



PROJECT DIRECTOR'S UPDATE

John Fredell, SDS Project Director

After more than a decade of planning, public process and permitting, I'm proud to report that we have been given the green light to implement the Southern Delivery System (SDS). At its July 22 meeting, the Colorado Springs Utilities Board approved moving forward with construction of the Preferred Alternative from Pueblo Reservoir to deliver water to our customers in 2016.

Many cities in Colorado would love to be in the position we are in today – on the verge of constructing a regional water system. Our charge as a utility is to provide a reliable water supply for our customers, and SDS will ensure that we can deliver water for many generations to come. The decision to move forward with the Preferred Alternative from Pueblo Dam, rather than the Highway 115 Alternative, was largely based on the significant advantages of drawing water from a reservoir versus a river, as well as the lower construction cost.

The updated cost for the Preferred Alternative is \$880 million, which includes construction of the core components of the project, permitting, land acquisition and mitigation. A 2016 in-service date allows us to defer these costs as long as possible while meeting permit conditions and forecasted water demand.

The 2016 implementation date will also level out the rate increases resulting in a projected 10 percent rate increase in 2010 and 12 percent increases annually over the following six years. The forecasted rate increases not only cover SDS, but also increasing costs to operate and maintain our existing water infrastructure.

An investment like this one is not unprecedented: water rates more than doubled during the Homestake project era. After a period of investment, our customers will receive an extended period of benefit.

While SDS is a big investment, it is critically important to the future of our city. The progress we have made is the result of a tremendous amount of teamwork, strong alliances with our SDS partners, and a regional approach – working with officials in Pueblo, Fremont and El Paso Counties – as well as thorough review by the Bureau of Reclamation, Environmental Protection Agency, state of Colorado and others. We greatly appreciate the input we have received from all of our stakeholders and the ongoing support from our community.

Sincerely,

John Fredell, SDS Project Director

Comparison of Preferred Alternative and Highway 115 Alternative

Item	Preferred Alternative	Highway 115 Alternative
Intake	Reservoir ✓	River
Pipeline Length to Customer	62 miles ✓	71 miles
Number of Raw Water Pump Stations	3	3
Water Treatment Plant	Enhanced Treatment	Enhanced Treatment
Terminal Storage	Upper Williams Creek Reservoir ✓	Jimmy Camp Creek Reservoir
Firm Yield	42,400 ac-ft/yr ✓	37,900 ac-ft/yr
Energy Required (2046)	671 MWh/d ✓	680 MWh/d
Implementation Cost *	\$880 M ✓	\$1,070 M
Design Definition	30% ✓	5 – 10%

* 2009 dollars

In the Spotlight

2016 Implementation Schedule Approved

The new SDS in-service date of 2016, approved by the Colorado Springs Utilities Board July 22, reflects extensive analysis conducted this quarter that examined the risks and constraints for the project including permitting, rates, supply and reliability of our water system, as well as political support. A range of possible in-service dates, including 2012 were evaluated. After careful consideration of the impacts to our customers, we determined an in-service date of 2016 provides us the best opportunity to balance project constraints and risks, while allowing for more gradual rate increases for our customers.

Another key consideration for the schedule was the Pueblo County 1041 permit condition that SDS participants must take “substantial steps to construct the permitted development within 36 months” from the issued date of the permit, April 12, 2009. As outlined, work is scheduled to begin in Pueblo in 2010.

This schedule will ensure we meet the 1041 permit conditions and our community’s need for water.

Following are highlights of key activities planned:

2010:

- Begin construction of the Pueblo Dam connection.
- Dredge Fountain Creek to restore 100-year flood capacity.
- Improve water quality in Fountain Creek by establishing wetlands and realigning the creek at Clear Spring Ranch.
- Begin construction on treated water pipeline along Marksheffel Road.

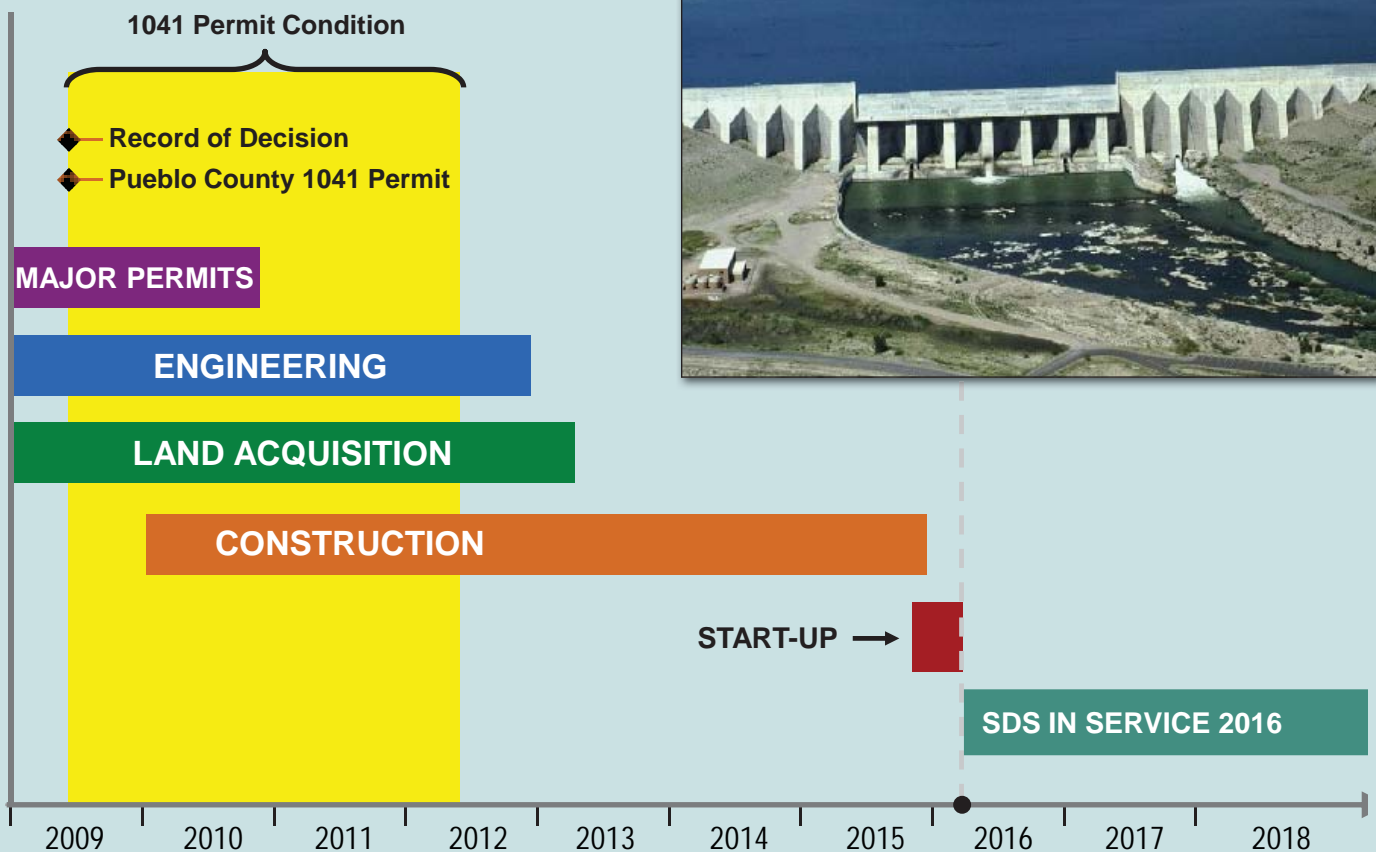
2011:

- Begin Pueblo West pipeline construction.

2012-2016:

- Construct remaining pipelines, pump stations and water treatment plant.
- Startup would begin in late 2015.
- Delivery of water from SDS beginning in spring 2016.

Proposed Schedule for 2016 Implementation Date



Accomplishments/Highlights

Pueblo County 1041 Permit

The Pueblo Board of County Commissioners unanimously approved a resolution to issue a 1041 land-use permit for the Southern Delivery System Preferred Alternative on April 21. The commitments the SDS project partners are making through the 1041 permit will mitigate the impacts of the construction and operation of SDS.

Environmental Permitting

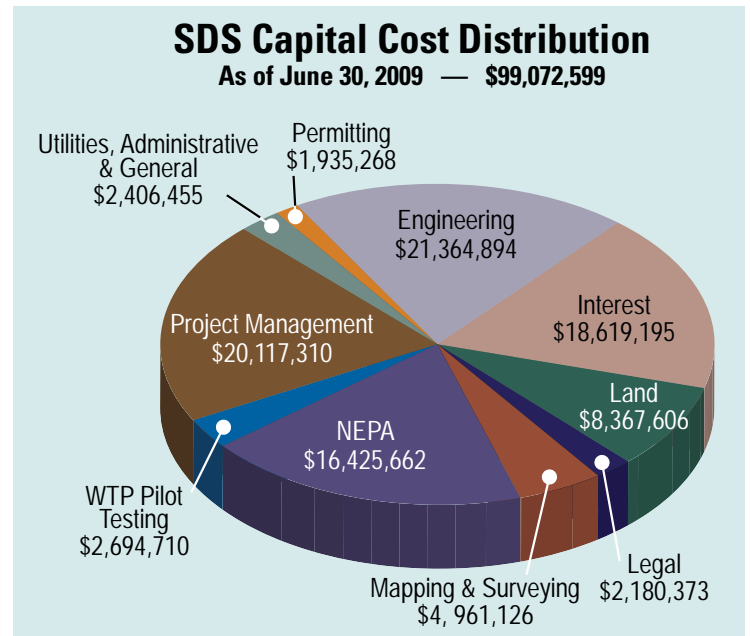
Colorado Springs Utilities applied to the Army Corps of Engineers on April 25 for a 404 permit, required under the Clean Water Act. The Corps, which accepted public comment on the application through June 19, is currently reviewing the comments and the application. The application reflected changes made in the SDS project that have reduced environmental impacts. The Corps will review the application to determine if the Preferred Alternative identified in the Bureau of Reclamation's Record of Decision is the Least Environmentally Damaging Practicable Alternative (LEDPA). Additionally, a Clean Water Act Section 401 Certification application was submitted to the Colorado Department of Public Health and Environment.

Value Engineering

Colorado Springs Utilities convened a team comprised of in-house engineers and operations staff, the project engineer and an independent engineering firm to take a fresh look at the project with the goal of identifying opportunities to lower costs. Through this effort, commonly referred to as "value engineering," the project team identified approximately \$50 million in cost savings on the project. Additionally, a group of independent experts evaluated the preferable approach to project contracting that optimizes management, construction and operation of SDS.

Land Acquisition

Colorado Springs Utilities' SDS land acquisition team held two open house/information meetings for El Paso County landowners who will be affected by SDS pipeline construction. Meetings were held for potentially affected landowners living along Marksheffel Road and near the El Paso/Pueblo County line. Construction of the pipeline will necessitate purchases of property easements in these areas.



Meetings have also been held with property owners who live in the area of the site for the future Upper Williams Creek Reservoir. Additionally, the team continues to complete appraisals, extend offers and negotiate with property owners.

Upcoming Activities

Land Acquisition

The land acquisition team will present formal resolutions to the Colorado Springs City Council to execute closings next quarter for easements on several properties located along Marksheffel Road. These are among the first easements to be purchased.

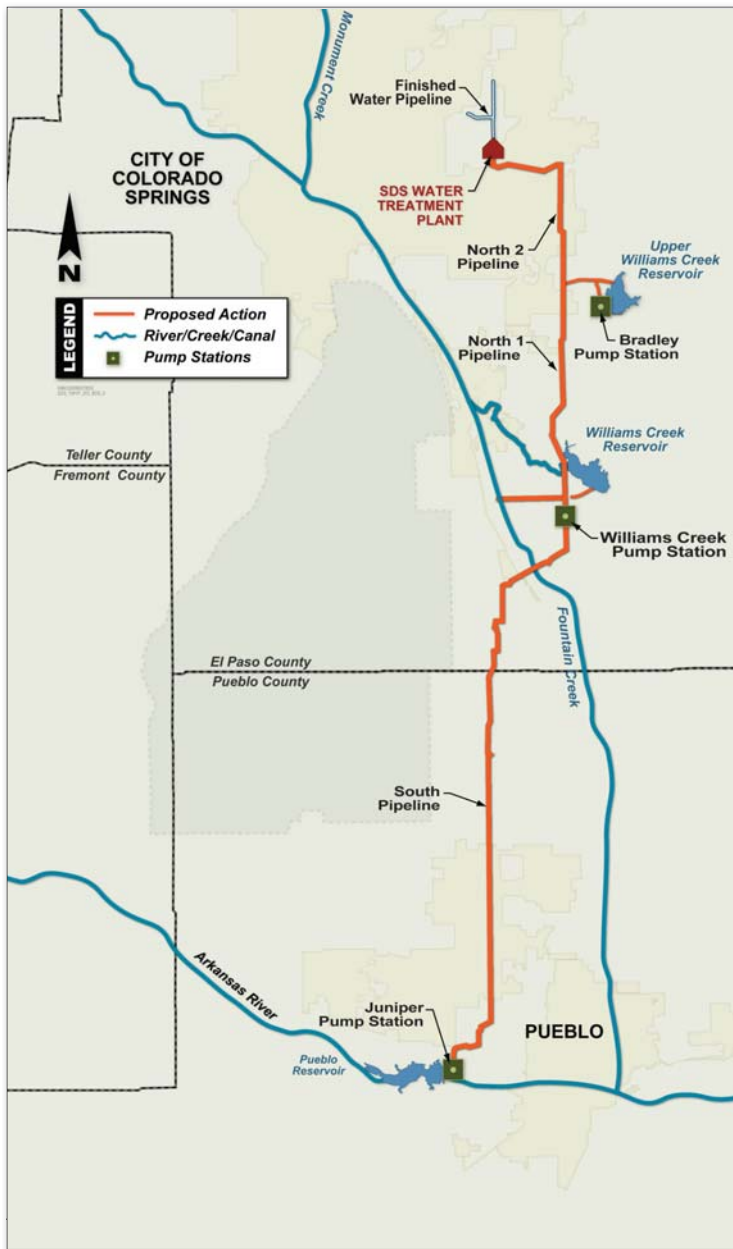
Permitting

Colorado Springs Utilities is preparing to submit Location and Site Development permit applications to El Paso County and an SDS Concept/Development Plan with the City of Colorado Springs. Public involvement and outreach on the El Paso County permits is planned and will enable the public to learn more and share their input.

Colorado Division of Wildlife Mitigation Plan

The SDS project team is working with the Colorado Division of Wildlife to prepare a mitigation plan to minimize potential project impacts on fish and wildlife as result of SDS construction and operation.

SOUTHERN DELIVERY SYSTEM



Contact Us

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To reduce production costs and paper use, we are transitioning the Southern Delivery System Quarterly Progress Update to an email publication.

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