



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6826
December 2, 2025
Consent Agenda

AGENDA BILL INFORMATION

TITLE:	AB 6826: Seattle Public Utilities Water Supply Contract Amendment	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Authorize the City Manager to execute the amended Seattle Public Utilities Water Supply Contract.	

DEPARTMENT:	Public Works
STAFF:	Jason Kintner, Chief of Operations Carson Hornsby, Management Analyst II
COUNCIL LIAISON:	n/a
EXHIBITS:	1. First Amended and Restated Contract Between the City of Seattle and the City of Mercer Island for the Supply of Water
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to authorize the City Manager to sign the amended Seattle Public Utilities Water Supply Contract (see Exhibit 1).

- Seattle Public Utilities (SPU) is the sole supplier of water to Mercer Island. SPU serves a total of 16 cities and water districts through wholesale water supply contracts.
- The City's existing contract with SPU, approved by the City Council in June 2003 ([AB 3776](#)), has periodic reopeners for amendments. The first reopen period began in 2021.
- SPU completed contract negotiations with all their wholesale customers in 2025 after a four-year negotiation and engagement process, pending approval by their respective City Councils and Boards.
- As part of the amended contract, SPU will return to the City of Mercer Island its share of the balance surplus in the Existing Regional System Cost Pool as a lump sum payment of \$1,814,729. This payment will be distributed to the City's Water Fund.
- The City will receive the payment within 60 days of all SPU wholesale customers signing the amended contract.
- The SPU Water Supply Contract will need to be amended again in 2026 due to the transfer of assets and customers from SPU to the City as part of the City's Water Supply Pipeline Project. Staff anticipate the next Water Supply Contract amendment will be presented to the Utility Board and City Council by Q3 2026.

BACKGROUND

Seattle Public Utilities (SPU) is the sole supplier of water to Mercer Island. A majority of the water originates in the [Cedar River Watershed](#), with occasional supplementation from the [Tolt River supply system](#). Although the City owns and operates an [emergency well](#) – capable of supplying up to five gallons per day (GPD) per person of potable water to residents during emergency events – it is not designed or approved to supplement the City’s distribution system.

SPU serves 16 cities and water districts, including the City of Mercer Island, under long-term wholesale water contracts signed in 2001 and 2011. These contracts have periodic reopeners to amend certain portions of the contracts, with the current reopen period concluding at the end of 2025.

In March 2021, SPU began negotiations with wholesale customers on the first contract amendment, as permitted under the original water agreement. SPU convened workshops through May 2025 with representatives from all wholesale customers to review proposed contract changes.

ISSUE/DISCUSSION

SPU and its wholesale customers completed contract negotiations in September 2025 and agreed to future water planning through automatic extensions every 10 years, pending approval by their respective City Councils and Boards. The amended contract includes stranded cost protections which require reimbursements from wholesale customers if they choose to leave the system when supply is plentiful, and incentives if they leave at a point in the future when the region needs additional supply. The amended contract increases flexibility to respond to changes in the bond market and SPU’s financial systems, and to expand authority for the joint Seattle-Customer Operating Board over contract administration. The City of Mercer Island is a member of the Operating Board.

The amended contract includes a change to the mechanism used to return approximately \$27 million in surplus in the Existing Regional System Cost Pool to SPU’s wholesale customers, including the City. The Existing Regional System Cost Pool is funded by wholesale customers to cover SPU’s cost of owning, operating, maintaining, repairing, renewing, replacing, and supporting the existing regional facilities assigned to the cost pool. The existing contract stipulates that the surplus is to be returned to wholesale customers in the form of lower wholesale rates between 2027-2029. The amended contract returns the surplus as a direct payment to the City in 2025 or 2026. The direct payments will occur within 60 days after all of SPU’s contract cities and water districts have signed the contract amendment. The City’s share of the Existing Regional System Cost Pool is \$1,814,729 and will be distributed to the City’s Water Fund.

The Seattle City Council approved the SPU amended and restated contract with its long-term, full, and partial requirements contract holders on September 23, 2025 with [Council Bill No. 121050](#).

SPU is the City’s sole provider of water. Securing quality and reliable water service for the community is an essential need. This contract amendment ensures that the City retains this essential service and continues as a member of the Operating Board to help guide future system reinvestment and reliability needs. The contract revisions are summarized below:

Termination of Contract and Stranded Cost

- New provision added for “stranded cost” if a city or water district terminates or reduces its purchase commitment.
- Identifies actions not considered a ‘reduction,’ including customer-driven demand fluctuations and acquisition of independent supply through a merger or acquisition.

Expanded Roles of Operating Board

- Formalizes the Board’s role in setting the Water Use Efficiency (WUE) goal and conservation program budget.
- Reviews and comments on the design and construction of new supply or transmission facilities.
- Reviews and recommends revisions to the scope of work for the independent rate consultant.
- Decides on the disposition of any running balance surplus (either retained, applied toward assets, or returned to wholesale customers) on an annual basis.

NEXT STEPS

After the City signs the contract amendment, the City will receive the \$1,814,729 payment within 60 days of all SPU wholesale customers signing the amended contract. The payment is anticipated to be received in Q1 2026 and will be distributed to the City’s Water Fund.

Staff anticipate that the City’s Water Supply Contract will need to be amended again in 2026 due to the transfer of assets and customers to the City as part of the Water Supply Pipeline Project. The next amendment to the City’s Water Supply contract will be discussed with the Utility Board in the first half of 2026 and is anticipated to be presented to the City Council in summer 2026.

RECOMMENDED ACTION

Authorize the City Manager to execute the amended Seattle Public Utilities Water Supply Contract, substantially in the form attached as Exhibit 1 to this AB, and to execute future technical non-substantive amendments to the Contract deemed by the City Manager to be in the best interest of the City.