

assessment may be satisfied by either paying FCs and new supply rates or arranging a special water supply rate in lieu of paying FCs.

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

IV.D. Transmission Pricing - Basic Services

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

2. Demand Charge

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

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

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

1. Accounting. Seattle shall maintain a cost accounting system consistent with the provisions of this contract and generally accepted accounting principles consistently applied in developing the financial information for determining the costs of construction, replacement, maintenance and operation of the facilities in each cost pool.
 - a. Asset Accounts. An asset account shall be maintained for each facility and within that account Seattle shall record the original cost of that facility plus betterments and less retirements.
 - b. Depreciation. Facilities shall be depreciated according to Standard Water System Asset Lives and a record of life-to-date depreciation shall be maintained for each facility. No depreciation shall be recorded in the first calendar year of operation of a facility. A full year's depreciation shall be recorded in every subsequent year.
 - c. Net Book Value. The net book value of any facility shall be its original cost plus betterments and less retirements as recorded in its facility asset account, less life-to-date depreciation.
2. Infrastructure Costs. Each cost pool shall include the infrastructure costs for its respective facilities, calculated on a utility, cash or other basis depending upon the facility and the cost pool as set forth below.
 - a. Utility Basis. The utility basis shall be used to calculate the infrastructure costs for all Existing Supply Facilities and Existing Transmission Facilities, as well as their replacements and betterments. The utility basis may also be used for new supply facilities and new transmission facilities in Seattle's discretion. Under the utility basis,

the infrastructure cost for a facility in any year shall be the sum of (i) the annual depreciation expense recorded for that facility and (ii) the product of the net book value of that facility and the Rate Of Return On Investment.

- b. At Seattle's discretion, interest costs may be considered current infrastructure costs during the construction of a facility. However, any such interest costs must be considered contributions in aid of construction, and not included in the Net Book Value of the facility for purposes of calculating Utility Basis costs in future years.
- c. Cash Basis. The cash basis may be used in Seattle's discretion for new supply facilities and new transmission facilities, or a portion thereof. Under the cash basis, the infrastructure cost for a facility in any year shall be the actual cash expenditure made by Seattle in that year for either the payment of construction costs or actual principal and interest costs on debt issued to finance its construction. In the event that the depreciation lifetime of the facility is less than the term of the debt issued to finance all or a portion of the facility, debt maturities will be selected such that the construction cost of the facility will be fully amortized at the end of its depreciation lifetime.
- d. Other Basis. Seattle, with the approval of the Operating Board may determine one or more other bases on which to calculate infrastructure costs and may apply these bases to facilities in the New Supply and New Transmission Cost Pools.
3. Operations Costs. The costs of operating the assets assigned to a cost pool shall be included in the cost pool. The annual operations costs of a cost pool shall be the labor, materials, equipment and other direct costs required for the operation and maintenance of the facilities in that cost pool, together with any net profit or expense from the disposition of facilities in that pool. Operations costs shall include the cost of general and administrative overhead applied in a manner consistent with its application to facilities construction projects.
- a. Existing Supply Operations Costs. The parties agree that an efficient way of handling operations costs for the Existing Supply Cost Pool shall be as follows: The Operations Cost base in the Existing Supply Cost Pool for the year 2001 shall be \$17,780,262.00. In each succeeding year, the amount from the previous year shall be adjusted by the percentage increase in cost in the supply cost centers identified in Exhibit IX, except that the increase in treatment operations costs caused by the first full year start-up of the Cedar Treatment Plant at Lake Youngs in or around 2005 shall not be included in the percentage adjustment. Any increase in Cedar Treatment operations costs for the first full year of operation of the plant shall instead be added directly to the Operations Cost total from the prior year as adjusted by the index. For each year after the first full year of operation, increases in Cedar Treatment operations costs shall be included in the adjustment index.
- b. Existing Transmission Operations Costs. The parties agree that an efficient way of handling operations costs for the Existing Transmission Cost Pool shall be as follows: the Operations Costs base in the Existing Transmission Cost Pool for the year 2001 shall be

- \$4,531,931.00. In each succeeding year, the amount of these costs from the previous year shall be adjusted by the percentage increase in cost in the transmission cost center identified in Exhibit IX.
- c. New Supply Operations Costs. The operation costs of the 1% Program after January 1, 2002 and the Second Supply Project, together with the costs of operating facilities assigned to the New Supply Cost Pool and any other costs approved by the Operating Board, shall be assigned to the New Supply Cost Pool. The base for operations costs for 2001 for the 1% Program shall be \$1,326,712.00. This amount shall be adjusted in each succeeding year by the percentage increase in cost in the "1% Conservation" cost center as identified in Exhibit IX.
 - d. New Transmission Operations Costs. The actual costs of operating facilities assigned to the New Transmission Cost Pool and any other costs approved by the Operating Board, shall be assigned to the New Transmission Cost Pool.
4. Disposition Costs. The costs of disposing of assets within a cost pool shall be included in the cost pool. Net disposition costs shall be calculated as follows:
- a. Disposition Under the Utility Basis. The net book value of the facility, less any sales, salvage, or other revenues derived from the disposition of that facility.
 - b. Disposition Under the Cash Basis. The value of principal of unpaid maturities of debt used to finance the construction cost of the facility, less any sales, salvage or other revenues derived from the disposition of that facility.
 - c. Disposition Under Other Basis. Disposition of any facilities whose infrastructure costs are calculated on another basis under section IVE.2.c. above shall be determined by the parties as part of the definition of such other basis.
5. Creation of Additional Cost Pools. Seattle, in its discretion, may create additional cost pools to provide equity and flexibility in payment arrangements and the allocation of costs as the Seattle Water Supply System expands to include new infrastructure and new customers. The costs in an additional cost pool, or a portion thereof, may be added to an existing cost pool subject to the consent of the Operating Board if the costs to be allocated satisfy the criteria for accounting in the existing cost pool.
6. Facilities Charge Revenues. Supply FC revenues shall offset infrastructure costs in the New Supply Cost Pool allocated to the Supply FC by the Operating Board. Surpluses and deficits in actual Supply FC revenues over cost(s) allocated to the Supply FC shall be carried forward and earn simple interest at Seattle's Average Cost of Debt. Any current-year deficit (including any surplus balance available from previous years) shall be paid by rates for the New Supply Cost Pool. New Supply Cost Pool rates shall be discounted by surplus Supply FC revenues until any deficit Supply FC balance is repaid, except the amount of this discount shall not exceed, without the agreement of the Operating Board, twice the maximum annual

deficit paid by the rate for the New Supply Cost Pool in any one year. In the event that Supply FC surplus balances exceed the Net Book Value of assets whose costs are allocated to the Supply FC, the difference between the Supply FC balance and the Net Book Value of these assets shall be used to discount the rate for the New Supply Cost Pool (and the Supply FC surplus balance shall be reduced by the amount of this discount). The use and accounting for transmission FCs shall be done in a like manner to supply FCs. Seattle and Woodinville agree that FC revenues are the sole property of Seattle.

7. Allocation of Cost Pools by Customer Class. The costs in cost pools shall be allocated within the pools as follows:

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

d. Allocation of New Transmission Cost Pool.

- i. Block Purchase Customer Class. The holders of Block Purchase Contracts shall be allocated no costs from the New Transmission Cost Pool.
- ii. Full and Partial Requirements Customer Class. The holders of Full Requirements Contracts and Partial Requirements Contracts and Seattle shall be allocated all costs in the New Supply Cost Pool.
- e. Allocation of Additional Cost Pools. The costs in any additional cost pool created by Seattle pursuant to the terms of this contract, or portion thereof, may be allocated to an existing cost pool identified above with the consent of the Operating Board.

8. Facilities Charges. If Seattle establishes FCs as authorized herein, then such charges shall be calculated as follows:

- a. ERU Definition. Seattle shall develop a definition of an Equivalent Residential Unit ("ERU") based on System-wide Average Annual Residential Use, meter size as set forth in Exhibit VI, number of residential units, water use, or other basis which shall be consistent with accepted industry standards. The Operating Board shall have the right to review and comment on the definition and Seattle shall consider the Operating Board's comments.
- b. Record-Keeping. Woodinville shall provide Seattle with an annual accounting of its water connections by January 31st of each year, which shall be accurate as of December 31st of the preceding year. Woodinville shall report the size of the meter and other pertinent data such as the number of residential units or square footage served or water use. Seattle shall provide Woodinville with an annual accounting of its retail service connections on the same basis. Upon reasonable notice, Woodinville shall make its billing and connection records available to Seattle for inspection and copying during normal business hours, and Seattle's billing and connection records shall be made available to Woodinville on the same basis.
- c. Annual Calculation of ERUs. Until such time as Seattle develops another basis, the calculation of ERUs in any year shall be the greater of:
 - i. Method One: The annual growth in the number of meters installed by Woodinville during the year taking into account the size of each meter, or
 - ii. Method Two: The annual growth in the volume of water purchased from Seattle by Woodinville divided by System-wide Average Annual Residential Use. The average annual growth shall be measured by a rolling three-year average of the most recent three years. Seattle shall adjust Woodinville's actual metered water use to reflect catastrophes (e.g. a large fire), FC Waiver Events, annexations in accordance with Section II B mandatory wheeling required in accordance with Section III C, and the

actual water production of a new or improved independent source(s) of supply until the conclusion of the Trial Period for groundwater sources of supply as identified in Section 9.d.ii.

d.I mposition of Facilities Charges. Seattle shall collect and Woodinville shall pay FCs in the following manner:

- i. Allowance for Independent Sources Resulting from Reduced Purchase Commitment. Woodinville shall have a growth allowance (the "Allowance") for the ERU's supplied by an independent source. As of the signing of this Agreement, Woodinville has no independent sources, and its Allowance shall be zero. The Allowance shall be increased in accordance with Section IV.E.8d(ii) at the time Woodinville develops a independent source of supply. The Allowance shall be a credit against growth in ERUs within Woodinville's service area, and is intended to relieve Woodinville of the burden of paying FCs for the growth served by Woodinville's independent source(s) of supply.
- ii. Increase in Allowance for New Independent Sources or Improvement of Existing Sources. Woodinville may develop and/or execute contracts that provide new or additional sources of independent supply and may make improvements to the yield of these independent sources of supply. Exhibit X shall be amended to reflect these independent sources of supply, and Woodinville shall provide Seattle with six months written notice before placing each such additional source or yield improvement into production. However, this provision shall in no way relieve Woodinville from the restrictions on reducing Woodinville's deliveries from Seattle under Section II.B.5 of this agreement. Woodinville shall maintain records of the monthly production of each independent source in a manner consistent with industry standards, and shall allow Seattle, upon reasonable notice, to examine and copy these records at their customary location during normal business hours. The Allowance shall be adjusted for each additional source which produces at least of one-third of its annual production of water during the period between mid-May and mid-September. For groundwater sources, a trial period (the "Trial Period") for an additional source shall commence on January 1st of the calendar year following the year in which that source was placed into production, and the Trial Period shall extend for three calendar years. At the conclusion of the trial period, the Allowance shall be increased by the number of ERUs served by the average annual production of the new or improved source during the Trial Period for that source, and Exhibit X shall be updated to reflect the new source and/or new production capacity. For new sources other than groundwater, there shall be no trial period, and the Allowance shall be adjusted based on reasonable estimates of the firm capacity of Woodinville's new or improved independent source.
- iii. Decrease in Allowance. In the event that the annual water supply capacity of an Independent Source, or of all Independent Sources in aggregate is found under the language of Exhibit X to be lower than the capacity provided to Seattle and listed in

Exhibit X, the Allowance shall be reduced by the number of ERUs that could be served, on an annual basis, by a supply of the same size as the reduction in capacity of the Independent Source or Sources. In the event that this adjustment results in a negative Allowance, Woodinville shall pay Seattle an amount equal to the then-current ERU Fee multiplied by the (negative) Allowance multiplied by minus one. This amount shall be paid in annual installments over a period not to exceed five years. The Allowance shall be zero upon commencement of these payments.

- iv. Monthly Payment of Facilities Charges. Woodinville shall pay FCs based on the number of ERUs added during the previous month determined by the number of meters installed. Until the Allowance is zero, the Allowance shall be reduced by one for each ERU added by Woodinville during the previous month, and such reduction of the Allowance shall be in lieu of payment of an FC for that ERU.
 - v. Facilities Charges Under Method Two. Beginning in the June billing for each year, a truing charge for any underpayment of ERUs taking into account Method Two described above shall be added to Woodinville's bill in six equal installments. Until the Allowance is zero, the Allowance shall be reduced by one for each unpaid ERU with respect to Method Two, and such reduction of the Allowance shall be in lieu of payment of an FC for that ERU.
 - vi. Seattle Report on ERUs. Seattle shall prepare and distribute a report no later than March 31st of each year showing the ERU count of Seattle and each Wholesale Customer on such basis for the previous year and each year since the effective date of this contract.
 - e. Emergency Situations. Woodinville and Seattle agree that emergency situations may arise that require a Partial Requirements Customer to temporarily demand water in excess of its long-term annual demand. In the event of an emergency, Seattle may suspend the use of Method Two identified above in the calculation of the ERU count for any such Partial Requirements Customer for a period not longer than two consecutive years.
9. Rate Setting. The structure of FCs water rates for water charged to the holders of Full Requirements Contracts and Partial Requirements Contracts shall be determined by Seattle, in its sole discretion, except that the price may not, without the consent of Woodinville, be set to collect more than the costs forecast under Section IV hereof and Rate of Return on Investment. FCs shall be calculated as set forth on page 1 of Exhibit VI.
10. Cost Audit. At the end of each fiscal year, Seattle shall provide a statement of actual costs allocated to each cost pool and other costs and revenues received, which statement may be audited by an external auditor selected by the Operating Board. In addition, Woodinville may have the statement audited by an external auditor of its choice, solely at Woodinville's expense.

11. Transition. Notwithstanding the foregoing, Woodinville and Seattle agree that it is appropriate to adjust certain terms of this contract for the period commencing with the date of this contract to December 31, 2011 ("Transition Period").
 - a. Transition Growth Surcharge. A transition growth surcharge of \$0.60 per CCF shall be applied to the rates of Woodinville for delivery of water in excess of the old water allowance of the 1982 Water Purveyor Contract for the Transition Period. The revenue from this surcharge shall be used to discount the base rates of the holders of Full and Partial Requirements Contracts by not more than \$0.16 per CCF. In the event that the revenues generated by the surcharge exceed those required to fund the discount, Seattle may keep the difference.

IV.F. Elective Services

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

IV.G. Rate Adjustment

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

IV.H. Retail Rate-Setting

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

IV.I. Truing Actual Costs and Actual Revenues

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

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

SECTION V. OPERATING BOARD

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

party's comments and proposals and to respond in writing stating its reasons for rejecting any proposals and the reasons for its own counter-proposal. After consideration of all comments and proposals at each five year interval, Seattle may make changes in the structure and authority of the Operating Board that are not inconsistent with the provisions of this subsection.

SECTION VI. PLANNING

VI.A. Reporting of Planning Data

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

VI.B. Submittal of Water Utility Comprehensive Plans

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

VI.C. Seattle as Water Planning Agency

Seattle shall be the lead agency and primary planning authority for the purposes of fulfilling its obligations to provide for the Full Water Requirements of Woodinville. Seattle, in consultation with the Operating Board, shall examine and investigate water supplies suitable and adequate to meet the present and reasonable future needs of Seattle and the Wholesale Customers. Seattle shall prepare and adopt a plan for acquiring such water supplies in a timely fashion. The plan shall provide for the lands, waters, water rights and easements necessary therefor, and facilities for retaining, storing and delivering such waters, including dams, reservoirs, aqueducts and pipelines to convey same throughout the Seattle Water Supply System. In preparing or adopting the plan, Seattle shall consider as possible alternatives or additional water supply sources the acquisition of water from sources controlled and/or developed by individual water utilities, legally constituted groups of water utilities and utilities which are not presently supplied by the

Seattle Water Supply System. Seattle has final responsibility for the plan and for fulfilling the obligations of this contract. However, the Operating Board may participate in developing the plan by proposing goals and objectives for the Seattle Water Supply System, by making any additional suggestions and by acting in a review capacity.

VI.D. Comprehensive Capital Facilities Plan

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

VI.E. Emergency Planning

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

SECTION VII. PAYMENT

VII.A. Collection of Money Due City

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

VII.B. Penalties for Late Payment

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

VII.C. Disputes

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

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

SECTION VIII. CONTRACT AMENDMENTS

Seattle shall notify Woodinville and all other holders of Full Requirements Contracts of any amendments to such contracts within 30 days of the execution of such amendment. Woodinville 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 Woodinville and the amendment shall be final and binding upon both parties upon mutual execution.

SECTION IX. DISPUTE RESOLUTION

Dispute resolution shall proceed in four steps as follows:

IX.A. Operating Board Review

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

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

IX.B. Seattle City Council Review

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

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

IX.C. Non-binding Mediation

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

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

IX.D. Resort to Litigation

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

SECTION X. MISCELLANEOUS

X.A. Notification

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

<u>SEATTLE:</u> Director Seattle Public Utilities P.O. Box 34018 700 Fifth Ave, Suite 4900 Seattle, WA 98104	<u>WATER UTILITY:</u> Manager Woodinville Water District P.O. Box 1390 17238 Woodinville-Duvall Road Woodinville, WA 98072
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The date of giving such notice shall be deemed to be the postmarked date of mailing.

X.B. Severability

The purpose of this contract is to provide for long-term water supply planning and certainty for both Seattle and Woodinville through adoption of orderly plans calling for the expenditure of vast sums of money for regional water supply and transmission facilities. It is the intent of the parties that if any provision of this contract or its application is held by a court of competent jurisdiction to be illegal, invalid, or void, the validity of the remaining provisions of this contract or its application to other entities, or circumstances shall not be affected. The remaining

provisions shall continue in full force and effect, and the rights and obligations of the parties shall be construed and enforced as if the contract did not contain the particular invalid provision; provided, however, if the invalid provision or its application is found by a court of competent jurisdiction to be substantive and to render performance of the remaining provisions unworkable and non-feasible, is found to seriously affect the consideration and is inseparably connected to the remainder of the contract, the entire contract shall be null and void.

X.C. Consent

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

X.D. Emergency Situations

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

X.E. No Joint Venture - Individual Liability

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

X.F. Complete Agreement

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

X.G. Relinquishment of Prior Contract

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

X.H. Venue, Jurisdiction and Specific Performance

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

X.I. Default

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

X.J. Force Majeure

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

X.K. Successors

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

X.L. Exhibits

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

SIGNATURE PAGE

IN WITNESS WHEREOF, the parties hereby execute this contract.

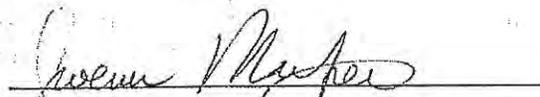
WOODINVILLE WATER DISTRICT



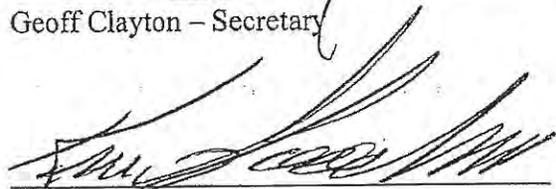
Maureen Jewitt - President



Geoff Clayton - Secretary



Gwenn Maxfield - Vice President

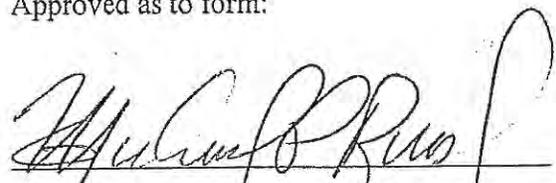


Ken Goodwin - Commissioner



Tim Matson - Commissioner

Approved as to form:



Michael Ruark - Attorney for District

AUTHORIZING LEGISLATION:

Ordinance / Resolution No:

3512

THE CITY OF SEATTLE

BY: 

Director, Seattle Public Utilities

Date: 12/1/04

AUTHORIZING LEGISLATION: ORDINANCE 120362

LIST OF EXHIBITS

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

EXHIBIT I

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

1. Intertie Agreements:

Entity/location	Meter size	Capacity	Type of service	Agreement date
Bothell – 130 th Pl. NE & NE 195 th St	8"	Varies	Emergency	
Bothell – 132 nd Ave. NE & NE 184 th St	none	Varies	Emergency	
Bothell – 132 nd Ave. NE & NE 182 nd PL	none	Varies	Emergency	
NUD – NE 132 nd St. & 125 th Ave. NE	8"	Varies	Emergency	
Redmond – NE 133 rd St. & 227 th Ave. NE	8"	Varies	Emergency	
Redmond – NE 232 nd Ave. NE & NE 138 th Way	8"	Varies	Emergency	
Cross Valley – 144 th Ave. NE & NE 205 th St	none	Varies	Emergency	

2. Independent Sources:

Well	Location	Casing size	Depth	Static water level	Pump Capacity

3. Water Supply Contracts To Other Water Utilities:

- Interlocal Agreement - Snohomish River Regional Water Authority (12/18/1996)
- Agreement to Develop Water Supply Sources - (Snohomish River Regional Water Authority) 12/20/1996

EXHIBIT II

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

LOCATION	METER SERVICE			MINIMUM HYDRAULIC GRADIENT FOR PLANNING PURPOSES AT STATION UPSTREAM OF METER (FEET NAVD-88 Datum)	MAXIMUM FLOW RATE UP TO WHICH THE MINIMUM HYDRAULIC GRADIENT APPLIES (gpm) ⁽²⁾
	STATION NUMBER ⁽¹⁾	PIPELINE SEGMENT NUMBER ⁽¹⁾	SIZE OF METER (IN.)		
TPL1 at Welcome Road Valve Station	78	24	8	615	1080
TPL1 at Avondale Road	79	24	8	600	180
TPL1 at pipeline station 1049	125	24	6	595	1230
TPL1 at pipeline station 1061	57	24	6	595	1870
TPL1 at 168 th Ave NE	80	24	8	590	610
TPL1 at pipeline station 1120	53	24	8	590	690
TPL1 at pipeline station 1197	123	24	6	570	backup
TPL1 at 132 nd Ave NE	167	24	6	570	1840
TPL1 at 124 th Ave NE	76	25	4	570	820
132 nd Ave NE & NE 140 th Street	77	1	6	570	950
TOTAL:					9270

Notes:
 (1) Station and Pipeline Segment Numbers pertain to the demand-metering program.
 (2) City of Seattle's estimate of Utility's average daily demand for 2020 with a peaking factor of 2.2 for peak day use.

EXHIBIT III**DEMAND CHARGE METHODOLOGY**

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

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

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

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

EXHIBIT IV

OPERATING BOARD STRUCTURE

1. Structure. The Operating Board (or "Board") shall be structured as follows:
 - a. The Board shall consist of seven (7) members, composed of three members representing Seattle Public Utilities (SPU), three members representing Seattle's Wholesale Customers selected as described below and one independent party selected as set forth below to be a tie-breaker as needed. Board members shall, to the best of their ability, act in the best interests of the Seattle Water Supply System as a whole and shall not represent the interest of a group of utilities or an individual utility.
 - b. Three Board members representing the Wholesale Customers will be selected from persons having signed water supply contracts with Seattle identifying participation in the Operating Board. Wholesale Customers will then 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 contract holders. Each category of utility may elect, by majority vote (one vote per utility) its representative to the Operating Board.
 - e. The seventh member of the Board shall be a person having expertise in the operations of regional water supply systems but have no employment, financial or contractual relationship with Seattle nor any Wholesale Customer and shall have no other actual or apparent conflict of interest in holding this position.
2. By-laws. Details regarding Board roles, responsibilities and procedures will be addressed by the adoption of By-laws developed within the first year of Board operation.

EXHIBIT V

CONTRACT AUTHORITY MATRIX

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

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