

**AMENDED AGREEMENT FOR
WHEELING WATER
BETWEEN
THE CITY OF SEATTLE
AND THE
NORTH CITY WATER DISTRICT**

September 29, 2015

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**AGREEMENT FOR WHEELING WATER
BETWEEN
THE CITY OF SEATTLE
AND
NORTH CITY WATER DISTRICT**

THIS AGREEMENT is entered into between the CITY OF SEATTLE (“Seattle”), a municipal corporation of the State of Washington, and the NORTH CITY WATER DISTRICT (“Utility”), a municipal corporation of the State of Washington.

RECITALS

1. Seattle owns and operates a system for the supply, transmission and distribution of water and is authorized to sell and distribute water to its residents and other customers located outside its corporate limits; and
2. The Utility entered into a Wholesale Water Supply Contract with Seattle to purchase water supply; and
3. Seattle, within its Wholesale Water Supply Contract, has listed the assets of the Seattle Regional Transmission System used to deliver water throughout the region and the terms and conditions for that delivery; and
4. With Seattle's consent, the Utility constructed two new points of delivery that are served through assets that are not part of the listed Seattle Regional Transmission System assets, and the wheeling of water through those assets is not covered by the Utility’s Wholesale Water Supply Contract with Seattle;

NOW, THEREFORE, in consideration of mutual covenants herein, it is agreed as follows:

SECTION I. DEFINITIONS

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

"Point(s) of Delivery" - The water meter and associated appurtenances, including everything from the outlet from the supply pipeline to the end of the Seattle meter vault, through which water is delivered from Seattle's Northwest Sub-regional System to the Utility’s distribution system.

"Northwest Sub-regional System" - Those assets identified in Exhibit A and generally shown on the map in Exhibit B.

"Northwest Sub-regional System Allocation" – The percentage of each asset in the Northwest Sub-regional System that is used for sub-regional system use, i.e. transmission purposes.

“Seattle Regional Transmission System” - Those transmission mains, pumps and storage facilities serving Seattle’s retail and wholesale customers with water as set forth in the Wholesale Water Supply Contract.

"Wheeling" - The process of delivering water through a set of assets from one utility to another.

“Wholesale Water Supply Contract” - The agreement for the provision of water supply between Seattle and the Utility, dated November 5, 2001.

SECTION II. TERM OF CONTRACT AND GUARANTEES

II.A. Term of Contract

1. This Agreement is effective from March 1, 2012 and shall remain in effect during the term of the Wholesale Water Supply Contract (December 31, 2062), so long as the Utility uses the Northwest Sub-regional System to receive water from Seattle.
2. Seattle may assign all or a portion of its rights and obligations under this Agreement to another public utility in the event Seattle transfers ownership of all or a portion of the assets identified in Exhibit A.

II.B. Agreement to Wheel Water

Seattle agrees to facilitate delivery of water pursuant to the terms and conditions of the Wholesale Water Supply Contract by wheeling water from the Seattle Regional Transmission System through the Northwest Sub-regional System to the Utility’s Points of Delivery, as more particularly described in Exhibit C.

II.C. Service Delivery

1. Standard Level of Service. Seattle shall maintain a minimum hydraulic gradient or head at a maximum flow rate in amounts and at locations described in Exhibit C for each of Utility’s Points of Delivery served through the Northwest Sub-regional System.
2. Interruptions of Service. Seattle may temporarily interrupt or reduce delivery of wheeled water to the Utility if Seattle determines that such interruption or reduction is necessary or reasonable in case of system emergencies or in order to install equipment, make repairs, replacements, investigations and inspections or perform other maintenance work on the Northwest Sub-regional System assets. Except in cases of emergency, Seattle shall give the Utility reasonable notice of any such interruption or reduction in service. Notice should include the reasons and probable duration of the interruption. Seattle shall use its best efforts to minimize service interruptions to the Utility.

II.D. Infrastructure

1. Assets. The Northwest Sub-regional System consists of those assets identified in Exhibit A. The percentage attributed to each asset in Exhibit A represents the proportion of the

asset that is deemed to be a sub-regional use and is referred to as the Northwest Sub-regional System Allocation (Allocation). The remaining proportion of each asset is considered to be a local use, i.e. for Seattle’s distribution system. For the Richmond Highlands Tanks as listed in Exhibit A, the Allocation is based on the methodology in Seattle’s “2015-2018 Northwest Wheeling Rate Study” using 0’ and 10’ operating bands for Tanks 1 and 2 respectively, which will remain in effect unless there is a major change to these assets, such as reactivation of a refurbished or replaced Richmond Highlands Tank 1 or deactivation of Richmond Highlands Tank 2.

2. Operation and Ownership. Seattle owns, operates and maintains the Northwest Sub-regional System used for wheeling under this Agreement. Nothing in this Agreement shall convey ownership rights or responsibilities of Seattle’s assets to the Utility.
3. Points of Delivery and Meters. Water will be wheeled to the Utility to the Points of Delivery identified in Exhibit C. Seattle shall own the Points of Delivery, including appropriate metering devices to measure the amount of water wheeled to the Utility under this Agreement. Seattle will perform any work, including but not limited to operation, maintenance, repair, replacement, relocation, improvement or decommission of the Points of Delivery at Utility’s expense, except a) to the extent of Seattle's negligence or b) for regular testing, cleaning and recalibration of the metering devices. Utility will operate and maintain its distribution system in a manner that the water flowing through the metering devices is within the normal operating range for the meter as specified by the manufacturer. At the Utility’s request and expense, Seattle shall install and maintain equipment selected by the Utility and approved by Seattle to transmit signals to the Utility’s recording equipment (at locations determined by the Utility) of the amount of water delivered as measured by Seattle’s meter(s).
4. Asset and Allocation Review. Every five years, Seattle, in consultation with the Utility and other utilities receiving water through the Northwest Sub-regional System, shall conduct a review of the Northwest Sub-regional System assets and Allocations in Exhibit A to determine whether they are consistent with current operating needs and conditions. The next five-year review is scheduled for 2013. Seattle shall modify Exhibit A as necessary to reflect any changes, which will become incorporated into the Agreement upon written notice to Utility.
5. Capital Facilities Plan Review. When Seattle updates or amends its Comprehensive Facilities Plan (“Plan”) and such update or amendment includes a project relating to an asset in the Northwest Sub-regional System, Water Utility shall have an opportunity to review and comment on that portion of the Plan prior to submission to the Seattle City Council. This review shall be coordinated with the Comprehensive Capital Facilities Plan review under section VI.D. of the Partial Requirements Water contracts, i.e. Water Utility shall respond within 60 days of receipt of the Plan, or its approval shall be presumed to be given. The response submitted by Water Utility regarding the Northwest Sub-regional System shall be seriously considered by Seattle. Seattle will reply to Water Utility’s comments within 90 days of receipt. Water Utility and Seattle shall use their best efforts to arrive at a mutually acceptable plan. Final decisions and authority to approve capital projects relating to the Northwest Sub-regional System shall rest with the Seattle City Council.

II.E. Water Quality

Seattle shall wheel water to the Utility's system that meets or exceeds all applicable Federal and State regulations as the same may change from time to time.

SECTION III. WHEELING COSTS

The following general principles shall apply to the establishment of all rates and charges for wheeling hereunder.

- Seattle shall utilize generally accepted accounting principles consistently applied as a basis for developing the financial information upon which rates and charges are based.
- The rate structure should be simple to administer and easily understandable.
- The rate structure should be fair and equitable while balancing the needs of all parties.
- The rate structure should not place financial burdens on Seattle's retail customers for which they do not receive a corresponding benefit.

III.A. Cost Recovery

In accordance with the foregoing principles, Seattle shall develop wheeling rates for the Northwest Sub-regional System as follows:

1. Annual Costs of the Northwest Sub-regional System. These annual costs pertain to those assets listed in Exhibit A and include both capital and operation and maintenance costs.
 - a. Operations and maintenance. For purposes of calculating a wheeling rate, operations and maintenance costs are limited to (i) the cost of power used at the pumping stations listed in Exhibit A and (ii) the proportionate share of costs for extraordinary maintenance or repairs, as determined by Seattle, on any asset in Exhibit A in accordance with the Northwest Sub-regional System Allocation for that asset.
 - b. Capital. Total asset costs shall be calculated using the utility basis. Under the utility basis, the cost for an asset in any year shall be the sum of 1) the annual depreciation expense recorded for that asset, and 2) the product of the net book value of that asset and the rate of return on investment, which shall be 1.5% plus Seattle's average cost of debt as defined in the Wholesale Water Supply Contract.
 - i. Asset Accounts. An asset account shall be established and maintained for each asset listed in Exhibit A. Within that account, Seattle shall record the original cost of the asset plus betterments and less retirements.
 - ii. Depreciation. Assets shall be depreciated according to Standard Water System Asset Lives and a record of life-to-date depreciation shall be maintained for each asset. For future assets, no depreciation shall be recorded in the first calendar year of operation of that asset. A full year's depreciation shall be recorded in every subsequent year.

- iii. Net Book Value. The net book value of each asset shall be its original cost plus betterments and less retirements, as recorded in its asset account, less life-to-date depreciation.
 - iv. Capacity. Costs associated with increasing capacity of or adding new assets to the Northwest Sub-regional System over and above that necessary to provide the level of service outlined in Section II.C.1 shall be borne by the party(ies) creating the need for or requesting the expansion or addition. Seattle shall modify Exhibit A as necessary to reflect any changes in the list of assets or the Northwest Sub-regional System Allocation, which will replace the existing Exhibit A and become incorporated into the Agreement upon written notice to Utility. If Utility has not created the need for or requested the expansion or addition of assets to the Northwest Sub-regional System, over and above the level of service outlined in Section II.C.1, Utility shall not be obligated to share in the costs of the expanded or added assets.
2. Wheeling Rate. The wheeling rate is calculated by dividing the allocated annual costs for the Northwest Sub-regional System pursuant to the Northwest Sub-regional System Allocation by the total amount of water delivered to Seattle's retail and wholesale customers through the Northwest Sub-regional System. The total amount of water delivered will be calculated as an average of the three most recent years. The wheeling rate as of the effective date of this Agreement is \$0.02 per hundred cubic feet. Subsequent rates shall be established pursuant to Section III.C.

III.B. Billing

1. Determination of Bill. The wheeling rate will be applied to the quantity of water measured at the Utility's Points of Delivery in Exhibit C. Charges for the metered amount of water will be billed pursuant to the Wholesale Water Supply Contract.
2. Payment. Seattle shall bill the Utility on a monthly basis for all charges due under this Agreement. The Utility shall pay such charges within 30 days of the billing date. Seattle, at its option, may add these charges to billings sent to the Utility in association with the purchase of water from the Wholesale Water Supply Contract.
3. Penalties for Late Payment. All late payments or monies owed shall accrue interest at 1% per month.

III.C. Rate Adjustments

1. Comprehensive Rate Review. Every five years, Seattle shall conduct a comprehensive review of the wheeling rate, including consideration of updates to Exhibit A, if any, pursuant to Section II.D.4. The next comprehensive rate review is scheduled for 2013. Any changes to the rate will become effective upon written notice to the Utility.

2. Interim Rate Review. Within the five-year review periods above, but no more frequently than annually, any utility using the Northwest Sub-regional System may request, in writing, a review of the wheeling rate. Seattle shall conduct the review in accordance with this Agreement. The comprehensive rate review under Section III.C.1 above shall remain on schedule, even if a review is conducted under this section.
3. In the event that during either a comprehensive or interim rate review, it is determined that annual costs related to that portion of the Fremont Avenue N feeder north of the Richmond Highlands Tanks (see Exhibit A, pipeline #3) or the N 205th Street feeder (see Exhibit A, pipeline #4), or both, cause an increase in the wheeling rate, Seattle will relieve Utility of the increased wheeling rate to the extent it is caused by costs related to the Northwest Sub-regional System assets described in this section.

SECTION IV. ADMINISTRATION

IV.A. Severability

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

IV.B. Consent

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

IV.C. Emergency Situations

Nothing in this Agreement shall be deemed to require service under this Agreement nor to preclude either party from taking necessary action to maintain or restore Wheeling services and water supply in emergency situations and such actions shall not be deemed a violation of this Agreement.

IV.D. No Joint Venture - Individual Liability

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

IV.E. Complete Agreement

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

IV.F. Venue, Jurisdiction and Specific Performance

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

IV.G. Default

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

IV.H. Force Majeure

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

IV.I. No Third Party Beneficiaries

This Agreement does not create, and shall not be construed to create, any rights enforceable by any person that is not a party to this Agreement.

IV.J. Successors

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

IV.K. Exhibits

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

IN WITNESS WHEREOF, the parties hereby execute this Agreement.

NORTH CITY WATER DISTRICT

BY: _____

TITLE: _____

DATE _____

THE CITY OF SEATTLE

BY: _____
Director, Seattle Public Utilities

DATE: _____

LIST OF EXHIBITS

- Exhibit A** Northwest Sub-regional System List of Assets and Allocation
- Exhibit B** Northwest Sub-regional System Map
- Exhibit C** Points of Delivery

EXHIBIT A

NORTHWEST SUB-REGIONAL LIST OF ASSETS AND ALLOCATION

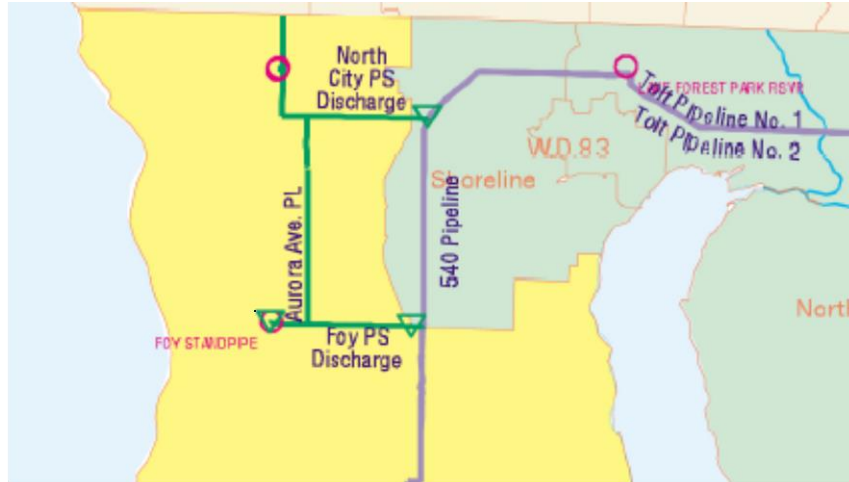
| PIPELINES | NW Sub-regional System Allocation |
|--|--|
| 1. The N. 185 th Street feeder, from North City Pump Station to Aurora Avenue N, 30-inch steel pipeline, 24-inch steel pipeline across I-5. | 70% |
| 2. The N. 185 th Street feeder, from Aurora Avenue N to Fremont Avenue N, 20-inch steel pipeline. | 70% |
| 3. The Fremont Avenue N feeder, from N. 185 th Street to N 205 th Street, 20-inch steel pipeline. ¹ | 58% |
| 4. The N. 205 th Street feeder, from Fremont Avenue N to Olympic View services, 12-inch ductile iron pipeline. ² | 24% |
| 5. The Aurora Avenue N feeder, from N. 185 th Street to N 145 th Street, 24-inch steel pipeline | 64% |
| 6. The N/NE 145 th Street feeder , from Foy Pump Station to Foy Standpipe connections near Dayton Avenue N, 24-inch steel pipeline. | 65% |
| 7. Foy Pump Station suction line in NE 145 th Street from Foy Pump Station to 8 th Avenue NE, including connections to the 550 pipeline and to the 430 zone. | 65% |
| PUMP STATIONS | |
| 1. North City Pump Station, including the suction line from the pump station to the 66-inch pipeline, and the pump station bypass from the 66-inch pipeline to the pump station discharge. | 100% |
| 2. Foy Pump Station, including the 12-inch bypass between the suction and discharge lines. | 100% |
| TANKS | |
| 1. Richmond Highlands Tanks, and all associated appurtenances and connections to the 590 zone. | 19.0% |
| 2. Foy Standpipe, including its connections to the N. 145 th Street feeder, altitude valve, overflow, and drain. | 0.0% |

¹ Seattle and Utility agree that the segment of the Fremont Avenue N feeder north of the Richmond Highland Tanks is not currently providing benefit or used for wheeling water to Utility, but has no impact on the current wheeling rate under this Agreement. See Section III.C.3 for any future adjustments.

² Seattle and Utility agree that the N 205th Street feeder is not currently providing benefit or used for wheeling water to Utility, but has no impact on the current wheeling rate under this Agreement. See Section III.C.3 for any future adjustments.

EXHIBIT B

NORTHWEST SUB-REGIONAL SYSTEM MAP



The Pump Station shown near the Foy Standpipe is not a NW Sub-regional asset

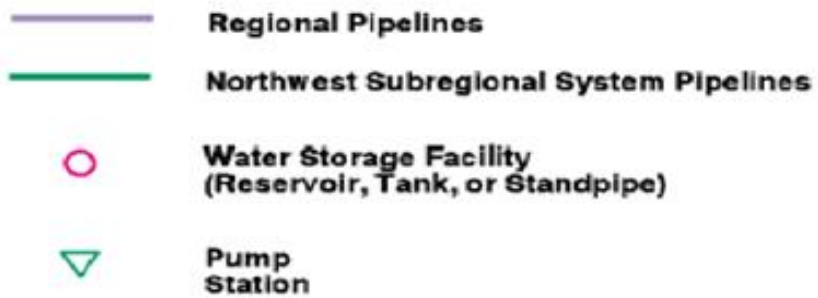


EXHIBIT C

POINTS OF DELIVERY

| LOCATION | STATION NUMBER (1) | PIPELINE SEGMENT NUMBER (1) | SIZE OF METER (IN.) | MINIMUM HYDRAULIC GRADIENT FOR PLANNING PURPOSES AT STATION UPSTREAM OF METER (FEET NAVD-88 Datum) | MAXIMUM FLOW RATE UP TO WHICH THE MINIMUM HYDRAULIC GRADIENT APPLIES (gpm) (2) |
|---|-----------------------|-----------------------------|---------------------|--|--|
| NE 185 th and 5 th Avenue N | 193 | 7 | 8 | 565 | 500 |
| NE 185 th and 8 th Ave NE | 194 | 7 | 8 | 565 | Back up to Sta. 193 |
| | | | | | |
| | | | | TOTAL: | 500 |

Notes:

- (1) Station and Pipeline Segment Numbers pertain to cost allocations and the demand metering program.
- (2) City of Seattle’s estimate of Utility’s average daily demand for 2020 with a peaking factor of 2.0 for peak day use.