

SOUTHERN DELIVERY SYSTEM

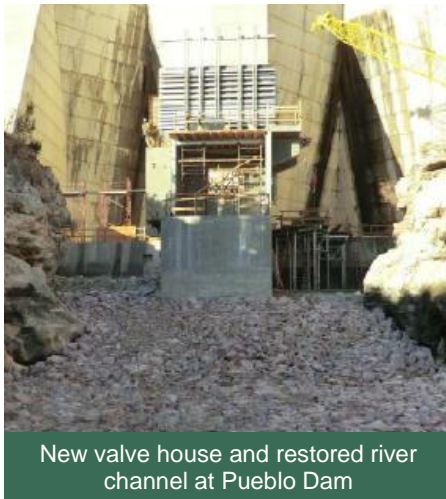
MONTHLY REPORT



The Southern Delivery System (SDS) is a regional project to bring water from the Arkansas River to Colorado Springs, the city of Fountain, the Security Water District, and the Pueblo West Metropolitan District. Phase 1 of this two-phase project includes all of the components necessary to begin delivering water to the partner communities (refer to the map on page 4) by April 2016. This report summarizes accomplishments for the past month, plans for the next month, and key performance details for Phase 1. In December, construction continued at Pueblo Dam, the 6.4-mile South Pipeline 2, the 7.6-mile South Pipeline 3, the 8.6-mile segment composed of South 4B, North 1A, and North 1B pipelines, and 0.4-mile Finished Water Pipeline 1B. Continuing construction, advancing design of the remaining pipeline segments and facilities, and land acquisition are the primary upcoming activities.

Key Accomplishments in December

- Construction Continued for Pueblo Dam Connection.** ASI Constructors continued construction of Pueblo Dam Connection 1A – an SDS connection to the Pueblo Dam North Outlet Works. ASI continued installing the steel liner within Pueblo Dam, continued constructing the valve house, and restored the adjacent river channel.



New valve house and restored river channel at Pueblo Dam

- Construction Continued for South Pipeline 2.** Garney Construction continued construction of South Pipeline 2 – a 6.4-mile raw water pipeline from just south of Highway 50 to the northern boundary of Pueblo West. Work included continuing pipe fabrication, site fencing and clearing, commencing pipe delivery, and rock trenching in some areas.
- Construction Continued for South Pipeline 3.** Reynolds, Inc. began construction of South Pipeline 3 – a 7.6-mile raw water pipeline extending from South Pipeline 2 north to the boundary of Pueblo and El Paso counties. Work included site clearing and pipe fabrication and delivery.
- Construction Continued on South Pipeline 4B and North Pipelines 1A and 1B.** HCP Constructors continued construction of an 8.6-mile segment of SDS through southeastern El Paso County from south of Squirrel Creek Road to Peaceful Valley Road east of Security. Trench excavation, pipe deliveries, and pipe installation all continued.
- Construction Continued on Finished Water Pipeline 1B.** Garney Construction continued construction of Finished Water Pipeline 1B – a 0.4-mile segment of two parallel finished water pipelines originating at the water treatment plant site and crossing beneath Highway 24. Boring concluded on the second of the two tunnels in December.

Upcoming Work & Challenges

- Commence Construction of South Pipeline 1.** HCP Constructors will begin construction of South Pipeline 1 – a 4.3-mile pipeline extending from approximately Pueblo Dam north and northeast to Highway 50 in southeastern Pueblo West. Primary activities will include continuing pipe fabrication, equipment mobilization, site surveying, and installing site erosion controls and fencing.
- Continue Construction of Major Projects.**
 - Pueblo Dam Connection.** ASI Constructors will continue construction of Pueblo Dam Connection 1A, focusing on installing the steel liner within the dam and installing external piping.
 - South Pipeline 2.** Garney Construction will continue construction of South Pipeline 2, including rock trenching in some areas, commencing pipe deliveries and installation, and preparing for tunneling beneath Highway 50 for a pipeline crossing. Pipe fabrication will continue.
 - South Pipeline 3.** Reynolds, Inc. will continue construction of South Pipeline 3, including receiving pipe deliveries, trench excavation, and pipe installation. A portable batch plant will be erected to supply concrete for this project.
 - South Pipeline 4B and North Pipelines 1A and 1B.** HCP Constructors will continue construction of this segment, focusing on pipe delivery, trench excavation, and pipe installation north of Squirrel Creek Road.
 - Finished Water Pipeline 1B.** Garney Construction will continue construction of Finished Water Pipeline 1B, including completing work on the pipelines within tunnels beneath Highway 24.
- Continue Pipeline and Facilities Design.** Various design firms will continue preparing designs for South Pipeline 4A, North pipelines 1C, 2A, and 2B, Finished Water Pipeline 3, the water treatment plant and finished water pump station, and raw water pump stations.
- Continue Land Acquisition.** The SDS team will continue to secure the properties needed for SDS Phase 1. Properties along South Pipeline 4A and North pipelines 1C and 2A in El Paso County will be the primary focus.

Schedule Summary

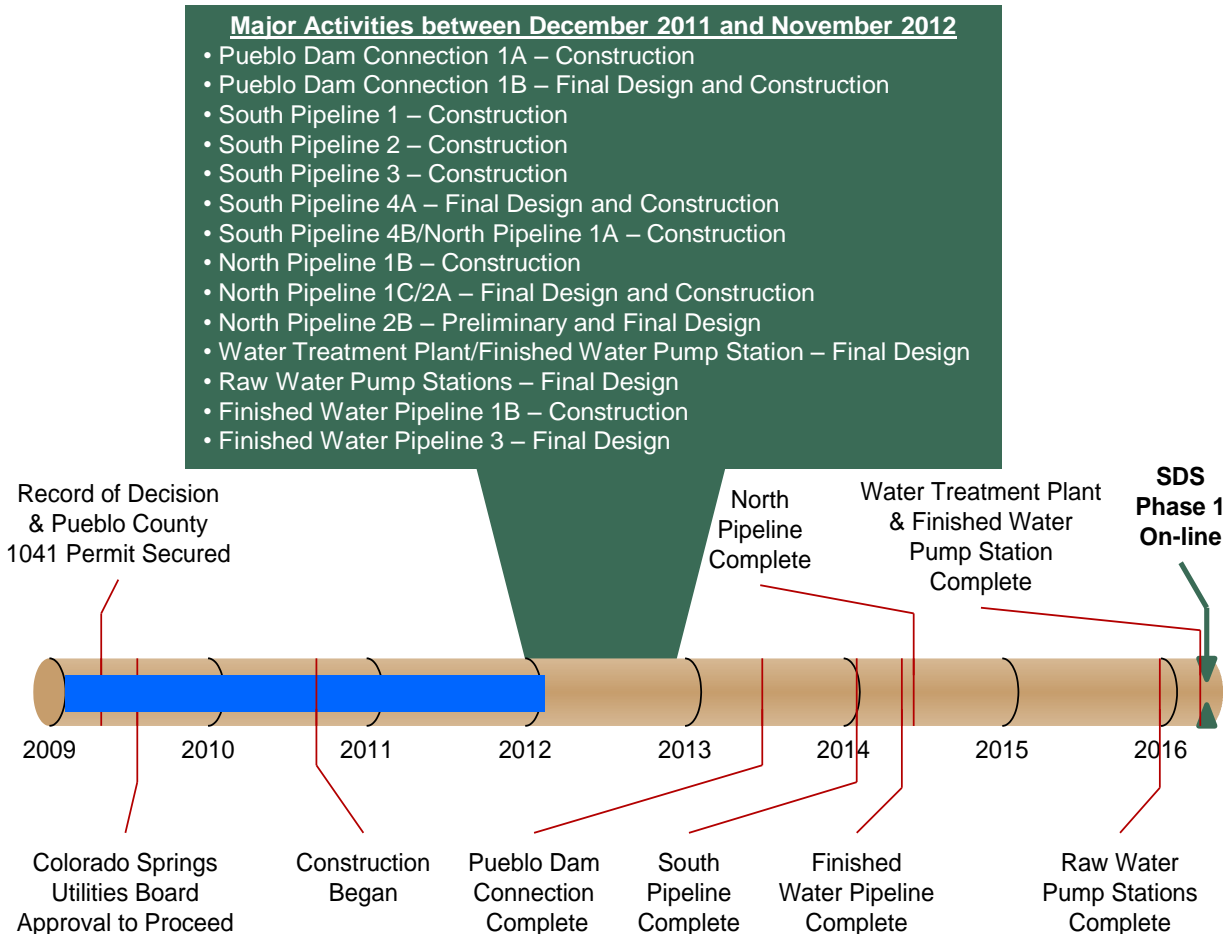
Figure 1 summarizes the schedule for completing Phase 1 of the SDS. This timeline shows the planned sequence for completing each of the core projects within Phase 1. It also highlights the major activities for the next 12 months. Colorado Springs Utilities anticipates completing Phase 1 as planned, with full operation beginning by April 2016.

Routine permitting, land acquisition, and final design of selected projects advanced after major permits and approvals were secured in 2009.

Construction of the first pipeline project began in 2010 and is complete. Construction of Pueblo Dam Connection 1A was rescheduled to begin in May 2011 due to extended contracting with the Bureau of Reclamation.

Ten construction projects are under way or scheduled to commence during the next 12 months. Continued design of seven projects also is planned. Major procurements to support some of these activities are identified below.

Figure 1 – Schedule Progress for Major SDS Phase 1 Projects



Upcoming SDS Procurements

We anticipate commencing the following procurements in the near future:

- **North Pipeline 2B Designer – Q2 2012**
- **Pueblo Dam Connection 1B Construction Contractor – Q2 2012**
- **South Pipeline 4A Construction Contractor – Q2 2012**
- **North Pipeline 1C/2A Construction Contractor – Q3 2012**

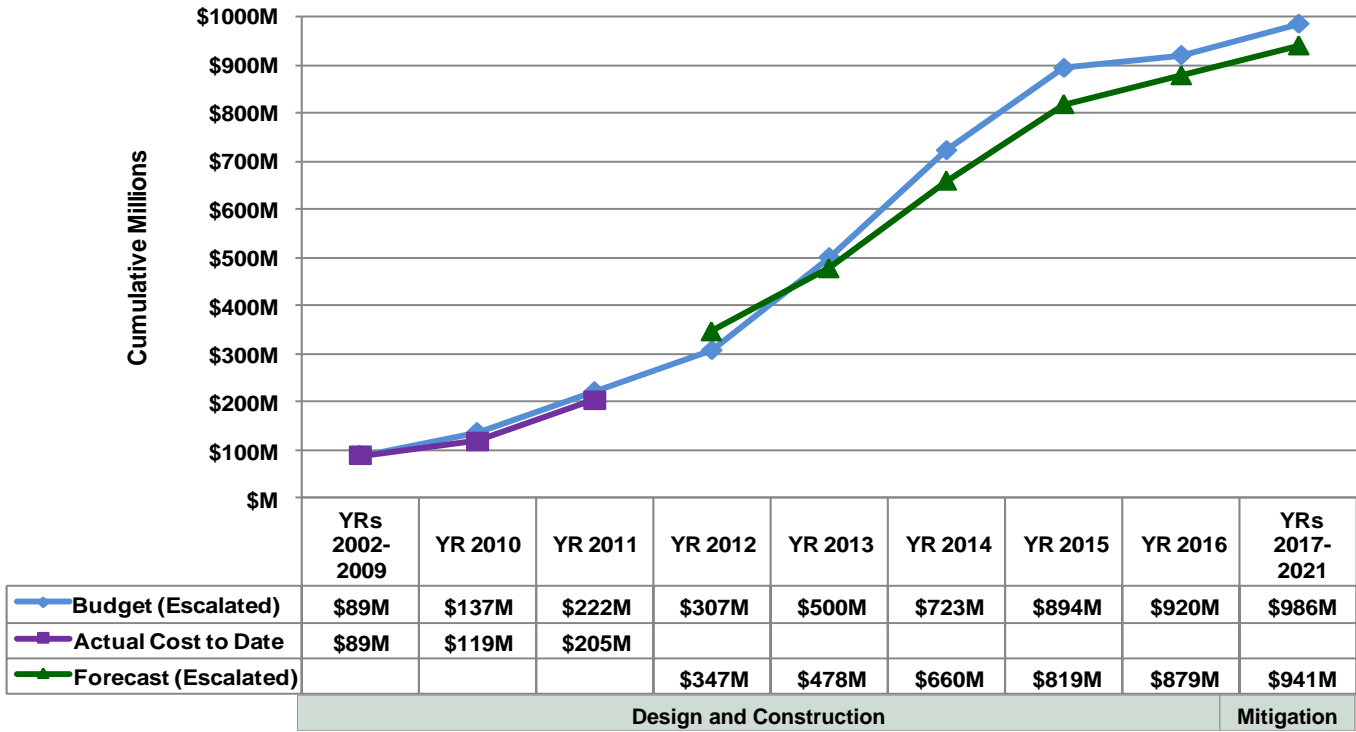
Interested parties are encouraged to monitor the Rocky Mountain E-Purchasing System website (www.RockyMountainBidSystem.com) for these or other opportunities with Colorado Springs Utilities. Some opportunities are open only to pre-qualified companies.

Local and Small Business Opportunities for Water Treatment Plant and Finished Water Pump Station – McCarthy Building Companies was selected as the design-build contractor for the SDS Water Treatment Plant and Finished Water Pump Station. The McCarthy team is committed to finding opportunities for local and small businesses on this project. Toward that end, McCarthy has established a website that identifies potential subcontractor opportunities and allows businesses to identify themselves and submit their qualifications. Interested businesses can participate by accessing <http://mccarthy-sdswatertreatmentplantproject.com/project-information/>.

Cost Summary

Figure 2 shows the budget for Phase 1, actual costs through December 2011, and forecasted costs for Phase 1. **Figure 3** shows the distribution of the actual costs. Key financial details are summarized below. The budget that is used to measure progress was established by the Colorado Springs Utilities Board in July 2009 and is \$880 million in April 2009 dollars. Accounting for actual and currently projected escalation in the cost of labor, materials, and equipment, the same 2009 budget equates to \$986 million after all direct project costs (including mitigation) are paid through 2021. The approved and anticipated water rate increases to pay for SDS Phase 1 already include these anticipated costs.

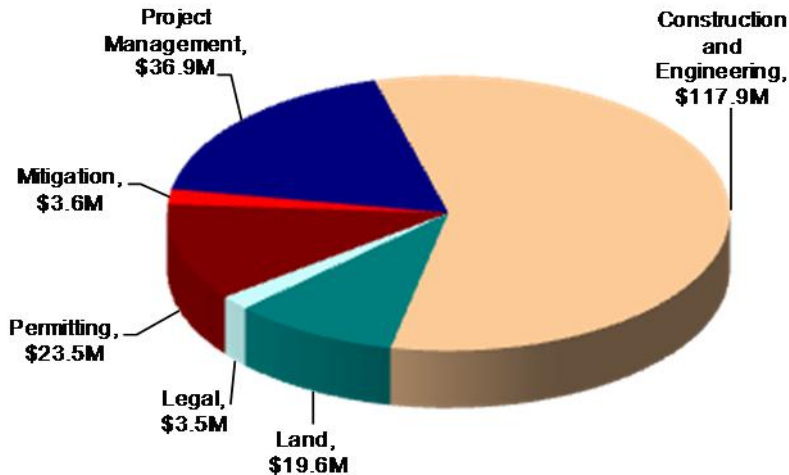
Figure 2 – Phase 1 Budget Progress – Actual Costs through December 2011



All \$ values in millions (M) and reflect direct project costs.

Budget and forecast \$ values include actual and projected cost escalation as measured by the Engineering News-Record's national Construction Cost Index and periodic forecasts by IHS Global Insight.

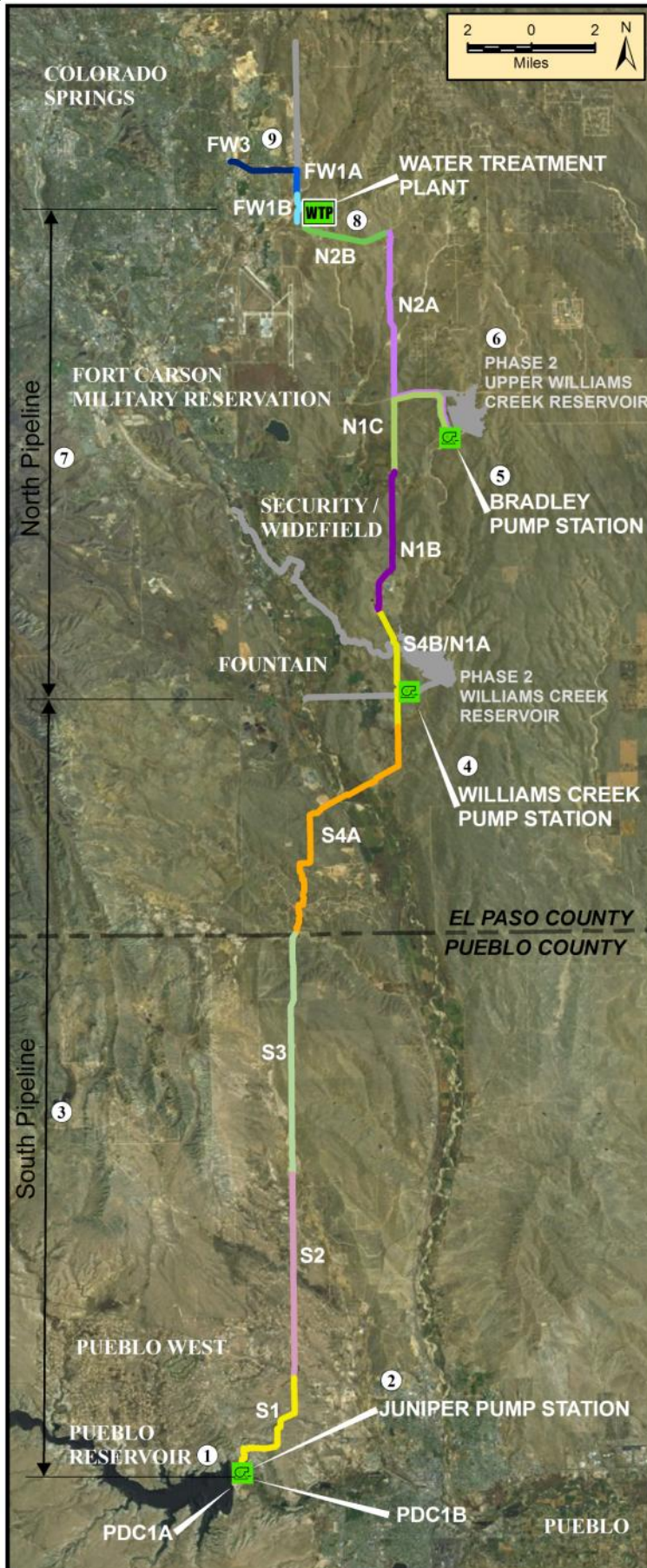
Figure 3 – Distribution of Phase 1 Direct Costs through December 2011 (\$205M)



Key Financial Details

- The budget for Phase 1 is \$986 million, including actual and projected escalation, while the current cost forecast is \$941 million. The project is currently forecasting completion about \$45 million below budget.
- Cumulative actual costs to date are \$205 million, with a majority expended on construction and engineering, permitting, land, and management activities.
- Forecasted costs for 2012 are \$142 million with a cumulative cost of \$347 million by the end of 2012.
- Forecasted costs exceed the budget in 2012 due to potential acceleration of pipeline construction to take advantage of favorable market conditions without affecting the rate increase projections for Phase 1.

Figure 4 – Phase 1 Projects Status Map



	<u>Schedule</u>	<u>Cost</u>
9 Finished Water Pipeline (FW) Design: 40% Land: 70% of properties secured Focus: Constructing segment 1B, preparing a final design for segment 3	●	●
8 SDS Water Treatment Plant and Finished Water Pump Station Design: 30% Land: 100% of properties secured Focus: Preparing a final design	●	●
7 North Pipeline (N) Design: 80% Land: 40% of properties secured Focus: Constructing segments 1A & 1B, preparing a final design for segments 1C & 2A, preparing a preliminary design for segment 2B	●	●
6 Upper Williams Creek Reservoir Design: 30% design complete; completion of design planned in SDS Phase 2 Land: Acquisition planning under way Focus: No significant activities	●	●
5 Bradley Pump Station Design: 30% Land: Acquisition planning under way Focus: Preparing a final design	●	●
4 Williams Creek Pump Station Design: 30% Land: 100% of properties secured Focus: Preparing a final design	●	●
3 South Pipeline (S) Design: 80% Land: 90% of properties secured Focus: Commencing construction of segment 1, constructing segments 2 & 3, preparing a final design for segment 4A, constructing segment 4B	●	●
2 Juniper Pump Station Design: 30% Land: Coordinating land use authorization with the Bureau of Reclamation Focus: Preparing a final design	●	●
1 Pueblo Dam Connection (PDC) Design: 90% Land: Not required Focus: Constructing 1A, preparing a final design for 1B (pipeline)	●	●

<u>Legend</u>	
<u>Schedule Status</u>	<u>Cost Status</u>
● More than 30 days behind	● More than 10% or \$100,000 over
● Between 15 and 30 days behind	● Between 0% and 10% over
● On schedule	● On budget

Visit www.sdswater.org for additional information.