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NATURAL ENERGY RESOURCES COMPANY

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January 14, 2009

Mr. Michael J. Ryan
Regional Director
U. S. Bureau of Reclamation
P. O. Box 36900
Billings, Montana 59107

Board of Directors
Colorado Springs Utilities
City of Colorado Springs
P. O. Box 1575, MC 1549
Colorado Springs, CO 80903

Re: Comments on flawed Southern Delivery System Final Environmental Impact Statement

Dear Mr. Ryan and Directors:

Unfortunately, the Bureau's Final Environmental Impact Statement (FEIS) for Colorado Springs Utilities' (CSU) proposed Southern Delivery System (SDS) is seriously flawed under National Environmental Policy Act (NEPA) rules and major state and federal policies.

Natural Energy Resources Company hereby requests immediate federal and state policy investigations, and a stay of the SDS FEIS Record of Decision until the following superior alternatives and major policy irregularities are addressed and resolved:

Overview of SDS The seven SDS pipeline pumping proposals considered from the Arkansas River and Pueblo Reservoir to Colorado Springs are not viable water supply alternatives for local and regional needs, as claimed by Colorado Springs Utilities. SDS is a parochial, non-integrated, local concept to primarily redevelop and reuse CSU's existing developed trans-mountain rights from Upper Colorado River Main-stem tributaries. If CSU's counterproductive SDS reuse concept were developed, Colorado's Arkansas River flows and quality would be substantially reduced, while the basin's escalating water shortage crisis, farm losses, consumer costs, environmental impacts, and net carbon footprints would be greatly increased.

Background of CSU's SDS Decision In response to the 1930's Dust Bowl, Bureau and Colorado officials collaborated extensively during the 1940s to increase development of Colorado's Colorado River Compact entitlements for Eastern Colorado's escalating drought and growth needs. The Bureau's Colorado Big Thompson Project (CBT) was constructed to provide an average annual 250,000 acre-feet for Northeastern Colorado. The Bureau and Colorado also planned extensively on the Gunnison-Arkansas Project (Gun-Ark), to import up to 450,000 acre-feet from Colorado's most prolific untapped river basin for Southeastern Colorado needs.

CBT was funded by Congress and constructed during the 1950s. Gun-Ark evolved into the Bureau's compromise Aspinall Unit Reservoirs, to regulate Colorado's Gunnison Branch of the Colorado River. The primary 1956 Congressional purpose of the Aspinall Reservoirs was to facilitate Colorado's future development of its unused Colorado River Compact entitlements with the Bureau's authorized Aspinall Marketable Pool Water Rights (300,000 acre-feet) for local and statewide consumptive needs.

Meanwhile, Colorado Springs developed its gravity Blue River and Homestake trans-mountain pipelines through South Park and the Upper South Platte River Basin. The Bureau also constructed the Fountain Valley Pipeline pumping operations from Pueblo Reservoir to Colorado Springs, as part of the medium-sized trans-mountain Fryingpan-Arkansas Project (Fry-Ark).

CSU's Invalid SDS Scoping Decisions Since the 1970s, CSU has tried unsuccessfully to develop its excessive Homestake II trans-mountain rights from Eagle County. Although CSU still owns those secretly acquired Homestake II rights, it quietly decided during the late 1990s to redevelop and reuse its existing trans-mountain rights with another pipeline pumping operation from the Arkansas River and Pueblo Reservoir. Thus, the seven SDS reuse pipeline pumping routes became the only options considered in the Bureau's current EIS decision process. The Bureau's superior Gunnison-Aspinall alternatives for Front Range needs were not considered during the scoping process that decided on the higher cost and higher impact SDS options.

The primary leader behind CSU's invalid SDS-EIS scoping process recently resigned. Institutional inertia is now the dominant factor, instead of objective science.

Bureau's Gunnison-Aspinall Trans-mountain Oversights During 1986, Upper Gunnison water leaders initiated the major Colorado-Bureau Upper Gunnison-Uncompahgre Basin Feasibility Study for solving Eastern Colorado's escalating water shortages. The Bureau's significant input for this study was a detailed annual cost per acre-foot comparison of nineteen viable Gunnison-Aspinall Pool trans-mountain alternatives for Front Range growth, as envisioned by Congress under the 1956 Colorado River Storage Projects Act (CRSPA). Of these nineteen Bureau Alternatives, nine could efficiently augment existing South Platte and Arkansas River storage and delivery systems, including CSU's gravity Blue River and Homestake Pipelines through South Park, with up to 210,000 acre-feet of the Bureau's undeveloped Aspinall Pool-Colorado River Compact rights. For example, the enclosed updated annual cost of only \$772 per acre-foot for the Bureau's 1987 Gunnison Trans-mountain Alternative No. 6 (Table 1) is still realistic, because of today's much lower municipal bonding costs (approximately 5% vs. 8.87%).

Although the Bureau's Final SDS EIS did not include any traditional annual cost per acre-foot comparisons with other alternatives, Natural Energy's enclosed analysis of SDS preferred Alternative No.2 indicates CSU's existing and future consumers will pay over \$2,361 per year for each acre-foot of increased yield from SDS (Table 2). This more than 300% annual cost differential with updated Bureau Alternative No. 6 can easily cover the eventual cost of an additional CSU gravity pipeline through South Park, or an optional shorter gravity conduit from above Denver's Cheeseman Reservoir to Colorado's Platte-Arkansas Divide near Monument. In addition, all Front Range utilities could share development and operational costs. South Platte and Arkansas Basin stakeholders, including Denver and Ogallala Aquifer well users, would benefit from increased supplies and environmental protection for hundreds of years.

Central Colorado Project (CCP) Oversight A large portion of Natural Energy's thirty two pages of public comment for the Bureau's Draft EIS were devoted to explaining CCP's breakthrough high altitude pumped renewable water and energy storage project. CCP can increase the productivity, reliability, and quality of existing water rights and storage systems throughout six major river basins on both sides of the Divide, and the Western Power Grid. Natural Energy's unprecedented proprietary concept and green water and energy advantages can quickly solve our state and region's highly variable drought, growth, and climate change needs, while enhancing environments and reducing regional water and energy costs for consumers. Unfortunately, Bureau and CSU officials did not evaluate and comment on any of Natural Energy's public comments, which are identified as PDF files No. 66, 159, and 296, totaling 2048 kb in the SDS Final EIS. The Bureau's failures to consider and fully evaluate Natural Energy's EIS comments are serious violations of national environmental laws.

Request For Investigations of Major State and Federal Policy Violations Natural Energy hereby requests immediate investigations of the following major state and federal policy violations and oversights that created the perfect storm for the seven Southern Delivery System alternatives:

- Why were all of the Bureau's superior Gunnison-Aspinall Pool alternatives improperly omitted from the SDS scoping process, Draft, and Final EIS?
- Why did the FEIS only consider high cost, high impact reuse alternatives, while ignoring Department of Interior Reports, indicating Colorado has used only about 60% of its vulnerable Colorado River rights since the 1960s (annual 2.2 million acre-feet of 3.88)?
- Why has the Bureau ignored its primary Congressional purpose, which is to help western states timely and fully develop their vital interstate rights?
- Why was EPA's veto of the Army Corps of Engineers' Two Forks Dam FEIS, "because superior alternatives were improperly screened from the environmental studies", not the same situation as today's Southern Delivery System FEIS Decision?
- Why have all Colorado funded water studies and federal EISs, since Two Forks, improperly excluded consideration of the Bureau's superior Gunnison alternatives?
- Why was the joint Colorado-Bureau Phase II Upper Gunnison Study suddenly cancelled before completion in 1990, without any public explanation?
- Why was the Bureau forced to reprogram \$1 million from its FY 1990 study budget, when the valuable Gunnison Phase II Study was cancelled?
- Why have Colorado's appointed water leaders not supported development of the Bureau's superior Gunnison-Aspinall alternatives since 1990?
- Why are the Bureau's nineteen detailed Gunnison Trans-mountain cost and feasibility evaluations missing from Colorado's extensive water study records?
- Why have Colorado's Water Conservation Board, and Water and Power Development Authority not fulfilled their primary 1937 and 1982 legislative mandates; "to plan, protect, and develop Colorado's interstate rights for current and future generations"?
- Why have Bureau and Corps of Engineers offices east of the Continental Divide not been aware of the Bureau's viable Gunnison Trans-mountain Alternatives, since 1988?
- Why is the Bureau's ongoing Aspinall Unit Operations EIS ignoring the Bureau's superior Gunnison-Aspinall development alternatives for Colorado's statewide needs?
- Why did the Bureau not challenge CSU's fatally flawed SDS scoping process prior to and/or during its five year EIS effort, in spite of numerous warnings?
- Why did the Bureau's FEIS not include any long-term analysis of SDS's escalating net carbon footprint and pumping costs, for the life of the project?
- Why did the SDS Final EIS not address Pueblo Dam's numerous and serious public safety hazards, including the Department of Interior's published study that concluded the dam cannot be modified to prevent catastrophic failure with floods above 55% of today's Probable Maximum Flood (PMF) criteria?
- Why did the FEIS not include costs to enlarge Pueblo Reservoir for SDS's increased yields, when inclusion of all associated costs are mandatory under NEPA rules?
- Why were the Bureau's projected costs to anchor and seal Pueblo Dam's unstable spillway to its deteriorating shale and sandstone foundation not included in the FEIS, as required by NEPA?
- Why is Colorado Springs staking its future on a high cost, high risk reservoir and a non-integrated high impact reuse scheme, that will be an escalating direct and indirect burden for all Colorado and Southeastern stakeholders, during the life of the project?
- Why are Colorado and federal agencies ignoring Natural Energy's breakthrough Central Colorado Project (CCP) high altitude pumped-storage solution to economically increase the utility of state and regional renewable water and energy resources for droughts, growth, and climate change needs?

Request for Emergency Scoping Evaluations of Gunnison and CCP Alternatives In view of the above oversights and major policy concerns, Natural Energy hereby requests emergency scoping evaluations of the superior Gunnison and CCP alternatives.

An in-house CSU/Bureau team could easily evaluate the Bureau's Gunnison alternatives within a few weeks.

A team of modeling experts could also quickly verify the multiple economic and environmental benefits from CCP's additional 1.2 million acre-feet of Aspinall Pool regulating storage on the Continental Divide. This unique storage capability can meet the needs for dependable water supplies and renewable energy storage throughout six major southwestern river systems, and Western Power Grid. Please visit www.ucblacker.us to review CCP's White Paper, Published U. S. Patent Application, and Feasibility Studies of CCP's Union Park Dam and pumped-storage reservoir site.

Request for Stay of SDS FEIS Record of Decision. Natural Energy also hereby requests a stay of any SDS FEIS Record of Decision, pending results of the above requested policy investigations, and emergency scoping evaluations of superior alternatives.

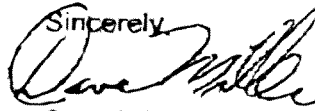
Conclusion Colorado is blessed with its strategic location, high topography, and snowmelts that provide most of the river flows for the Southwestern Region. Regional modeling could soon confirm Central Colorado Project's integrated high storage could quickly solve a large portion of the Western Region's peak water and energy needs for droughts, growth, and climate change.

In lieu of SDS, Colorado Springs and the Bureau have a golden opportunity to lead an emergency Central Colorado Project Development Program, that can serve as a paradigm global model for green water and energy solutions.

Why is Colorado promoting fragmented Front Range reuse projects that harm local and regional consumers and environments?

Modeling can show CCP's short and long-term economic and environmental values could be greater than Hoover Dam's *shot in the arm* for western states during the Great Depression. Hoover Dam was developed by the Bureau in record time. CCP has similar potential.

Your positive response to these comments, requests, and innovative solutions will be greatly appreciated by current and future generations. I would appreciate opportunities to meet and discuss at your earliest convenience. Thank you, and please advise.

Sincerely,


Dave Miller,
 President

Attachments: Annual cost per acre-foot calculations: Table 1 - Gunnison Trans-mountain Alternative No. 6, and Table 2 - SDS Preferred Alternative No.2

cc: EPA; Departments of Interior, Energy, Agriculture, and Justice; Chief, Army Corps of Engineers; Commissioner, Bureau of Reclamation; Governor Bill Ritter and Governor's Energy Office; Congressional Resources Committees; Western Governors Association; Colorado Department of Natural Resources; Colorado Inter-basin Compact Committees and Basin Roundtables; Colorado Attorney General; Western States Water Council; Colorado Congressional Delegation and Legislators; Colorado County Commissioners; Colorado Municipal League; Colorado Department of Agriculture; Council on Environmental Quality; National Academy of Sciences; Colorado research universities; The White House.

Table 1 - COMPARISON OF ANNUAL EQUIVALENT COSTS (January 1987 - January 2006), prepared by Ueblacker Associates for Natural Energy Resources Company, Proposed U.S. Bureau of Reclamation (USBR) Trans-mountain Diversion Alternative # 5; Description: Pump lift from Blue Mesa to Taylor Park, trans-mountain diversion from Taylor Park to South Platte River, gravity delivery system following Buena Vista Route.

Project Water Supply (Municipal and Industrial): 210,000 acre-feet; Stream Depletion = 210,000 acre-feet

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Project Power and Energy Requirements: 52.6 MW (Power); 414,512 MWH (Energy); CEF = USBR Cost Escalation Factor

Item	Features/Capacity/Size	Jan 87 Costs	CEF	Jan 06 Costs
1	Blue Mesa Pumping Plant Intake Structure, Q=240 cfs	\$ 3,281,000.00	1.73	\$ 5,678,130.00
2	Blue Mesa Pumping Plants, 5 EA, @ Q=240 cfs, TDH=410'	\$ 40,105,000.00	1.83	\$ 73,191,625.00
3	Blue Mesa Pipeline, Q=240 cfs, d=8', L=107,400'	\$ 91,826,000.00	1.79	\$ 164,184,988.00
4	Taylor Park Tunnel Intake Structure, Q=330-410 cfs	\$ 2,475,000.00	1.83	\$ 4,516,975.00
5	Taylor Park Tunnel, Q=330-410 cfs, d=9', L=97,500'	\$ 258,985,000.00	1.80	\$ 468,181,000.00
6	Cottonwood Creek Pipeline, Q=330-410 cfs, d=9', L=9,900'	\$ 6,335,000.00	1.79	\$ 11,328,788.00
7	Arkansas Valley Siphon, Q=330-410 cfs, d=9', L=36,100'	\$ 135,205,000.00	1.79	\$ 241,746,540.00
8	Midland Hill Pipeline, Q=330-410 cfs, d=9', L=4,700'	\$ 3,196,000.00	1.79	\$ 5,714,418.00
9	Hop Gulch Siphon, Q=330-410 cfs, d=9', L=2,400'	\$ 6,196,000.00	1.79	\$ 11,078,448.00
10	Piles Pasture Pipeline, Q=330-410 cfs, d=9', L=7,800'	\$ 4,992,000.00	1.79	\$ 8,925,696.00
11	Trout Creek Pass Tunnel, Q=330-410 cfs, d=9', L=52,600'	\$ 119,629,000.00	1.80	\$ 215,332,200.00
12	Salt Creek Drop Structure, Q=330-410 cfs, L=500'	\$ 53,000.00	1.83	\$ 96,725.00
13	Transmission Line, 69 KV, L=166,000'	\$ 3,773,000.00	1.85	\$ 6,214,131.00
Subtotal		\$ 676,062,000.00		\$ 1,214,197,474.00
Unlisted Items (20%)		\$ 135,212,400.00		\$ 303,549,368.50
Subtotal		\$ 811,274,400.00		\$ 1,517,746,842.50
Engineering, Const., Admin., and Legal (25%)		\$ 202,818,600.00		\$ 379,438,710.83
Total Construction Cost		\$ 1,014,093,000.00		\$ 1,897,183,553.33
Interest during Construction @ 4.196%, n = 3 years		\$ 133,100,176.78		\$ 249,008,210.40
Total Investment		\$ 1,147,193,176.78		\$ 2,146,191,763.52
Annual Equivalent Cost				
Amortized Investment 34 yrs. @ 8 7/8% (1987) and 5% (2006)		\$ 107,798,254.17		\$ 132,538,804.86
O&M (Excluding power and energy costs/revenues) @ 4.88%		\$ 5,368,353.06		\$ 6,600,437.46
Replacement Storage @ Blue Mesa (\$50/acre-ft.)		\$ 10,500,000.00		\$ 10,500,000.00
Power/Energy: 1987 (\$126.72/KWH, \$.02522/KWH); 2006 (\$12,499.08/MWH, \$.28.923/MWH)		\$ 17,119,464.84		\$ 12,848,382.18
Total Annual Cost		\$ 140,786,071.87		\$ 162,285,724.50
Annual Cost per acre-ft (\$/acre-ft.)		\$ 670.41		\$ 772.79

Table 2 - ANNUAL EQUIVALENT COST ANALYSIS, SDS Alternative 2 - Participants' Proposed Action FEIS
Prepared by Ueblacker Associates for Natural Energy Resources Company

Note: For Estimates of Firm Yield and Cost see Table S-3, Page 20 of Final EIS Summary and Table 6, Page 33 of Final EIS; for Average Energy Consumption see Section 2.2.2.3 under Description of Alternatives, Page 66 of Final EIS	
Average Energy Wholesale Rate, (\$/MWH ₁₉₈₇), TRISTATE 2007	55.30
Average Energy Consumption, (MWH-hrs/day)	671.00
Estimated Firm Yield, (ac-ft/yr)	42,400.00
Estimated O&M Cost, (2012 - 2046)	\$ 551,400,000.00
Weighted Average Long-term Debt Interest Rate, i (%)	5.00
Loan Repay Time Period, n (yrs)	34.00
Estimated Capital Cost	\$ 1,090,000,000.00
Annual Equivalent Cost	
Amortized Investment, n = 34 yrs. i = 5.0%	\$ 67,312,435.53
O&M (Excluding power and energy costs/revenues)	\$ 19,158,823.53
Average Energy Consumption	\$ 13,675,317.92
Total Annual Cost	\$ 100,147,576.98
Annual Cost per acre-ft (\$/acre-ft.)	\$ 2,361.97

Cost in 2007 Dollars

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