

SDS retools offer for storage contract

Negotiators use a formula based on a market approach Reclamation wants to use in Lake Pueblo deal.

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COLORADO SPRINGS — After huddling Friday, the Southern Delivery System partners presented a proposal to the Bureau of Reclamation based on the market approach the federal government asked for, rather than the cost to serve previously used in area contracts.

SDS is a plan to build a water pipeline from Pueblo Dam to serve Colorado Springs, Security, Fountain and Pueblo West. The first phase would cost \$880 million and require \$2.3 billion in financing for a pipeline, treatment plant and new connection at Pueblo Dam.

Colorado Springs backed into a proposed figure of \$25.31 per acre-foot annually beginning in 2011. Eventually, the SDS partners would like to store 42,000 acre-feet of water in Lake Pueblo in excess-capacity space — capacity in Lake Pueblo that is not needed for storing Fryingpan-Arkansas Project water.

The move came after Michael Collins, Reclamation's area manager, asked Colorado Springs for a counter-proposal based on a market approach in a Thursday negotiating session at the Fountain Valley School.

His request had come at the end of a day of heated discussions where Reclamation would not respond to a proposal by Colorado Springs based strictly on cost of service.

Collins and the rest of Reclamation's team — federal attorney Chuck Cahoy and contract officer Lynette Smith — faced pointed questioning from SDS Project Director John Fredell and attorney David Robbins.

Reclamation had dropped the rate from \$50 per acre-foot to \$41.56 per acre-foot annually at the end of Thursday's session.

On Friday, Fredell came out of a two-hour caucus and explained a simplified path to a rate Colorado Springs believes is fair.

He started with Aurora's rate for 2011 under a 2007 contract, \$46.16 per acre-foot. A 30 percent discount for in-basin entities was added, along with a \$5 million credit for oversizing a new \$30 million connection at the North Outlet Works.

Using the white board that Reclamation declined to use to explain its rate on Thursday, Fredell worked through the math that led to the \$25.31 per acre-foot rate. He also requested the same escalator of 1.79 percent per year that was used in the Aurora contract, about 1 percent less than in the latest federal offer.

"We believe that will work for SDS," Fredell said.

The proposal would resolve a dispute over control of excess-capacity in the first few hundred feet of pipeline, allowing Colorado Springs to recoup some of the cost, but making it part of the Fryingpan-Arkansas Project managed by Reclamation.

Reclamation would apply the same rate to an exchange — really, a paper trade of water stored in Lake Pueblo for project water in upper reservoirs — of up to 10,000 acre-feet annually that Colorado Springs alone is requesting. Colorado Springs would pay for 1,000 acre-feet annually, but there is still disagreement about whether the city would be reimbursed if it did not use the exchange in any given year.

"We appreciate receiving the proposal," Collins said. "We'll not give it consideration today, but withhold our decision until the next session."

Reclamation has not yet set a date for that meeting, but it will likely be in Pueblo in August.

"We'd like you to respond to our proposal in public as soon as possible," Fredell said.

