



PROJECT DIRECTOR'S UPDATE

John Fredell, SDS Project Director

Several significant advancements for the Southern Delivery System (SDS) project were achieved in the first quarter of 2010. Construction for SDS – one of the largest and most important water projects underway in Colorado – is expected to begin later this year.

We're pleased to have completed important reviews with several state and local entities, and we received unanimous approvals from the Fountain Creek Watershed, Flood Control and Greenway District, the El Paso County Planning Commission and the Colorado Wildlife Commission for applications and/or plans we had submitted.

This quarter, we also concluded an extensive selection process and identified MWH as the firm that will serve as program manager for SDS implementation. MWH's expertise and support will augment our internal staff – better positioning us to construct and manage a project of this scope and complexity that our community will rely on for decades to come.

We are thankful that many top notch firms participated in this rigorous selection process, and we would particularly like to acknowledge the staff at CH2M HILL for their dedication and support throughout the planning and permitting phases of the project. CH2M HILL will

continue supporting SDS in a number of areas through the end of the year and will have opportunities to compete for future design and construction work on SDS.

We are on track to begin construction this summer and have begun hiring contractors for the initial work planned. In May, we're hosting Business Opportunity Workshops in Colorado Springs, Pueblo and Canon City. We encourage local businesses to attend and learn more about SDS construction, as well as the types of goods and services that will be needed. See inside this update for more details.

As we move closer to “breaking ground,” I want to thank our Board, management, staff, project partners, community and neighbors for the tremendous contributions and support they have provided to help get us to this point.

Sincerely,

John Fredell, SDS Project Director



Homestake pipeline damaged by boulder

Recently, a massive boulder – the size of a compact car – fell on the Homestake line causing a break which will take it out of service for the next several weeks while we make repairs. The 50-year-old Homestake system delivers up to 70 percent of our community's water. SDS will benefit current and future customers by ensuring we can still deliver water when other systems are down for extended repairs or maintenance.

Accomplishments and Upcoming Activities

PERMITTING

Unanimous approvals from Fountain Creek Watershed District and El Paso County

On January 22, the Fountain Creek Watershed, Flood Control and Greenway District gave its unanimous approval of SDS-related construction activities within the Fountain Creek 100-year flood plain and agreed to recommend approval to the El Paso County Planning Commission for project facilities that are outside the Corridor but within the watershed in El Paso County.

On March 2 and March 16, the El Paso County Planning Commission voted unanimously to provide location approvals for five components of the SDS project. The SDS project team is now working with El Paso County on a site development plan for the finished-water pipeline construction along Marksheffel Road scheduled to begin this summer.

Colorado Wildlife Commission approves Fish and Wildlife Mitigation Plan

The project received approval from the Colorado Wildlife Commission on its Fish and Wildlife Mitigation Plan (FWMP) on March 11. The plan was developed in collaboration with the Colorado Division of Wildlife (CDOW) over the last year and

outlines specific mitigation to address projected impacts to fish and wildlife as a result of SDS operations.

The approval was made conditional on finalizing a draft Memorandum of Agreement to implement the plan with CDOW. Once the Agreement is finalized, CDOW will submit the plan on behalf of the SDS Project Participants to the Colorado Water Conservation Board (CWCB) for adoption. The FWMP was developed pursuant to provisions of state law and related requirements of the project's Record of Decision issued by the Bureau of Reclamation.

404 Permit and State Water Quality Certification

The Army Corps of Engineers gave its approval on the SDS application for a 404 permit, required under the federal Clean Water Act. Colorado Springs Utilities has developed a wetlands mitigation plan that is part of the permit requirements. The 404 permit application automatically triggers a water-quality review by the Colorado Department of Public Health and Environment (CDPHE), and in April, CDPHE issued its water quality certification for SDS.

Reclamation Contract Negotiations Planned

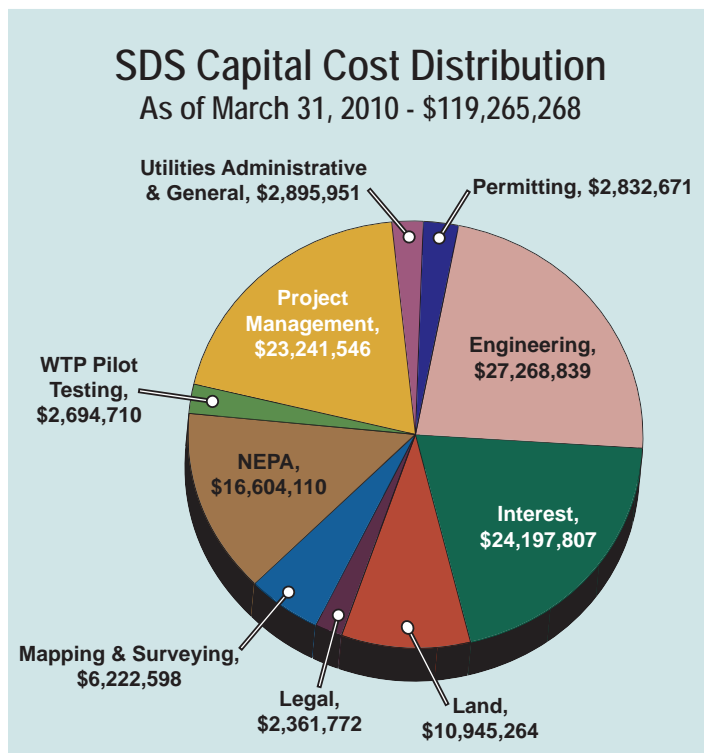
Following the completion of these permitting activities, public negotiations with the Bureau of Reclamation will be conducted on May 25 and June 15 for SDS-related water storage, conveyance and exchange contracts. While SDS project participants own rights to the water they will deliver through SDS, the contracts with Reclamation are required because SDS will use Pueblo Reservoir – a federal facility managed by Reclamation as part of the Fryingpan-Arkansas Project. The water contracts between Reclamation and the project participants will incorporate comprehensive mitigation requirements outlined in the Final Environmental Impact Statement for SDS and an Adaptive Management Plan.

PROCUREMENT AND CONTRACTING

Program Manager Selected for SDS

Last September, SDS staff set a process in motion for selecting a program management firm to augment internal SDS resources to implement the project. The procurement process included requesting information from leading engineering firms regarding recommended program management methods, extensive interviews, qualifications and financial reviews, and a request for proposal from the highest ranking firms.

In April, we issued a Notice of Intent to Award the contract to the firm MWH, a company with significant expertise in the engineering, construction, and management of



challenging water infrastructure projects around the world. MWH's superior technical proposal and competitive cost proposal offered the best value for our ratepayers.

Project Contracting Underway

Colorado Springs Utilities has started the procurement process for work planned in the initial phase of construction.

In April, ASI Constructors Inc. – a nationally recognized firm headquartered in Pueblo County – was identified as the prime contractor to build the Pueblo Dam connection. ASI Constructors Inc. specializes in the construction and rehabilitation of dams, spillways, and major water resource projects and plans to use several regional sub-contractors for the SDS dam connection project, including High Country Pipeline based out of Fremont County, Transit Mix in Pueblo, and Springs Fabrication and Rocky Mountain Crane Service both located in Colorado Springs.

Garney Construction, with an office in Littleton, has been hired to construct a portion of the finished water pipeline on Marksheffel Road in El Paso County.

LAND AND FINANCE

Land Acquisition Progressing

Members of the SDS staff continue outreach and discussions with affected property owners on project plans and the acquisition process.

Last year, the Colorado Springs City Council authorized Colorado Springs Utilities to begin formal procedures for securing easements and property for SDS. City Council has approved closing transactions on 60 of the estimated 300 properties needed for the project – most of which are temporary or permanent easements.

Council Hearing on Phased-In Water Rate Program

Last summer, the Colorado Springs Utilities Board directed Colorado Springs Utilities to develop a phased-in water rate program to fund construction of SDS and costs for operating and maintaining the existing water system.

On April 27, Colorado Springs Utilities staff gave a presentation to City Council on the two-year phased-in water rate program and Council heard public comments on the proposal. Several community leaders spoke in support of SDS and the importance of investing in our future, including representatives from the Chamber of Commerce, Economic Development Corp., Council of Neighborhoods and Organizations, and Associated

In the Spotlight Looking ahead: SDS Business Opportunity Workshops Planned

As SDS gears up to begin construction this summer, we are reaching out to businesses around the region to share information about the project's major components and construction schedule, as well as the types of goods and services that will be needed.

Colorado Springs Utilities will host a series of workshops in El Paso, Pueblo and Fremont Counties for contractors and businesses interested in work related to the project.

Colorado Springs

Thursday, May 6 – 3:30 to 6:30 p.m.
Leon Young Service Center, 1521 Hancock Expressway

Pueblo

Monday, May 10 – 3:30 to 6:30 p.m.
El Pueblo History Museum, 301 N. Union Ave.

Canon City

Thursday, May 13 – 3:30 to 6:30 p.m.
Pueblo Community College,
Fremont Campus - 51320 W. Hwy 50

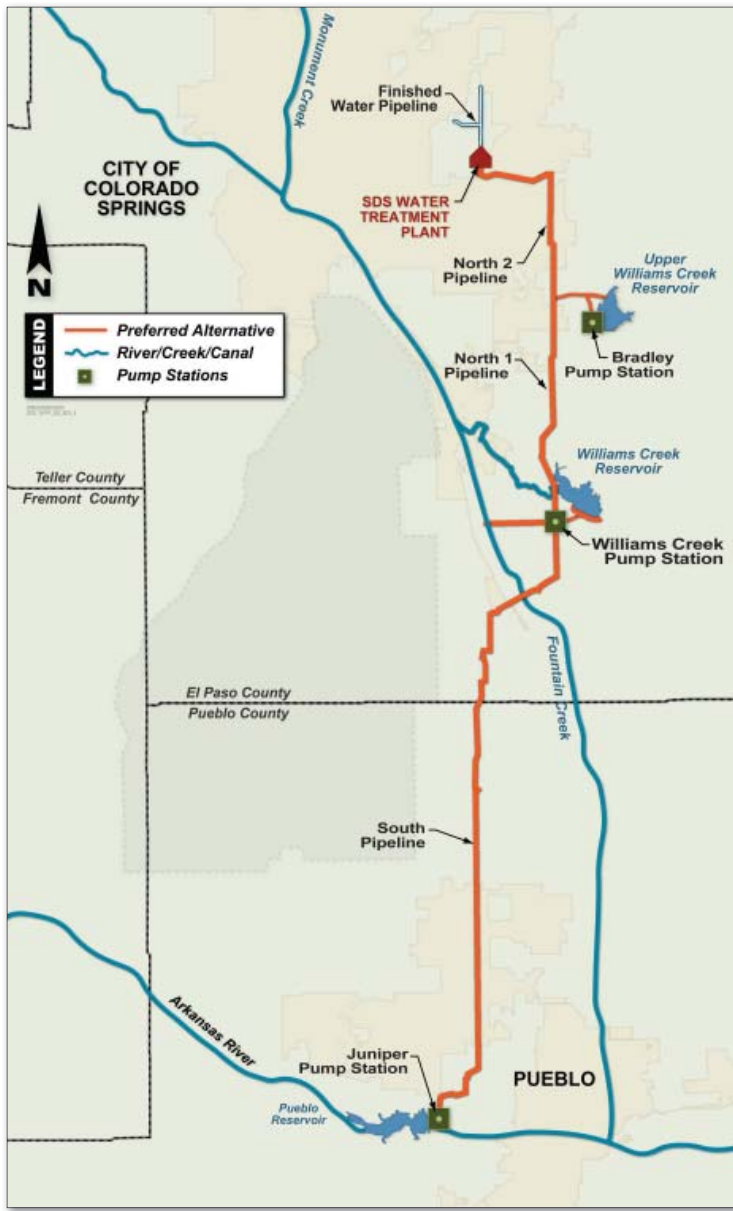
Contracting opportunities for SDS and Colorado Springs Utilities can be found by accessing the e-Purchasing web site at www.rockymountainbidsystem.com.

An average of 380 workers is anticipated for Phase I of the SDS project from 2010-2016, with an estimated peak employment of 700 workers in 2014.

Landscape Contractors of Colorado, as well as our project partners, contractors and former Council members Margaret Radford and Richard Skorman.

Council is expected to vote on the proposal at its May 11 meeting. If approved, beginning in January 2011, the typical monthly residential water bill will increase by about \$4.42 and in January 2012 will increase by another \$4.96. A phased-in approach will provide the funding needed for SDS and existing infrastructure while smoothing out water rate impacts for customers. Approximately 22 percent of the revenue from the proposed rate changes will go toward maintaining the current water system.

SOUTHERN DELIVERY SYSTEM



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

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