

April 26, 2011

Ms. Sherri Crawford
Finance Director
Seattle Public Utilities
PO Box 34018
Seattle, WA 98124-4018

Mr. Matt Everett
Chair, Seattle Water Supply System Operating Board
Seattle, Washington

Dear Ms. Crawford and Mr. Everett:

This letter confirms our understanding of the nature and limitations of the services we will provide. This Engagement Letter and the SPU Contract No. C06-031 Amendment No. 4, which is incorporated herein by this reference, represent the entire agreement (the "Agreement") regarding the services to be rendered by Moss Adams LLP ("Moss Adams," "we," "us," and "our") to Seattle Public Utilities - Water Fund ("you," "your," and "Company"). This engagement is solely to assist you, the Seattle Water Supply System Operating Board (the "Operating Board"), who represent the contracting wholesale customers (the "Customers"), and the Customers in your evaluation of the Fund's compliance with the rate-making principles and policies set forth in the agreements between the Fund and the Customers. Collectively, the Fund, Operating Board and Customers shall be referred to as the "Parties".

In this engagement, we will apply the agreed-upon procedures listed in the attached Schedule of Agreed-Upon Procedures (the "Schedule") to statements, schedules and summaries prepared by the Fund for the year ended December 31, 2010, prepared in accordance with the full requirements contract, partial requirements contract, fixed block contract and declining block contract. These four contracts are commonly known as the "2001 Contracts". When we complete our work, we will issue a report setting forth the agreed-upon procedures and our findings. This report is intended solely for the use of the Parties, and should not be used by anyone other than the Parties.

The Parties acknowledge that they specified the agreed-upon procedures, and they are solely responsible for the sufficiency of the procedures. We will not evaluate the agreed-upon procedures to determine if they are appropriate for the Parties' purposes. Consequently, we make no representation regarding the sufficiency of the agreed-upon procedures either for the purpose of this engagement or for any other purpose.

In addition, because the agreed-upon procedures do not constitute an examination, we will not express an opinion on the statements, schedules and summaries prepared by the Fund. Moreover, we have no obligation to perform any procedures beyond those listed in the attached Schedule. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our engagement to apply the agreed-upon procedures will be performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. If, for any reason, we are unable to complete the agreed-upon procedures, we will either describe any restrictions on the performance of the agreed-upon procedures in our report, or we will not issue a report.

Draft
not to be relied upon for any purpose without permission of Moss Adams LLP

Laurie Tish is responsible for supervising the engagement and authorizing the signing of our report. We expect to begin the agreed-upon procedures on approximately May 9, 2011 and issue our report no later than June 30, 2011. We anticipate that field work will end on approximately May 20, 2011. If unforeseen difficulties occur which make meeting the June 30, 2011 date improbable, we will inform you immediately. Our ability to meet these targets will be dependent, in part, on the level of preparation and cooperation by your staff.

We estimate that our fees for these services will be \$30,150.

The fee estimate is based on anticipated cooperation from your personnel, the expectation that the Company's records will be in good order, and the assumption that unexpected circumstances will not be encountered during the completion of the agreed-upon procedures. If we find that significant additional time is likely to be necessary, we will attempt to discuss it with you and arrive at a new fee estimate before we incur significant additional fees or costs.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be terminated or suspended if your account becomes 31 days or more overdue.

At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management's responsibility for the presentation of the Fund's statements, schedules and summaries in accordance with the 2001 Contracts.

You may specify changes to the scope or nature of the agreed-upon procedures. If this occurs, we will either amend the Schedule to address the change in agreed-upon procedures, or our report will reflect the changes. In addition, you may request that we perform additional services not contemplated by this Engagement Letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We will also issue a separate agreement covering the additional services. In the absence of another agreement documenting such additional services, our services will be limited to those set forth in this Agreement.

This letter and the SPU Contract No. C06-031 Amendment No. 4 constitutes the entire Agreement and understanding between Moss Adams and the Parties. The Parties agree that in entering into this Agreement they are not and have not relied upon any oral or other representation, promise or statement made by anyone which is not set forth herein.

Seattle Public Utilities – Water Fund
April 26, 2011
Page 3 of 3

We appreciate the opportunity to be of service to you. If you agree with the terms of our engagement as set forth in this Agreement, please sign the enclosed copy of this letter and return it to us.

Very truly yours,

Laurie J. Tish, for
Moss Adams LLP

Enclosure

ACCEPTED AND AGREED:

This Engagement Letter and the SPU Contract No. C06-031 Amendment No. 4 correctly set forth the entire understanding of the Parties with respect to services to be provided by Moss Adams LLP:

By Ms. Sherri Crawford:

Signature: _____

Print Name: _____

Title: _____

Date: _____

By Mr. Matt Everett:

Signature: _____

Print Name: _____

Title: _____

Date: _____

Client: 603987

v. 1/21/2011

CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES – WATER FUND

WHOLESALE STATEMENTS (2001 CONTRACT TYPES)

SCHEDULE OF AGREED-UPON PROCEDURES

Procedures to be Performed for the Summary of Regional System Revenues

- Prove the arithmetical accuracy of the summary.
- Trace balances on the summary to appropriate source summary worksheets.
- Recalculate any prior-year adjustments based on support provided by Fund management.
- Trace the population-served amounts to detailed spreadsheets prepared by the Fund that estimate population amounts based on information provided by the Puget Sound Regional Council to the Fund. Prove the arithmetical accuracy of the detailed spreadsheets.

Procedures to be Performed for the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs

- Prove the arithmetical accuracy of the summary.
- Compare rate based revenues for the year ended December 31, 2010 to the sum of the base rate revenues and the transition growth surcharge totals found on the Regional Rate-Based Revenues Statement.
- Obtain the 2010 Operating and Maintenance (“O&M”) Expense Allocation Schedule, detailed by expense category, used to calculate operations costs on the statement and perform the following procedures:
 - Prove the arithmetical accuracy of the schedule.
 - Compare each category of expense from the O&M schedule to the 2010 audited financial statements, and identify amounts on the O&M schedule that are subtracted as subregional.
 - Determine that 2010 O&M costs are allocated to the proper 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 or applicable operating Board decisions, to obtain 60% coverage of the total allocated costs, with a minimum of 20 selections. If a chosen activity is not on the list defined in the contract, document the Fund’s rationale for inclusion in the allocations.
 - Compare 2009 and 2010 O&M Expense allocation schedules to each other for consistency of presentation.
 - Recalculate the application of the 2009 to 2010 percentage to the 2009 base cost index.

- Obtain the Fund Audit Schedule of Fixed Assets as of December 31, 2010, and perform the following procedures:
 - Prove the arithmetical accuracy of the schedule.
 - Compare the fixed asset categories on the schedule to the 2010 audited financial statements.
 - Verify that individual assets are allocated to the proper cost pools by selecting allocated assets through non-statistical means and comparing them to Exhibits VII and VIII in the Wholesale Customer Contract to obtain 60% coverage of the allocated amount, with a minimum of 20 selections.
 - Recalculate the rate of return on investments and compare to Article II of the Wholesale Customer Contract.
 - Recalculate application of the return on investments.
- Trace the Allocation to Declining Block amount to the Statement of Surplus (Deficit) of Declining Block Contract Revenues Less Service Costs.
- Trace 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 Services Costs.
- Compare any other credits, such as Timber sales, on the statement to the December 31, 2010 Fund general ledger. Recalculate allocation percentage of these credits to the Summary of Regional System Revenues.
- Recalculate any prior-year allocation, including interest amount, based on support provided by Fund management.

Procedures to be Performed for the Declining Block Customer Statement of Surplus (Deficit) of Block Revenues Less Service Costs

- Prove the arithmetical accuracy of the statement.
- Compare revenues for the year ended December 31, 2010, to the declining block revenue amount on the Statement of Regional System Revenues.
- Compare the Existing Supply and Existing Transmission Costs to the corresponding amounts on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs.
- Recalculate the Existing Supply and Existing Transmission Allocation to Declining Block.
- For each subregional segment perform the following:
 - Recalculate application of the return on assets to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2010.
 - Identify individual O&M costs noted as subregional within the 2010 O&M Expense Allocation Schedule and compare each amount to the Operations Costs for the Cascade Subregion B Segment 1 & 2.

- Identify flow allocators that vary by more than two standard deviations from the five-year rolling average and note the Fund's explanations for the variance.
- Recalculate the application of flow factors to each subregional facility.
- Recalculate the Annual Cost of the Supplemental portion of the Declining block.
- Compare Penalty Charge Cost to the Statement of Declining Block Usage and Penalty Charge.

Procedures to be Performed for the Fixed Block Customer Statement of Surplus (Deficit) of Block Revenues Less Service Costs

- Prove the arithmetical accuracy of the statement.
- Compare revenues for the year ended December 31, 2010, to the corresponding amount on the Statement of Regional System Revenues.
- Compare the Existing Supply and Existing Transmission Costs to the corresponding amount on the Statement of Surplus (Deficit) of Regional Rate Revenues Less Service Costs.
- Recalculate Allocation to Fixed Block Customers by agreeing the Existing Supply and Existing Transmission Costs to the 2010 O&M Allocation and 2010 Asset Allocation Schedules provided by Fund management.
- Compare the Conservation Cost Pool Operations Costs to the New Supply Operations Costs 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.
- Compare Penalty Charge Cost to the Statement of Fixed Block Usage and Penalty Charge.

Procedures to be Performed for the New Wholesale Customer Statement of East Subregional Surplus (Deficit) of Rate-Based Revenues Less Service Costs

- Prove the arithmetical accuracy of the statement.
- For each subregional segment, perform the following procedures:
 - Recalculate application of the return on assets rate to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2010.
 - Verify individual O&M costs noted as subregional in 2010 are identified within the O&M Expense Allocation Schedule.
 - Identify flow allocators for the East Subregions (Mercer Island Pipeline) that vary by more than two standard deviations from the five-year rolling average and note the Fund's explanations for the variance.
 - Recalculate the application of flow factors to each subregional facility.
 - Prove the arithmetical accuracy of the calculation of the "as-if" subregional revenues.

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

- Prove the arithmetical accuracy of the statement for accuracy.
- Recalculate application of the return on assets rate to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2010.
- Identify individual O&M costs noted as subregional within the 2010 O&M Expense Allocation Schedule.
- Identify flow allocators that vary by more than two standard deviations from the five-year rolling average and note the Fund's explanations for the variance.
- Recalculate the application of flow factors to each subregional facility.
- Prove the arithmetical accuracy of the calculation of the "as-if" subregional revenues.
- Recalculate any prior-year adjustments based on support provided by Fund management.

Procedures to be Performed for the New Wholesale Customer Facilities Charge Summary Statement

- Prove the arithmetical accuracy of the statement.
- Compare the 2010 facilities charge revenues to the Total Facilities Charge Revenues Statement.
- Compare 1% conservation costs to the Fund Audit Schedule of Fixed Assets as of December 31, 2010.
- Trace 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.
- Recalculate any prior year adjustments based on support provided by Fund management.

Procedures to be Performed for the Regional Rate-Based Revenues Statement

- Prove the arithmetical accuracy of the statement.
- Select two months through non statistical means and recalculate Seattle wholesale volumes on "MGD by Source" report and 2010 year-end detail source sheets provided by Fund management.
- Select two months through non statistical means and recalculate Seattle wholesale bills on 2010 year-end detail source sheet. Compare rates used for Seattle to the 2009 -2010 rate study.
- Select a nonstatistical sample of Customer bills sent in 2010 to achieve 60% coverage of customer months with a minimum of one from each Customer and perform the following procedures:

- Compare billed water consumption amounts (volume and dollar) to data provided by the Fund's Account Services department.
- Compare old water volume used to calculate each bill to the annual total water allowance stated in the Old Wholesale Customer Contracts.
- Recalculate subregional surcharges if they apply.
- Agree any miscellaneous adjustments to supporting documentation obtained from Fund management.
- Recalculate any prior-year adjustments based on support provided by Fund management.

Procedures to be Performed on Facilities Charge Revenue Statement

- Prove the arithmetical accuracy of the statement.
- Trace the 2010 "Non-Seattle" facilities charge revenues to the December 31, 2010 Fund general ledger.
- Select customer new meter counts through non statistical means to achieve 60% coverage of the total new meter installations and trace from the Facilities Charge Data sheet provided by Fund management to the Facilities Charge Revenues Statement.
- Select Seattle new meter counts through non statistical means to achieve 60% coverage of total new meter installations and compare to the 2010 Maximo Work Order Query by Month.
- Recalculate any prior-year adjustments based on support provided by Fund management.

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

- Compare monthly water consumption amounts (volume only) to data provided by the Fund's Account Services department.
- Recalculate Annual Average Use in accordance with methodology in the Declining Block Contract.
- Recalculate Peak Season Use in accordance with methodology in the Declining Block Contract.
- Recalculate Peak Month Use in accordance with methodology in the Declining Block Contract.
- Recalculate Penalty Charge in accordance with methodology in the Declining Block Contract.

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

- Compare monthly water consumption amounts (volume only) to data provided by the Fund's Account Services department.

- Recalculate Annual Average Use in accordance with methodology in the Fixed Block Contract.
- Recalculate Peak Season Use in accordance with methodology in the Fixed Block Contract.
- Recalculate Peak Month Use in accordance with methodology in the Fixed Block Contract.
- Recalculate Penalty Charge in accordance with methodology in the Fixed Block Contract.

Procedures to be Performed on the Notes to the Wholesale Customer Statements

- Compare rate of return percentage in Note 1 to the rate of return recalculated in the Procedures for Statement of Surplus (Deficit) of Rate Revenues less Service Costs.
- Prove the arithmetical accuracy of the tables and schedules within the Notes.
- Compare balances and percentages to appropriate source summary worksheets used in applying agreed-upon procedures to the statements.