

2007 Supplement to Board Resource Statement Dated October 15, 1996

The Board believes that its Resource Statement, published in the 1997 Integrated Resource Plan (IRP) and reviewed in 2002 and 2006, has stood the test of time and still provides generally appropriate guidance for future allocation of Denver Water's resources. However, since the Resource Statement was issued, a number of significant developments affecting the Denver Water system have occurred that will influence the Board's future actions. Some of those developments are the following:

- The recent severe drought, which demonstrated the resiliency of Denver Water's system, and the willingness of customers to use less water, but also revealed the acute vulnerability of the Moffat System;
- The 2002 Hayman fire, a catastrophic wildfire that destroyed vegetation around Cheesman Reservoir and necessitates continuing investment and response actions to preserve the watershed;
- Continued massive sediment deposition in Strontia Springs Reservoir as a result of the 1996 Buffalo Creek fire, which will necessitate a multi-million dollar sediment removal project;
- The September 11, 2001 terrorist attacks, which greatly increased the need for both physical security measures and flexible emergency response planning;
- Heightened awareness and accumulation of scientific evidence regarding the possible impacts of global climate change on Denver Water's raw water supply and future demand;
- Inauguration of the first phase of Denver Water's recycling plant that provides nonpotable water for irrigation and commercial use, and the challenges associated with the project's expansion;
- A growing realization during the drought that a potential "call" by the Lower Basin states under the Colorado River Compact could create serious jeopardy to municipal water supply in Colorado, including Denver Water's supply;
- In a cooperative action with a water supplier outside the Combined Service Area, as anticipated in the Resource Statement, an agreement with South Adams County Water and Sanitation District has grown over the years into an effort that will add as much as 30,000 acre-feet of gravel pit storage downstream on the South Platte River;
- Two state-sponsored efforts – SWSI, or the Statewide Water Supply Initiative, and the HB 1177 Basin Roundtables process – intended to help Colorado address its future water supply and demand on a statewide basis;
- Continued regulatory risk, including more expensive requirements under the federal Safe Drinking Water Act, potential regulation of water conveyances under the federal discharge permitting system, and court cases expanding the reach of the Endangered Species Act.

These developments have amplified the uncertainty and volatility of providing water supply to the nearly one-quarter of Colorado's population for which the Board is responsible. The current uncertainty is compounded by the long-term horizon required for water supply planning.

Two examples demonstrate potential risks faced by the Board, which appear to be more problematic today than they did when the Resource Statement was first issued.

1. Changes in the administration of Green Mountain Reservoir on the Blue River could put into jeopardy up to 30,000 acre-feet of water supply, nearly 10% of the total Denver Water has historically counted on for serving its customer needs. Other adverse modifications to past operational and administrative practices could impact Denver Water's supply, and water court challenges to the Board's water rights and operations are commonplace.
2. Global climate change could negatively and significantly impact the Board's water supply. Just a 2°F increase in temperature, which is in the low range of scientific predictions, could cause a 6% increase in demand for water and a 12% decrease in water supply, significantly altering most of Denver Water's planning assumptions.

Either of these uncertainties, or those as yet unforeseen, could reduce substantially the 345,000 acre-feet of water supply Denver Water is relying upon to serve its customer needs, thereby increasing the gap between present supplies and the supply needed for ultimate buildout of the service area.

In addition to external factors such as these, the Board is currently wrestling with a number of important policy issues that may influence the direction of the organization over the coming years. Among these:

- We are attempting to capitalize on the water savings achieved by customers during the drought and promote a cultural shift in water use through a significantly enhanced water conservation program. The full scope and potential of this demand management effort has yet to be determined.
- We are reassessing the analytical basis for the Board's current 30,000 acre-foot Strategic Water Reserve. There are valid reasons to question both whether the amount is adequate in light of changing circumstances as well as whether greater diversity in the makeup of this Strategic Reserve is advisable.
- We are currently engaged in more comprehensive discussions with the West Slope in an effort to resolve ongoing points of conflict between Denver Water and our Western Colorado neighbors. These discussions will inevitably involve concepts that could have significant implications for both the nature of the ultimate buildout of the Denver Water system as well as the way it is operated in the future.
- We continue to have discussions with representatives of the newly formed South Metro Water Supply Authority, the City of Aurora and others regarding water solutions benefiting populations outside of our current service area. Our planning must address what role, if any, the Denver Water system will play in serving demand beyond the buildout of our current service area.

The significant recent developments noted above, the greater uncertainty and volatility we face in the external environment, and the important policy issues before us will all influence our future direction. In the near term, the Board has responded with certain actions and plans intended to enhance flexibility, certainty and reliability of water supply. Some of these actions that will influence Board direction over the next few years include:

- Expanding and accelerating development of a broadly based water conservation program;
- Initiating the permit process for a solution to the Moffat System vulnerabilities, seeking to add supply, reliability, and balance to the raw water system;
- Evaluating the quantity and type of supply appropriate for the Strategic Water Reserve;
- Continuing to aggressively expand the Non-Potable Recycling Project as opportunities occur.

The Board believes it has the resources, options and opportunities to meet the challenges ahead. However, our more uncertain environment reinforces the commitment in the Resource Statement to invest in and manage a diverse portfolio of resources to serve future needs and to minimize risks. This diversity encompasses conservation, reuse and supply.

- Denver Water will work with its customers to assure that water is used efficiently and waste is eliminated. For the near-term future, water conserved under the enhanced conservation program will be used to fortify the Strategic Water Reserve. Conservation gains will provide the dual benefits of reducing water demand and enlarging the Strategic Water Reserve to protect against uncertainties. An ancillary benefit of using conservation gains to enlarge the Strategic Water Reserve is that more water will remain in streams and lakes for a period of time.
- The Non-Potable Recycling Project will be expanded as opportunities occur in the service area. Although non-potable recycling delivers only 7,000 acre-feet today, calculation of remaining water supply needs already assumes successful completion of the full 17,000 acre-foot supply of the recycled water plant.
- Denver Water remains committed to solving its water supply shortage and imbalance on the northern end of its system. Such a solution is intended to result in 18,000 acre-feet of added supply and increased balance and greater reliability in the Board's operations.

While our future planning faces serious risks and uncertainties, the Board is confident that by working with others throughout the Metro Denver area and the State, it can successfully meet its long-term obligations in a responsible manner. As the Board continues to sort through the major policy questions that will shape the buildout of the system and the context in which it operates, we will also continue to seize the near term opportunities in the areas of conservation, reuse and supply.