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Wholesale Statements and
Report of Independent Accountants on
Applying Agreed-Upon Procedures for

**City of Seattle,
Seattle Public Utilities –
Water Fund**

December 31, 2015

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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 to the attached Wholesale Statements (2001 Contract Types), see listing within table of contents, and notes to the Wholesale Statements as of for the for the year ended December 31, 2015, 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 Fund’s compliance with the rate-making principles and policies set forth in agreements between the Fund and the Customers.. 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 Statement and recalculated the arithmetical accuracy.
2. We compared the balances on this statement to the appropriate source summary worksheets identified below provided by Fund management and performed the following:
 - a. We compared the total water consumption balance to the total volume listed on the Regional Rate Based Revenues Statement for Full & Partial Contract Base Rate Revenue to the Purveyor Monthly Report for Declining Block Revenue and Fixed Block Revenue, finding them to be in agreement.

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- b. We compared the surcharge water consumption columns to the Purveyor Monthly Report and the East Subregion CCF report, finding them to be in agreement.
 - The Summary of Regional System Revenues included a NW Wheeling Surcharge for 2015. We have recalculated and traced the surcharge to the Purveyor Consumption Report without exception.
- c. We compared wholesale customer revenues as noted in the annual billings schedule within the Purveyor Monthly Report, as provided by Fund management, to the Regional Rate Based Revenues Statement, finding them to be in agreement.
- d. We compared the total number of new retail connections and the related revenues to the Facilities Charge Revenues Statement and found them to be in agreement.
- e. We compared the Cascade Water Alliance (“CWA”) Declining Block Revenues to the CWA Cost Estimate and Payment Schedule, as provided by Fund management, noting the following:
 - We noted that the CWA Declining Block Revenues do not match the amounts listed on the CWA Cost Estimate and Payment Schedule by a difference of \$343,055. We inquired of Fund management and they noted that the difference of \$343,055 is a charge for a 2013 underpayment and corresponding interest due from a prior year that was applied to the payment schedule during 2015.
 - We noted that the CWA Declining Block Revenues do not match the amounts listed on the CWA Cost Estimate and Payment Schedule by a difference of \$650,923. We inquired of Fund management and they noted that the difference of \$650,923 is the result of the drought in the summer of 2015 resulting in a voluntary water curtailment and discount to CWA.
- f. We compared the Northshore Utility District (“NUD”) Fixed Block Revenues to the NUD Cost Estimate and Payment Schedule, noting the following:
 - We noted that the NUD Fixed Block Revenues do not match the amounts listed on the NUD Cost Estimate and Payment Schedule by a difference of \$94,329. We inquired of Fund management and they noted that the difference of \$94,329 is a charge for a 2013 underpayment and corresponding interest due from a prior year that was applied to the payment schedule during 2015.
 - We noted that the NUD Fixed Block Revenues do not match the amounts listed on the NUD Cost Estimate and Payment Schedule by a difference of \$167,036. We inquired of Fund management and they noted that the difference of \$167,036 is the result of the drought in the summer of 2015 resulting in a voluntary water curtailment and discount to NUD.

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g. We compared the Renton New Supply revenue to the Renton Cost Estimate and Payment Schedule, noting the following:

- We noted that the Declining Block Revenues do not match the amounts listed on the Renton Cost Estimate and Payment Schedule by a difference of \$17,941. We inquired of Fund management and they noted that the difference of \$17,941 is a credit for a 2013 overpayment and corresponding interest received in a prior year that was applied to the payment schedule during 2015.

3. We compared the population-served amounts to detailed spreadsheets prepared by Fund management that estimate population amounts, found them to be in agreement, and noted that the data is based on the information provided by the Puget Sound Regional Council. We recalculated the arithmetical accuracy of the spreadsheets, supporting the population served amounts.
4. We did not note any prior year adjustments to the 2015 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 recalculated the arithmetical accuracy.
6. We compared the rate based revenues for the year ended December 31, 2015 to the sum of the base rate revenues detailed on the Regional Rate Based Revenues Statement, noting total balances to be in agreement.
7. We obtained the 2015 Operations and Maintenance (“O&M”) Expense Allocation Schedule from Fund management, detailed by expense category, used to calculate operations costs on the Statement and performed the following procedures:
 - a. We recalculated 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 2015 audited Fund 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 noted that 2015 O&M costs are allocated to cost pools according to the New Contract Exhibits by selecting 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, testing 14 selections. We noted that all selected costs were identified in Exhibit IX within the Wholesale Customer Contract.
 - d. We compared the 2014 and 2015 O&M Expense Allocation Schedules to each other, and found them to be consistently presented.
 - e. We recalculated the application of the 2014 to 2015 Cost Ratio to the 2015 base cost index, without exception. This calculation is illustrated in Note 2 to the Wholesale Statements.

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8. We obtained the Fund Audit Schedule of Fixed Assets as of December 31, 2015 from Fund management, and performed the following procedures:
 - a. We recalculated the arithmetical accuracy of the Fund Audit Schedule of Fixed Assets.
 - b. We compared the fixed asset categories to the 2015 audited Fund financial statements, and found them to be in agreement.
 - c. We noted 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, testing 20 selections, and comparing them to Exhibits VII and VIII in the Wholesale Customer Contracts. The descriptions of the selected allocated assets matched those within each respective exhibit.
 - d. We recalculated the rate of return on investments (6.00%), by adding 150 basis points to the Seattle Public Utilities Water Fund's average cost of debt (4.50%), noting it was calculated in accordance with Article II of the Wholesale Customer Contract.
 - e. We recalculated the application of the return on investments.
 9. We compared the Allocation to Cascade Base Block and Cascade Supplemental Block amount to the Statement of Surplus (Deficit) of Declining Block Contract Revenues Less Service Costs, and found them to be in agreement.
 10. We compared the Allocation of Existing Supply and Existing Transmission to Fixed Block and Allocation of New Supply Operations to Fixed Block amounts 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, and found them to be in agreement.
 11. We compared the allocation of New Supply Operations to Renton on the Statement of Surplus (Deficit) of Rate Revenue Less Service Costs to the Statement of Surplus (Deficit) of Renton New Supply Revenue Less Service Costs, and found them to be in agreement.
 12. We compared other credits, which were Timber sales, to the December 31, 2015 Fund general ledger and found them to be in agreement. We recalculated the allocation percentage of these credits to the Summary of Regional System Revenues, without exception.
 13. We noted a prior year adjustment to revenues of \$48,939 on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs, which we recalculated and traced to the 2015 Purveyor Monthly Summary Report, as provided by Fund management, without exception.

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

14. We obtained the Statement of Surplus (Deficit) of Declining Block Contract Revenues Less Service Costs and recalculated the arithmetical accuracy.

15. We compared revenues for the year ended December 31, 2015, net of 2015 Timber sales, to the declining block revenue amount on the Summary of Regional System Revenues, and found them to be in agreement.
16. 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.
17. We recalculated the Existing Supply and Existing Transmission costs Allocation to Declining Block provided by Fund management.
18. 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, 2015 provided by Fund management.
 - b. We identified individual O&M costs noted as subregional within the 2015 O&M Expense Allocation Schedule provided by Fund management, and compared each amount to the Operations Costs for the Cascade Subregion B Segments 1 & 2, noting they were in agreement.
 - c. We obtained flow allocators for the Cascade Subregions from Fund management noting that none of the flow allocators varied by more than two standard deviations from the rolling five-year average.
 - d. We recalculated the application of the flow factors to each Subregional facility using the Annual Waterflow Schedule provided by Fund management without exception.
19. We recalculated the annual cost of the supplemental portion of the Declining Block.
20. 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

21. We obtained the Statement of Surplus (Deficit) of Fixed Block Contract Revenues Less Service Costs, and recalculated the arithmetical accuracy.
22. We compared revenues for the year ended December 31, 2015, to the corresponding amount on the Summary of Regional System Revenues, and found them to be in agreement after reduction of the 2015 Timber Sales of \$6,226.
23. 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.

24. We recalculated the Allocation to Fixed Block Customers by comparing the Existing Supply and Existing Transmission Costs to the 2015 O&M Allocation and 2015 Asset Allocation Schedules provided by Fund management and found them to be in agreement.
25. 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.
26. 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 Renton New Supply Revenue Less Service Costs

27. We obtained the Statement of Surplus (Deficit) of Renton New Supply Revenue Less Service Costs and recalculated the arithmetical accuracy.
28. We compared revenue for the year ended December 31, 2015 to the corresponding amount on the Summary of Regional System Revenues, and found them to be in agreement.
29. We compared the Renton New Supply Cost Pool Operations Costs to the New Supply Operations Costs on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs and the Renton New Supply 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.

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

30. We obtained the Statement of Surplus (Deficit) of East Subregion Rate Revenues Less Service Costs and recalculated the arithmetical accuracy.
31. 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, 2015 provided by Fund management.
 - b. We verified that individual Operations Costs noted as subregional in 2015 are identified within the O&M Expense Allocation Schedule provided by Fund management.
 - c. We obtained flow allocators for the East Subregions (Mercer Island Pipeline) from Fund management noting that none of the flow allocators varied by more than two standard deviations from the five-year rolling average.
 - d. We recalculated the application of flow factors to each subregional facility without exception.
 - e. We recalculated 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

32. We obtained the Statement of Surplus (Deficit) of Southwest Subregion Rate Revenues Less Service Costs and recalculated the arithmetical accuracy.
33. 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, 2015 provided by Fund management.
34. We noted that individual Operations Costs noted as subregional in 2015 are identified within the O&M Expense Allocation Schedule provided by Fund management.
35. We obtained flow allocators from Fund management for the 585 Zone Facilities, West Seattle Reservoir, West Seattle Pipeline, Des Moines Way Pipeline, Military Road Feeder, and East Marginal Way Feeder. None of the allocators varied by more than two standard deviations from the five-year rolling average, except the following:
 - We noted that the West Seattle Reservoir is greater than two standard deviations of the five year rolling average. Fund management noted that the allocation of the West Seattle Reservoir, like the other subregional allocations, is based on the percentage of water from the facility delivered to wholesale customers vs. Seattle retail customers during the peak month.

The West Seattle Reservoir is one of the sources of water for the 585 Zone, which then delivers water to retail and wholesale customers. Therefore, the allocation of the West Seattle Reservoir depends on both 1) the percentage of water in the 585 Zone that is used by wholesale customers, and 2) the mix of sources used to provide water to the 585 Zone. For 2015, the combination of the following two factors caused the West Seattle Reservoir allocation to increase:

1. As compared to 2014, a hot dry summer in 2015 increased overall deliveries from the 585 Zone by 22%, but wholesale customers increased 39% while retail only increased by 7%;
 2. Seattle increased its use of the Trenton turbines to fill the zone from 10% in 2014 to 19% in 2015. This is due to greater control and higher efficiency when using the turbines to fill the zone and the Trenton standpipes as compared to a 20" on-off bypass valve.
36. We recalculated the application of flow factors to each subregional facility without exception.
 37. We did not note any prior year adjustments to the 2015 Statement of Surplus (Deficit) of Southwest Subregion Rate Revenues Less Service Costs.

Procedures Performed on the New Wholesale Customer Facilities Charge Summary Statement

38. We obtained the New Wholesale Customer Facilities Charge Summary Statement and recalculated the arithmetical accuracy.
 - The Facilities Charge Summary Statement includes interest in the calculation. We have recalculated and traced the interest rate used to the Seattle Public Utilities Water Fund's average cost of debt schedule, provided by Fund management, without exception.
39. We compared the 2015 facilities charge based revenues to the Facilities Charge Revenue Statement and noted they were in agreement.
40. We compared the 1% conservation costs totaling \$819,624 to the Fund Audit Schedule of Fixed Assets as of December 31, 2015 provided by Fund management and noted they were in agreement. The 2015 regional conservation costs totaling \$1,134,743 are reported on a cash basis and could not be agreed to the Fund Audit Schedule of Fixed Assets as of December 31, 2015, which is reported on an accrual basis. Fund management provided a separate schedule of Regional Conservation, which we were able to compare the 2015 regional conservation costs to and found them in agreement.
41. We compared 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, and found them to be in agreement.
42. We compared the Allocation to Renton New Supply to the Statement of Surplus (Deficit) of Renton New Supply Revenue Less Services Costs, and found them to be in agreement.
43. We did not note any prior year adjustments to the 2015 New Wholesale Customer Facilities Charge Summary Statement.

Procedures Performed on the Regional Rate Based Revenues Statement

44. We obtained the Regional Rate Based Revenues Statement and recalculated the arithmetical accuracy.
45. We selected two months (February and September) through non-statistical means and recalculated Seattle wholesale volumes on the "MGD by Source" report and 2015 year-end detail source sheets provided by Fund management without exception.
46. We selected two months (February and September) through non-statistical means and recalculated Seattle wholesale bills on the 2015 year-end detail source sheet without exception. We also compared the rates used for Seattle to full and partial rates in the Seattle Municipal Code 21.04.440 – Rates Outside the City of Seattle, which we noted to be in agreement.

47. We randomly selected a sample of customer bills sent in 2015 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 recalculated the Southwest Subregional Surcharge without exception.
 - c. We recalculated the East Subregional Segments 3 & 4 Surcharge without exception.
 - d. We recalculated the Northwest Subregional Surcharge without exception.
48. We compared all amounts noted as miscellaneous or consumption adjustments to supporting documentation provided by Fund management.
49. We noted one prior year adjustment to the Regional Rate Based Revenues Statement for Seattle for \$48,938. We obtained the 2015 Purveyor Monthly Summary from Fund management and recalculated the adjustment based on the consumption adjustment amount and rate included without exception.

Procedures Performed on Facilities Charge Revenues Statement

50. We obtained the Facilities Charge Revenues Statement and recalculated the arithmetical accuracy.
51. We compared the 2015 "Non-Seattle" facilities charge revenues amount into the December 31, 2015 Fund general ledger, noting they were in agreement.
52. 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 Fund management to the Facilities Charge Revenues Statement, noting they were in agreement.
53. We selected Seattle new meter counts through non-statistical means to achieve 60% coverage of total new meter installations and compared them to the 2015 Maximo Work Order Query provided by Fund management and noted they were in agreement.
53. We did not note any prior year adjustments to the 2015 Facilities Charge Revenues Statement.

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

54. We compared the monthly water consumption amounts (volume only) presented on the Purveyor Monthly Summary Report and Purveyor Consumption Report provided by Fund management, which supports data presented on the Statement of Declining Block Usage and Penalty Charge, noting amounts were in agreement.

55. We recalculated the Annual Average Use in accordance with the methodology defined in sections 3.4A and 3.4B, and 3.11 of the Amended Contract without exception.
56. We recalculated the Peak Season Use in accordance with the methodology defined in section 3.3 and 3.10 of the Amended Contract without exception.
57. We recalculated the Peak Month Use in accordance with the defined in section 3.3 and 3.9 of the Amended Contract without exception.
58. We did not note any Penalty Charge Costs applied to this statement.

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

59. We compared the monthly water consumption amounts (volume only) presented on the Purveyor Monthly Summary Report and Purveyor Consumption Report provided by the Fund's Account Services department, which supports data presented on the Statement of Fixed Block Usage and Penalty Charge, noting amounts were in agreement.
60. We recalculated the Annual Average Use in accordance with the methodology defined in Article II of the Fixed Block Water Supply Agreement without exception.
61. We recalculated the Peak Season Use in accordance with the methodology defined in Articles II & III of the Fixed Block Water Supply Agreement without exception.
62. We recalculated the Peak Month Use in accordance with the methodology defined in Articles II & III of the Fixed Block Water Supply Agreement without exception.
63. We did not note any Penalty Charge Costs applied to this statement.

Procedures Performed on Additional Historical True Up Information

64. We compared balances presented in Historical True Up Information to the 2002 through 2015 Wholesale Statements or schedules provided by Fund management from which they are derived, and noted they were in agreement.

Procedures Performed on the Notes to the Wholesale Customer Statements

65. 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.
66. We obtained Notes 2 and 4 and recalculated the arithmetical accuracy of the amounts shown in the Notes.
67. We compared balances of all Operations Costs within Note 2 to the 2015 O&M Allocation Schedule provided by Fund management and found them to be in agreement.

68. 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 and noted they were in agreement. We noted all other balances to be in agreement with the 2015 Asset Schedule.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Wholesale Statements and related notes. 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

REPORT DATE

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES - WATER FUND
SUMMARY OF REGIONAL SYSTEM REVENUES
YEAR ENDED DECEMBER 31, 2015**

| | <u>Population Served</u> | <u>Total Water Consumption (in CCF)</u> | <u>Surcharge Water Consumption (in CCF)</u> | <u>New Retail Connections (qty)</u> | <u>Revenues</u> |
|-------------------------------------------------------|------------------------------|-------------------------------------------------|---------------------------------------------------------|---------------------------------------------|-----------------------|
| 2001 Contract Wholesale Customers (including Seattle) | 1,393,165 | | | | |
| Full & Partial Contract Base Rate Revenue | | 44,072,601 | | N/A | \$ 75,337,459 |
| SW Sub-Region Surcharge | | N/A | 4,868,849 | N/A | 769,410 |
| E Sub-Region Surcharge | | N/A | | | |
| Segment 3 | | | 201,650 | N/A | 16,523 |
| Segment 4 | | | 924,074 | N/A | 148,381 |
| Renton New Supply | | N/A | | | 155,623 |
| NW Wheeling Surcharge | | N/A | 640,468 | N/A | 35,780 |
| Declining Block Revenue (1) | | 13,792,553 | | | 19,566,431 |
| Fixed Block Revenue | | 2,623,056 | | | 5,026,651 |
| Facilities Charges | | N/A | N/A | 1848 | 4,342,108 |
| Total System | | 60,488,210 | | | <u>\$ 105,398,366</u> |

(1) Declining Block Revenue includes Cascade Water Alliance's (CWA) Regional and CWA's Subregional revenue

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF SURPLUS (DEFICIT) OF RATE REVENUES LESS SERVICE COSTS
YEAR ENDED DECEMBER 31, 2015**

| | | |
|------------------------------------------------------------------------|--------------------|----------------------------|
| Beginning Balance - 12/31/14 | \$ 11,467,962 | |
| Interest | 516,058 | |
| Total Prior Balance: | | <u>\$ 11,984,020</u> |
| 2015 Rate Based Revenues | | 75,337,459 |
| 2015 Timber Sales | 122,078 | |
| Allocation to Declining Block | 22,064 | |
| Allocation to Fixed Block | 6,226 | |
| Full and Partial Contract portion | | 93,788 |
| Transfer of Facilities Charge Revenue | | 2,455,201 |
| Adjustment to Prior-year revenues | | 48,939 |
| Total Revenues | | <u>77,935,387</u> |
| 2015 Rate Based Costs | | |
| Existing Supply | | |
| Operations Costs | 38,098,368 | |
| Asset Recovery Costs | 34,394,336 | |
| New Supply | | |
| Operations Costs | 1,026,935 | |
| Asset Recovery Costs | - | |
| Existing Transmission | | |
| Operations Costs | 14,388,117 | |
| Asset Recovery Costs | 19,319,216 | |
| New Transmission | | |
| Operations Costs | - | |
| Asset Recovery Costs | - | |
| Total | <u>107,226,972</u> | 107,226,972 |
| Allocation to Cascade Base Block | | 18,576,276 |
| Allocation to Cascade Supplemental Block | | 2,489,633 |
| Allocation of Existing Supply and Existing Transmission to Fixed Block | | 5,242,010 |
| Allocation of New Supply Operations to Fixed Block | | 61,605 |
| Allocation of New Supply Operations to Renton | | 58,535 |
| Adjustment for Prior-year allocation, including interest | | - |
| Total Full and Partial Contract Customer Costs | | <u>80,798,913</u> |
| Net excess of revenues over cost of service - 12/31/2015 | | <u><u>\$ 9,120,494</u></u> |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF SURPLUS (DEFICIT) OF
DECLINING BLOCK CONTRACT REVENUES LESS SERVICE COSTS
YEAR ENDED DECEMBER 31, 2015**

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| | | |
|----------------------------------------------------------|---------------|----------------|
| Beginning Balance - 12/31/14 | | |
| No carryover from previous year under block contracts | | |
| Declining Block Revenues | \$ 20,217,354 | |
| Decrease due to Water Supply Curtailment | (650,923) | |
| 2015 Timber Sales (allocated as block) | 22,064 | |
| Total Revenues | | 19,588,495 |
| BASE BLOCK | | |
| Existing Supply and Existing Transmission | | |
| Existing Supply | | |
| Operations Costs | 38,098,368 | |
| Asset Recovery Costs | 34,394,336 | |
| Existing Transmission | | |
| Operations Costs | 14,388,117 | |
| Asset Recovery Costs | 19,319,216 | |
| Total | 106,200,037 | |
| Allocation to Declining Block | 19,194,259 | |
| Decrease due to Water Supply Curtailment | (617,983) | |
| | 18,576,276 | 18,576,276 |
| Cascade Sub-regions | | |
| Cascade Subregion A | | |
| Operations Costs | - | |
| Asset Recovery Costs | 12,417 | |
| Total | 12,417 | |
| Allocation to Declining Block | | 12,417 |
| Cascade Subregion B - Segment 1 | | |
| Operations Costs | - | |
| Asset Recovery Costs | 13,605 | |
| Total | 13,605 | |
| Allocation to Declining Block | | 869 |
| Allocation to Downstream Customers | 12,736 | |
| Cascade Subregion B - Segment 2 | | |
| Amount from Segment 1 | 12,736 | |
| Operations Costs | - | |
| Asset Recovery Costs | 18,994 | |
| Total | 31,730 | |
| Allocation to Declining Block | | 6,065 |
| Cascade Subregion B - Segment 3 | | |
| Operations Costs | - | |
| Asset Recovery Costs | - | |
| Total | - | |
| Allocation to Declining Block | | - |
| SUPPLEMENTAL BLOCK | | |
| Charge for 3MGD at Full and Partial Rates | 2,572,457 | |
| Decrease due to Water Supply Curtailment | (82,823) | |
| | 2,489,633 | 2,489,633 |
| Total Costs for Base and Supplemental Block | | 21,085,261 |
| Adjustment for Prior-year allocation, including interest | | - |
| Net excess of revenues over cost of service - 12/31/2015 | | \$ (1,496,766) |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF SURPLUS (DEFICIT) OF
FIXED-BLOCK CONTRACT REVENUES LESS SERVICE COSTS
YEAR ENDED DECEMBER 31, 2015**

| | | | |
|----------------------------------------------------------|--------------------|----|-------------------------|
| Beginning Balance - 12/31/14 | | \$ | - |
| No carryover from previous year under block contracts | | | |
| Fixed Block Revenues | \$ 5,193,687 | | |
| Decrease due to Water Supply Curtailment | (167,036) | | |
| 2015 Timber Sales (allocated as block) | 6,226 | | |
| Total Revenues | | | <u>5,032,877</u> |
| Existing Supply and Existing Transmission | | | |
| Existing Supply | | | |
| Operations Costs | 38,098,368 | | |
| Asset Recovery Costs | 34,394,336 | | |
| Existing Transmission | | | |
| Operations Costs | 14,388,117 | | |
| Asset Recovery Costs | 19,319,216 | | |
| Total | <u>106,200,037</u> | | |
| Allocation to Fixed Block | 5,416,202 | | |
| Decrease due to Water Supply Curtailment | (174,192) | | |
| | <u>5,242,010</u> | | 5,242,010 |
| Conservation Cost Pool | | | |
| Operations Costs | 1,026,935 | | |
| Allocation to Fixed Block | | | 63,652 |
| Decrease due to Water Supply Curtailment | | | <u>(2,047)</u> |
| | | | 61,605 |
| Asset Recovery Costs | 1,954,367 | | |
| Allocation to Fixed Block | | | 121,137 |
| Decrease due to Water Supply Curtailment | | | <u>(3,896)</u> |
| | | | <u>117,241</u> |
| Total Costs | | | <u>5,420,857</u> |
| Adjustment for Prior-year allocation, including interest | | | <u>-</u> |
| Net excess of revenues over cost of service - 12/31/2015 | | \$ | <u><u>(387,979)</u></u> |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF SURPLUS (DEFICIT) OF
RENTON NEW SUPPLY REVENUE LESS SERVICE COSTS
YEAR ENDED DECEMBER 31, 2015**

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| | | |
|----------------------------------------------------------|--------------|-------------------------|
| Beginning Balance - 12/31/14 | | \$ - |
| No carryover from previous year under block contracts | | |
| Renton New Supply Revenues | | <u>155,623</u> |
| Renton New Supply Costs | | |
| Operations Costs | \$ 1,026,935 | |
| Allocation to Renton New Supply | | 58,535 |
| Asset Recovery Costs | 1,134,743 | |
| Allocation to Renton New Supply | | <u>64,680</u> |
| Total Costs | | <u>123,216</u> |
| Net excess of revenues over cost of service - 12/31/2015 | | <u><u>\$ 32,407</u></u> |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF SURPLUS (DEFICIT) OF
EAST SUBREGION RATE REVENUES LESS SERVICE COSTS
YEAR ENDED DECEMBER 31, 2015**

| | | | |
|-------------------------------------------------------|----|-----------------|------------------|
| East Subregion Segment 1 Costs | | | |
| Operations Costs | \$ | - | |
| Asset Recovery Costs | | 13,605 | |
| Total | | <u>13,605</u> | |
| Amount Allocated to Segment 1 | | | <u>\$ 869</u> |
| Amount Allocated to downstream users | | 12,736 | |
| <hr/> | | | |
| East Subregion Segment 2 Costs | | | |
| Amount from Segment 1 | \$ | 12,736 | |
| Operations Costs | | - | |
| Asset Recovery Costs | | 18,994 | |
| Total | | <u>31,730</u> | |
| Amount Allocated to Segment 2 | | | <u>\$ 6,065</u> |
| Amount Allocated to downstream users | | 25,665 | |
| <hr/> | | | |
| East Subregion Segment 3 Beginning Balance 12/31/2014 | \$ | 15,830 | |
| Interest | | 712 | |
| Total | | <u>16,542</u> | \$ 16,542 |
| East Subregion Segment 3 As-If Revenues | | | 16,523 |
| East Subregion Segment 3 Costs | | | |
| Amount from Segment 2 | | 25,665 | |
| Operations Costs | | 29,754 | |
| Asset Recovery Costs | | 30,951 | |
| Total | | <u>86,370</u> | |
| Amount Allocated to Segment 3 | | | <u>7,310</u> |
| Amount Allocated to downstream users | | 79,060 | |
| Net excess (deficit) of revenues over cost of service | | | <u>\$ 25,755</u> |
| <hr/> | | | |
| East Subregion Segment 4 Beginning Balance 12/31/2014 | \$ | (40,454) | |
| Interest | | (1,820) | |
| Total | | <u>(42,274)</u> | \$ (42,274) |
| East Subregion Segment 4 As-If Revenues | | | 148,381 |
| East Subregion Segment 4 Costs | | | |
| Amount from Segment 3 | | 79,060 | |
| Operations Costs | | - | |
| Asset Recovery Costs | | 13,472 | |
| Total | | <u>92,532</u> | |
| Amount Allocated to Segment 4 | | | <u>92,532</u> |
| Net excess (deficit) of revenues over cost of service | | | <u>\$ 13,575</u> |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF SURPLUS (DEFICIT) OF
SOUTHWEST SUBREGION RATE REVENUES LESS SERVICE COSTS
YEAR ENDED DECEMBER 31, 2015**

| | | |
|--------------------------------------------------------------------|------------------|----------------------------|
| Beginning Balance - 12/31/14 | \$ (754,968) | |
| Interest | <u>(33,974)</u> | |
| Total Prior Balance: | | <u>\$ (788,942)</u> |
| 2015 Rate Based Revenues | | <u>769,410</u> |
| 2015 Rate Based Costs | | |
| 585 Zone Facilities | | |
| Operations Costs | - | |
| Asset Recovery Costs | 305,913 | |
| Total | <u>305,913</u> | |
| Allocation to Southwest Subregion Customers (at 52.2%) | | 160,642 |
| West Seattle Reservoir | | |
| Operations Costs | - | |
| Asset Recovery Costs | 3,149,976 | |
| Total | <u>3,149,976</u> | |
| Allocation to Southwest Subregion Customers (at 7.1%) | | 223,838 |
| West Seattle Pipeline | | |
| Operations Costs | - | |
| Asset Recovery Costs | 143,501 | |
| Total | <u>143,501</u> | |
| Allocation to Southwest Subregion Customers (at 22.2%) | | 31,817 |
| Des Moines Way Pipeline | | |
| Operations Costs | - | |
| Asset Recovery Costs | 8,438 | |
| Total | <u>8,438</u> | |
| Allocation to Southwest Subregion Customers (at 100%) | | 8,438 |
| 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%) | | - |
| Total Costs: | | <u>424,734</u> |
| Net excess (deficit) of revenues over cost of service - 12/31/2015 | | <u><u>\$ (444,266)</u></u> |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NEW WHOLESALE CUSTOMER FACILITIES CHARGE SUMMARY STATEMENT
YEAR ENDED DECEMBER 31, 2015**

| | | |
|---------------------------------------------------------|------------------|----------------------------|
| Beginning Balance - 12/31/14 | \$ 7,782,246 | |
| Interest | <u>350,201</u> | |
| Total Prior Balance: | | \$ 8,132,447 |
| 2015 Facilities Charge Based Revenues | | 4,342,108 |
| 2015 Facilities Charge Based Costs | | |
| 1% Conservation Costs | 819,624 | |
| 2015 Regional Conservation Costs | <u>1,134,743</u> | |
| Total | 1,954,367 | |
| Allocation to 2001 Contract Wholesale Customers | | 1,954,367 |
| Allocation to Fixed Block | | (117,241) |
| Allocation of New Supply Assets to Renton | | <u>(64,680)</u> |
| Total Full and Partial Contract Customer Costs | | <u>1,772,445</u> |
| SubTotal | | 10,702,110 |
| Transfer amount over Net Book Value to regional revenue | | <u>(2,455,201)</u> |
| Ending Balance - 12/31/2015 | | <u><u>\$ 8,246,909</u></u> |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
REGIONAL RATE BASED REVENUES STATEMENT
YEAR ENDED DECEMBER 31, 2015**

| Customer | Volume (ccf) | Base Rate Revenue for current year (\$) | SW Sub- Regional Surcharge (\$) | E Sub-Regional Segment 3 Surcharge (\$) | E Sub-Regional Segment 4 Surcharge (\$) | NW Sub- Regional Surcharge (\$) |
|------------------|-------------------|--------------------------------------------------|------------------------------------------|--------------------------------------------------|--------------------------------------------------|------------------------------------------|
| Bothell | 724,782 | 1,390,176 | | | | |
| Cedar River | 910,094 | 1,599,352 | | | | |
| Coal Creek | 719,340 | 1,153,542 | | | | |
| Duvall | 260,014 | 451,986 | | | | |
| Edmonds | - | 3,924 | | | | |
| Highline | 2,401,204 | 4,191,802 | 379,384 | | | |
| Lake Forest Park | 43 | 4,376 | | | | |
| Mercer Island | 1,080,492 | 2,079,865 | | 12,812 | 148,381 | |
| North Bend | 57,964 | 66,452 | | | | |
| Olympic View | 427,550 | 759,643 | | | | 25,834 |
| Renton | 54,951 | 232,145 | | | | |
| North City | 831,093 | 1,438,138 | | | | 9,946 |
| Soos Creek | 2,002,945 | 3,452,697 | | | | |
| WD 20 | 1,240,865 | 2,133,872 | 195,732 | | | |
| WD 45 | 113,495 | 201,316 | 17,877 | | | |
| WD 49 | 625,497 | 1,067,510 | 98,490 | | | |
| WD 90 | 621,453 | 1,107,958 | | | | |
| WD 119 | 122,240 | 210,453 | | | | |
| WD 125 | 487,788 | 908,056 | 77,926 | | | |
| Woodinville | 1,987,587 | 3,182,054 | | | | |
| Seattle | 29,403,204 | 49,702,144 | N/A | 3,711 | N/A | N/A |
| Total | 44,072,601 | 75,337,459 | 769,410 | 16,523 | 148,381 | 35,780 |

See accompanying notes to the Wholesale Statements.

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
FACILITIES CHARGE REVENUES STATEMENT
YEAR ENDED DECEMBER 31, 2015**

| Meter Size | Number of New Meters | | | | | | | | | | New Meter Facilities Charge | | | | | | | | | | |
|---------------|----------------------|------------|-----------|----------|-----------|----------|----------|----------|----------|--------------|-----------------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-------------|-------------------|-------------|---------------|---------------------|
| | 1 | 1 1/2 | 2 | 3 | 4 | 6 | 8 | 10 | 12 | Total | 1 | 1 1/2 | 2 | 3 | 4 | 6 | 8 | 10 | 12 | Adjustments | Total |
| Bothell | 54 | - | 2 | 2 | 2 | - | - | - | - | 60 | \$ 50,544 | \$ - | \$ 13,376 | \$ 36,784 | \$ 51,832 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 152,536 |
| Cedar River | 62 | - | - | - | - | - | - | - | - | 62 | 58,032 | - | - | - | - | - | - | - | - | - | 58,032 |
| Coal Creek | 42 | 1 | - | - | - | - | - | - | - | 43 | 39,312 | 3,244 | - | - | - | - | - | - | - | - | 42,556 |
| Duvall | 20 | - | - | - | - | - | - | - | - | 20 | 18,726 | - | - | - | - | - | - | - | - | - | 18,726 |
| Mercer Island | 8 | 40 | 1 | 2 | 3 | - | - | - | - | 54 | 7,488 | 142,864 | 2,508 | 35,848 | 50,996 | - | - | - | - | - | 239,704 |
| North City | 13 | 1 | - | - | - | - | - | - | - | 14 | 12,168 | 3,244 | - | - | - | - | - | - | - | - | 15,412 |
| Soos Creek | 131 | 15 | 1 | - | 1 | - | - | - | - | 148 | 122,616 | 62,700 | 6,688 | - | 25,916 | - | - | - | - | 153 | 218,073 |
| Woodinville | 68 | - | - | - | - | - | - | - | - | 68 | 63,671 | - | - | - | - | - | - | - | - | - | 63,671 |
| WD 20 | 33 | - | 1 | - | - | - | - | - | - | 34 | 30,888 | - | 5,752 | - | - | - | - | - | - | - | 36,640 |
| WD 45 | 4 | - | - | - | - | - | - | - | - | 4 | 3,746 | - | - | - | - | - | - | - | - | - | 3,746 |
| WD 49 | 31 | - | - | - | - | - | - | - | - | 31 | 29,016 | - | - | - | - | - | - | - | - | - | 29,016 |
| WD 90 | 146 | - | - | - | - | - | - | - | - | 146 | 136,656 | - | - | - | - | - | - | - | - | - | 136,656 |
| WD 119 | 5 | - | - | - | - | - | - | - | - | 5 | 4,680 | - | - | - | - | - | - | - | - | - | 4,680 |
| WD 125 | 17 | - | 1 | - | - | - | - | - | - | 18 | 15,912 | - | 6,688 | - | - | - | - | - | - | - | 22,600 |
| Seattle | 940 | 82 | 64 | 5 | 44 | 5 | - | 1 | - | 1,141 | 879,840 | 342,760 | 428,032 | 91,960 | 1,140,304 | 275,880 | - | 141,284 | - | - | 3,300,060 |
| Total | 1,574 | 139 | 70 | 9 | 50 | 5 | - | 1 | - | 1,848 | \$ 1,473,295 | \$ 554,812 | \$ 463,044 | \$ 164,592 | \$ 1,269,048 | \$ 275,880 | \$ - | \$ 141,284 | \$ - | \$ 153 | \$ 4,342,108 |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES - WATER FUND
STATEMENT OF DECLINING BLOCK USAGE AND PENALTY CHARGE
YEAR ENDED DECEMBER 31, 2015**

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Declining Block Usage

Annual Average Use

January 1 - December 31

Block Limit (MG) 33.3

Actual Use (MG) 28.1

Excess Use (MG) 0.0

Peak Season Use

May 21 - September 22, inclusive

Block Limit (MG) 45.0

Actual Use (MG) 40.7

Excess Use (MG) 0.0

Peak Month Use

June 23 - July 22, inclusive

Block Limit (MG) 56.3

Actual Use (MG) 50.3

Excess Use (MG) 0.0

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

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF FIXED BLOCK USAGE AND PENALTY CHARGE
YEAR ENDED DECEMBER 31, 2015**

Fixed Block Usage

Annual Average Use

January 1 – December 31

Block Limit (MG) 8.55

Actual Use (MG) 5.35

Excess Use (MG) 0.0

Peak Season Use

May 21 – September 22, inclusive

Block Limit (MG) 11.80

Actual Use (MG) 7.46

Excess Use (MG) 0.0

Peak Month Use

June 23 – July 22, inclusive

Block Limit (MG) 15.06

Actual Use (MG) 9.0

Excess Use (MG) 0.0

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

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES - WATER FUND
HISTORIC TRUE UP INFORMATION
DECEMBER 31, 2015**

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| | Wholesale Demand* (ccf) | Regional Rate Revenues | Facilities Charge ERUs | Facilities Charge Revenues | Rate of Return | Cumulative Rates Balance | Cumulative Facilities Charge Balance |
|------|-------------------------|------------------------|------------------------|----------------------------|----------------|--------------------------|--------------------------------------|
| 2002 | 39,210,652 | \$ 40,971,767 | 3,259 | \$ 4,322,196 | 6.3% | \$ 1,786,830 | \$ 3,221,088 |
| 2003 | 44,177,845 | 49,884,686 | 3,353 | 2,728,582 | 6.1% | 7,567,031 | 5,662,351 |
| 2004 | 61,067,898 | 59,191,218 | 4,255 | 3,086,269 | 6.0% | 10,913,843 | 8,247,306 |
| 2005 | 60,839,713 | 59,751,298 | 4,066 | 2,879,807 | 6.2% | 7,567,031 | 10,333,845 |
| 2006 | 60,201,693 | 60,597,142 | 4,903 | 3,504,395 | 6.2% | 6,596,622 | 11,530,622 |
| 2007 | 57,666,133 | 58,618,177 | 5,111 | 3,472,946 | 6.2% | 1,166,184 | 12,720,750 |
| 2008 | 57,350,678 | 57,487,415 | 4,258 | 3,101,550 | 6.1% | (5,649,241) | 12,919,069 |
| 2009 | 59,557,614 | 65,582,044 | 2,682 | 1,881,607 | 6.3% | (1,486,951) | 12,882,597 |
| 2010 | 53,831,337 | 59,854,486 | 1,661 | 1,210,674 | 6.2% | (7,118,540) | 11,959,801 |
| 2011 | 57,107,516 | 64,731,227 | 1,555 | 1,209,105 | 6.2% | (10,192,058) | 9,103,780 |
| 2012 | 57,589,281 | 76,222,570 | 2,644 | 1,977,858 | 6.1% | (6,213,465) | 7,533,916 |
| 2013 | 57,826,084 | 77,821,830 | 4,615 | 3,625,430 | 6.1% | 5,219,209 | 7,289,046 |
| 2014 | 58,276,272 | 78,608,560 | 4,015 | 3,665,706 | 6.1% | 11,467,962 | 7,782,246 |
| 2015 | 60,488,210 | 75,337,459 | 5,171 | 4,342,108 | 6.0% | 9,120,494 | 8,246,909 |

* Includes Full and Partial Requirements customers, Seattle as a Full Requirements customer, and Cascade and Northshore actual demand

| | Regional Existing Supply O&M Cost | Regional Existing Supply Asset Cost | Regional Existing Transmission O&M Cost | Regional Existing Transmission Asset Cost | Regional New Supply O&M Cost | Regional New Supply Asset Cost | Regional New Transmission O&M Cost | Regional New Transmission Asset Cost |
|------|-----------------------------------|-------------------------------------|-----------------------------------------|-------------------------------------------|------------------------------|--------------------------------|------------------------------------|--------------------------------------|
| 2002 | \$ 19,324,226 | \$ 25,563,030 | \$ 5,024,353 | \$ 13,951,503 | \$ 1,336,390 | \$ 1,832,124 | \$ - | \$ - |
| 2003 | 21,478,110 | 28,515,193 | 6,063,001 | 17,328,129 | 1,465,960 | 658,592 | - | - |
| 2004 | 20,882,564 | 33,172,379 | 7,256,866 | 17,731,121 | 1,157,065 | 1,087,076 | - | - |
| 2005 | 25,657,232 | 33,702,364 | 6,804,217 | 17,873,927 | 1,077,273 | 1,592,723 | - | - |
| 2006 | 26,250,435 | 33,236,987 | 9,017,455 | 18,449,204 | 1,210,198 | 1,926,574 | - | - |
| 2007 | 28,699,251 | 33,318,097 | 8,539,842 | 18,027,362 | 1,148,552 | 2,254,043 | - | - |
| 2008 | 29,416,339 | 32,865,219 | 9,230,892 | 17,201,493 | 866,066 | 2,567,277 | 2,577 | - |
| 2009 | 30,052,243 | 33,385,466 | 5,904,059 | 18,110,185 | 705,844 | 2,850,236 | 2,059 | - |
| 2010 | 29,656,594 | 32,915,099 | 11,215,769 | 17,719,534 | 649,588 | 3,071,429 | - | - |
| 2011 | 27,195,212 | 34,751,259 | 10,314,304 | 17,411,994 | 839,203 | 4,933,373 | - | - |
| 2012 | 29,563,140 | 35,517,117 | 10,527,653 | 19,660,369 | 742,023 | 4,309,179 | - | - |
| 2013 | 29,667,357 | 35,132,788 | 9,725,985 | 19,998,965 | 878,110 | 4,603,141 | - | - |
| 2014 | 29,767,636 | 34,714,671 | 13,010,450 | 19,684,036 | 878,022 | 3,808,109 | - | - |
| 2015 | 38,098,368 | 34,394,336 | 14,388,117 | 19,319,216 | 1,026,935 | 1,954,367 | - | - |

| | Regional Existing Supply Depreciation | Regional Existing Supply Net Book Value | Regional Existing Transmission Depreciation | Regional Existing Transmission Net Book Value | Regional New Supply Depreciation (Utility Basis) | Regional New Supply Net Book Value (Utility Basis) | Regional New Supply (Cash basis) | Regional New Transmission Depreciation | Regional New Transmission Net Book Value |
|------|---------------------------------------|-----------------------------------------|---------------------------------------------|-----------------------------------------------|--------------------------------------------------|----------------------------------------------------|----------------------------------|----------------------------------------|------------------------------------------|
| 2002 | \$ 8,498,172 | \$ 241,979,146 | \$ 3,533,693 | \$ 165,362,057 | \$ - | \$ 2,727,873 | \$ - | \$ - | \$ - |
| 2003 | 8,891,637 | 257,549,614 | 4,598,692 | 208,679,297 | 282,887 | 6,159,091 | - | - | - |
| 2004 | 8,839,962 | 349,691,447 | 5,417,678 | 203,675,867 | 644,198 | 7,381,310 | - | - | - |
| 2005 | 12,289,912 | 345,362,112 | 5,460,866 | 200,210,672 | 958,383 | 10,231,282 | - | - | - |
| 2006 | 10,666,498 | 364,040,154 | 5,562,990 | 207,842,155 | 1,211,675 | 11,530,622 | - | - | - |
| 2007 | 10,575,335 | 366,818,755 | 5,619,314 | 200,129,815 | 1,465,357 | 12,720,750 | - | - | - |
| 2008 | 10,605,380 | 364,915,394 | 5,387,214 | 193,676,708 | 1,779,214 | 12,919,069 | - | - | - |
| 2009 | 10,408,614 | 364,711,946 | 5,596,951 | 198,622,758 | 2,019,095 | 13,192,711 | - | - | - |
| 2010 | 10,940,401 | 354,430,621 | 5,708,986 | 193,718,516 | 2,252,145 | 13,214,262 | - | - | - |
| 2011 | 11,129,726 | 380,992,462 | 5,721,463 | 188,556,960 | 2,479,515 | 10,734,747 | 1,788,304 | - | - |
| 2012 | 12,353,419 | 379,732,754 | 5,711,195 | 228,674,981 | 2,479,515 | 8,255,232 | 1,326,095 | - | - |
| 2013 | 12,700,992 | 367,734,358 | 6,543,805 | 220,576,387 | 2,479,515 | 5,775,717 | 1,771,307 | - | - |
| 2014 | 12,764,424 | 359,840,109 | 6,541,275 | 215,455,100 | 2,479,515 | 3,296,203 | 1,127,526 | - | - |
| 2015 | 12,675,375 | 361,982,687 | 6,488,488 | 213,845,471 | 661,545 | 2,634,658 | 1,134,743 | - | - |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NOTES TO SCHEDULES
DECEMBER 31, 2015**

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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 rates in the Seattle municipal code.

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). 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%.

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NOTES TO SCHEDULES
DECEMBER 31, 2015**

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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 2015 was calculated as follows:

| | |
|----------------------------------------------------|----------------------|
| Existing Supply | |
| 2014 Base | \$ 29,364,206 |
| 2014 Costs in identified activities | 20,416,193 |
| 2015 Costs in identified activities | 26,382,975 |
| Ratio of 2015/2014 | 1.2923 |
| 2015 Operations Cost Base | 37,947,363 |
| Add Expensed CIP: | |
| C1316-C112001 - Lake Youngs Rsvrvtion Rd Imprv | 54,482 |
| C1602-C109022 - Stream Crossing for Fish Passa HCP | 7,653 |
| C1507-C108002 - Overflow Dike Improvements | <u>88,870</u> |
| Minus gain on asset retirement: none in 2015 | |
| Total Existing Supply Costs | <u>\$ 38,098,368</u> |

Existing Supply costs in identified activities increased primarily in areas related to:

- Morse Lake Pump Plant mobilization (\$3.9M) in reaction to the drought,
- The Tolt Treatment Plant contract (\$0.4M) due to the uneven schedule of funds included in the contract for major maintenance, as well as the effect of timing of invoices from 2014 to 2015, and
- Watershed Monitoring (\$0.4M) due to increased staffing.

| | |
|--------------------------------------------|----------------------|
| Existing Transmission | |
| 2014 Base | \$ 13,010,450 |
| 2014 Costs in identified activities | 3,415,562 |
| 2015 Costs in identified activities | 3,842,454 |
| Ratio of 2015/2014 | 1.1250 |
| 2015 Operations Cost Base | 14,636,756 |
| Add Expensed CIP: none in 2015 | |
| Minus gain on asset sale | |
| PSE Easement Tolt Pipeline 1 | <u>(248,639)</u> |
| Total Existing existing transmission Costs | <u>\$ 14,388,117</u> |

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NOTES TO SCHEDULES
DECEMBER 31, 2015**

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Note 2 – Operations Costs (Continued)

Existing Transmission costs in identified activities increased in areas related to Transmission Pipeline Maintenance and Right of Way (ROW) mowing. These increases were due to a renewed emphasis in ROW maintenance as compared to the last several years.

| | |
|-------------------------------------|---------------------|
| New Supply | |
| 2014 Base | \$ 878,022 |
| 2014 Costs in identified activities | 393,098 |
| 2015 Costs in identified activities | 459,775 |
| Ratio of 2015/2014 | <u>1.1696</u> |
| 2015 Operations Cost Base | <u>\$ 1,026,935</u> |

New Supply costs in identified activities increased due to increased emphasis on youth and community education, and full staffing in landscape water conservation.

| | |
|-------------------------------------|-------------|
| New Transmission | |
| 2015 Costs in identified activities | |
| Apply G&A as per CIP | <u>\$ -</u> |
| Total New Transmission Costs | <u>\$ -</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.

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**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NOTES TO SCHEDULES
DECEMBER 31, 2015**

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 2015 was calculated as follows:

| | | |
|--------------------------------------------------|----------------|----------------------|
| Existing Supply | | |
| Depreciation | | \$ 12,675,375 |
| Asset Net Book Value | \$ 361,982,687 | |
| Rate of Return on Investment | 6.0% | |
| Return on Net Book Value | | <u>21,718,961</u> |
| Total Existing Supply Asset Cost | | <u>\$ 34,394,336</u> |
| Existing Transmission | | |
| Depreciation | | \$ 6,488,488 |
| Asset Net Book Value | \$ 213,845,471 | |
| Rate of Return on Investment | 6.0% | |
| Return on Net Book Value | | <u>12,830,728</u> |
| Total Existing Transmission Asset Cost | | <u>\$ 19,319,216</u> |
| New Supply, 1% Conservation (utility cost basis) | | |
| Depreciation | | \$ 661,545 |
| Asset Net Book Value | \$ 2,634,658 | |
| Rate of Return on Investment | 6.0% | |
| Return on Net Book Value | | 158,079 |
| New Supply, 2015 Conservation (cash basis) | | <u>1,134,743</u> |
| Total New Supply Asset Cost | | <u>\$ 1,954,367</u> |