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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, 2012

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CONTENTS

	PAGE
REPORT OF INDEPENDENT ACCOUNTANTS ON APPLYING AGREED-UPON PROCEDURES	1-10
SUMMARY OF REGIONAL SYSTEM REVENUES	11
STATEMENT OF SURPLUS (DEFICIT) OF RATE REVENUES LESS SERVICE COSTS	12
STATEMENT OF SURPLUS (DEFICIT) OF DECLINING BLOCK CONTRACT REVENUES LESS SERVICE COSTS	13
STATEMENT OF SURPLUS (DEFICIT) OF FIXED BLOCK CONTRACT REVENUES LESS SERVICE COSTS	14
STATEMENT OF SURPLUS (DEFICIT) OF RENTON NEW SUPPLY REVENUE LESS SERVICE COSTS	15
STATEMENT OF SURPLUS (DEFICIT) OF EAST SUBREGION RATE REVENUES LESS SERVICE COSTS	16
STATEMENT OF SURPLUS (DEFICIT) OF SOUTHWEST SUBREGION RATE REVENUES LESS SERVICE COSTS	17
NEW WHOLESALE CUSTOMER FACILITIES CHARGE SUMMARY STATEMENT	18
REGIONAL RATE BASED REVENUES STATEMENT	19
FACILITIES CHARGE REVENUES STATEMENT	20
STATEMENT OF DECLINING BLOCK USAGE AND PENALTY CHARGE	21
STATEMENT OF FIXED BLOCK USAGE AND PENALTY CHARGE	22
HISTORIC TRUE UP INFORMATION	23
NOTES TO THE WHOLESALE STATEMENTS	24-26

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

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

Seattle Water Supply System Operating Board
Seattle, Washington

We have performed the procedures enumerated below, which were agreed upon by the management of the City of Seattle, Seattle Public Utilities – Water Fund (“Fund”) and the Seattle Water Supply System Operating Board (“Operating Board”) solely to assist the Fund and the Operating Board, on behalf of the wholesale customers (“Customers”) in evaluating the attached Wholesale Statements (2001 Contract Types) and notes to the Wholesale Statements as of and for the year ended December 31, 2012. Fund management is responsible for the Wholesale Statements and related notes. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures that we performed and our related findings are as follows:

Procedures Performed on the Summary of Regional System Revenues

1. We obtained the Summary of Regional System Revenues and verified the arithmetical accuracy of this statement.
2. We traced the balances on this statement to the appropriate source summary worksheets provided by fund management as follows:
 - a. We compared the total water consumption balance to the total volume listed on the Regional Rate Based Revenues Statement, finding them to be in agreement.
 - b. We compared the surcharge water consumption balances to the Purveyor Monthly Report and the East Subregion Revenue statement, finding them to be in agreement.

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- c. We compared new wholesale customer revenues to the rate base revenue schedule, finding them to be in agreement.
 - d. We compared the total new retail connections 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 management.
 - During our comparison of the Declining Block Revenues we noted a difference of \$49,665 resulting from the 2010 underpayment and corresponding interest, which is added to 2012 CWA revenues, effectively decreasing total Declining Block Revenues by the aforementioned amount.
 - f. We compared the Northshore Utility District (“NUD”) Fixed Block Revenues to the NUD Cost Estimate and Payment Schedule.
 - During our comparison of the Fixed Block Revenues we noted a difference of \$72,653 resulting from the 2010 overpayment and corresponding interest, which is added to 2012 NUD revenues, effectively decreasing total Fixed Block Revenues by the aforementioned amount.
 - g. We compared the Renton block revenue to the Renton cost estimate and payment schedule and found them to be in agreement.
3. We traced the population-served amounts to detailed spreadsheets prepared by the Fund that estimate population amounts, and noted that the data is based on information provided by the Puget Sound Regional Council (“PSRC”). We verified the arithmetical accuracy of the spreadsheets, supporting the population served amounts.
 4. We did not note any prior-year adjustments to the 2012 Summary of Regional System Revenues.

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

5. We obtained the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs and verified the arithmetical accuracy of the statement.
6. We compared the rate based revenues for the year ended 12/31/12 to the sum of the base rate revenues and the transition growth surcharge totals found on the Regional Rate-Based Revenues Statement, noting total balances to be in agreement.

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7. We obtained the 2012 Operations and Maintenance (“O&M”) Expense Allocation Schedule, detailed by expense category, which was the source for the Operations Costs on the Statement, and performed the following procedures:
 - a. We verified the arithmetical accuracy of the O&M Expense Allocation Schedule.
 - b. We compared each category of expense from the O&M Expense Allocation Schedule to the 2012 audited financial statements, finding them to be in agreement. We also identified amounts on the O&M Expense Allocation Schedule that are subtracted as subregional.
 - c. We verified that 2012 O&M costs are allocated to the proper cost pools according to the New Contract Exhibits by selecting and testing allocated activities through non-statistical means and comparing them to a list of activity numbers set forth in the Wholesale Customer Contract to obtain 60% coverage of the total allocated costs, testing 24 selections. We noted that all tested costs were identified in Exhibit IX within the Wholesale Customer Contract.
 - d. We compared the 2012 and 2011 O&M Expense Allocation Schedules, and found them to be consistently presented.
 - e. We recalculated the application of the 2011 to 2012 Cost Ratio to the 2011 base cost index, without exception. This calculation is illustrated in Note 2 to the Wholesale Statements.
8. We obtained the Fund Audit Schedule of Fixed Assets as of December 31, 2012, which was the source for the Asset Recovery Cost amounts on the statement, and performed the following procedures:
 - a. We verified the arithmetical accuracy of the schedule.
 - b. We compared the fixed asset categories to the 2012 audited financial statements, and found them to be in agreement.
 - c. We verified that individual assets were allocated to the proper cost pools by selecting allocated assets through non-statistical means, achieving 60% coverage of the allocated amount, testing 25 selections, and comparing them to Exhibits VII and VIII in the Wholesale Customer Contracts. The descriptions of the selected allocated assets were found to be in agreement with each respective exhibit.
 - d. We recalculated the rate of return on investments (6.10%), by adding 150 basis points to the Seattle Water System’s average cost of debt (4.60%), noting it was in accordance with Article II of the Wholesale Customer Contract.
 - e. We recalculated the application of the return on investments.
9. We traced the Allocation to Declining Block amount to the Statement of Surplus (Deficit) of Declining Block Contract Revenues Less Service Costs, without exception.

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10. We traced the Allocation to Fixed Block amount to the Existing Supply and Existing Transmission and the Conservation Cost Pool Operations Costs amounts on the Statement of Surplus (Deficit) of Fixed Block Contract Revenue Less Service Costs, without exception.

11. We traced the allocation to Renton New Supply Cost Pool on the Statement of Surplus (Deficit) of Renton New Supply Revenue Less Service Costs.

12. We compared any other credits, such as Timber sales, on the statements to the December 31, 2012 Fund general ledger. We recalculated allocation percentage of these credits to the Summary of Regional System Revenues.

13. We noted a prior year adjustment for activities that should have been included in Existing Supply in 2011 but was not. We recalculated the prior year allocation adjustment and associated interest and agreed the activities to a source report provided by fund management.

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

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

15. We compared revenues for the year ended December 31, 2012 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 Allocation to Declining Block and found the application to be arithmetically correct.

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, 2012.

b. We identified individual O&M costs noted as subregional within the 2012 O&M Expense Allocation Schedule provided by management, and compared each amount to the Operations Costs for the Cascade Subregion B Segments 1 & 2, noting they were in agreement.

c. We identified flow allocators for the Cascade Subregions noting that none of the flow allocators varied by more than two standard deviations from the rolling five-year average.

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d. We recalculated the application of the flow factors to each Subregional facility using the Annual Waterflow Schedule provided by 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 verified the arithmetical accuracy of the statement.

22. We compared revenues for the year ended December 31, 2012, to the corresponding amount on the Summary of Regional System Revenues, and found them to be in agreement.

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 matching the Existing Supply and Existing Transmission Costs to the 2012 O&M Allocation and 2012 Asset Allocation Schedules provided by 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 verified the arithmetical accuracy of the statement.

28. We compared revenue for the year ended December 31, 2012 to the corresponding amount on the Statement of Regional System Revenues, and found them to be in agreement.

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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 verified the arithmetical accuracy of the statement.
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, 2012.
 - b. We verified that individual O&M costs noted as subregional in 2012 are identified within the O&M Expense Allocation Schedule provided by management.
 - c. We identified flow allocators for the East Subregions (Mercer Island Pipeline) noting that 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, noting the application to be correct.
 - e. We verified the arithmetical accuracy of the calculation of the “as-if” subregional revenues.

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

32. We obtained the Statement of Surplus (Deficit) of Southwest Subregion Rate Revenues Less Service Costs and verified the arithmetical accuracy of the statement.
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, 2012.
34. We verified that individual O&M costs noted as subregional in 2012 are identified within the O&M Expense Allocation Schedule provided by management.
35. We identified flow allocators for the 585 Zone Facilities, West Seattle Reservoir, West Seattle Pipeline, Des Moines Way Pipeline, Military Road Feeder, and East Marginal Way Feeder. None of the allocators varied by more than two standard deviations from the five-year rolling average.

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36. We recalculated the application of flow factors to each subregional facility and noted the application to be correct.

37. We did not note any prior year adjustments to the 2012 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 verified the arithmetical accuracy of the statement.

39. We compared the 2012 facilities charge based revenues to the Total Facilities Charge Revenue Statement and noted they were in agreement.

40. We compared the 1% conservation costs to the Fund Audit Schedule of Fixed Assets as of December 31, 2012 provided by management and noted they were in agreement.

41. We traced the Allocation to Fixed Block Amount to the Conservation Cost Pool Asset Recovery Costs amount on the Statement of Surplus (Deficit) of Fixed Block Contract Revenues Less Service Costs, without exception.

42. We traced the Allocation to Renton New Supply on the Statement of Surplus (Deficit) of Renton New Supply Revenue Less Services Costs, without exception.

43. We did not note any prior year adjustments to the 2012 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 verified the arithmetical accuracy of the statement.

45. We selected two months (February and September) through non-statistical means and recalculated Seattle wholesale volumes on the "MGD by Source" report and 2012 year-end detail source sheets provided by management without exception.

46. We selected two months (February and September) through non-statistical means and recalculated Seattle wholesale bills on the 2012 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, which we also noted to be in agreement.

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47. We selected a sample of customer bills sent in 2012 through non-statistical means to achieve 60% coverage of customer months with a minimum of one from each customer, and we performed the following procedures:

- a. We compared billed water consumption amounts (volume and dollar) to data provided by the Fund's Account Services department, and noted they were in agreement.
- b. We compared old water volume used to calculate each bill to the annual total water allowance stated in the Old Wholesale Customer Contracts, without exception.
- c. We recalculated the Southwest Subregional Surcharge without exception.
- d. We recalculated the East Subregional Segments 3 & 4 Surcharge without exception.
- e. We recalculated the Northwest Subregional Surcharge without exception.

48. We did not note any miscellaneous adjustments to the 2012 Regional Rate Based Revenues Statement.

49. We did not note any prior year adjustments to the 2012 Regional Rate Based Revenues Statement.

Procedures Performed on Facilities Charge Revenues Statement

50. We obtained the Facilities Charge Revenues Statement and verified the arithmetical accuracy of the statement.

51. We traced the 2012 "Non-Seattle" facilities charge revenues amount into the December 31, 2012 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 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 2012 Maximo Work Order Query by Month provided by management and noted they were in agreement.

54. We did not note any prior year adjustments to the 2012 Facilities Charge Revenues Statement.

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

55. We compared the monthly water consumption amounts (volume only) presented on the Month Sum Customer Billings Report and CCF Consumption Report provided by management, which supports data presented on the Statement of Declining Block Usage and Penalty Charge, noting amounts were in agreement.
56. We recalculated the Annual Average Use in accordance with the methodology in the Declining Block Contract without exception.
57. We recalculated the Peak Season Use in accordance with the methodology in the Declining Block Contract without exception.
58. We recalculated the Peak Month Use in accordance with the methodology in the Declining Block Contract without exception.
59. We did not note any Penalty Charge Costs to compare to the Statement of Fixed Block Usage and Penalty Charge.

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

60. We compared the monthly water consumption amounts (volume only) presented on the Month Sum Customer Billings Report and CCF Consumption Report provided by management, which supports data presented on the Statement of Fixed Block Usage and Penalty Charge, noting amounts were in agreement.
61. We recalculated the Annual Average Use in accordance with the methodology in the Fixed Block Contract without exception.
62. We recalculated the Peak Season Use in accordance with the methodology in the Fixed Block Contract without exception.
63. We recalculated the Peak Month Use in accordance with the methodology in the Fixed Block Contract without exception.
64. We did not note any Penalty Charge Costs applied to this statement.

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 Note 2 and verified the arithmetical accuracy of the amounts shown in the Notes.

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67. We compared balances of all Operations Costs within Note 2 to the 2012 O&M Allocation Schedule and found them to be in agreement. We noted all balances and percentages to be in agreement with the appropriate source summary worksheets.

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 appropriate source summary worksheets.

Procedures Performed on Additional Historical Schedules

69. We compared balances presented in Historical Schedules to the 2007 through 2011 Wholesale Statements or schedules provided by management from which they are derived, and noted they were in agreement.

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

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

Seattle, Washington
_____, 2013

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
SUMMARY OF REGIONAL SYSTEM REVENUES
YEAR ENDED DECEMBER 31, 2012**

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	<u>Population Served</u>	<u>Total Water Consumption (in CCF)</u>	<u>Surcharge Water Consumption (in CCF)</u>	<u>New Retail Connections (Quantity)</u>	<u>Revenues</u>
Wholesale Customers (including Seattle)	1,458,547				
Full & Partial Contract Base Rate Revenue		42,297,323	N/A	N/A	\$ 76,169,864
SW Sub-Region Surcharge		N/A	4,556,276	N/A	273,377
E Sub-Region Surcharge					
Segment 3		N/A	303,550	N/A	44,604
Segment 4		N/A	733,682	N/A	130,657
Transition Growth Surcharge		N/A	183,329	N/A	52,706
Renton New Supply		N/A	N/A	N/A	164,510
Declining Block Revenue ¹		12,840,784	N/A	N/A	19,289,134
Fixed Block Revenue		2,451,174	N/A	N/A	5,006,056
Facilities Charges		N/A	N/A	955	1,977,858
Total System		<u>57,589,281</u>			<u>\$ 103,108,766</u>

¹ Declining Block Revenue includes CWA's 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, 2012**

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Beginning Balance, December 31, 2011	\$ (10,192,058)	
Interest	(468,835)	
Total		<u>\$ (10,660,893)</u>
2012 Rate Based Revenues		76,222,570
2012 Timber Sales	13,822	
Less: Allocation to Declining Block	2,498	
Less: Allocation to Fixed Block	705	
Full and Partial Contract portion		10,619
Transfer of Facilities Charge Revenue		-
Total Revenues		<u>76,233,189</u>
2012 Rate Based Costs		
Existing Supply		
Operations Costs	29,563,140	
Asset Recovery Costs	35,517,117	
New Supply		
Operations Costs	742,023	
Asset Recovery Costs	-	
Existing Transmission		
Operations Costs	10,527,653	
Asset Recovery Costs	19,660,369	
New Transmission		
Operations Costs	-	
Asset Recovery Costs	-	
Total	<u>\$ 96,010,302</u>	
Allocation to Cascade Base Block		\$ 17,218,488
Allocation to Cascade Supplemental Block		2,762,410
Allocation of Existing Supply and Existing Transmission to Fixed Block		4,858,682
Allocation of New Supply Operations to Fixed Block		45,993
Allocation of New Supply Operations to Renton		42,295
Adjustment for Prior-year allocation, including interest		<u>703,327</u>
Total Full and Partial Contract Customer Costs		<u>71,785,761</u>
Net excess (deficit) of revenues over cost of service		
December 31, 2012		<u>\$ (6,213,465)</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, 2012**

Beginning balance, December 31, 2011	\$ -	
No carryover from previous year under block contracts		
Declining Block Revenues	19,289,134	
2011 Timber Sales (allocation as block)	2,498	
Total Revenues	19,291,632	\$ 19,291,632
Existing Supply and Existing Transmission		
Existing Supply		
Operations Costs	29,563,140	
Asset Recovery Costs	35,517,117	
Existing Transmission		
Operations Costs	10,527,653	
Asset Recovery Costs	19,660,369	
Total	95,268,279	
Allocation to Declining Block		17,218,489
Cascade Subregions		
Cascade Subregion A		
Operations Costs	-	
Asset Recovery Costs	14,411	
Total	14,411	
Allocation to Declining Block		14,411
Cascade Subregion B - Segment 1		
Operations Costs	12,858	
Asset Recovery Costs	14,872	
Total	27,730	
Allocation to Declining Block		2,705
Allocation to Downstream Customers	25,025	
Cascade Subregion B - Segment 2		
Amount from Segment 1	25,025	
Operations Costs	166	
Asset Recovery Costs	20,718	
Total	45,909	
Allocation to Declining Block		7,997
Cascade Subregion B - Segment 3		
Operations Costs	-	
Asset Recovery Costs	-	
Total	-	
Allocation to Declining Block		-
Charge for Cascade Supplemental Block		2,762,410
Total Costs		20,006,012
Adjustment for Prior-year allocation, including interest		165,460
Net excess (deficit) of revenues over cost of service, December 31, 2012		\$ (879,840)

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF SURPLUS (DEFICIT) OF
FIXED BLOCK CONTRACT REVENUES LESS SERVICE COSTS
YEAR ENDED DECEMBER 31, 2012**

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Beginning balance, December 31, 2011		
No carryover from previous year under block contracts		
Fixed Block Revenues	5,006,056	
2012 Timber Sales (allocation as block)	705	
Total Revenues		<u>\$ 5,006,761</u>
Existing Supply and Existing Transmission		
Existing Supply		
Operations Costs	29,563,140	
Asset Recovery Costs	35,517,117	
Existing Transmission		
Operations Costs	10,527,653	
Asset Recovery Costs	19,660,369	
Total	<u>95,268,279</u>	
Allocation to Fixed Block		4,858,682
Conservation Cost Pool		
Operations Costs	742,023	
Allocation to Fixed Block		45,993
Asset Recovery Costs	4,309,179	
Allocation to Fixed Block		<u>267,096</u>
Total Costs		5,171,771
Adjustment for Prior-year allocation, including interest		<u>46,689</u>
Net excess (deficit) of revenues over cost of service, December 31, 2012		<u><u>\$ (211,699)</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, 2012**

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Beginning Balance - December 31, 2011		\$ -
No carryover from previous year under block contracts		
Renton New Supply Revenues		<u>164,510</u>
Renton New Supply Costs		
Operations Costs	\$ 742,023	
Allocation to Renton New Supply		42,295
Asset Recovery Costs	\$ 1,326,095	
Allocation to Renton New Supply		<u>75,587</u>
Total Costs		<u>117,882</u>
Adjustment for Prior-year allocation, including interest		<u>-</u>
Net excess of revenues over cost of service		
December 31, 2012		<u><u>\$ 46,628</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, 2012**

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East Subregion Segment 1 Costs		
Operations Costs	\$ 12,858	
Asset Recovery Costs	14,872	
Total	<u>27,730</u>	
Amount Allocated to Segment 1		\$ 2,705
Amount Allocated to downstream users	25,025	
<hr/>		
East Subregion Segment 2 Costs		
Amount from Segment 1	\$ 25,025	
Operations Costs	166	
Asset Recovery Costs	20,718	
Total	<u>45,909</u>	
Amount Allocated to Segment 2		\$ 7,997
Amount Allocated to downstream users	37,911	
<hr/>		
East Subregion Segment 3		
Beginning Balance at December 31, 2011	\$ (78,379)	
Interest	<u>(3,605)</u>	
Total		\$ (81,984)
East Subregion Segment 3 As-If Revenues		44,604
East Subregion Segment 3 Costs		
Amount from Segment 2	37,911	
Operations Costs	8,334	
Asset Recovery Costs	27,806	
Total	<u>74,051</u>	
Amount Allocated to Segment 3		5,188
Amount Allocated to downstream users	68,863	
Net excess (deficit) of revenues over cost of service		<u>\$ (42,568)</u>
<hr/>		
East Subregion Segment 4		
Beginning Balance at December 31, 2011	\$ (191,766)	
Interest	<u>(8,821)</u>	
Total		\$ (200,587)
East Subregion Segment 4 As-If Revenues		130,657
East Subregion Segment 4 Costs		
Amount from Segment 3	68,863	
Operations Costs	94	
Asset Recovery Costs	14,726	
Total	<u>83,683</u>	
Amount Allocated to Segment 4		83,684
Net excess (deficit) of revenues over cost of service		<u>\$ (153,614)</u>

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 STATEMENT OF SURPLUS (DEFICIT) OF
 SOUTHWEST SUBREGION RATE REVENUES LESS SERVICE COSTS
 YEAR ENDED DECEMBER 31, 2012**

Beginning Balance, December 31, 2011		\$ (688,583)
Interest		(31,675)
Total Prior Balance		<u>(720,258)</u>
2012 As-If Rate Based Revenues		<u>273,377</u>
2012 Rate Based Costs		
585 Zone Facilities		
Operations Costs	\$ 3,408	
Asset Recovery Costs	324,691	
Total	<u>328,099</u>	
Allocation to Southwest Subregion Customers (at 37.5%)		123,037
West Seattle Reservoir		
Operations Costs	7,456	
Asset Recovery Costs	3,038,033	
Total	<u>3,045,489</u>	
Allocation to Southwest Subregion Customers (at 11.4%)		347,186
West Seattle Pipeline		
Operations Costs	2,535	
Asset Recovery Costs	152,315	
Total	<u>154,850</u>	
Allocation to Southwest Subregion Customers (at 45.8%)		70,921
Des Moines Way Pipeline		
Operations Costs	3,222	
Asset Recovery Costs	9,768	
Total	<u>12,990</u>	
Allocation to Southwest Subregion Customers (at 100%)		12,990
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>554,134</u>
Net excess (deficit) of revenues over cost of service		<u><u>\$ (1,001,015)</u></u>

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NEW WHOLESALE CUSTOMER FACILITIES CHARGE SUMMARY STATEMENT
YEAR ENDED DECEMBER 31, 2012**

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Beginning Balance at December 31, 2011		\$ 9,103,780
Interest		<u>418,774</u>
2012 Facilities Charge Based Revenues		<u>1,977,858</u>
2012 Facilities Charge Based Costs		
1% Conservation Costs	\$ 2,983,084	
2012 Regional Conservation Cost	<u>1,326,095</u>	
Total	<u>4,309,179</u>	
Allocation to New Contract Wholesale Customers		4,309,179
Allocation to Fixed Block		(267,096)
Allocation to New Supply Assets of Renton		<u>(75,587)</u>
Total Full and Partial Contract Customer Costs		<u>3,966,496</u>
Transfer to Regional Revenue		<u>-</u>
Ending Balance at December 31, 2012		<u><u>\$ 7,533,916</u></u>

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 REGIONAL RATE BASED REVENUES STATEMENT
 YEAR ENDED DECEMBER 31, 2012**

Customer	Volume (CCF)	Base Rate Revenue (\$)	Transition Growth Surcharge (\$)	Southwest Subregional Surcharge (\$)	East Subregional Segment 3 Surcharge (\$)	East Subregional Segment 4 Surcharge (\$)	Northwest Subregional Surcharge (\$)
Bothell	656,581	\$ 1,204,249	\$ 5,448	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Cedar River	701,387	1,264,285	6,805	N/A	N/A	N/A	N/A
Coal Creek	525,773	988,980	1,978	N/A	N/A	N/A	N/A
Duvall	232,947	422,989	2,993	N/A	N/A	N/A	N/A
Edmonds	2,984	9,676	-	N/A	N/A	N/A	N/A
Highline	2,105,391	3,860,415	-	126,324	N/A	N/A	N/A
Lake Forest Park	27	4,712	-	N/A	N/A	N/A	N/A
Mercer Island	992,386	1,842,303	-	N/A	38,015	130,657	N/A
North Bend	31,942	-	-	N/A	N/A	N/A	N/A
Olympic View	374,499	688,736	8	N/A	N/A	N/A	7,490
Renton	51,086	94,524	-	N/A	N/A	N/A	N/A
Shoreline	669,971	1,205,015	-	N/A	N/A	N/A	N/A
Soos Creek	1,945,924	3,509,895	17,989	N/A	N/A	N/A	N/A
WD 20	1,215,151	2,197,359	1,001	72,909	N/A	N/A	N/A
WD 45	107,679	194,348	55	6,461	N/A	N/A	N/A
WD 49	610,235	1,097,729	2,307	36,614	N/A	N/A	N/A
WD 90	536,673	1,001,949	-	N/A	N/A	N/A	N/A
WD 119	111,287	201,292	481	N/A	N/A	N/A	N/A
WD 125	517,820	910,546	-	31,069	N/A	N/A	N/A
Woodinville	1740966	3,177,549	13,641	N/A	N/A	N/A	N/A
Seattle	29,166,614	52,293,313	N/A	N/A	6,589	N/A	N/A
Total	42,297,323	\$ 76,169,864	\$ 52,706	\$ 273,377	\$ 44,604	\$ 130,657	\$ 7,490

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 FACILITIES CHARGE REVENUES STATEMENT
 YEAR ENDED DECEMBER 31, 2012**

Meter Size	Quantity											Total	Revenue										Adjustments	Total						
	3/4	1	1 1/2	2	3	4	6	8	10	12	3/4		1	1 1/2	2	3	4	6	8	10	12									
Bothell	-	-	-	2	-	-	-	-	-	-	2	\$ -	\$ -	\$ -	\$ 12,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,528
Cedar River	11	2	6	-	-	-	-	-	-	-	19	8,613	3,132	23,490	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35,235
Coal Creek	39	7	6	1	-	-	-	-	-	-	53	30,537	10,962	23,490	6,264	-	-	-	-	-	-	-	-	-	-	-	-	-	71,253	
Duvall	77	1	-	-	-	-	-	-	-	-	78	60,291	1,566	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	61,857	
Mercer Island	-	5	16	-	-	-	-	-	-	-	21	-	4,698	53,244	-	-	-	-	-	-	-	-	-	-	-	-	-	-	57,942	
Shoreline	3	-	-	-	-	-	-	-	-	-	3	2,349	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,349	
Soos Creek	120	6	1	2	-	-	-	-	-	-	129	93,960	9,396	3,915	12,528	-	-	-	-	-	-	-	-	-	-	-	-	-	119,799	
Woodinville	23	2	1	-	-	-	-	-	-	-	26	17,226	3,132	3,915	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,273	
WD 20	7	4	-	-	-	-	-	-	-	-	11	5,481	5,481	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,962	
WD 45	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
WD 49	3	3	1	-	-	-	-	-	-	-	7	2,349	3,132	3,915	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,396	
WD 90	39	5	-	-	-	-	-	-	-	-	44	30,537	7,830	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,367	
WD 119	2	1	-	-	-	-	-	-	-	-	3	1,566	1,566	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,132	
WD 125	-	2	-	-	-	-	-	-	-	-	2	-	3,132	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,132	
Seattle	385	77	27	30	14	18	5	-	-	1	557	299,889	115,101	91,611	169,128	214,542	416,556	253,692	-	-	-	-	-	-	(32,886)	1,527,633				
Total	709	115	58	35	14	18	5	-	-	1	955	\$ 552,798	\$ 169,128	\$ 203,580	\$ 200,448	\$ 214,542	\$ 416,556	\$ 253,692	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (32,886)	\$ 1,977,858					

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**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF DECLINING BLOCK USAGE AND PENALTY CHARGE
YEAR ENDED DECEMBER 31, 2012**

Declining Block Usage

Annual Average Use

January 1 - December 31

Block Limit (MG) 33.3

Actual Use (MG) 26.4

Excess Use (MG) -

Peak Season Use

May 18 - September 19, inclusive

Block Limit (MG) 45.0

Actual Use (MG) 33.7

Excess Use (MG) -

Peak Month Use

July 20 - August 19, inclusive

Block Limit (MG) 56.3

Actual Use (MG) 46.2

Excess Use (MG) -

Penalty Charge

Cascade Volume Charge per MG N/A

Penalty Factor (from 8.10 of the contract) N/A

Amount of Excess Usage (MG) N/A

Number of Penalty Days N/A

Penalty Charge N/A

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
STATEMENT OF FIXED BLOCK USAGE AND PENALTY CHARGE
YEAR ENDED DECEMBER 31, 2012**

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Fixed Block Usage

Annual Average Use

January 1 - December 31

Block Limit (MG)

8.55

Actual Use (MG)

5.05

Excess Use (MG)

-

Peak Season Use

May 18 - September 19, inclusive

Block Limit (MG)

10.86

Actual Use (MG)

6.48

Excess Use (MG)

-

Peak Month Use

July 20 - August 19, inclusive

Block Limit (MG)

13.59

Actual Use (MG)

7.37

Excess Use (MG)

-

Penalty Charge

Northshore Volume Charge per MG

N/A

Penalty Factor (from 8.11 of the contract)

N/A

Amount of Excess Usage (MG)

N/A

Number of Penalty Days

N/A

Penalty Charge

N/A

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**CITY OF SEATTLE,
 SEATTLE PUBLIC UTILITIES – WATER FUND
 HISTORIC TRUE UP INFORMATION
 DECEMBER 31, 2012**

	Wholesale Demand* (ccf)	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

* 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	-	-

See accompanying notes to the Wholesale Statements.

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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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 6.10%.

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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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 2012 was calculated as follows:

Existing Supply

2011 Base	\$ 27,045,325
2011 Costs in identified activities	\$ 18,804,705
2012 Costs in identified activities	\$ 20,551,740
Ratio of 2012/2011	1.0929
2012 Operations Cost Base	\$ 29,557,836
Add Expensed CIP:	
C408056 Lake Youngs Building Improvements	4,708
C408054 Tolt Building Improvements	596
Minus gain on asset retirement	-
Total Existing Supply Costs	\$ 29,563,140

Existing Transmission

2011 Base	\$ 10,509,582
2011 Costs in identified activities	\$ 2,759,064
2012 Costs in identified activities	\$ 2,761,264
Ratio of 2012/2011	1.0008
2012 Operations Cost Base	\$ 10,517,990
Add Expensed CIP:	
C107076 SFT Pipeline Improvements	9,663
Minus gain on asset retirement	-
Total Existing Transmission Costs	\$ 10,527,653

New Supply

2011 Base	\$ 839,203
2011 Costs in identified activities	\$ 375,729
2012 Costs in identified activities	\$ 332,229
Ratio of 2011/2012	0.8842
Total New Supply Costs	\$ 742,023

New Transmission

2012 Cost in activity in identified activities	\$ -
Add general & administrative per CIP	-
Total New Transmission Costs	\$ -

**CITY OF SEATTLE,
SEATTLE PUBLIC UTILITIES – WATER FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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

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

Note 4 - Asset Costs

Pursuant to terms set forth in section IV.E.2 of the Wholesale Customer Contract, the Fund charges wholesale customers for asset costs. This cost for 2012 was calculated as follows:

Existing Supply		
Depreciation		\$ 12,353,419
Asset Net Book Value	\$ 379,732,754	
Rate of Return on Investment	6.10%	
Return on Net Book Value		<u>23,163,698</u>
Total Existing Supply Asset Cost		<u>\$ 35,517,117</u>
Existing Transmission		
Depreciation		\$ 5,711,195
Asset Net Book Value	\$ 228,674,981	
Rate of Return on Investment	6.10%	
Return on Net Book Value		<u>13,949,174</u>
Total Existing Transmission Asset Cost		<u>\$ 19,660,369</u>
New Supply, 1% Conservation (utility cost basis)		
Depreciation		\$ 2,479,515
Asset Net Book Value	\$ 8,255,232	
Rate of Return on Investment	6.10%	
Return on Net Book Value		503,569
New Supply, 1% Conservation (cash basis)		<u>1,326,095</u>
Total New Supply Asset Cost		<u>\$ 4,309,179</u>