



Colorado Springs Utilities

It's how we're all connected



December 21, 2015

Board of County Commissioners
Pueblo County Courthouse
215 W. 10th Street
Pueblo, Colorado 81003

Re: Southern Delivery System 1041 Permit No. 2008-02, Condition 6

Dear Commissioners:

We have read with concern the recent spate of newspaper articles concerning the position of some parties about the requirements of Condition 6 of the SDS 1041 Permit. As you know, Condition 6 contemplates the payment of fifty million dollars (\$50,000,000) to the Fountain Creek, Watershed Flood Control and Greenway District upon completion and operation of the SDS.

The third paragraph of Condition 6 provides:

“Payment shall be made as to the remaining forty-nine million, seven-hundred thousand dollars (\$49,700,000) as follows: nine million, seven hundred thousand dollars (\$9,700,000) on January 15th of the year following completion and commencement of water deliveries through the SDS Pipeline from Pueblo Reservoir to Colorado Springs; and in equal annual installments of ten million dollars (\$10,000,000) on January 15th of each of the four years thereafter.”

As you are aware, the process of completing a project of this magnitude is a lengthy and complicated one. Pipeline construction was undertaken by several large construction companies, while the pump stations, as well as the new water treatment plant, involved separate contractors. All of our major contractors, in turn, employed significant numbers of subcontractors given the multiple components of the project. Before construction can be considered complete, these multiple components have to be subjected to rigorous testing in order to verify that each portion of the project was done in a satisfactory, workman-like manner and that the end product is, in fact, capable of performing to specifications. Only after all of the testing has been satisfactorily completed, all change orders and escrow accounts resolved, and the entire project turned over to the control of Colorado Springs Utilities can the project be considered complete.

As you know, we have been in close contact with your staff and with the Bureau of Reclamation to coordinate those efforts required to complete the testing necessary to ensure that all contractual obligations have been met and thereby achieve project completion. That testing continues today. Because this project involves the construction of facilities designed to divert, convey and treat large volumes of water, without leakage or malfunction, it is necessary to test each of the components of the project. That testing involves verification that the pipeline is in fact water tight, that the pumps in the three (3) pumping plants function according to specifications, and that the water treatment plant is

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capable of receiving and treating water for municipal use in full compliance with all regulatory requirements. The testing process has proceeded forward over the past six (6) months and is projected to continue through the spring of 2016.

Furthermore, SDS cannot be considered to have commenced water deliveries to Colorado Springs until such time as it is serving its residences and businesses. At this time the raw water pipeline and water treatment plant are not connected to the Colorado Springs water distribution system. Pipeline connections to the distribution system will be initiated when testing is complete. Any water that has been used in the testing and warranty compliance work has been released back to the natural stream system.

To reiterate, contrary to the assertions made by some, the SDS Pipeline and the other features of the SDS Project have not been completed and no water deliveries have occurred through SDS from Pueblo Reservoir to the City of Colorado Springs. The only water moving through the system is water being used to complete the testing and ensure that all project specifications have been met, such that the contractors involved in the project can be released. When this work is complete and water can safely be delivered to our customers, SDS will be considered complete.

As part of our discussions with you and your staff, we have proposed that if an intergovernmental agreement (IGA) is successfully completed between Colorado Springs and Pueblo County dealing with other issues, including the City's management of storm water, Colorado Springs Utilities would be willing to make the first payment under Condition 6 a year early (in January, 2016). At no time has Utilities suggested that it was obligated to make a payment in 2016, as SDS will not be completed until the spring of that year. That said, we remain willing to press forward aggressively to complete that IGA so that the payment may be made sooner. However, absent the completion of the IGA, we will make any payments under Condition 6 in accordance with its terms. Specifically, assuming that Utilities is in a position where it can deliver water to its customers this coming spring, by the express terms of the 1041 Permit, our first payment will be due on January 15, 2017.

We look forward to continuing our efforts to complete the IGA with a goal of moving that payment date to 2016.

Very truly yours,



John A. Fredell
SDS Project Manager

cc: Pueblo County Attorneys, Styduhar, Raso, Petros
Joan Armstrong
Mayor John Suthers
Colorado Springs City Council
Larry Small, Executive Director, Fountain Creek District