January 11, 2007

Mr. Rick Brown
Intrastate Water Management and Development Section
Colorado Water Conservation Board
1580 Logan Street, Suite 600
Denver, CO 80203

Dear Mr. Brown,

The Southeastern Colorado Water Activity Enterprise hereby requests a $200,000 grant from the Water Supply Reserve Account to assist in the funding of a required local match to a Federal Grant administered through the Environmental Protection Agency for the Arkansas Valley Conduit.

Clean drinking water is a real problem and concern in the Lower Arkansas River Valley. The best solution for water providers in this area is the Arkansas Valley Conduit (Conduit). Not only will the Conduit provide a less polluted source of drinking water for these entities, it will also provide better utilization of a precious, limited resource. This project is also important to this entire region of the state for economic development.

While Feasibility and Engineering studies have been performed for the Conduit, the Federal Grant will allow the Enterprise and the water providers served by the Conduit to complete the studies and engineering needed to move the Conduit to a position that will allow the Conduit to be ready for the design and construction phases once Federal authorization and appropriations are passed. This vital project has made significant progress and appears to be in line to move to construction. However, there are still several items that need to be finalized and the Federal Grant along with the local match will provide the necessary funding to complete these items.

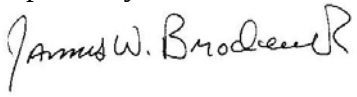
The total Grant is expected to be about $1,227,000. The Federal portion will be $675,000. The local match is projected to be about $552,000. It is anticipated that the local match will be funded as follows:

Southeastern Colorado Water Conservancy District	$112,000
Conduit Participants	$100,000
Previous studies (as allowed)	$140,000
CWCB Water Supply Reserve Account Grant	$200,000

As you can see, the State's contribution to the local match is significant. We believe this project to be of such importance to the State that it warrants the requested funds. As outlined in the application, we also believe that this project meets all the grant requirements as written.

Thank you for your attention to this request and I look forward to hearing from you. If you have any questions regarding this request or the Conduit, please give me a call at 719-948-2400.

Respectfully,



James Broderick
Executive Director

Cc: Bill Long, Board President
Philip Reynolds, Project Manager

COLORADO WATER CONSERVATION BOARD

WATER SUPPLY RESERVE ACCOUNT
2006-2007 GRANT APPLICATION FORM

Arkansas Valley Conduit	Arkansas River Basin
Name of Water Activity/Project	**River Basin Location**

$200,000	☐ Basin Account	☐ Yes
Amount of Funds Requested	☒ Statewide Account	☐ No
	Please Check Applicable Box	Approval Letter Signed By Roundtable Chair and Description of Results of Evaluation and Approval Process

*** For the Basin Account, the Application Deadline is 60 Days Prior to the Bimonthly CWCB meeting. The CWCB meetings are posted at www.cwcb.state.co.us and are generally the third week of the month.**

*** For the Statewide Account, the Application Deadline is 60 Days Prior to the March and September CWCB Board Meetings.**

*** In completing the application you may attach additional sheets if the form does not provide adequate space. If additional sheets are attached please be sure to reference the section number of the application that you are addressing (i.e., A.1. etc.).**

Instructions: This application form should be emailed, typed, or printed neatly. The Water Supply Reserve Account Criteria and Guidelines can be found at http://cwcb.state.co.us/IWMD/. **The criteria and guidelines should be reviewed and followed when completing this application**. You may attach additional sheets as necessary to fully answer any question, or to provide additional information that you feel would be helpful in evaluating this application. Include with your application a cover letter summarizing your request for a grant. If you have difficulty with any part of the application, contact Rick Brown of the Intrastate Water Management and Development (Colorado Water Conservation Board) for assistance, at (303) 866-3514 or email Rick at rick.brown@state.co.us.

Generally, the applicant is also the prospective owner and sponsor of the proposed water activity. If this is not the case, contact the Rick Brown before completing this application.

Water Supply Reserve Account – Grant Application Form

Form Revised October 2006

Part A. - Description of the Applicant (Project Sponsor or Owner);

1. Applicant Name(s): Southeastern Colorado Water Conservancy District – Water Activity Enterprise

Mailing address: 31717 United Avenue
Pueblo, CO 81001

Taxpayer ID#: 84-6012143 Email address: phil@secwcd.com

Phone Numbers: Business: 719-948-2400

Home: 719-583-0711

Fax: 719-948-0036

2. Person to contact regarding this application if different from above:

Name: Philip Reynolds

Position/Title Projects Manager

3. Provide a brief description of your organization below: Refer to Part 2 of criteria and guidance for required Information. Attach additional sheet(s) as needed.

Please see attachment for a full description of the Southeastern Colorado Water Conservancy District.

Part B. - Description of the Water Activity – Please Refer to Criteria and Guidance Document for Eligibly Criteria

1. Name of water activity/project:

Arkansas Valley Conduit

2. What is the purpose of this grant application? Check one.

- [ ] Environmental compliance and feasibility study
- [ ] Technical assistance regarding permitting, feasibility studies, and environmental compliance
- [ ] Studies or analysis of structural, nonstructural, consumptive, nonconsumptive water needs, projects, or activities (Please specify)
- [X] Structural and/or nonstructural water project or activity

3. Please provide an overview of water project or activity to be funded including – type of activity, statement of what the activity is intended to accomplish, the need for the activity, the problems and opportunities to be addressed, expectations of the participants, why the activity is important, the service area or geographic location, and any relevant issues etc. Please include any relevant Tabor issues. Please refer to Part 2 of criteria and guidance document for additional detail on information to include. Attach additional sheets as needed.

Please see attachment for a full overview and explanation of this project.

4. Please provide a brief narrative of any related or relevant previous studies. Attach additional sheets as needed.

Several studies have been completed on the Arkansas Valley Conduit (Conduit) over the years.

In 1972, Black & Veatch performed a study that laid out the basic premise of the Conduit, several alternatives and laid the groundwork for building the Conduit.

In 2001, GEI Engineering did a feasibility study of the Conduit. It found no fatal flaws but recommended that the way for the Conduit to get built was for a Federal cost share to pay for much of the costs.

In 2004, Black & Veatch performed a Financial Feasibility Study of the Conduit based on a Federal Cost Share agreement. The study first provided an updated cost estimation of the project. It concluded that indeed the local communities would be able to afford their portion of an 80 / 20 Federal cost share arrangement.

In 2005, Black & Veatch performed an Investigation Leading to Preliminary Design of the Arkansas Valley Conduit. In addition to reviewing past studies of the conduit, it's main focus was to answer two questions that Colorado's federal delegation had; 1) is there enough water for the conduit, and 2) can the local communities afford their share of the costs. The study ascertained that yes there is enough water available to make the Conduit feasible, and yes the local communities can afford their portion of the cost share and provided a range of costs to the individual participants.

Additionally, the Bureau of Reclamation performed a Re-evaluation Statement of the Arkansas Valley Conduit in 2004/2005. They concluded that the Conduit is needed, feasible, and provided costs estimates of two scenarios; 1) with complete water treatment at the head of the Conduit, and 2) without any water treatment. These cost estimates were very close to the cost estimates of the above noted studies. This Re-evaluation Study was released to Congress in September 2006.

5. Please provide a copy of the proposed scope of work. Please refer to Part 2 of the criteria and guidance document for detailed requirements. Attach additional sheets as needed.

Please see attachment for the proposed scope of work.

6. List the names and addresses of any technical or legal consultants retained to represent the applicant or to conduct investigations for the water activity/project.

Name	Address/Phone Number
Black & Veatch Engineers	6300 S. Syracuse Way, Suite 300, Centennial, CO 80111 720-834-4200
Applegate Engineering	1499 W. 120th Ave. Suite 200 Denver, CO 80234 303-452-6611
Burns, Figa & Will	6400 S. Fiddlers Green Circle, Suite 1000, Greenwood Village, CO 80111 303-796-2626

7. Water Availability and Sustainability – this information is needed to assess the viability and effectiveness of the water project or activity. Please provide a description of each water supply source to be utilized for, or the water body to be affected by, the water activity. For water supply sources being utilized, describe its location, yield, extent of development, and water right status. For water bodies being affected, describe its location, extent of development, and the expected effect of the water activity on the water body, in either case, the analysis should take into consideration a reasonable range of hydrologic variation. Attach additional sheets as needed.

The main source of water for the Arkansas Valley Conduit (Conduit) will be Project water from the Fryingpan-Arkansas Project. Project water is imported from the Fryingpan River basin via the Boustead Tunnel. The District has a perpetual right to divert and use this water. Twelve percent of the water produced by the Project is dedicated to entities east of Pueblo. During an average year, this amounts to about 6,202 Acre-feet. This is the primary source of water that will be brought down the conduit.

The Arkansas Valley Conduit will begin at the South Outlet Works of the Pueblo Dam. Pueblo Reservoir is the terminal storage unit for Project Water owned by the Southeastern Colorado Water Conservancy District. Project entities have storage available to them in Project facilities. Thus they will be able to store water for use in the Conduit in years that the water supply is not sufficient for that year's needs. Currently water providers in the valley below Pueblo are receiving their water either via the Arkansas River or by pumping from wells, both shallow and deep. These water providers are having difficulty meeting clean drinking water standards because of having to take water from the river and\or from wells that are now out of compliance with clean drinking water standards.

In addition, Return Flows can be a source of water for the Conduit. The District has an exchange right with a 1939 priority for exchanging municipal return flows back upstream to Pueblo Reservoir where they will be available for use in the Conduit. These Return Flows will need further engineering but can be expected to provide from 1,200 to 2,500 acre-feet of additional water.

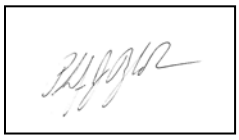
As growth occurs and more water is needed, there is an ability to obtain water within the basin. Some of these sources include, Twin Lakes water and interruptible supply leases with agricultural entities within the lower valley

8. If you have not specifically and fully addressed the Evaluation Criteria found in Part 3 of the criteria and guidance document please provide additional detail here. Attach additional sheet(s) if needed.

While the Conduit has many benefits for the valley, another aspect of this Conduit is more efficient use of existing water. By taking water down the Conduit, there will be no transit loss, resulting in an increase of water available for use.

9. Additional Information – If you feel you would like to add any additional pertinent information please feel free to do so here. Attach additional sheets as needed.

The above statements are true to the best of my knowledge:

Signature of Applicant: 

Print Applicant's Name: Philip Reynolds

Project Title: Arkansas Valley Conduit

Return this application to:

Mr. Rick Brown
Intrastate Water Management and Development Section
COLORADO WATER CONSERVATION BOARD
1580 Logan Street, Suite 600
Denver, CO 80203

To submit applications by Email, send to: rick.brown@state.co.us

Water Supply Reserve Account – Grant Application Form

Form Revised October 2006

Reference Information

The following information is available via the internet. The reference information provides additional detail and background information regarding these criteria and guidelines and water policy issues affecting our state.

Colorado Water Conservation Board Policies

Loan and Grant policies and information are available at - http://cwcb.state.co.us/Finance/

Water Supply Reserve Account Criteria and Guidelines –

http://cwcb.state.co.us/IWMD/tools.htm#Water_Supply_Reserve_Account

Interbasin Compact Committee and Basin Roundtables

Interbasin Compact Committee By-laws and Charter –

http://dnr.state.co.us/Home/ColoradoWaterforthe21stCentury/Interbasin+Compact+Committee/IbccHomePage.htm

Basin Roundtable By-laws –

http://dnr.state.co.us/Home/ColoradoWaterforthe21stCentury/IbccHome.htm

Legislation

House Bill 05-1177 - Also known as the Water for the 21st Century Act –

http://cwcb.state.co.us/IWMD/statutes.htm

House Bill 06-1400 – Adopted the Interbasin Compact Committee Charter –

http://cwcb.state.co.us/IWMD/statutes.htm

Senate Bill 06-179 – Created the Water Supply Reserve Account –

http://cwcb.state.co.us/IWMD/statutes.htm

Statewide Water Supply Initiative

General Information - http://cwcb.state.co.us/IWMD/

Phase 1 Report - http://cwcb.state.co.us/IWMD/PhaseIReport.htm

Part A. 3. Provide a brief description of your organization

The Southeastern Colorado Water Conservancy District (District) was formed under Colorado State Statutes on April 29, 1958 by the District Court in Pueblo, Colorado (Appendix A- Water Conservancy Act). The District's purpose is to develop and administer the Fryingpan-Arkansas Project (Fry-Ark). The District holds the water rights to the Project. The District has allocated an average of 55,600 acre-feet of water annually to cities, towns, municipalities, and ditch, canal, reservoir and irrigation companies within the District. In addition, the District provides water and return flows for well augmentation.

The District encompasses portions of Bent, Chaffee, Crowley, El Paso, Fremont, Kiowa, Otero, Prowers, and Pueblo counties, within the Arkansas River Basin. The District includes large metropolitan cities, small rural towns, and agricultural areas ranging from very small farms to large ranching operations. It truly is representative of "Rural America" where the agricultural sectors are suffering out-migration and the larger metropolitan areas are facing problems common to growing areas.

The District is governed by a 15-member Board of Directors that are appointed by District Court judges. The District's daily operations are managed by an Executive Director, with a staff that includes a Projects Manager, Director of Engineering and Resource Management, Water Conservation Coordinator, Administrative Manager, Engineering Support Specialist, Finance Manager, and an Administrative Associate.

The District has increased significantly in valuation. When formed in 1958, the District had an assessed valuation of slightly less that $400 million. The assessed valuation in 2006 was approximately $6.3 billion.

District activities are supported and financed by ad valorem taxes paid by taxpayers within the District boundaries. Property owners pay up to a 1 per cent mill ad valorem tax to support District operations and guarantee the repayment contract with the Federal government.

The overriding priority of the District continues to be the annual fulfillment of its obligations as defined by statute and contract commitments with its water users and the

United States. Among these priorities are ongoing commitments to water conservation.

As the largest wholesale water distributor in the area, District operations, to some degree, influence all water and related land resource activities in its service area. Policies established by the Board of Directors consistently have been aimed at yielding maximum possible benefits to its water users through flexibility of operations and adaptability to changing needs. The District Board members and staff encourage policies of wise and efficient use of all available water supplies.

The District formed an Enterprise in 1996 to handle projects and for compliance with Tabor issues. The Enterprise is the lead organization on the Arkansas Valley Conduit and cooperates and consults with the participants of the Conduit to assure that their needs are being met.

Part B, Question #3. Please provide an overview of water project or activity to be funded including – type of activity, statement of what the activity is intended to accomplish, the need for the activity, the problems and opportunities to be addressed, expectations of the participants, why the activity is important, the service area or geographic location, and any relevant issues etc. Please include any relevant Tabor issues. Please refer to Part 2 of criteria and guidance document for additional detail on information to include.

The Arkansas Valley Conduit (Conduit) was incorporated as an original component of the Fryingpan-Arkansas Project. However, it has never been built due to an inability of the local constituents to pay 100% of the costs as required by the Bureau of Reclamation.

The Conduit is designed to bring a higher quality source of drinking water to the communities east of Pueblo. There has been an issue with water quality for these water providers since the inception of the Fryingpan-Arkansas Project. This water quality issue has heightened over the years as the condition of the river has degraded as well as the standards that are required of drinking water have been elevated to a point that many of the water providers in the lower valley are now out of compliance with these requirements. Currently 13 entities are under Active Enforcement Orders from the Colorado Department of Public Health.

The Conduit will begin at the South Outlet Works of Pueblo Dam and Reservoir. The Conduit will pass through Pueblo with the first drop off point projected to be the St. Charles Mesa Water District just east of Pueblo. At that point it is expected that a filtration plant will bring the quality of the water to a point that only chlorination will be needed at the final distribution points further down the Conduit.

The Conduit will continue east to Fowler. At that junction, a spur will take off through Crowley County providing water for the cities and towns along Highway 96. The main line of the Conduit will continue east with spurs or a loop-spur providing water to the entities throughout Otero County. Continuing eastward the Conduit will provide spurs to Las Animas, Eads, May Valley, several small towns, and finally terminate at the City of Lamar’s water treatment plant.

This Conduit is the preferred solution to the drinking water problems in the lower valley. If the Conduit is not built, then each water provider will have to find it’s own

solution to their water quality problems. The Conduit is actually a lower cost alternative then having each entity provide their own solution.

A couple of water providers have installed Reverse-Osmosis (RO) plants to deal with the water quality issues. They are now finding themselves in violation of discharge permit requirements. The higher quality water from the Conduit will help these RO plants to reduce their discharge brine as well as reduce operating costs.

The lower valley sees this Conduit as an economic boost for their area as it is almost impossible to attract businesses and growth to the area without clean drinking water. Therefore, this Conduit may be an economic boom to the area as well as helping improve the way of life for this valley.

The Conduit will serve about 50,000 people in the valley. All of the areas served by the conduit fall below the 80% per Capita Income level. While the main economy in the valley is agriculture, the valley is having to diversify its economy because of the declining nature of agriculture in the valley as well as the entire state. The Conduit is an important piece of attracting new businesses to the area because it will help provide clean water for drinking, business and industrial activities.

4. Please provide a brief narrative of any related or relevant previous studies. Attach additional sheets as needed.

Several studies have been completed on the Arkansas Valley Conduit (Conduit) over the years.

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Part B, Question #5: Please provide a copy of the proposed scope of work.

Arkansas Valley Conduit

Scope of Work

for 2007 Pre-Design Development Work

1 Local Cost Share Funding Evaluations

- **a** Develop funding plan details
- **b** Conduct preliminary environmental assessments to support grant/loan applications
- **c** Identify In-Kind services/facilities

2 Financial Planning/Evaluations

- **a** Develop district/project procedures
- **b** Workshop facilitation
- **c** Financial modeling
- **d** Integrated conduit model development
- **e** Individual participant rates analysis

3 Institutional Issues/Assessments

- **a** Evaluate potential to consolidate smaller water providers
- **b** Evaluate procedures for conversion of private water providers to public entity status
- **c** Develop detailed water provider communication plan for design and construction
- **d** Identify additional potential conduit users
- **e** Conduct economic development survey to identify water quality needs and user patterns
- **f** Identify permitting requirements including State and Local 1041 process requirements
- **g** Conduct property ownership survey to identify preliminary easement needs

Arkansas Valley Conduit

Scope of Work

for 2007 Pre-Design Development Work

4 Water Supply Evaluations

- **a** Further evaluation of water needs assessment and ways to minimize shortfalls, including investigations of potential opportunities between muni and ag users
- **b** Investigations relating to use of existing supplies, either directly or by exchange into Pueblo Reservoir
- **c** Coordination w\ State Engineer's Office staff concerning operations, river administration and compact issues.
- **d** Coordination with the various providers
- **e** Development/refinement of river operations modeling

5 Planning Efforts

- **a** Develop master water supply planning for each community to investigate water use, conservation measures, reuse, potential for non-potable systems, and use of existing supplies, short and long-term needs.

6 Technical Design Evaluations

- **a** Evaluate potential effects of blending on water quality to existing water systems
- **b** Conduct facility siting evaluation for water treatment plant and storage tanks
- **c** Identify participant water delivery connection points
- **d** Develop project design criteria and standards

7 Project Management\Coordination

- **a** Provide coordination meetings, workshops, and presentations with the Bureau of Reclamation, Corps of Engineers, local water providers, community groups, Colorado delegation, state funding agencies.

Arkansas Valley Conduit
Conceptual Water System
and Major Water Providers
Alternative 2

LEGEND

Regional Water Treatment
- New WTP & Storage
- Treated Storage
- Treated Water without Chlorination Residual
- Raw Water

Participants
- Group 1
- Group 2
- Group 3A
- Group 3B
- Group 4

4 0 4 8 Miles

Regional WTP & Storage

Treated Storage

Treated Storage

SECWCD Boundary

Pueblo Reservoir

St. Charles Mesa Water District Zone 1

St. Charles Mesa Water District Zone 2

Avondale Water and Sewer

Boone

Town of Crowley

Town of Olney Springs

Crowley County (B.O.C.)

96 Pipeline

North West Sugar City

Town of Sugar City

Sugar City Pipeline

Town of Fowler

Town of Manzanola

Valley Water Company

Vroman

Fayette Water

Patterson Valley Water

Eureka

City of Rocky Ford

Riverside Water

Hilltop Water Company

Hancock Water, Inc.

Newside-Grand Valley

West Grand Valley Water

Town of Swink

South Swink Water Company

City of La Junta

Homestead Improvement Association

Bents Fort Water Association

West Holbrook Pipeline

Holbrook Center Water Dist.

Town of Cheraw

Beehive Water Association

East End Water

Southside Water Company

City of Las Animas

Eads Water and Sanitation

May Valley Water Company

McClave Water Association

Hasty Water Board

City of Lamar

SEGMENT 1 - 48"

SEGMENT 2 - 42"

SEGMENT 3 - 42"

SEGMENT 4 - 36"

SEGMENT 5 - 30"

SEGMENT 6 - 21"

BLACK & VEATCH Corporation
Denver, Colorado

TECHNICAL TRANSLATIONS LIMITED, L.L.C.

Date: 12-06-05
Rev: 12-06-05