tee for the Shorewood Apartments service on Mercer Island (20-inch across the East Channel, 24inch on Mercer Island).
2. The 16-inch East Channel Bridge Pipeline, except for the portion listed as item 3 of Segment 2 above.

###### SEGMENT 4

(Mercer Island only)

1. The portion of the original Mercer Island Pipeline from the west flange of the tee for the Shorewood Apartments service on Mercer Island to the west end of the original Mercer Island pipeline near SE 43rd Street & 89th Ave SE on Mercer Island (24-inch).

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

## **B. Allocation of Costs in the Eastern Subregional Cost Pool**

In each year, the costs of each Eastside Subregional Facility shall be allocated by the segments identified in Section I.A above based on Peak 7 Day flows through each segment. In the event that Peak 7 Day flow data is not available, Peak Month flows may be substituted. The annual cost of each segment is adjusted by the annual utility basis cost of the following initial amounts, amortized over 50 years starting in 1998.

Segment 1:	\$73,157.01 increase
Segment 2:	\$1,296,845.17 decrease
Segment 3:	\$136,782.17 increase
Segment 4:	\$72,442.13 increase

Seattle shall establish a common rate for each Eastside Subregional segment that recovers the costs allocated to that segment plus any costs allocated from preceding segments to downstream segments based on the flow data used. Wholesale Customers served by Eastern Subregional Facilities as may be identified in Exhibit I will pay the applicable segment rates for every unit of water delivered to the Service Connection(s), or in Seattle's case to the retail connection, on the identified segment, e.g. Service Connections on Segment 3 would pay the rate for Segment 3, which rate would recover costs allocated from Segments 1, 2 and 3.

Seattle will track running balances and actual costs and actual revenues for each segment within the Eastside Subregional Cost Pool and shall true up each segment in a manner consistent with Section IV.H, except that Seattle may adjust the running balances between Segments 3 and 4 for a Wholesale Customer served by both Segments as follows:

Seattle will track the portion of surplus or deficit balance created by each Wholesale Customer, including Seattle, in Segment 3 based on the percentage of revenues paid by each. If there is a surplus balance for Segment 3, Seattle may transfer all or a portion of the surplus created by the Wholesale Customer served by both Segments to reduce a running deficit balance for Segment 4 and credit Seattle for a proportionate share of the Segment 3 surplus. If there is a surplus balance for Segment 4, Seattle may transfer all or a portion of the surplus in Segment 4 to reduce the portion of a running deficit balance in Segment 3 created by the Wholesale Customer served by both Segments and charge Seattle for a proportionate share of the Segment 3 deficit balance.

## **II. Southwestern Subregion**

### **A. List of Southwest Subregion Transmission Facilities**

#### **585 ZONE FACILITIES**

##### Pipelines

1. The discharge pipeline of Burien Pump Station, from the pump station to Ambaum Boulevard SW.

2. The pipeline in 8 Ave SW from SW Kenyon Street to SW 108 Street.
3. The discharge pipeline of Highland Park Pump Station to SW 108th Street.
4. The 585 Pipeline in SW 108th Street between 4th Avenue SW and 12th Avenue SW.
5. The 585 head Pipeline in 4th Avenue SW between SW 108th Street and SW 146th Street.
6. The 585 Pipeline in 12th Avenue SW and Ambaum Boulevard SW between SW 108th Street and SW 146th Street.
7. The 585 Pipeline in Ambaum Boulevard SW between SW 146th Street and SW 149th Street.
8. The 585 pipeline in SW 149th Street between Ambaum Boulevard SW and 14th Avenue SW.
9. The 585 pipeline in 12 Ave SW from SW 108 Street to SW 106 Street.
10. The discharge of the Trenton Turbines pump station within the West Seattle Reservoir property, and up to SW Cloverdale Street.
11. The 585 pipeline in 5 Ave SW from SW Cloverdale Street to SW Kenyon Street.
12. The 585 pipeline in SW Kenyon Street from 5 Ave SW to 8 Ave SW.
13. The 585 pipeline in SW Kenyon Street from 8 Ave SW to 35 Ave SW.
14. The 585 pipeline in 35 Ave SW from SW Kenyon Street to SW Myrtle Street.
15. The 585 pipeline in SW Myrtle Street from 35 Ave SW to Myrtle Tanks.

#### Pump Stations

1. Burien Pump Station, including its suction line from the 24-inch tee to the pump station.
2. Highland Park Pump Station, including its suction line from the tee off the 42-inch West Seattle Reservoir inlet-outlet line to the pump station.
3. Trenton Turbines Pump Station, including the suction/supply line from the pump station to the 36x36x20 tee.

#### Tanks

1. Beverly Park Tank, and all associated appurtenances and connections to the 585 zone.
2. Myrtle Tanks, and all associated appurtenances and connections to the 585 zone.

### **WEST SEATTLE RESERVOIR FACILITIES**

1. The reservoir Gate House, except for the West Seattle Low Service Pump Station.
2. All reservoir appurtenances, including but not limited to the reservoir drain, washout, and overflow pipelines.
3. The reservoir bypass from the tee off the West Seattle Pipeline to the reservoir easterly outlet pipeline.

**WEST SEATTLE PIPELINE FACILITY**

From the connection to Cedar River Pipeline No. 4 to the West Seattle Reservoir Gate House.

**DES MOINES WAY PIPELINE FACILITIES**

1. From the connection to the Bow Lake Pipeline as relocated outside SeaTac Airport, to S 168th Street.
2. South 168 Street to the terminus of the pipeline near S 208th Street.

**MILITARY ROAD FEEDER FACILITY**

**THE EAST MARGINAL WAY FEEDER FACILITY**

From the West Seattle Pipeline to S 115 Street, including pressure reducing and pressure relief facilities from the West Seattle Pipeline to that feeder.

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

**B. Allocation of Costs in the Southwest Subregional Cost Pool.**

In each year, the cost of each Southwest Subregional Facility identified in Section II.A above shall be allocated between the Seattle Retail Distribution System and Wholesale Customers served by the Southwest Subregional Facilities as may be identified in Exhibit I as a group based on the following agreed upon allocations to the Wholesale Customers:

<u>FACILITY</u>	<u>Allocation to Wholesale Customers</u>
585 Zone	50%
West Seattle Reservoir	10%
West Seattle Pipeline	22%
Des Moines Way Pipeline	100%
Military Road Feeder	100%
East Marginal Way Feeder	100%

Wholesale Customers served by the Southwest Subregional Facilities shall pay a uniform rate to recover the costs from the Southwest Subregional Cost Pool allocated to the Wholesale Customers. This rate shall apply to every unit of water delivered to a Wholesale Customer served by Southwest Subregional Facilities without regard to the specific location at which that water was delivered. Actual costs and actual revenues for the Southwest Sub-region shall be trued up in a manner consistent with Section IV.H.

### **III. Renton Subregion**

#### **A. List of Renton Subregional Facilities**

The 12-inch pipelines, from the outlets off the CRPLs 1, 2, and 3 up to the south wall of the SPU meter vaults in Logan Avenue South.

#### **B. Allocation of Costs in the Renton Subregional Cost Pool**

In each year, the cost of all Renton Subregional Facilities shall be allocated to the Wholesale Customer(s) served by the Renton Subregional Facilities as may be identified in Exhibit 1.

The Wholesale Customer(s) served by the Renton Subregional Facilities shall pay either a rate established by Seattle or a lump sum, to recover the costs allocated to the Renton Subregional Cost Pool. The rate shall apply to every unit of water delivered to Wholesale Customer(s) served by the Renton Subregional Facilities. The parties may agree to a payment agreement for a lump sum pursuant to Section VII.A.

## EXHIBIT VIII

### INDEX O&M COST CATEGORIES

The following cost categories as may be amended further from time to time, that capture the portion of O&M Costs to support Seattle Regional Water Supply System only shall be used as the Index O&M Costs in the Existing Regional System, New Supply and New Transmission Cost Pools.

#### 1. Existing Regional System Cost Pool

- Cedar, Tolt, and Lake Youngs Watersheds, including but not limited to
  - Infrastructure and land: buildings, equipment, pipelines, security, roads, bridges, communication, IT
  - Forest management, ecological management including ecological thinning net of timber sales revenue
  - Dam safety
  - Limnology
  - Costs to comply with external requirements such as those imposed by Ecology, Tribes, FERC
  - Management of the public, Patrols, Recreation
  - Fire Protection including Wildland Fire Teams
- Transmission
  - Infrastructure and land: buildings, equipment, pipelines, security, roads, bridges, communication, IT, for the Pipelines, reservoirs, pump stations, major valve structures, and other transmission facilities as listed in Exhibit VII
  - Vegetation Management
  - Litter and vehicle removal
  - Property costs including Fire Protection, permits, easements, and franchise fees
- Treatment
  - Infrastructure and land: buildings, equipment, pipelines, security, roads, bridges, communication, IT
    - Cedar Treatment Plant
    - Tolt Filtration Facility
    - Landsburg Treatment Facility
    - Other treatment in the Seattle Regional Water Supply System
  - Water Quality Testing for tests described in Section II.D.6.
- Regional planning
  - Water rights
  - Climate as it pertains to water supply or infrastructure in the Seattle Regional Water Supply System

#### 2. New Supply Cost Pool

- The Regional Water Conservation Program
- Operating Board expenses, if allocated

3. New Transmission Cost Pool
  - [Reserved]

## **EXHIBIT IX**

### **STRANDED AND AVOIDED COSTS**

#### **1. General Provisions**

Within 30 days of receipt of a Notice to reduce or terminate Water Utility's Purchase Commitment under Section II.B.5.a, Seattle shall send a written notice to Water Utility, with a copy to the Operating Board, defining the amount of the reduction or termination that results in aggregate Water Utility reductions under this Contract that is in excess of the Water Utility's total Automatically Allowed Reduction, and providing an annual schedule of the Preliminary Net Stranded Cost, or Preliminary Net Billing Credit, if applicable, calculated pursuant to the methodology in Section 2 below using the available documented information as of the time of the Notice. If any reduction by Water Utility results in it having aggregate reductions greater than 5% of the average purchases from Seattle for the most recent five years but less than or equal to its Automatically Allowed Reduction, the Stranded Cost for the portion above 5% will be paid by Seattle, through annual Stranded Cost payments as calculated below. Note: This basis for Seattle payments will apply both to Regional Stranded Cost calculations and to Subregional Stranded Cost calculations, as further defined below.

On or before 180 days prior to the effective date of the Notice under Section II.B.5.b, Seattle shall send a written notice to Water Utility, with a copy to the Operating Board, providing a revised schedule of the Final Net Stranded Cost, or Final Net Billing Credit, if applicable, calculation pursuant to the methodology in Section 2 below using the available documented information as of 180 days prior to the effective date of the Notice under Section II.B.5.b which may reflect appropriate adjustments for changed circumstances during the Notice Period, as well as a calculation of any Stranded Cost obligation to be met by Seattle, as defined above.

The Final Net Stranded Cost, or Final Net Billing Credit, if applicable, will be the payment, or credit, if applicable, required pursuant to Section II.B.5.c. Water Utility will pay the Final Net Stranded Cost, or agree to a schedule of payments with equivalent discounted present value, or receive the Final Net Billing Credit, if applicable, on or before the effective date of the Notice under Section II.B.5.b.

If Water Utility is reducing its Purchase Commitment and will remain a Wholesale Customer, the parties may mutually agree to a payment schedule agreement to pay the Final Net Stranded Cost pursuant to Section VII.A of the Contract.

For rate smoothing or financial performance purposes, Seattle, in consultation with the Operating Board, may select which cost pool the revenues are applied to and whether or not to delay revenue recognition to future years.

In the event that Seattle acquires a new wholesale customer or a new block wholesale customer, or extends the size of the block contract to Cascade Water Alliance or other existing block wholesale

customer, these new regional sales will reduce prior demand reductions that are subject to Stranded Costs as follows: i) adjustments to prior reductions will be effective for all remaining years of the Contract, beginning with the first year of the new sales; ii) new customer sales or additional block sales amounts will be assigned to past Wholesale Customer demand reductions in order of their effective dates; iii) if the new sales amount is greater than the size of the first-in-time prior demand reduction, the remainder will be applied to the next-in-time demand reduction, and so on until either the new sales amount is exhausted or all prior reductions have been reduced to zero. In such cases, the schedule(s) of Water Utility's Annual Stranded Costs for remaining years will be reduced proportionately or entirely as the case may be, and Water Utility will pay the reduced amount from that year forward or, if it has made a prior payment in excess of its Annual Stranded Costs, it will receive a credit of equivalent present value.

## **2. Stranded and Avoided Cost Methodology**

**A. Annual Regional Stranded Costs and Annual Regional Avoided Costs:** Seattle will first calculate Annual Regional Stranded Costs, and Annual Regional Avoided Costs, if applicable, for each year beginning with the first year Water Utility's reduction or termination of its Purchase Commitment is effective through the last year of the current Contract term using the formula below. Seattle will use the most up to date and available documented information from its then current Water System Plan, or annual plans and statements including financial and accounting statements, official demand forecasts, etc. for all the projections required in the methodology i) as of the date of the Notice for the Preliminary Net Stranded Costs, or Preliminary Net Billing Credit, if applicable; and ii) as of 180 days prior to the effective date of the Notice for the Final Net Stranded Costs or Final Net Billing Credit, if applicable.

**Annual Regional Stranded Costs for Year X = [DEP + NBV\*RORI + FOC] \* Share**

where:

- **DEP** - the projected annual depreciation for the Regional Facilities as of the effective date of the Notice of the reduction or termination of Water Utility's Purchase Commitment for year X,
- **NBV** - the projected Net Book Value of the Regional Facilities as of the effective date of the Notice of the reduction or termination of Water Utility's Purchase Commitment for year X,
- **RORI** - the Rate of Return on Investment in effect at the time of the calculation (remains constant for all years),
- **FOC** - the projected fixed portion of the Annual O&M Costs for year X, calculated as the Annual O&M Costs for the first year after the Effective Date ("year 1") (i.e. Annual O&M Costs in year 1 \* 90% , which represents a deduction of an agreed upon amount for variable operations costs that are reduced in proportion to Water Utility's reduction or termination and therefore not included as Stranded Costs in the methodology), and escalated at 2.5% per year for each of the remaining years' calculations through year X.
- **Share** - the amount of Water Utility's reduction or termination in excess of its Automatically Allowed Reduction, divided by the projected total Wholesale Customer demand for year X, multiplied by the total Wholesale Customer share of revenue requirements for year X (i.e. (Firm yield – block contract demand)/Firm yield). For this calculation, block demand priced at Wholesale Customer rates shall be considered Wholesale Customer demand.

**Annual Regional Avoided Costs for Year X = [DSN + NOC] \* NSS**

where:

**DSN** - The projected annual debt service payment for year X of 30-year debt at the then current Seattle Average Cost of Debt to finance the full cost of any New Supply Facility deferred by the reduction or termination, based on the then most current Seattle Water System Plan,

**NOC** – The projected operations cost for year X for the SPU New Supply Facility, escalated at 2.5% per year from the first year through the end of the contract period, and

**NSS** - The New Supply Share, defined as the ratio of the Water Utility's reduction in demand divided by the projected design capacity of the deferred New Supply Facility, as measured by average daily demand (ADD).

**B. Annual Subregional Stranded Costs:** If Water Utility is served by Subregional Facilities, Seattle will calculate Annual Subregional Stranded Costs for each year beginning with the first year

Water Utility's reduction or termination of its Purchase Commitment is effective through the last year of the Contract term using the formula below.

**Annual Subregional Stranded Costs for Year X = [SRDEP + SRNBV\*RORI + SRFOC] \* SRShare**

where:

- **SRDEP** - the projected annual depreciation for the Subregional Facilities for year X
- **SRNBV** - the projected Net Book Value of the Subregional Facilities for year X,
- **RORI** - the Rate of Return on Investment in effect at the time of the calculation (remains constant for all years),
- **SRFOC** - the projected fixed portion of the Annual O&M Costs for year X, calculated as the Annual O&M Costs for the first year after the Effective Date ("year 1") (i.e. Annual O&M Costs in year 1 \* 90% , which represents a deduction of an agreed upon amount for variable operations costs that are reduced in proportion to Water Utility's reduction or termination and therefore not included in the methodology), and escalated at 2.5% per year for each of the remaining years' calculations through year X.
- **SRShare** - the amount of Water Utility's reduction or termination divided by the projected total Subregional demand for year X in the relevant subregion.

**C. Totaling the Stranded Costs or Avoided Costs for all years:** Seattle will then calculate the Net Stranded Costs or Net Billing Credit, if applicable, as follows by discounting each year of Annual Regional Stranded Costs and Annual Regional Avoided Costs (except year 1) and Annual Subregional Stranded Costs (if any, and except year 1) to its present value and then adding the first year and each of the discounted remaining years of the Annual Regional Stranded Costs; and subtracting first year and each of the discounted remaining years of the Annual Avoided Costs, if applicable; and adding the first year and each of the discounted remaining years of the Annual Subregional Stranded Costs, if any. If the difference is positive, a total Final Net Stranded Cost Payment is due from Water Utility and will reflect any applicable offset from Annual Avoided Costs. If the difference is negative, a total Final Net Billing Credit will be due from Seattle to Water Utility.

**Net Stranded Cost (or Net Billing Credit if negative) =**

**Annual Regional Stranded Cost(1) – Annual Regional Avoided Cost(1) + Annual Subregional Stranded Cost(1) +**

**[Annual Regional Stranded Cost (2) – Annual Regional Avoided Cost (2)+ Annual Subregional Stranded cost (2)]\*Discount Factor(2) +**

**...calculated for each year from 3 to n (see Illustrative Example of Annual Stranded & Avoided Cost Calculation)... +**

**[Annual Regional Stranded Cost(n) -Annual Regional Avoided Cost(n) + Annual Stranded Subregional Cost(n), if applicable]\*Discount Factor(n)**

where:

- Annual Regional Stranded Cost(1) – the Annual Regional Stranded Cost in the first year the reduction or termination is in effect,
- Annual Regional Avoided Cost(1) – the Annual Avoided Cost in the first year the reduction or termination is in effect,
- Annual Subregional Stranded Cost(1) – the Annual Subregional Stranded Cost in the first year the reduction or termination is in effect,
- Annual Regional Stranded Cost(2) - the Annual Regional Stranded Cost in the second year the reduction or termination is in effect,
- Annual Regional Avoided Cost(2) – the Annual Avoided Cost in the second year the reduction or termination is in effect,
- Annual Subregional Stranded Cost(2) – the Annual Subregional Stranded Cost in the second year the reduction or termination is in effect,
- Discount Factor(2) - the factor for discounting costs in the second year by one year, deemed to be the Annual O&M Cost escalation plus 2.5%.
- Annual Regional Stranded Cost(n) - the Annual Regional Stranded Cost in the last year of the Contract term, deemed to be the Annual O&M Cost escalation plus 2.5%,
- Annual Regional Avoided Cost(n) - the Avoided Cost in the last year of the Contract term,
- Annual Subregional Stranded Cost(n) - the Annual Subregional Stranded Cost in the last year of the Contract term, and
- Discount Factor(n) is the multiplied factor for discounting costs in the last year of the Contract term back to the first year the reduction is in effect, deemed to be the Annual O&M Cost escalation plus 2.5% per year, with the calculation including each of the years of the Contract term.

<b>Illustrative Example of Annual Stranded &amp; Avoided Cost Calculation: Reduction of 1.0 mgd (Million Gallons/Day) of Demand, not in a Subregion</b>		
<b>Annual Cost for 1 Year (2030)</b>		
Projected Annual Depreciation	\$22 M	
Projected Net Book Value	\$400 M	
RORI	6.0%	
Total Annual Capital Costs	$\$22\text{ M} + (\$400\text{ M} * 6\%) = \$46\text{ M}$	\$46 M
Projected Annual O&M Cost in Year 1	\$60 M	
Projected Fixed Operations Costs (FOC) in Year 1	$\$60\text{ M} * .90$	\$54 M <sup>1</sup>
Total Annual Regional System Cost	$\$46\text{ M} + \$54\text{ M} = \$100\text{ M}$	<b>\$100 M</b>
<b>Share of Annual Cost Associated with Reduction</b>		
Regional System Firm Yield	172 mgd	
Block Contracts Portion of Firm Yield <sup>2</sup>	34.4 mgd	
Wholesale Customer plus Cascade Supplemental Block Share of Annual Revenue Requirements <sup>3</sup>	$(172 - 34.4)/172\text{ mgd} = \mathbf{80\%}$	
Wholesale Customer Forecasted Demand plus Cascade Supplemental Block	<b>100 mgd</b>	
Water Utility's Reduction	<b>1 mgd</b>	
Water Utility's Share of Wholesale Customer plus Cascade Supplemental Block Demand associated with Reduction	$80\% * (1.0/100) = 0.80\%$	<b>0.80%</b>
<b>Annual Stranded Cost</b>		
Water Utility's Share = Annual Stranded Cost (2030)	$0.80\% * \$100\text{ M} = \$800,000$	<b>\$800,000</b>
<b>Annual Regional Avoided Cost, New Supply (beginning 2055)</b>		
New Supply Facility (2055 Cost)	\$600 M	
New Supply Facility Financing	30 years, 4% interest => \$34.7 M/yr	
New Supply Facility O&M Cost in 2055	\$8.5 M <sup>4</sup>	
New System Supply Capacity	24 mgd	
Water Utility's Avoided Supply Share ( <i>beginning in 2055</i> )	$(1.0/24.0) * (\$34.7\text{ M} + \$8.5\text{ M}) = \$1.80\text{ M}$	<b>\$1,800,000</b>

<sup>1</sup> Each Year X after Year 1, the projected FOC will be escalated at 2.5%.

<sup>2</sup> As of the Effective Date of this Contract, includes Cascade (Base Block only, not Supplemental Block) and Northshore Utility District block contract demand in each Year X at the full amount of their Blocks.

<sup>3</sup> Cascade's Supplemental Block is priced at the same regional rate paid by Wholesale Customers and is therefore included with Wholesale Customer demand at its full Supplemental Block size.

<sup>4</sup> Each Year X after 2055, the projected NOC will be escalated at 2.5%.

**Total Present Value of Annual Stranded Costs and Avoided Costs for a 1.0 mgd (Million Gallons/Day) Reduction Beginning in 2030, Reducing New Supply Needs in 2055**

<b>Year</b>	<b>Annual Stranded Cost (\$000)</b>	<b>Annual Avoided Cost (\$000)</b>	<b>Annual Net Cost or Credit</b>	<b>PV of Stranded &amp; Avoided Costs (\$000)</b>
<b>2030</b>	<b>\$800</b>	<b>\$0</b>	<b>\$800</b>	<b>\$800</b>
2031	\$796	\$0	\$796	\$758
2032	\$792	\$0	\$792	\$718
2033	\$788	\$0	\$788	\$681
2034	\$784	\$0	\$784	\$645
2035	\$780	\$0	\$780	\$611
2036	\$776	\$0	\$776	\$579
2037	\$772	\$0	\$772	\$549
2038	\$768	\$0	\$768	\$520
2039	\$764	\$0	\$764	\$492
2040	\$760	\$0	\$760	\$467
2041	\$768	\$0	\$768	\$449
2042	\$776	\$0	\$776	\$432
2043	\$784	\$0	\$784	\$416
2044	\$792	\$0	\$792	\$400
2045	\$800	\$0	\$800	\$385
2046	\$808	\$0	\$808	\$370
2047	\$816	\$0	\$816	\$356
2048	\$824	\$0	\$824	\$342
2049	\$832	\$0	\$832	\$329
2050	\$840	\$0	\$840	\$317
2051	\$850	\$0	\$850	\$305
2052	\$860	\$0	\$860	\$294
2053	\$870	\$0	\$870	\$283
2054	\$880	\$0	\$880	\$273
<b>2055</b>	\$890	<b>\$1,800</b>	<b>(\$910)</b>	<b>(\$269)</b>
2056	\$900	<b>\$1,809</b>	<b>(\$909)</b>	<b>(\$256)</b>
2057	\$910	<b>\$1,818</b>	<b>(\$908)</b>	<b>(\$243)</b>
2058	\$920	<b>\$1,827</b>	<b>(\$907)</b>	<b>(\$231)</b>
2059	\$930	<b>\$1,837</b>	<b>(\$907)</b>	<b>(\$220)</b>
2060	\$940	<b>\$1,846</b>	<b>(\$906)</b>	<b>(\$210)</b>
2061	\$950	<b>\$1,856</b>	<b>(\$906)</b>	<b>(\$200)</b>
<b>Total Net Stranded Cost</b>				<b>\$10,143</b>