

May 3, 2016

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

Mr. Rick Scott  
Seattle Water Supply System Operating Board  
Seattle, WA

Dear Ms. Crawford and Mr. Scott:

This letter confirms our understanding of the nature and limitations of the services we will provide. This Engagement Letter and the SPU Contract No. C11-044 Amendment No. 4, which is incorporated herein by this reference, confirm our understanding of the terms and objectives of our engagement, and 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 "Fund"). 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 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 as of and for the year ended December 31, 2015, prepared in accordance with the full requirements contract, partial requirements contract, fixed block contract and declining block contract. These four contracts collectively 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.

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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 or on the Fund's compliance with the 2001 Contracts. 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.

**Timing**

Amy Sutherland is responsible for supervising the engagement and authorizing the signing of our report. We expect to begin performing the agreed-upon procedures on approximately May 31, 2016, complete our procedures in June 2016 and present our draft report at your meeting on July 7, 2016. We will issue our report shortly thereafter. If unforeseen difficulties occur which make meeting the July 7, 2016 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. Our services will be concluded upon delivery to you of our report on the agreed-upon procedures applied to statements, schedules and summaries prepared by the Fund as of and for the year ended December 31, 2015.

**Fees**

Our fees for these services will be \$36,480. The fee estimate is based on anticipated cooperation from your personnel, the expectation that the Fund'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.

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

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additional services. In the absence of another agreement documenting such additional services, our services will be limited to those set forth in this Agreement.

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This letter and the SPU Contract No. C11-044 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.

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,



Amy Sutherland, for  
Moss Adams LLP

Enclosure

**ACCEPTED AND AGREED:**

This Engagement Letter and SPU Contract No. C11-044 Amendment No. 4 set forth the entire understanding of the Parties with respect to this engagement and the services to be provided by Moss Adams LLP:

**By Seattle Public Utilities:**

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

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**By Seattle Water Supply System Operating Board:**

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Client: 603987  
v. 10/28/2013

**CITY OF SEATTLE, SEATTLE PUBLIC UTILITIES – WATER FUND  
WHOLESALE STATEMENTS  
SCHEDULE OF AGREED-UPON PROCEDURES  
YEAR ENDED DECEMBER 31, 2015**

**Procedures to be Performed for the Summary of Regional System Revenues**

1. Recalculate the arithmetical accuracy of the Summary.
2. Compare balances on the Summary to source summary worksheets as provided by Fund management and perform the following:
  - a. Compare the total water consumption balance to the total volume listed on the Regional Rate Based Revenues Statement and the Purveyor Monthly Report.
  - b. Compare the surcharge water consumption columns to the Purveyor Monthly Report and the East Subregion Revenue Statement.
  - c. Compare the wholesale customer revenues as noted in the annual billings schedule within the Purveyor Monthly Report, as provided by management, to the Regional Rate Base Revenue Statement.
  - d. Compare the total number of new retail connections and the related revenues to the Facilities Charge Revenues Statement.
  - e. Compare the Cascade Water Alliance (“CWA”) Declining Block Revenues to the CWA Cost Estimate and Payment Schedule.
  - f. Compare the Northshore Utility District (“NUD”) Fixed Block Revenues to the NUD Cost Estimate and Payment Schedule.
  - g. Compare the Renton New Supply Revenue to the Renton Cost Estimate and Payment Schedule.
3. Compare 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. Recalculate the arithmetical accuracy of the detailed spreadsheets.
4. Recalculate any prior-year adjustments based on support provided by Fund management.

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

5. Recalculate the arithmetical accuracy of the Statement.
6. Compare rate based revenues for the year ended December 31, 2015 to the sum of the base rate revenues found on the Regional Rate-Based Revenues Statement.

7. Obtain the 2015 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:
  - a. Recalculate the arithmetical accuracy of the Schedule.
  - b. Compare each category of expense from the O&M Expense Allocation Schedule to the 2015 audited financial statements, and identify amounts on the O&M Schedule that are subtracted as subregional.
  - h. Note 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 or applicable operating Board decisions, to obtain 60% coverage of the total allocated costs. If a chosen activity is not on the list defined in the contract, document the Fund’s rationale for inclusion in the allocations.
  - c. Compare 2014 and 2015 O&M Expense Allocation Schedules to each other and note differences in presentation between the two schedules.
  - d. Recalculate the application of the 2014 to 2015 percentage to the 2014 base cost index.
8. Obtain the Fund Audit Schedule of Fixed Assets as of December 31, 2015, and perform the following procedures:
  - a. Recalculate the arithmetical accuracy of the schedule.
  - b. Compare the fixed asset categories on the schedule to the 2015 audited financial statements.
  - c. Note that individual assets are allocated to cost pools in accordance with Exhibits VII and VIII in the Wholesale Customer Contract by selecting allocated assets through non-statistical means to obtain 60% coverage of the allocated amount, with a minimum of 20 selections.
  - d. Recalculate the rate of return on investments and compare to Article II of the Wholesale Customer Contract.
  - e. Recalculate application of the return on investments.
9. Compare the Allocation to Declining Block amount to the Statement of Surplus (Deficit) of Declining Block Contract Revenues Less Service Costs.
10. Compare 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 Services Costs.
11. Compare 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.

12. Compare any other credits, such as Timber sales, on the statement to the December 31, 2015 Fund general ledger. Recalculate allocation percentage of these credits to the Summary of Regional System Revenues.
13. Recalculate any prior-year allocation, including interest amount, based on support provided by Fund management.

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

14. Recalculate the arithmetical accuracy of the Statement.
15. Compare revenues for the year ended December 31, 2015 to the declining block revenue amount on the Summary of Regional System Revenues.
16. Compare the Existing Supply and Existing Transmission Costs to the corresponding amounts on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs.
17. Recalculate the Existing Supply and Existing Transmission Allocation to corresponding amounts on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs.
18. For each subregional segment perform the following:
  - a. Recalculate application of the return on assets to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2015.
  - b. Identify individual O&M costs noted as subregional within the 2015 O&M Expense Allocation Schedule and compare each amount to the Operations Costs for the Cascade Subregion B Segment 1 & 2.
  - c. Identify flow allocators for the Cascade Subregions that vary by more than two standard deviations from the five-year rolling average and note the Fund's explanations for the variance.
  - d. Recalculate the application of flow factors to each Subregional facility using Annual Waterflow Schedule provided by management.
19. Recalculate the Annual Cost of the Supplemental portion of the Declining Block.
20. Compare Penalty Charge Cost to the Statement of Declining Block Usage and Penalty Charge.

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

21. Recalculate the arithmetical accuracy of the Statement.
22. Compare revenues for the year ended December 31, 2015, to the corresponding amount on the Summary of Regional System Revenues.
23. 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.

24. Recalculate Allocation to Fixed Block Customers by matching the Existing Supply and Existing Transmission Costs to the 2015 O&M Allocation and 2015 Asset Allocation Schedules provided by Fund management.
25. 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.
26. Compare Penalty Charge Cost to the Statement of Fixed Block Usage and Penalty Charge.

**Procedures to be Performed for the Statement of Surplus (Deficit) of Renton New Supply Revenue Less Services Costs**

27. Recalculate the arithmetical accuracy of the Statement.
28. Compare revenues for the year ended December 31, 2015, to the corresponding amount on the Summary of Regional System Revenues.
29. Compare 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.

**Procedures to be Performed for the Statement of East Subregion Rate Revenues Less Service Costs**

30. Recalculate the arithmetical accuracy of the Statement.
31. For each subregional segment, perform the following procedures:
  - a. Recalculate application of the return on assets rate to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2015.
  - b. Verify individual Operation Costs noted as subregional in 2015 are identified within the O&M Expense Allocation Schedule.
  - c. 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.
  - d. Recalculate the application of flow factors to each subregional facility.
  - e. Recalculate 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**

32. Recalculate the arithmetical accuracy of the Statement.
33. Recalculate application of the return on assets rate to subregional assets in the Fund Audit Schedule of Fixed Assets as of December 31, 2015.



34. Identify individual Operation Costs noted as subregional within the 2015 O&M Expense Allocation Schedule.
35. Identify 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 that vary by more than two standard deviations from the five-year rolling average and note the Fund's explanations for the variance.
36. Recalculate the application of flow factors to each subregional facility.
37. 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**

38. Recalculate the arithmetical accuracy of the Statement.
39. Compare the 2015 facilities charge based revenues to the Facilities Charge Revenues Statement.
40. Compare regional conservation costs to the Fund Audit Schedule of Fixed Assets as of December 31, 2015 as provided by management.
41. Compare 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.
42. Compare Allocation to Renton New Supply on the Statement of Surplus (Deficit) of Renton New Supply Revenue Less Services Costs.
43. Recalculate any prior year adjustments based on support provided by Fund management.

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

44. Recalculate the arithmetical accuracy of the Statement.
45. Select two months through non-statistical means and recalculate Seattle wholesale volumes on "MGD by Source" report and 2015 year-end detail source sheets provided by Fund management.
46. Select two months through non-statistical means and recalculate Seattle wholesale bills on 2015 year-end detail source sheet. Compare the rates used to Seattle Municipal Code 21.04.440 - Rates Outside the City of Seattle.
47. Randomly select a sample of Customer bills sent in 2015 to achieve 60% coverage of customer months with a minimum of one from each Customer and perform the following procedures:
  - a. Compare billed water consumption amounts (volume and dollar) to data provided by the Fund's Account Services department.
  - b. Recalculate the Southwest Subregional Surcharges if they apply.
  - c. Recalculate the East Subregional Segments 3 & 4 Surcharge if they apply.

- d. Recalculate the Northwest Subregional Surcharge if they apply.
- 48. Compare any miscellaneous adjustments to supporting documentation obtained from Fund management.
- 49. Recalculate any prior-year adjustments based on support provided by Fund management.

**Procedures to be Performed on Facilities Charge Revenue Statement**

- 50. Recalculate the arithmetical accuracy of the Statement.
- 51. Compare the 2015 “Non-Seattle” facilities charge revenues to the December 31, 2015 Fund general ledger.
- 52. Select customer new meter counts through non-statistical means to achieve 60% coverage of the total new meter installations and compare from the Facilities Charge Data Sheet provided by Fund management to the Facilities Charge Revenues Statement.
- 53. Select Seattle new meter counts through non-statistical means to achieve 60% coverage of total new meter installations and compare to the 2015 Maximo Work Order Query by Month provided by Fund management.
- 54. 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**

- 55. Compare monthly water consumption amounts (volume only) presented on the Purveyor Monthly Summary Report and Purveyor Consumption Report provided by management, which supports data presented on the Statement of Declining Block Usage and Penalty Charge.
- 56. Recalculate Annual Average Use in accordance with the methodology defined in sections 3.4A, 3.4B, and 3.11 of the Amended Contract.
- 57. Recalculate Peak Season Use in accordance with the methodology defined in section 3.3 and 3.10 of the Amended Contract.
- 58. Recalculate Peak Month Use in accordance with the methodology defined in section 3.3 and 3.9 of the Amended Contract.
- 59. Recalculate Penalty Charge applied in accordance with methodology in the Declining Block Water Supply Agreement.

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

- 60. Compare monthly water consumption amounts (volume only) presented on the Purveyor Monthly Summary Report and Purveyor Consumption Report provided by Fund’s Account services department, which supports data presented on the Statement of Fixed Block Usage and Penalty Charge.
- 61. Recalculate Annual Average Use in accordance with the methodology defined in Article II of the Fixed Block Water Supply Agreement.

62. Recalculate Peak Season Use in accordance with the methodology defined in Articles II & III of the Fixed Block Water Supply Agreement.
63. Recalculate Peak Month Use in accordance with the methodology defined in Articles II & III of the Fixed Block Water Supply Agreement.
64. Recalculate Penalty Charge Costs applied in accordance with the methodology in the Fixed Block Water Supply Agreement.

**Procedures to be Performed on additional Historical Schedules**

65. Compare balances presented in Historical Schedules to the 2002 through 2014 Wholesale Statements or schedules provided by Fund management from which they are derived.

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

66. Compare rate of return percentage in Note 1 to the rate of return recalculated in the procedures performed on the Statement of Surplus (Deficit) of Rate Revenues Less Service Costs.
67. Recalculate the arithmetical accuracy of the tables and schedules within the Notes.
68. Compare balances of all Operations Costs within the Notes to the 2015 O&M Allocation Schedule.
69. Compare the Total Existing Supply Asset Cost, Total Existing Transmission Asset Cost, and Total New Supply Asset Cost within the Notes to corresponding totals within the Statement of Surplus (Deficit) of Fixed Block Revenues Less Service Costs. Compare all other balances with 2015 Asset Schedule.