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**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES -
WATER FUND**

**Wholesale Statements (2001 Contract Types)
and Report of Independent Accountants on
Applying Agreed-Upon Procedures**

December 31, 2011

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**REPORT OF INDEPENDENT ACCOUNTANTS ON
APPLYING AGREED-UPON PROCEDURES**

To the City of Seattle,
Seattle Public Utilities – Water Fund
Seattle, Washington

Seattle Water Supply System Operating Board
Seattle, Washington

We have performed the procedures enumerated below, which were agreed upon by the management of the City of Seattle, Seattle Public Utilities – Water Fund (“Fund”) and the Seattle Water Supply System Operating Board (“Operating Board”) solely to assist the Fund and the Operating Board, on behalf of the wholesale customers (“Customers”) in evaluating the attached Wholesale Statements (2001 Contract Types) and notes to the Wholesale Statements as of and for the year ended December 31, 2011. Fund management is responsible for the Wholesale Statements and related notes. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures that we performed and our related findings are as follows:

Procedures Performed on the Summary of Regional System Revenues

1. We obtained the Summary of Regional System Revenues and verified the arithmetical accuracy of this statement.
2. We traced the balances on this statement to the appropriate source summary worksheets as follows:
 - a. We compared the total water consumption balance for the new wholesale customers to the total volume listed on the Regional Rate-Based Revenues Statement, finding them to be in agreement.
 - b. We compared the total water consumption balance for the old contract purveyors’ old water balance (as well as for the declining block and the fixed block customers) to the corresponding data provided by the Fund’s account service department, finding them to be in agreement.

- c. We compared the surcharge water consumption balances for the new wholesale customers to the 2011 annual billings schedule provided by the Fund's account service department, and found them to be in agreement.
- d. We compared the surcharge water consumption balances for the old contract purveyors' new water balance to corresponding data provided by the Fund's account service department, and found them to be in agreement.
- e. We compared new wholesale customer revenues to the rate base revenue schedule and old contract purveyor revenues to the 2011 annual billings schedule provided by the Fund's account service department, finding them both to be in agreement.
- f. We recalculated the portion of the system total for both new wholesale customers and old contract purveyors.
- g. We compared the total new retail connections revenues to the Facilities Charge Revenues Statement and found them to be in agreement.
- h. We compared the Cascade Water Alliance ("CWA") (Declining) Block Revenues to the CWA Cost Estimate and Payment Schedule, as provided by management.
- During our comparison of the Declining Block Revenues we noted a difference of \$264,282 resulting from the 2009 overpayment and corresponding interest, which is added to CWA revenues.
- i. We compared the Northshore Utility District ("NUD") (Fixed) block revenues to the NUD Cost Estimate and Payment Schedule.
- During our comparison of the Fixed Block Revenues we noted a difference of \$685,360 resulting from the 2009 overpayment and corresponding interest, which is added to NUD revenues.
3. We determined that population-served amounts were based on detailed spreadsheets prepared by the Fund that estimate population amounts, and noted that the data is based on information provided by the Puget Sound Regional Council ("PSRC"). We verified the arithmetical accuracy of the spreadsheets, supporting the population served amounts.
4. We did not note any prior-year adjustments to the 2011 Summary of Regional System Revenues.

Procedures Performed on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs

5. We obtained the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs and verified the arithmetical accuracy of the statement.
6. We compared the rate based revenues to the sum of the base rate revenues and the transition growth surcharge totals found on the Regional Rate-Based Revenues Statement, noting total balances to be in agreement.

7. We obtained the 2011 O&M Expense Allocation Schedule, which was the source for the Operations Costs on the Statement, and performed the following procedures:
- a. We verified the arithmetical accuracy of the O&M Expense Allocation Schedule.
 - b. We compared each category of expense from the O&M Expense Allocation Schedule to the 2011 audited financial statements, finding them to be in agreement. We also identified amounts on the O&M Expense Allocation Schedule that are subtracted as subregional.
 - c. We verified that 2011 O&M costs are allocated to the proper cost pools according to the New Contract Exhibits by selecting and testing allocated activities through non-statistical means and comparing them to a list of activity numbers set forth in the Wholesale Customer Contract to obtain 60% coverage of the total allocated costs, with a minimum of 20 selections. We noted that all tested costs were identified in Exhibit IX within the Wholesale Customer Contract.
 - d. We compared the 2011 and 2010 O&M Expense Allocation Schedules, and found them to be consistently presented.
 - e. We recalculated the application of the 2010 to 2011 Cost Ratio to the 2010 base cost index, without exception. This calculation is illustrated in Note 2 to the Wholesale Statements.
8. We obtained the Fund Audit Schedule of Fixed Assets as of December 31, 2011, which was the source for the Asset Recovery Cost amounts on the statement, and performed the following procedures:
- a. We verified the arithmetical accuracy of the schedule.
 - b. We compared the fixed asset categories to the 2011 audited financial statements, and found them to be in agreement.
 - c. We verified that individual assets were allocated to the proper cost pools by selecting allocated assets through non-statistical means, achieving 60% coverage of the allocated amount, with a minimum of 20 selections, and comparing them to Exhibits VII and VIII in the Wholesale Customer Contracts. The descriptions of the selected allocated assets were found to be in agreement with each respective exhibit.
 - d. We recalculated the rate of return on investments (6.20%), by adding 150 basis points to the Seattle Water System's average cost of debt (4.70%), noting it was in accordance with Article II of the Wholesale Customer Contract.
 - e. We recalculated the application of the return on investments.
9. We traced the Allocation to Declining Block amount to the Statement of Surplus (Deficit) of Declining Block Contract Revenues Less Service Costs, without exception.
10. We traced the Allocation to Fixed Block amount to the Existing Supply and Existing Transmission and the Conservation Cost Pool Operations Costs amounts on the Statement of Surplus (Deficit) of Fixed Block Contract Revenue Less Service Costs, without exception.

11. We did not note any prior-year allocation adjustment or interest amounts to recalculate.

Procedures Performed on the Statement of Surplus (Deficit) of Declining Block Contract Revenues Less Service Costs

12. We obtained the Statement of Surplus (Deficit) of Declining Block Contract Revenues Less Service Costs and verified the arithmetical accuracy of the statement.
13. We compared revenues for the year ended December 31, 2011 to the declining block revenue amount on the Summary of Regional System Revenues, and found them to be in agreement.
14. We compared the Existing Supply and Existing Transmission Costs to the corresponding amounts on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs, and found them to be in agreement.
15. We recalculated the Existing Supply and Existing Transmission Allocation to Declining Block and found the application to be arithmetically correct.
16. For each Subregional Segment we performed the following procedures:
 - a. We recalculated the application of the return on assets to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2011.
 - b. We identified individual O&M costs noted as subregional within the 2011 O&M Expense Allocation Schedule provided by management, and compared each amount to the Operations Costs for the Cascade Subregion B Segments 1 & 2, noting they were in agreement.
 - c. We identified flow allocators for the Cascade Subregions noting that one of the flow allocators varied by more than two standard deviations from the rolling five-year average.
 - CWA Segment 1 varied by more than two standard deviations from the five year average, due to Bellevue services in segment 1 no longer being in regular use.
 - d. We recalculated the application of the flow factors to each Subregional facility using the Annual Waterflow Schedule provided by management.
17. We recalculated the annual cost of the supplemental portion of the Declining Block.
18. We did not note any Penalty Charge Costs to compare to the Statement of Declining Block Usage and Penalty Charge.

Procedures Performed on the Statement of Surplus (Deficit) of Fixed Block Contract Revenues Less Service Costs

19. We obtained the Statement of Surplus (Deficit) of Fixed Block Contract Revenues Less Service Costs, and verified the arithmetical accuracy of the statement.
20. We compared revenues for the year ended December 31, 2011, to the corresponding amount on the Summary of Regional System Revenues, and found them to be in agreement.

21. We compared the Existing Supply and Existing Transmission Costs to the corresponding amount on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs, and found them to be in agreement.
22. We recalculated the Allocation to Fixed Block Customers by agreeing the Existing Supply and Existing Transmission Costs to the 2011 O&M Allocation and 2011 Asset Allocation Schedules provided by management.
23. We compared the Conservation Cost Pool Operations Costs to the New Supply Operations Cost on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs and the Conservation Cost Pool Asset Recovery Costs to the Facilities Charge Based Costs on the New Wholesale Customer Facilities Charge Summary Statement, and found them to be in agreement.
24. We did not note any Penalty Charge Costs to compare to the Statement of Fixed Block Usage and Penalty Charge.

Procedures Performed on the Statement of Surplus (Deficit) of East Subregion Rate Revenues Less Service Costs

25. We obtained the Statement of Surplus (Deficit) of East Subregion Rate Revenues Less Service Costs and verified the arithmetical accuracy of the statement.
26. For each subregional segment we performed the following procedures:
 - a. We recalculated the application of the return on assets rate to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2011.
 - b. We verified that individual O&M costs noted as subregional in 2011 are identified within the O&M Expense Allocation Schedule provided by management.
 - c. We identified flow allocators for the East Subregions (Mercer Island Pipeline) noting that two of the flow allocators varied by more than two standard deviations from the five-year rolling average.
 - Mercer Island Pipeline Segment 1 varied by more than two standard deviations from the five year average, due to Bellevue services in segment 1 no longer being in regular use.
 - Mercer Island Pipeline Segment 4 varied by more than two standard deviations from the five year average as the percentage of Mercer Island consumption through service 171 as opposed to service 67 significantly increased in August 2011, a peak month.
 - d. We recalculated the application of flow factors to each subregional facility, noting the application to be correct.
 - e. We verified the arithmetical accuracy of the calculation of the “as-if” subregional revenues.

Procedures Performed on the Statement of Surplus (Deficit) of Southwest Subregion Rate Revenues Less Service Costs

27. We obtained the Statement of Surplus (Deficit) of Southwest Subregion Rate Revenues Less Service Costs and verified the arithmetical accuracy of the statement.
28. We recalculated the application of the return on assets rate to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2011.
29. We verified that individual O&M costs noted as subregional in 2011 are identified within the O&M Expense Allocation Schedule provided by management.
30. We identified flow allocators for the 585 Zone Facilities, West Seattle Reservoir, West Seattle Pipeline, Des Moines Way Pipeline, Military Road Feeder, and East Marginal Way Feeder. The following allocators varied by more than two standard deviations from the five-year rolling average:
 - 585 Zone, West Seattle Pipeline, and West Seattle Reservoir, varied by more than two standard deviations from the five year average due to an updated, more accurate methodology that is available using SCADA data.
31. We recalculated the application of flow factors to each subregional facility and noted the application to be correct.
32. We verified the arithmetical accuracy of the calculation of the “as-if” subregional revenues.
33. We did not note any prior year adjustments to the 2011 Statement of Surplus (Deficit) of Southwest Subregion Rate Revenues Less Service Costs.

Procedures Performed on the New Wholesale Customer Facilities Charge Summary Statement

34. We obtained the New Wholesale Customer Facilities Charge Summary Statement and verified the arithmetical accuracy of the statement.
35. We compared the 2011 facilities charge based revenues to the Total Facilities Charge Revenue Statement and noted they were in agreement.
36. We compared the 1% conservation costs to the Fund Audit Schedule of Fixed Assets as of December 31, 2011 provided by management and noted they were in agreement.
37. We traced the Allocation to Fixed Block Amount to the Conservation Cost Pool Asset Recovery Costs amount on the Statement of Surplus (Deficit) of Fixed Block Contract Revenues Less Service Costs, without exception.
38. We recalculated the Allocation to New Contract Wholesale Customers using amounts in the Summary of Regional Systems Revenues based on the ratio of demand from new contract customers participating in regional conservation to the total of demand from new and old customers participating in regional conservation.

39. We did not note any prior year adjustments to the 2011 New Wholesale Customer Facilities Charge Summary Statement.

Procedures Performed on the Regional Rate Based Revenues Statement

40. We obtained the Regional Rate Based Revenues Statement and verified the arithmetical accuracy of the statement.
41. We selected two months (February and September) through non-statistical means and recalculated Seattle wholesale volumes on the “MGD by Source” report and 2011 year-end detail source sheets provided by management and noted they were in agreement.
42. We selected two months (February and September) through non-statistical means and recalculated Seattle wholesale bills on the 2011 year-end detail source sheet and noted they were in agreement. We also compared the rates used for Seattle to the 2010-2011 rate study, which we also noted to be in agreement.
43. We selected a sample of customer bills through non-statistical means to achieve 60% coverage of customer months with a minimum of one from each customer, and we performed the following procedures:
- a. We compared billed water consumption amounts (volume and dollar) to data provided by the Fund’s Account Services department, and noted they were in agreement.
 - b. We compared old water volume used to calculate each bill to the annual total water allowance stated in the Old Wholesale Customer Contracts, without exception.
 - c. We recalculated the Southwest Subregional Surcharge.
 - d. We recalculated the East Subregional Segments 3 & 4 Surcharges.
 - e. We recalculated the Northwest Subregional Surcharge.
44. We did not note any miscellaneous adjustments to the 2011 Regional Rate Based Revenues Statement.
45. We did not note any prior year adjustments to the 2011 Regional Rate Based Revenues Statement.

Procedures Performed on Facilities Charge Revenues Statement

46. We obtained the Facilities Charge Revenues Statement and verified the arithmetical accuracy of the statement.
47. We traced the 2011 “Non-Seattle” facilities charge revenues amount into the December 31, 2011 Fund general ledger, noting they were in agreement.
48. We selected customer new meter counts through non-statistical means to achieve 60% coverage of the total new meter installations and agreed them from the Facilities Charge Data

Sheet provided by management to the Facilities Charge Revenues Statement, noting they were in agreement.

49. We selected Seattle new meter counts through non-statistical means to achieve 60% coverage of total new meter installations and compared them to the 2011 Maximo Work Order Query by Month provided by management and noted they were in agreement.
50. We did not note any prior year adjustments to the 2011 Facilities Charge Revenues Statement.

Procedures Performed on the Statement of Declining Block Usage and Penalty Charge

51. We compared the monthly water consumption amounts (volume only) presented on the Month Sum Customer Billings Report and CCF Consumption Report provided by management, which supports data presented on the Statement of Declining Block Usage and Penalty Charge, noting amounts were in agreement.
52. We recalculated the Annual Average Use in accordance with the methodology in the Declining Block Contract.
53. We recalculated the Peak Season Use in accordance with the methodology in the Declining Block Contract.
54. We recalculated the Peak Month Use in accordance with the methodology in the Declining Block Contract.
55. We did not note any Penalty Charge Costs to compare to the Statement of Fixed Block Usage and Penalty Charge.

Procedures Performed on the Statement of Fixed Block Usage and Penalty Charge

56. We compared the monthly water consumption amounts (volume only) presented on the Month Sum Customer Billings Report and CCF Consumption Report provided by management, which supports data presented on the Statement of Fixed Block Usage and Penalty Charge, noting amounts were in agreement.
57. We recalculated the Annual Average Use in accordance with the methodology in the Fixed Block Contract.
58. We recalculated the Peak Season Use in accordance with the methodology in the Fixed Block Contract.
59. We recalculated the Peak Month Use in accordance with the methodology in the Fixed Block Contract.
60. We did not note any Penalty Charge Costs applied to this statement.

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Procedures Performed on the Notes to the Wholesale Customer Statements

61. We compared the rate of return percentage in Note 1 to the rate of return recalculated during the procedures performed on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs, noting agreement.
62. We obtained Note 2 and verified the arithmetical accuracy of the amounts shown in the Note.
63. We compared balances of all Operations Costs within Note 2, to the 2011 O&M Allocation Schedule. We compared the Cost Pool percentage (99.99%) and Rate of Return (6.20%) to the Summary of Regional System Revenues and 2011 Schedule of Fixed Assets, respectively. We noted all balances and percentages to be in agreement with the appropriate source summary worksheets.
64. We compared the Total Existing Supply Asset Cost, Total Existing Transmission Asset Cost, and Total New Supply Asset Cost within Note 4 to the corresponding totals within the Statement of Surplus (Deficit) of Fixed Block Contract Revenues Less Service Costs.

We were not engaged to, and therefore did not conduct an audit, the objective of which would be the expression of an opinion on the accompanying Wholesale Statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be, and should not be used or relied upon by anyone other than these specified parties.

Seattle, Washington

_____, 2012

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 SUMMARY OF REGIONAL SYSTEM REVENUES
 YEAR ENDED DECEMBER 31, 2011**

	<u>Population Served</u>	<u>Total Water Consumption (in CCF)</u>	<u>Portion of System Total (Percent)</u>	<u>Surcharge Water Consumption (in CCF)</u>	<u>New Retail Connections (Quantity)</u>	<u>Revenues</u>
New Wholesale Customers (including Seattle)	1,530,950	-	99.99%			
Full & Partial Contract Base Rate Revenue		42,269,053			N/A	\$ 63,220,596
SW Sub-Region Surcharge		N/A		4,605,279	N/A	230,264
E Sub-Region Surcharge		N/A				
Segment 3				316,076	N/A	15,804
Segment 4				654,098	N/A	46,840
Transition Growth Surcharge ¹		N/A		2,709,091	N/A	1,510,629
Declining Block Revenue ²		12,364,705				18,737,467
Fixed Block Revenue		2,473,758				5,008,133
Facilities Charges		N/A		N/A	663	1,209,105
Old Contract Purveyors	31,991		0.01%			
Old Water		3,187			N/A	17,324
New Water		N/A		-	N/A	-
Total System		<u>57,110,703</u>				<u>\$ 89,996,162</u>

¹ A \$0.60 surcharge on consumption above the historic levels established in the old contract. The transition growth charge is a mechanism to provide equity between customers based on historical water usage. It does not apply to Seattle, as Seattle's base rate is higher.

² Declining Block Revenue includes CWA's Regional and CWA's Subregional revenue.

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 STATEMENT OF SURPLUS (DEFICIT) OF RATE REVENUES LESS SERVICE COSTS
 YEAR ENDED DECEMBER 31, 2011**

Beginning Balance, December 31, 2010	\$ (7,118,540)	
Interest	(334,571)	
Total		<u>\$ (7,453,111)</u>
2011 Rate Based Revenues		64,731,227
2011 Timber Sales (at 99.99%)	58,195	
Less: Allocation to Declining Block	10,519	
Less: Allocation to Fixed Block	2,968	
Full and Partial Contract portion		44,708
Transfer of Facilities Charge Revenue		-
Total Revenues		<u>64,775,935</u>
2011 Rate Based Costs		
Existing Supply		
Operations Costs	27,195,212	
Asset Recovery Costs	34,751,259	
New Supply		
Operations Costs	839,203	
Asset Recovery Costs	-	
Existing Transmission		
Operations Costs	10,314,304	
Asset Recovery Costs	17,411,994	
New Transmission		
Operations Costs	-	
Asset Recovery Costs	-	
Total	<u>\$ 90,511,972</u>	
Allocation to 2001 Contract Wholesale Customers (Allocated at 99.9%. See Note 1)		90,502,921
Less: Allocation to CWA Base Block		(16,207,173)
Less: Allocation to CWA Supplemental Block		(2,155,539)
Less: Allocation of Existing Supply and Existing Transmission to Fixed Block		(4,573,311)
Less: Allocation of New Supply Operations to Fixed Block		(52,016)
Less: Adjustment for Prior-year allocation, including interest		-
Total Full and Partial Contract Customer Costs		<u>67,514,882</u>
Net excess (deficit) of revenues over cost of service, December 31, 2011		<u>\$ (10,192,058)</u>

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 STATEMENT OF SURPLUS (DEFICIT) OF
 DECLINING BLOCK CONTRACT REVENUES LESS SERVICE COSTS
 YEAR ENDED DECEMBER 31, 2011**

Beginning balance, December 31, 2010	\$ -	
No carryover from previous year under block contracts		
Declining Block Revenues	18,737,467	
2011 Timber Sales (allocation as block)	<u>10,519</u>	
Total Revenues		<u>\$ 18,747,986</u>
Existing Supply and Existing Transmission		
Existing Supply		
Operations Costs	27,195,212	
Asset Recovery Costs	34,751,259	
Existing Transmission		
Operations Costs	10,314,304	
Asset Recovery Costs	<u>17,411,994</u>	
Total	<u>89,672,769</u>	
Allocation to Declining Block		16,207,173
Cascade Subregions		
Cascade Subregion A		
Operations Costs	-	
Asset Recovery Costs	<u>15,137</u>	
Total	<u>15,137</u>	
Allocation to Declining Block		15,137
Cascade Subregion B - Segment 1		
Operations Costs	4,208	
Asset Recovery Costs	<u>15,401</u>	
Total	<u>19,609</u>	
Allocation to Declining Block		11
Allocation to Downstream Customers	19,598	
Cascade Subregion B - Segment 2		
Amount from Segment 1	19,598	
Operations Costs	11,824	
Asset Recovery Costs	<u>21,443</u>	
Total	<u>52,865</u>	
Allocation to Declining Block		8,967
Cascade Subregion B - Segment 3		
Operations Costs	-	
Asset Recovery Costs	<u>-</u>	
Total	<u>-</u>	
Allocation to Declining Block		-
Charge for Cascade Supplemental Block		<u>2,155,539</u>
Total Costs		<u>18,386,827</u>
Net excess (deficit) of revenues over cost of service, December 31, 2011		<u>\$ 361,159</u>

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**CITY OF SEATTLE,
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 STATEMENT OF SURPLUS (DEFICIT) OF
 FIXED BLOCK CONTRACT REVENUES LESS SERVICE COSTS
 YEAR ENDED DECEMBER 31, 2011**

Beginning balance, December 31, 2010	\$	-
No carryover from previous year under block contracts		
Fixed Block Revenues		5,008,133
2011 Timber Sales (allocation as block)		<u>2,968</u>
Total Revenues		<u>\$ 5,011,101</u>
Existing Supply and Existing Transmission		
Existing Supply		
Operations Costs		27,195,212
Asset Recovery Costs		34,751,259
Existing Transmission		
Operations Costs		10,314,304
Asset Recovery Costs		<u>17,411,994</u>
Total		<u>89,672,769</u>
Allocation to Fixed Block		4,573,311
Conservation Cost Pool		
Operations Costs		839,203
Allocation to Fixed Block		52,016
Conservation Cost Pool		
Asset Recovery Costs		4,933,373
Allocation to Fixed Block		<u>305,785</u>
Total Costs		<u>4,931,112</u>
Net excess (deficit) of revenues over cost of service, December 31, 2011		<u><u>\$ 79,989</u></u>

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 STATEMENT OF SURPLUS (DEFICIT) OF
 EAST SUBREGION RATE REVENUES LESS SERVICE COSTS
 YEAR ENDED DECEMBER 31, 2011**

<hr/>		
East Subregion Segment 1 Costs		
Operations Costs	\$ 4,208	
Asset Recovery Costs	15,401	
Total	<u>19,609</u>	
Amount Allocated to Segment 1		\$ 11
Amount Allocated to downstream users	19,598	
<hr/>		
East Subregion Segment 2 Costs		
Amount from Segment 1	\$ 19,598	
Operations Costs	11,824	
Asset Recovery Costs	21,443	
Total	<u>52,865</u>	
Amount Allocated to Segment 2		\$ 8,967
Amount Allocated to downstream users	43,898	
<hr/>		
East Subregion Segment 3		
Beginning Balance at December 31, 2010	\$ (50,807)	
Interest	<u>(2,388)</u>	
Total		\$ (53,195)
East Subregion Segment 3 As-If Revenues		15,804
East Subregion Segment 3 Costs		
Amount from Segment 2	43,899	
Operations Costs	12,138	
Asset Recovery Costs	28,795	
Total	<u>84,832</u>	
Amount Allocated to Segment 3		<u>40,988</u>
Amount Allocated to downstream users	43,844	
Net excess (deficit) of revenues over cost of service		<u><u>\$ (78,379)</u></u>
<hr/>		
East Subregion Segment 4		
Beginning Balance at December 31, 2010	\$ (167,474)	
Interest	<u>(7,871)</u>	
Total		\$ (175,345)
East Subregion Segment 4 As-If Revenues		46,840
East Subregion Segment 4 Costs		
Amount from Segment 3	43,844	
Operations Costs	4,167	
Asset Recovery Costs	15,250	
Total	<u>63,261</u>	
Amount Allocated to Segment 4		<u>63,261</u>
Net excess (deficit) of revenues over cost of service		<u><u>\$ (191,766)</u></u>

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 STATEMENT OF SURPLUS (DEFICIT) OF
 SOUTHWEST SUBREGION RATE REVENUES LESS SERVICE COSTS
 YEAR ENDED DECEMBER 31, 2011**

Beginning Balance, December 31, 2010		\$ (370,961)
Interest		\$ (17,435)
Total Prior Balance		<u>\$ (388,396)</u>
2010 As-If Rate Based Revenues*		\$ 230,264
2010 Rate Based Costs		
585 Zone Facilities		
Operations Costs	\$ 23,091	
Asset Recovery Costs	\$ 333,775	
Total	<u>\$ 356,866</u>	
Allocation to Southwest Subregion Customers (at 41.2%)		\$ 147,029
West Seattle Reservoir		
Operations Costs	\$ 5,562	
Asset Recovery Costs	\$ 3,119,592	
Total	<u>\$ 3,125,154</u>	
Allocation to Southwest Subregion Customers (at 9.7%)		\$ 303,140
West Seattle Pipeline		
Operations Costs	\$ 13,482	
Asset Recovery Costs	\$ 157,319	
Total	<u>\$ 170,801</u>	
Allocation to Southwest Subregion Customers (at 41.0%)		\$ 70,028
Des Moines Way Pipeline		
Operations Costs	\$ -	
Asset Recovery Costs	\$ 10,254	
Total	<u>\$ 10,254</u>	
Allocation to Southwest Subregion Customers (at 100%)		\$ 10,254
Military Road Feeder		
Operations Costs	\$ -	
Asset Recovery Costs	\$ -	
Total	<u>\$ -</u>	
Allocation to Southwest Subregion Customers (at 100%)		\$ -
East Marginal Way Feeder		
Operations Costs	\$ -	
Asset Recovery Costs	\$ -	
Total	<u>\$ -</u>	
Allocation to Southwest Subregion Customers (at 100%)		<u>\$ -</u>
Total Costs		<u>\$ 530,451</u>
Net excess (deficit) of revenues over cost of service		<u>\$ (688,583)</u>

* This represents the revenue that would be received if all of the wholesale customers in the SW subregion were under the new contract.

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CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NEW WHOLESALE CUSTOMER FACILITIES CHARGE SUMMARY STATEMENT
YEAR ENDED DECEMBER 31, 2011

Beginning Balance at December 31, 2010		\$ 11,959,801
Interest		562,111
2010 Facilities Charge Based Revenues		1,209,105
2010 Facilities Charge Based Costs		
1% Conservation Costs	\$ 3,145,069	
2011 Regional Conservation Cost	\$ 1,788,304	
Total	<u>4,933,373</u>	
Allocation to New Contract Wholesale Customers		4,933,022
Allocation to Fixed Block		<u>(305,785)</u>
Total Full and Partial Contract Customer Costs		<u>4,627,237</u>
Ending Balance at December 31, 2011		<u>\$ 9,103,780</u>

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 REGIONAL RATE BASED REVENUES STATEMENT
 YEAR ENDED DECEMBER 31, 2011**

Customer	Volume (CCF)	Base Rate Revenue (\$)	Transition Growth Surcharge (\$)	Southwest Subregional Surcharge (\$)	East Subregional Segment 3 Surcharge (\$)	East Subregional Segment 4 Surcharge (\$)	Northwest Subregional Surcharge (\$)
Bothell	637,415	\$ 1,098,248	\$ 109,378	N/A	N/A	N/A	N/A
Cedar River	758,691	1,062,209	207,549	N/A	N/A	N/A	N/A
Coal Creek	493,533	724,651	105,376	N/A	N/A	N/A	N/A
Duvall	233,390	350,058	91,107	N/A	N/A	N/A	N/A
Highline	2,126,929	3,029,778	N/A	106,346	N/A	N/A	N/A
Mercer Island	924,044	1,341,957	N/A	N/A	13,498	46,840	N/A
North Bend	13,405	43,459	21,604	N/A	N/A	N/A	N/A
Olympic View	348,497	508,079	N/A	N/A	N/A	N/A	6,970
Renton	88,749	119,661	N/A	N/A	N/A	N/A	N/A
Shoreline	650,376	908,684	N/A	N/A	N/A	N/A	N/A
Soos Creek	2,008,295	2,815,038	432,224	N/A	N/A	N/A	N/A
WD 20	1,234,040	1,740,829	N/A	61,702	N/A	N/A	N/A
WD 45	106,783	150,174	N/A	5,339	N/A	N/A	N/A
WD 49	638,260	903,748	N/A	31,913	N/A	N/A	N/A
WD 90	493,819	711,960	N/A	N/A	N/A	N/A	N/A
WD 119	110,073	163,901	39,732	N/A	N/A	N/A	N/A
WD 125	499,267	673,801	9,433	24,963	N/A	N/A	N/A
Woodinville	1,759,518	2,556,949	494,227	N/A	N/A	N/A	N/A
Seattle*	29,143,969	44,317,414	N/A	N/A	2,306	N/A	N/A
Total	42,269,053	\$ 63,220,598	\$ 1,510,630	\$ 230,263	\$ 15,804	\$ 46,840	\$ 6,970

* A \$0.60 surcharge on consumption above the historic levels established in the old contract. The transition growth charge is a mechanism to provide equity between customers based on historical water usage. It does not apply to Seattle, as Seattle's base rate is higher.

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES - WATER FUND
 FACILITIES CHARGE REVENUES STATEMENT
 YEAR ENDED DECEMBER 31, 2011**

Meter Size	Quantity										Total	Revenue										Adjustments	Total					
	3/4	1	1 1/2	2	3	4	6	8	10	12		3/4	1	1 1/2	2	3	4	6	8	10	12							
Bothell	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Cedar River	11	24	2	(1)	1	1	-	-	-	-	38	\$ 8,613	\$ 37,584	\$ 7,830	\$ (6,264)	\$ 17,226	\$ 24,273	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,262
Coal Creek	17	3	-	-	-	-	-	-	-	-	20	\$ 13,311	\$ 4,698	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,009	
Duvall	56	-	1	-	-	-	-	-	-	-	57	43,848	-	3,915	-	-	-	-	-	-	-	-	-	-	-	-	\$ 47,763	
Mercer Island	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -	
Olympic View	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -	
Shoreline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -	
Soos Creek	105	2	-	1	-	-	-	-	-	-	108	81,935	2,992	-	4,991	-	-	-	-	-	-	-	-	-	-	-	\$ 89,918	
Woodinville	20	2	-	2	-	-	-	-	-	-	24	15,590	3,132	-	8,613	-	-	-	-	-	-	-	-	-	-	-	\$ 27,335	
WD 20	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -	
WD 45	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -	
WD 49	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -	
WD 90	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ -	
WD 119	2	2	-	-	-	-	-	-	-	-	4	1,566	2,349	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 3,915	
WD 125	4	1	-	-	-	-	-	-	-	-	5	3,062	1,566	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ 4,628	
Seattle	330	20	14	25	4	12	1	1	-	-	407	255,258	27,405	50,895	127,629	68,121	271,701	43,848	87,696	-	-	-	-	(4,278)	-	\$ 928,275		
Total	545	54	17	27	5	13	1	1	-	-	663	\$ 423,183	\$ 79,726	\$ 62,640	\$ 134,969	\$ 85,347	\$ 295,974	\$ 43,848	\$ 87,696	\$ -	\$ -	\$ -	\$ -	\$ (4,278)	\$ -	\$ 1,209,105		

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 STATEMENT OF DECLINING BLOCK USAGE AND PENALTY CHARGE
 YEAR ENDED DECEMBER 31, 2011**

Declining Block Usage

Annual Average Use		
January 1 - December 31		
Block Limit (MG)	33.3	
Actual Use (MG)	25.3	
Excess Use (MG)	-	
Peak Season Use		
May 19 - September 21, inclusive		
Block Limit (MG)	45.0	
Actual Use (MG)	32.3	
Excess Use (MG)	-	
Peak Month Use		
July 21 - August 17, inclusive		
Block Limit (MG)	56.3	
Actual Use (MG)	38.2	
Excess Use (MG)	-	

Penalty Charge

Cascade Volume Charge per MG	N/A
Penalty Factor (from 8.10 of the contract)	N/A
Amount of Excess Usage (MG)	N/A
Number of Penalty Days	N/A
Penalty Charge	N/A

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 STATEMENT OF FIXED BLOCK USAGE AND PENALTY CHARGE
 YEAR ENDED DECEMBER 31, 2011**

Fixed Block Usage

Annual Average Use		
January 1 - December 31		
Block Limit (MG)	8.55	
Actual Use (MG)	4.99	
Excess Use (MG)	-	
Peak Season Use		
May 20 - September 21, inclusive		
Block Limit (MG)	10.94	
Actual Use (MG)	6.09	
Excess Use (MG)	-	
Peak Month Use		
July 20 - August 22, inclusive		
Block Limit (MG)	13.14	
Actual Use (MG)	6.62	
Excess Use (MG)	-	

Penalty Charge

Northshore Volume Charge per MG	N/A
Penalty Factor (from 8.11 of the contract)	N/A
Amount of Excess Usage (MG)	N/A
Number of Penalty Days	N/A
Penalty Charge	N/A

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Note 1 - Summary of Significant Accounting Policies

The City of Seattle, Seattle Public Utilities – Water Fund (the Fund) is a public utility of the City of Seattle. The Fund provides water service to wholesale and retail customers and bills these customers at rates prescribed by City ordinances.

The Fund is subject to regulation by city and state agencies. These special-purpose wholesale customer statements are prepared based on accounting and financial reporting policies, which are in accordance with applicable rate-making principles and policies set forth in Section IV of the Full and Partial Requirements Contracts, Section VIII of the Declining Block Contract, and Section VIII of the Fixed Block Contract, as well as the 2009-2011 rate study.

The Fund is required to:

1. Provide a statement of the actual costs allocated to each cost pool and other costs and revenue received.
2. For each class of customers in each cost pool, maintain a running balance of the excess or deficit of actual rate revenues collected less actual expenses incurred.
3. Pay or charge interest on the balance in the account.
4. Prepare an annual report of these balances.
5. Use the cumulative net excess or deficit to adjust future wholesale rates downward or upward.

Certain assets owned by Seattle are identified as providing wholesale water services of transmission and supply to wholesale customers and Seattle (Seattle is considered a wholesale customer of the transmission system). Since not all wholesale customers are under the 2001 Contract Types, costs have been allocated to the cost pool created in the 2001 Contract Types based on annual volumes (99.99% of the annual volume is due to Cascade Water Alliance, Cedar River, Coal Creek, Highline, Mercer Island, Northshore, Olympic View, Seattle, Shoreline, Soos Creek, Water District #20, Water District #45, Water District #125, Woodinville, Bothell, Duvall, North Bend, Renton, Water District 49, Water District 90, and Water District 119). Costs of these assets are calculated on the utility basis. Under the utility basis, the infrastructures 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. The Rate of Return is 6.2%.

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 NOTES TO THE WHOLESAL STATEMENTS
 DECEMBER 31, 2011**

Note 2 - Operations Costs

Pursuant to terms set forth in section IV.E.3 of the Contract, the Fund charges wholesale customers for operations costs. This cost for 2011 was calculated as follows:

Existing Supply		
2010 Base		\$ 28,747,157
2010 Costs in identified activities		\$ 19,987,059
2011 Costs in identified activities		\$ 18,804,705
Ratio of 2011/2010		0.0941
2011 Operations Cost Base		\$ 27,045,325
Add Expensed CIP:		
C101003	ESA Snohomish River Basin	155,425
C102017	CR 500-600 Rd Bridge Replace	135,496
C107010	NF Taylor 62 Rd Bridge Replace	6,266
C108001	Tolt Res Temperature Mgmt Prog	25,350
C197029	Tolt Bridge Replc Siwash Creek	77,309
C110001	Cedar Fluoridation Relocation	36,667
C105095	Tolt Levee Modification	4,261
C107005	CRW Cultural Resource Info Mgt	19,499
C109004	Tolt WS Security Improvements	1,232
		<u> </u>
Minus gain on asset retirement		
Land CRWS-Claims/Right		(311,620)
Total Existing Supply Costs		<u><u>\$ 27,195,210</u></u>
 Existing Transmission		
2010 Base		\$ 10,686,986
2010 Costs in identified activities		\$ 2,805,762
2011 Costs in identified activities		\$ 2,759,064
Ratio of 2011/2010		0.9834
2011 Operations Cost Base		\$ 10,509,582
Add Expensed CIP:		
C107065	CRPL4 at Strander Boulevard	2,634
Minus gain on asset retirement		
Lake Forest Reservoir		\$ (197,912)
Total Existing Transmission Costs		<u><u>\$ 10,314,304</u></u>

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 NOTES TO THE WHOLESALE STATEMENTS
 DECEMBER 31, 2011**

Note 2 - Operations Costs (Continued)

New Supply	
2010 Base	\$ 649,588
2010 Costs in identified activities	\$ 290,832
2011 Costs in identified activities	\$ 375,729
Ratio of 2011/2010	1.2919
Total New Supply Costs	<u>\$ 839,203</u>

Note 3 - Net Excess (Deficiency) of Revenues Over Allocated Costs of Service for Wholesale Customers' Water Consumption

Wholesale water rates are established to recover wholesale water supply and transmission costs for both regional and subregional cost pools. Rates are set for multiyear periods and are intended to approximate the costs to the Fund. A running total of net excess or deficiency of revenues as compared to costs is kept and applied to decrease or increase wholesale rates in the next rate period. In this way, long-term rate revenue is expected to match long-term costs for each cost pool.

Note 4 - Asset Costs

Pursuant to terms set forth in section IV.E.2 of the Wholesale Customer Contract, the Fund charges wholesale customers for asset costs. This cost for 2011 was calculated as follows:

Existing Supply	
Depreciation	\$ 11,129,726
Asset Net Book Value	\$ 380,992,462
Rate of Return on Investment	6.2%
Return on Net Book Value	<u>23,621,533</u>
Total Existing Supply Asset Cost	<u>\$ 34,751,259</u>
Existing Transmission	
Depreciation	\$ 5,721,463
Asset Net Book Value	\$ 188,556,960
Rate of Return on Investment	6.2%
Return on Net Book Value	<u>11,690,532</u>
Total Existing Transmission Asset Cost	<u>\$ 17,411,995</u>
New Supply, 1% Conservation (utility cost basis)	
Depreciation	\$ 2,479,515
Asset Net Book Value	\$ 10,734,747
Rate of Return on Investment	6.2%
Return on Net Book Value	665,554
New Supply, 1% Conservation (cash basis)	<u>1,788,304</u>
Total New Supply Asset Cost	<u>\$ 4,933,373</u>