

EXHIBIT 2 to IGA

TERM SHEET FOR POTENTIAL PHASE II IGA BETWEEN PUEBLO WATER AND UTILITIES TO ENLARGE CLEAR CREEK RESERVOIR

The following is a conceptual outline of the terms of the Phase II IGA for the enlargement of Clear Creek Reservoir. These terms are based on discussions between Utilities and Pueblo Water and will be subject to further negotiation in the formulation of the Phase II IGA.

1. **Term of the Agreement:** Utilities will have a perpetual right for firm storage in Clear Creek Reservoir and the ability to use Pueblo Water's portion of the expanded storage for 30 years following the end of construction.
2. **Construction Costs:**
 - a. Pueblo Water's current enlargement study contemplates four enlargement scenarios, 3,585¹ acre-feet; 6,385 acre-feet; 11,535 acre-feet; and 20,885 acre-feet. The maximum size of the enlargement will be determined by the Feasibility Study. All construction costs will be allocated pro-rata based upon the percentage of the cost of the smallest enlargement to the cost of designed size of the enlargement selected by the Parties. For example, if the enlargement is 20,885 acre-feet, then Utilities would be responsible for 87% of the costs and Pueblo Water would be responsible for 13% of the costs.
3. **Quantity of additional storage:** The biggest enlargement in the Feasibility Study contemplates an enlargement producing approximately 20,885 acre-feet of additional storage over the existing physical capacity of 11,015± acre-feet.
 - a. Utilities will acquire a perpetual right to 10,000 acre-feet of the additional storage.
 - b. Utilities will acquire a right to use Pueblo Water's portion of the additional storage (10,885 acre-feet) for the first 30 years after completion of construction of the enlargement. After the initial 30-year period the permanent right to use the 10,885 acre-feet of additional storage will revert to Pueblo Water.
 - c. Pueblo Water retains the right to "buy-back" some or all of the 10,885 acre-feet of additional storage during the initial 30-year period in which Utilities has the right to use Pueblo Water's additional storage. The price Pueblo Water pays Utilities if this right is exercised will be equal to the final cost per acre foot Utilities paid for the additional storage.
 - d. Either Party may store water in the other Parties' capacity on an if-and-when basis subject to a fee per acre-foot to be agreed upon prior to any such storage.

¹ This includes 2,000 acre-feet of existing storage space in Clear Creek Reservoir that is not currently used due to dam seepage concerns.

- e. Third parties may use storage space on a temporary or long-term basis subject to a right of first refusal by the other Party on any such arrangement.
 - f. The Feasibility Study should determine the absolute maximum enlargement for the reservoir prior, which may be more than 20,885 acre-feet.
- 4. Land Acquisition:**
- a. Private lands:
 - i. Pueblo Water will acquire and hold title to any additional private lands necessary for the expansion. Costs of such lands will be borne 52% by Pueblo Water and 48% by Utilities.
 - b. Federal lands and/or easements:
 - i. Pueblo Water will attempt to acquire federal lands via land trades.
 - ii. Easements will be sought if land trades are not feasible.
 - iii. Costs of federal lands and/ or easements will be borne 52% by Pueblo Water and 48% by Utilities.
 - iv. The value of Pueblo Water's land traded is not part of the costs to be paid by Utilities.
- 5. Design:**
- a. Parties will choose an enlargement alternative to refine to final design and used as the parties preferred alternative for permitting purposes.
 - b. Pueblo Water has final decision-making authority on design decisions but will regularly consult with Utilities on all design matters.
 - c. Design costs will be split based upon the same percentage used for construction costs.
- 6. Permitting:**
- a. Pueblo Water will take the lead on all permitting. However, given Utilities substantial experience in permitting large water projects, Pueblo Water will routinely and regularly consult with Utilities on all permitting matters. Pueblo Water will have final decision-making authority for permitting.
 - b. Permitting costs will be borne 52% by Pueblo Water and 48% by Utilities.
- 7. Construction Management:**
- a. Pueblo Water, after consultation with Utilities, will choose the contractor and will be responsible for construction management. Pueblo Water will regularly consult with Utilities on all construction matters. Pueblo Water will have final decision-making authority regarding construction matters.
- 8. On-going Operation & Maintenance:**
- a. Pueblo Water will be responsible for the coordination of all annual Operation and maintenance of the enlarged Clear Creek Reservoir.
 - b. The Parties will meet annually, each spring, to discuss and plan expected water operations for the upcoming 12 months.

- c. At the conclusion of each calendar year, Utilities will reimburse Pueblo Water for 20% of the costs associated with that years' operation and maintenance. A detailed accounting of said costs will be provided to Utilities along with the invoice.

9. Future capital repairs:

- a. Costs for all future capital repairs will be split pro-rata based upon the percentage of storage available to each Party at the time the capital repairs are made. Parties will take a pro-active approach to capital repairs, to limit future, larger repairs. Parties will exercise good faith efforts to fund and make capital repairs promptly.
- b. The Parties will consult, annually, to develop a 10-year plan for capital repairs.
- c. Pueblo Water will have final decision-making authority on the necessity and scheduling of capital projects but will regularly consult with Utilities on all such matters.

10. Emergency repairs:

- a. Pueblo Water will act, immediately, on any emergency related repairs. Pueblo Water, in its sole discretion, will determine what constitutes an emergency.
- b. Pueblo Water will inform Utilities of an emergency as soon as practicable.
- c. Emergency related costs will be split pro-rata based upon the percentage of storage available to each Party at the time of the emergency.

11. Water Rights:

- a. Pueblo Water holds absolute storage rights for the existing reservoir and conditional storage rights for an expanded reservoir. Pueblo Water also holds several absolute and conditional rights of exchange into the reservoir.
- b. Utilities also holds absolute and conditional rights of exchange into the reservoir.
- c. The respective priorities of the Parties water rights will be used to determine the right to inflow and exchange potential when there is not enough stream flow and/or reservoir inflow to satisfy the desired exchange rates of each Party.
- d. Neither Party may use its senior priority against the other Party to store in If and When space in the other Parties allocated storage space.
- e. Neither Party will make claims for new storage rights or exchange rights into the reservoir without first consulting with the other Party.

12. Outlet Works:

- a. Utilities, at its own expense, may make a connection from the outlet works of Clear Creek Reservoir to its Otero Pipeline as long as such connection does not interfere with Pueblo's ability to make releases to the Arkansas River.
- b. If the Parties combined desired release rate exceeds the capacity of the outlet works, then the release capacity will be allocated pro-rata based on how much of the total space is allocated to each Party at the time.