

CITY COUNCIL AGENDA TOPIC**Cascade Water Alliance Water Supply Contract Negotiations Update**

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EXECUTIVE SUMMARY**INFORMATION
ONLY**

Cascade Water Alliance (Cascade) water supply negotiations lead, Chuck Clarke, will brief Council on the status of water supply negotiations with Seattle Public Utilities and Tacoma Public Utilities. The Cascade Board will likely provide direction in April 2024 on which supplier to pursue further negotiations, followed by plans to approve a final contract in Fall 2024. Tonight's presentation is an opportunity to learn more and ask questions about the proposals.

RECOMMENDATION

N/A

BACKGROUND/ANALYSIS

Created on April 1, 1999, the Cascade Water Alliance (Cascade) currently consists of seven member agencies, including Bellevue, Kirkland, Issaquah, Redmond, Tukwila, Sammamish Plateau Water, and Skyway Water and Sewer District. Cascade was created to provide members with a voice and a vote and control of its future water supply. Cascade represents a partnership, as these agencies joined together to provide the Puget Sound region with a safe, clean, and reliable water supply for its 380,000 residents and more than 20,000 businesses. Cascade's current strategy is to use contract wholesale water supplies until the development of its own permanent water supply system. Bellevue buys 100 percent of our water from Cascade.

A Board of Directors (Board), consisting of an elected official from each member agency, oversees the business of Cascade. Councilmember Hamilton represents Bellevue on the Board. Councilmember Stokes is the City's alternate to the Board.

Cascade makes decisions using a "dual majority" model, meaning Board decisions are based on a majority of the number of members and a majority of water demand shares. Bellevue currently accounts for approximately 52 percent of Cascade's total water demand shares.

As Bellevue accounts for the majority of Cascade's water demand shares, the City's guiding policies have a clear and direct influence on Cascade's work. The Bellevue Comprehensive Plan guides policy

decisions relating to drinking water and water quality stating that drinking water supply should be:

- Reliable
- Cost-effective
- Safe and secure
- High quality
- Environmentally responsible

The following summarizes key actions since Cascade's inception, as well as the status of its water supply via Seattle Public Utilities (SPU), Tacoma Public Utilities (TPU), and Lake Tapps Reservoir.

Current Contract Status

Cascade currently gets its water through a contract with SPU in what is called a "declining block." This means that Cascade has a "take or pay" contract; Cascade pays SPU based on the total block amount instead of the actual amount of water used. Cascade also holds a contract with TPU but does not currently receive any water because there is no delivery mechanism or transmission pipeline connecting the two systems. Cascade members use approximately 28 million gallons per day (MGD).

Cascade purchased the White River-Lake Tapps Reservoir system from Puget Sound Energy (PSE) in 2009 as a potential future source of municipal water and holds a water right permit from the Department of Ecology (Ecology) to develop Lake Tapps into a drinking water supply.

In 2022, Cascade established the Water Supply Development Fund (WSDF), which is dedicated to fund at least 20 percent of the Lake Tapps Reservoir water supply project and pay for other water supply needs, including a possible transmission line to access the TPU water supply. Council was briefed on the WSDF in September and November 2021.

Existing SPU Contract

In 2004, Cascade entered into a 50-year agreement with Seattle, which included a block for 30.3 MGD through 2024. Through subsequent contract amendments the block was increased to 33.3 MGD and extended until 2039. The block structure of the contract allows Cascade to have lower rates than other SPU wholesale customers.

Cascade continues to have water supply from SPU beyond 2039. However, the block declines from 2040 to 2063. In 2064, Cascade can continue to purchase up to 5.3 MGD for members that cannot be served economically by other means. If SPU's water supply capacity is reduced in the future, either due to climate change or other reasons, then Cascade's block will be proportionally reduced.

Existing TPU Contract

Cascade originally entered into an agreement with TPU in 2005, which included a progressive take-or-pay for 4 MGD of permanent supply and 6 MGD of temporary supply. The agreement was amended in 2012, enabling Cascade to reduce its annual payments from \$6.86 million to \$1 million starting in 2029, and to receive a new capacity commitment of 8 MGD through 2042. The amended agreement requires Cascade to be responsible for the design, engineering, permitting, and construction of any infrastructure necessary to interconnect and take water delivery from TPU.

Lake Tapps Development

Cascade purchased Lake Tapps in 2009 as a future source of water supply, if needed. Cascade holds water right permits to develop Lake Tapps as a source of municipal drinking water. Ecology issued these permits in 2010, which established withdrawal and diversion rates for the White River and Lake Tapps as well as recreational lake levels for Lake Tapps. In 2022, Cascade was granted a 25-year extension of the water right development schedule. Cascade estimates it would take about 20 years to build out Lake Tapps, including all of the planning, pipelines, and treatment facility. The current water right permit requires Cascade to begin construction by 2065, complete construction within 15 years once construction begins (by 2080) and achieve full beneficial use of the allocated quantities by 2085.

With its existing contracts Cascade plans to begin construction on Lake Tapps in the 2030s and have Phase 1 treatment and transmission in place by 2042. Phase 2 treatment and transmission would be complete in 2062.

Water Supply Proposals

Demand projections have changed significantly since Cascade originally purchased Lake Tapps and last renegotiated an extension with SPU. Accordingly, the Board directed Cascade staff to assess whether an extension or a new contract with SPU and TPU could be beneficial.

The Board developed the following objectives in assessing an extension or new contract:

- 20 years or longer;
- Extension sufficient to defer Lake Tapps development;
- Reasonable and predictable costs;
- Net economic or rate benefit compared to the current Lake Tapps development plan;
- Flexibility in contract term and/or quantity to allow for future variation in supply and demand;
- Possible further extensions if mutually beneficial given supply and/or demand status; and
- Possible partnership opportunities for assets of regional significance.

Long term, Cascade assumes building out Lake Tapps after the next wholesale contract regardless of the scenario. This is because of uncertainty in future negotiations and conservative assumptions for planning purposes.

The following information summarizes SPU and TPU water supply proposals as of March 6, 2024, and how well they meet the Cascade Board objectives.

SPU Proposal

SPU proposed to extend the current “declining block” contract by 10 years. Similar to past amendments, lump sum payments would be required. SPU would also gradually increase the rates to match what other wholesale customers pay.

There are two possible 5-year extensions. The first extension can be unilaterally exercised if the difference between the SPU system firm yield and the projected combined SPU-Cascade average annual demand in 2054 is no less than 15 MGD or Cascade agrees to pay a 25 percent rate premium.

The second extension would extend the block to 2059. This second extension could only be exercised if the above supply and demand conditions are met.

If both 5-year extensions are exercised, SPU has offered the option to Cascade members to convert to direct wholesale customers of SPU in 2060. This option can only be exercised if both 5-year extensions are granted and the difference between the SPU system firm yield and the SPU-Cascade average annual demand in 2064 is no less than 7 MGD. Additionally, SPU must have secured new supply of at least 15 MGD by 2044. Members who convert would pay a 25 percent rate premium and would still be responsible for their share of the ongoing operating costs of Lake Tapps as members of Cascade.

- 20 years or longer. The SPU proposal only meets this objective if both extensions are granted by SPU.
- Extension sufficient to defer Lake Tapps development. Cascade would be able to delay development of Lake Tapps by at least 10 years with this proposal.
- Reasonable and predictable costs. SPU would increase Cascade's rates to those they charge to other wholesale customers. Additionally, Cascade would be charged a rate premium if the supply and demand criteria were not met when compared with what other wholesale members are charged and SPU would have the ability to unilaterally decide to not grant the second extension, meaning Cascade's costs could drastically change in securing a new contract.
- Net economic or rate benefit compared to the current Lake Tapps development plan. The SPU proposal does have a net economic benefit when compared to the current contract. The wholesale conversion option provides the greatest net economic and rate benefit; however, there is uncertainty if the conditions would be met, particularly SPU's ability to secure additional supply.
- Flexibility in contract term and/or quantity to allow for future variation in supply and demand. This proposal extends the existing block contract term Cascade currently holds, meaning Cascade would be unable to adjust its costs downward if demand declines.
- Possible further extensions if mutually beneficial given supply and/or demand status. SPU has not expressed a willingness to discuss further possible extensions or an initial extension beyond what is currently proposed based on their current water supply projections.
- Possible partnership opportunities for assets of regional significance. SPU has expressed they would not be willing to wheel water or have water from another supplier travel through their pipelines if Cascade were to pursue a contract with TPU, or when Lake Tapps is developed.

TPU Proposal

TPU has proposed a 25-year contract to provide an average of 20 MGD, which would begin when the existing SPU block begins to decline in 2040. With the existing SPU contract, this would provide sufficient water supply for Cascade members based on current demand projections until 2065.

In order to receive TPU water, Cascade must build a transmission pipeline between TPU's Pipeline 5 in north Pierce County and the south-eastern end of the Bellevue-Issaquah Pipeline (BIP) in Issaquah. Construction on this pipeline would begin in the 2030s to be functional when the contract begins in 2040.

- 20 years or longer. At 25 years, TPU's proposal meets this objective. TPU has also expressed an openness in discussing possible additional extensions.
- Extension sufficient to defer Lake Tapps development. Cascade would be able to defer development of Lake Tapps.

- Reasonable and predictable costs. The transmission pipeline between TPU's system and the BIP is outlined in Cascade's Transmission and Supply Plan (TSP). The costs for the pipelines in the TSP were updated in 2023. TPU would not charge Cascade a rate premium and their wholesale rates are approximately 20 percent lower than SPU. TPU's proposed 25-year term provides Cascade with predictable costs for a longer period of time than SPU's proposal.
- Net economic or rate benefit compared to the current Lake Tapps development plan. The TPU proposal does have a net economic benefit when compared to the current contract.
- Flexibility in contract term and/or quantity to allow for future variation in supply and demand. TPU has structured the proposal to be approximately 25 percent fixed costs and 75 percent demand-based, meaning Cascade's costs would be more proportional to water usage.
- Possible further extensions if mutually beneficial given supply and/or demand status. TPU has expressed an openness in discussing possible additional extensions beyond the 25-year contract term. TPU has also offered to provide Cascade with a permanent supply at half of the full supply after 2065.
- Possible partnership opportunities for assets of regional significance. Cascade's existing contract with TPU stipulates Cascade is responsible for the planning and construction of any pipeline connecting the two systems; however, TPU has expressed an openness in discussing future TPU use of drinking water from Lake Tapps. To-date, Cascade has never undertaken a capital project comparable to the size and scope of the proposed pipeline.

Bellevue Staff Recommendation

Bellevue staff recommend pursuing further negotiations with TPU, as their proposal meets City policy guidance that drinking water be reliable, cost-effective, safe, secure, high quality, and environmentally responsible.

- Reliable: TPU has excess supply sufficient to cover changes in Cascade's demand projections and has a newer system, so fewer large capital investments are anticipated in the near-term. TPU's proposed 25-year term provides Cascade with a reliable water supply source for a longer period of time than SPU's proposal.
- Cost-effective: Cascade anticipates the TPU proposal to result in lower water supply costs to Cascade members compared to the SPU proposal through 2100. TPU has lower wholesale costs than SPU
- Safe and secure: TPU's proposal provides longer-term water supply security with a 25-year contract term.
- High quality: Both SPU and TPU have similar protected watersheds.
- Environmentally responsible: Connecting Cascade members with another regional water supplier creates redundancy in the case of water supply impacts due to climate change or seismic events.

Next Steps

At the April 24 meeting, Cascade anticipates the Board will provide direction on which contract to pursue further negotiations with. A final contract would then be approved by the Board in October or November this year.

POLICY & FISCAL IMPACTS

Policy Impact

Review of the proposed contracts is guided by adopted City policies, including the 2015 Bellevue Comprehensive Plan, the Bellevue Waterworks Utility Financial Policies, the Bellevue Water System Plan, the City Council Vision, and the Environmental Stewardship Plan. Two keys policies that represent the consistent themes are:

- Provide a reliable, cost-effective supply of safe, secure, high quality drinking water that meets the community's water needs in an environmentally responsible manner.
- Cost increases or decreases for wholesale services shall be passed directly through to Bellevue customers.

Fiscal Impact

Neither proposed contract creates a fiscal impact for Bellevue during the current biennium.

Payments to Cascade make up approximately 33 percent of Bellevue's Water Utility operating budget. Payments from Bellevue make up approximately 52 percent of Cascade's revenues.

Due to the long-term nature of the water supply contracts being considered, Cascade staff have developed comparisons using a net present value (NPV) approach, rather than year-by-year rate scenarios. This is a typical method for evaluating such long-term alternatives, in which both the timing and magnitude of capital and operating expenses vary between the scenarios.

Three primary scenarios were evaluated by Cascade staff:

- Current contracts or "base case;"
- The SPU proposal, including two assumed extensions (without premium pricing), after which time Cascade constructs the transmission and treatment facilities necessary to bring Lake Tapps online for water supply by 2060; and
- The TPU proposal, after which time Cascade constructs the transmission and treatment facilities necessary to bring Lake Tapps online for water supply by 2065.

	Base Case	SPU	TPU
Net Present Value (2024-2099)	\$2.947B	\$2.815B	\$2.648B
Difference from Base Case		-\$132M	-\$299M

OPTIONS

N/A

ATTACHMENTS

N/A

AVAILABLE IN COUNCIL LIBRARY

N/A

