

May 29, 2012

Ms. Julie Ann Woods
Director of Planning and Development
229 W. 12th Street
Pueblo, CO 81003

Re: **Southern Delivery System, Pueblo County 1041 Permit No. 2008-002/Road
Rehabilitation Payments**

Dear Ms. Woods:

In our discussions over the past several months, representatives of both Colorado Springs Utilities and the County have expressed interest in a fixed-sum cash payment to Pueblo County for the rehabilitation of County roads after SDS project construction to comply with Condition No. 13 of the Pueblo County 1041 Permit No. 2008-002, for the Southern Delivery System Project. We therefore submit the following proposal for Pueblo County's approval.

Since the 1041 Permit was issued, the County and the SDS Team have discussed a wide range of estimates for the cost of haul road rehabilitation. Condition No. 13 of the 1041 Permit references an initial estimate of \$6.1 million for purposes of establishing the amount of a performance bond to be in place before construction commenced. However, based upon the County staff's more recent evaluation of the potential future costs associated with meeting the County road standards, and assuming final rehabilitation occurs over the next several years, it was the County's determination that the original \$6.1 million estimate was inadequate to complete the road rehabilitation contemplated by the 1041 Permit. In order to commence construction, Colorado Springs subsequently posted a higher bond to cover the anticipated costs of future road restoration. Afterward, in an effort to forestall any future dispute over road rehabilitation costs, we met on several occasions to discuss mutually satisfactory payment options. Because of the wide range in estimated costs for road rehabilitation required by Condition No. 13, and the question of when rehabilitation would commence, we have revisited that issue with our consultants and concluded that the cost of rehabilitation could, in fact, be greater than the \$6.1 million previously estimated and set out in Condition 13. This is, in part, because the 1041 Permit stipulates that we must pay the actual cost of rehabilitation, not just the amount that was originally estimated.

In order to resolve these matters and provide both Pueblo County and Colorado Springs Utilities, together with its SDS partners, with certainty as we move forward, we propose the following:

121 South Tejon Street, Third Floor
P.O. Box 1103, Mail Code 930
Colorado Springs, CO 80947-0930

Phone 719.668.4800
Fax 719.668.8734
<http://www.csu.org>

1. Colorado Springs Utilities will pay Pueblo County a total of \$15 million for road rehabilitation associated with Project activities in full satisfaction of that portion of Condition No. 13. The payment will be made in three installments. The first installment of \$5 million will occur on or before June 1, 2012. The second installment of \$5 million will be made on or before January 2, 2013, and the third installment of \$5 million will be made on or before January 2, 2014. Upon completion of these three payments, Colorado Springs Utilities will be released from any and all obligations related to the cost of rehabilitation of any Pueblo County roads as referenced in Condition 13 of the 1041 Permit and Colorado Springs Utilities' currently posted bond will be unconditionally released.

2. The road maintenance during construction required by Condition No. 13 will remain the responsibility of Colorado Springs Utilities and its contractors during the pendency of the construction activities involving the use of the particular County roads identified in the Haul Route Plan. Colorado Springs Utilities and the Pueblo County Public Works Department will work cooperatively in the identification of necessary maintenance activities. Colorado Springs Utilities will inform Pueblo County, in writing, when a road is no longer being used for project and reclamation construction activities; when maintenance of the road, as provided in Permit Mitigation Appendix CR-5, has been completed and when accepted in writing by the County, road maintenance responsibilities will then be terminated for that road.

Colorado Springs Utilities looks forward to receiving the County's response to the other issues we have discussed concerning Conditions 2, 13 and 22 of the 1041 Permit. As soon as we receive that response and your written approval of the terms of this letter, Colorado Springs Utilities, on behalf of the Project participants, is prepared to provide a check in the amount of \$5 million to you in order to consummate this agreement on haul road rehabilitation costs.

Very truly yours,



John A. Fredell
SDS Program Director

Ms. Julie Ann Woods

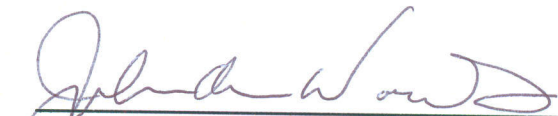
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Accepted and Approved:



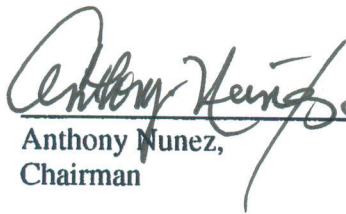
Robert Schmidt, Pueblo County Engineer/
Public Works Director



Julie Ann Woods, Pueblo County Planning &
Development Director

Reviewed and Approved.

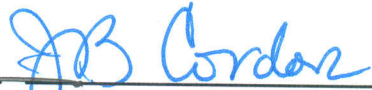
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Chairman



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