MEMBERSHIP AUDIT ACCEPTANCE AGREEMENT

Between

CASCADE WATER ALLIANCE

And

CITY OF KIRKLAND

MEMBER

May 23, 2008

Cascade Water Alliance ("Cascade") and the City of Kirkland ("Kirkland") enter into this Membership Audit Acceptance Agreement (the "Audit Agreement") with respect to Kirkland's public water system.

Article I: Authority – Audit Predicate – Audit – Definitions

Section 1.1 Authority. Article V, Section 5.2.2 of the Cascade Water Alliance Amended and Restated Interlocal Contract, dated December 15, 2004, (the "Interlocal") requires an audit of each Member's water system and Independent Supply, if any, for the purposes of (1) determining Cascade's supply obligation to that Member, (2) recognizing when the Member has lost Independent Supply, and (3) allocating credits against the Member's Regional Capital Facility Charge for its Independent Supply.

Section 1.2 Audit Predicate. Cascade's supply obligations (water quantity and quality) and related supply obligations and the Member's obligations concerning planning, conservation, shortage management, Independent Supply, and payment of Rates and Charges are established by the Interlocal. This Audit Agreement is intended to implement, not modify the Interlocal, and nothing herein shall change the benefits or obligations of a party to the Interlocal.

Section 1.3 Audit. This Audit Agreement incorporates and adopts the audit of Kirkland's public water system, dated May 23, 2008, performed by Cascade Water Alliance (the "Audit"). *The Audit was performed according to a methodology adopted by the Board of Directors of Cascade (the "Board") in Resolution No. 2008-04.* The original Audit is on file with Cascade. A true and accurate copy is attached hereto as Exhibit A.

Section 1.4 Definitions. Capitalized terms not otherwise defined in this Agreement shall have the meaning assigned to them in the Interlocal. The following words have the following meanings when used in this Agreement:

a) Production Requirement – The quantity (seasonal and annual) of water a Member is required to supply from its Independent Supply as established by the Audit and set forth in Section V of Exhibit A.

b) Failure to meet Production Requirement – A Member's voluntary or involuntary failure to meet Production Requirements and so declared by a resolution of the Board.

c) Loss of Supply – A Member's permanent Failure to Meet Production Requirements, or a portion thereof, and so declared by a resolution of the Board.

Article II: Independent Supply

The Audit accurately identifies and quantifies Kirkland's Independent Supply for the purpose of establishing Cascade's supply commitment to Kirkland.

Article III: Supply Commitment

Cascade's supply commitment, as provided in the Interlocal and further defined by the Audit, shall be implemented through the Points of Delivery that are identified in Exhibit A.

Article IV: Wheeling

All existing wheeling arrangements between Members or between Members and non-members as described in Exhibit A shall remain in effect. For future wheeling arrangements, Cascade shall pay wheeling charges when, in the judgment of the Board, a wheeling arrangement represents a cost-effective way to provide water to a Member or non-member.

Article V: Points of Delivery

Section 5.1 Cascade shall either own, or by contract with Seattle, have wholesale master meters at all points of delivery of the regional transmission system as set forth in Exhibit A.

Section 5.2 Costs related to installation of future wholesale master meters initiated by Cascade shall be borne by Cascade. The cost of installing any future wholesale master meters not initiated by Cascade and not listed in Exhibit A shall be charged pursuant to Cascade's fiscal policies to the entity (Member or non-member) receiving the water.

Section 5.3 The hydraulic gradients for the points of delivery are established in Exhibit A. A Member may request changes to such hydraulic gradient(s) to avoid adverse impacts to their distribution system. Cascade shall assume the initial cost of any adjustments required at the Member supply connection to match the defined range. Cascade shall also assume the initial cost of any adjustments (within the Member's distribution system) resulting from changes to the defined hydraulic gradient range caused by Cascade. Thereafter, the cost of any subsequent adjustments shall be borne by each individual Member. Under emergency conditions or other unusual short-term operating situations, Cascade shall not be obligated to meet minimum hydraulic gradients.

Article VI: RCFC Credits – Independent Supply – Production Requirements – Loss

Section 6.1 Award of Credits. According to the Audit, Kirkland is entitled to and shall have 0 credits against the Regional Capital Facilities Charge.

Section 6.2 Production Requirements – Waiver

6.2.1 Kirkland accepts the Audit and the Production Requirement established by the Audit and set forth in Exhibit A, and agrees to produce water from its Independent Supply in an amount at least sufficient to meet its Production Requirements.

6.2.2 The Board may temporarily modify or waive Production Requirements when:

a. the modification or waiver will not result in any increased demand upon Cascade or any increased cost to Cascade;

b. the modification or waiver is based upon unforeseen events such as equipment failure, natural disaster, or other situation that could not have been reasonably foreseen by Member(s);

c. the modification or waiver is based upon a planned temporary interruption of production as might be needed to perform routine maintenance or modification to a Member's system, the impacts of which have been coordinated in advance with Cascade;

d. the modification or waiver is warranted by considerations of equity and fairness as determined in the sole discretion of the Board;

e. the modification or waiver is based upon an agreed demand mitigation plan submitted by a Member and accepted by the Board; or

f. The modification or waiver is in effect only for a specified and limited (not to exceed one year) period of time.

Section 6.3 Production Requirements – Administration and Enforcement. Production Requirements shall be administered and enforced as follows:

6.3.1 Cascade will monitor Members' Independent Supply and Cascade's supply to Members through the collection of necessary reports and data. Cascade will evaluate Independent Supply production relative to Production Requirements and periodically report to Members on status. The frequency of such reports will be determined by practical timeframes for receipt and compilation of necessary data from regional and local sources. If a Member fails to meet Production Requirements, Cascade will notify the Member and the Board as soon as practical.

6.3.2 Each year, Cascade will periodically assess the supply and demand situation to determine whether Production Requirements may be waived or reduced based on a finding of surplus in water supply capacity or capability relative to demands. In the event of shortage conditions invoking shortage response, Cascade will work with Members to maximize those Members' reliance on Independent Supply while recognizing that concurrent demand reductions may cause de facto reductions in the ability to put Independent Supply to full productive use.

6.3.3 The Production Requirement shall be reduced pro rata to reflect a reduction in demand levels in any year. For this purpose, Cascade shall determine the actual Cascade usage per CERU for its collective Members, divide this usage by the standard usage per CERU established and used by Cascade, and multiply this ratio times the Production Requirement. This shall be done separately for annual and peak season demands and Production Requirements.

6.3.4 Shortfalls in production that are not waived by the Board or otherwise satisfied by any of the foregoing shall be documented by a resolution of the Board that shall impose penalties according to a graduated series of financial surcharges and operational sanctions, as follows:

Cascade Actions for Member Shortfall in Independent Supply Production			
Frequency	**Financial Response** *(applies to volume of shortfall)*		**Operational Response**
	Peak Season Shortfall	**Annual Shortfall**	
1st occurrence in 20-year rolling period	None	None	Cascade notifies Member and Board adopts resolution declaring production failure
2nd occurrence in 20-year rolling period	Surcharge equal to 25% of Cascade's *average cost* per ccf delivered*	Surcharge equal to 5% of Cascade's *average cost* per ccf delivered*	Cascade notifies Member and Board adopts resolution declaring 2nd production failure, imposing penalties, and detailing consequences of further failures
3rd and subsequent occurrences in 20-year rolling period	Surcharge equal to 200% of Cascade's *average cost* per ccf delivered*	Surcharge equal to 80% of Cascade's *average cost* per ccf delivered*	Cascade notifies Member and Board adopts resolution declaring 3rd production failure, imposing penalties, and warning that a fourth failure will be deemed a Member declaration of "loss of supply"
** "average cost per ccf delivered" is defined as total annual Cascade Demand Share revenue divided by total annual Cascade volume delivered.*			

Provided that only one occurrence of a shortfall in Independent Supply Production may be declared per year, and provided further that in the event of multiple shortfalls in the same year (e.g. both peak season and annual shortfalls), the financial penalty shall be the greater of the calculated penalties.

6.3.5 A resolution declaring a permanent Loss of Supply shall be adopted by the Board upon the 4th occurrence of a Failure to Meet Production Requirements in a 20 year rolling period.

6.3.6 Whenever a resolution declaring a Loss of Supply has been adopted by the Board, (a) the Member shall concur in the declaration of Loss of Supply and formally request an additional Full Supply Commitment from Cascade in accordance with Section 5.2.2 of the Interlocal; (b) Cascade shall, at the Member's expense, perform an audit according to the approved audit methodology to quantify Cascade's additional Full Supply Commitment to the Member; and (c) Cascade shall impose, by resolution of the Board, the applicable annual financial penalties provided for in Section 6.3.4 of this agreement for that Loss of Supply, until the Member submits to Cascade a formal request for an additional Full Supply Commitment according to the Interlocal.

6.3.7 Whenever a Member experiences a Loss of Supply, that Loss of Supply shall be documented in a resolution of the Board and copy provided to the Member. The resolution shall

state the basis for the Board's declaration. A resolution declaring a Loss of Supply may be rescinded upon a showing satisfactory to the Board of replacement of lost supply consistent with the requirements of the Interlocal.

ARTICLE VII: General

Section 7.1 Integrated Agreement. This Agreement implements provisions of the Interlocal and shall be construed and interpreted to that effect; otherwise, this document and all attachments integrates all prior oral and written representations between the parties and is the complete agreement between Cascade and Kirkland concerning the Audit of Kirkland's public water system.

Section 7.2 Amendment. Except as otherwise provided, this Audit Agreement may be amended only in writing and only if such writing is signed by the Member and by Cascade; provided, however, an approved water system plan that modifies the Member's service area shall amend the service area described in Section 2.1 pending a further Audit of the Member's public water system in accordance with the Interlocal.

Section 7.3 Interpretation and Venue. This Audit Agreement shall be interpreted and construed according to the laws of the State of Washington; provided that the Interlocal, the Audit, and applicable Cascade resolutions may be consulted as aids to interpretation and construction. Any action to enforce this Agreement shall be brought in King County, Washington.

Section 7.4 Effective Date. This Audit Agreement shall be effective on the date that it is approved by resolution of the Board.

CASCADE WATER ALLIANCE
By:

Ed Oberg, Chief Executive Officer

9/3/08
Date

Date _____.

Pursuant to Cascade Water Alliance Resolution No. 2008-12, Section 4, adopted 8/27/08, the Chief Executive Officer is authorized to execute the Audit Acceptance Agreements for the seven Cascade Members listed in Section 2.

Date _____.

MEMBER
By:

Marilynne Beard

Mayor or City Manager or President of Commissioners

Date 8/25/08.

Attest:

_____

Date _____.