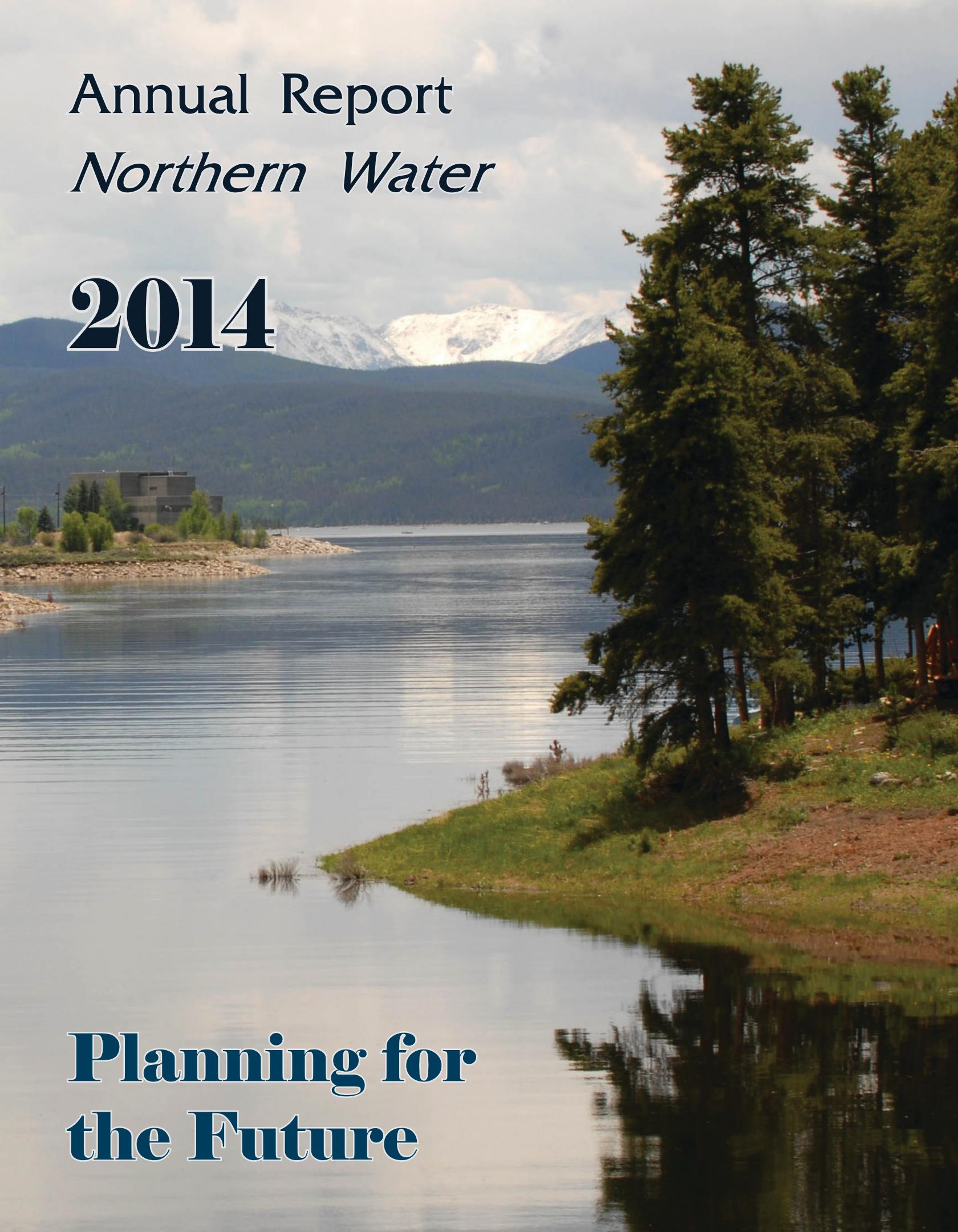


Annual Report

Northern Water

2014

**Planning for
the Future**



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Planning for the Future

EDITORS: MARK DOWLING, GREG SILKENSEN AND BRIAN WERNER

WRITING: ZACH ALLEN, MARK DOWLING, GREG SILKENSEN AND BRIAN WERNER

GRAPHIC DESIGN: ZACH ALLEN

PRINTER: VISION GRAPHICS



manager's message

As I reflect back on 2014 I appreciate and am very impressed by the level of commitment and the superb effort put forward by Northern Water's outstanding staff. Each day employees from multiple departments help administer, manage, operate, and maintain the Colorado-Big Thompson and Windy Gap projects, five related water activity enterprises, and the associated infrastructure including reservoirs, canals, pipelines, pump plants and hydropower facilities.

Staff's highest priority is the reliable operation and quality maintenance of C-BT and Windy Gap facilities. Their dedication, quality of work, and pride are evident in all they do. Each of us here at Northern Water, as well as our water users, project beneficiaries and constituents should recognize and appreciate the dedicated contributions of Northern Water's employees.

In terms of water supplies, 2014 was a very good year. Sufficient winter snowpack and spring runoff, timely precipitation during the growing season, as well as the residual effects from the September 2013 floods that sustained base streamflows, helped ensure plentiful water supplies last year. As we entered 2015, C-BT Project reservoirs were at record storage levels.

In 2013 and early 2014 Northern Water Directors and staff closely examined the organization's finances. This included conducting a comprehensive rate study and holding several associated public hearings. Based on the rate study results, the Board announced changes to Northern Water's rate structure beginning in 2014, with additional rate increases in 2015 and 2016.

Information about the rate study and projected rate increases is presented on page 6. Fiscal year 2014 financial summaries for Northern Water and its Municipal Subdistrict begin on page 10. Northern Water's Board and staff will continue to carefully manage and control Northern Water's costs.

The 2014 Annual Report's theme is "Planning for the Future." In addition to maintaining a solid foundation for Northern Water and the Subdistrict, the Board and staff remain steadfastly committed to developing

future regional water supplies, including the Northern Integrated Supply Project and the Windy Gap Firming Project.

In December 2014, the U.S. Bureau of Reclamation signed and released its Record of Decision and a new 40-year carriage contract for the WGFP, helping move the pending construction of Chimney Hollow Reservoir forward. Reclamation's actions followed more than a decade of environmental studies and efforts to comply with the National Environmental Policy Act and Colorado regulatory statutes, earnest negotiations with a variety of entities, and a great deal of dedication and determination by Windy Gap and WGFP participants.

Hydropower is also part of Northern Water's future plans. Construction of Northern Water's second hydropower plant, located just below Lake Granby, is scheduled to begin later this year. With initial design and engineering work completed in 2014, Northern Water secured a low interest loan for the project from the Colorado Water Conservation Board. Construction of the Granby Hydropower Project should be complete in mid-2016. Information about this project, as well as updates on the WGFP and the NISP, begin on page 8.

Our goal with this publication remains the same – to let you know who we are, what we do, and to provide information about Northern Water and the Subdistrict. Please contact me or any of our employees if you would like additional information or have questions. I hope you enjoy the 2014 Northern Water Annual Report.



A handwritten signature in blue ink that reads "Eric J. Wilkinson".

Who we are

Nearly 80 years ago the Colorado Legislature passed the 1937 Water Conservancy Act, enabling the creation of Northern Water.

As a public agency established under this act, Northern Water contracted with the federal government to build the Colorado-Big Thompson Project.

The C-BT Project collects water in the upper Colorado River watershed west of the Continental Divide and delivers it to cities, farms and businesses within an eight-county area in Northeastern Colorado.

Northern Water and the U.S. Bureau of Reclamation jointly operate and maintain the C-BT Project.

Northern Water's Municipal Subdistrict is a separate, independent conservancy district. Formed in 1970 by six municipalities, the Subdistrict operates the Windy Gap Project, including a diversion dam and pump plant on the Colorado River, and a six-mile pipeline to Lake Granby.

From there the Windy Gap Project utilizes C-BT Project facilities to store and convey the water to the Front Range.

What we do

Northern Water's mission is to provide water resources management, project operations, and conservation services for project beneficiaries.

Northern Water's strategic plan stipulates the following five priorities:

- Deliver water
 - C-BT and Windy Gap projects
 - Pleasant Valley and Southern Water Supply pipelines
- Conserve and protect water supplies
 - Water quality, water conservation
- Plan for future water supplies
 - Northern Integrated Supply Project
 - Windy Gap Firming Project
- Cultivate operational and organizational excellence
 - Network and information security, employee training, rules and policies
- Strengthen and maintain positive relationships
 - Constituents, Reclamation, water entities, special interest groups and general public

This introduction just scratches the surface of who Northern Water is and what it does. Similarly, this 2014 Annual Report is only a broad overview of Northern Water's past 12 months.

For more information please contact us at 800-369-7246. Readers can also learn more at www.northernwater.org.



Directors and staff



Mike Applegate
Larimer Co.



Bill Brown
Larimer Co.



Kenton Brunner
Weld Co.



Bill Emslie
Larimer Co.



Sue Ellen Harrison
Boulder Co.



Don Magnuson
Weld Co.



Rob McClary
Sedgewick Co.



John Rusch
Morgan/Washington Co.



Brad Stromberger
Logan Co.



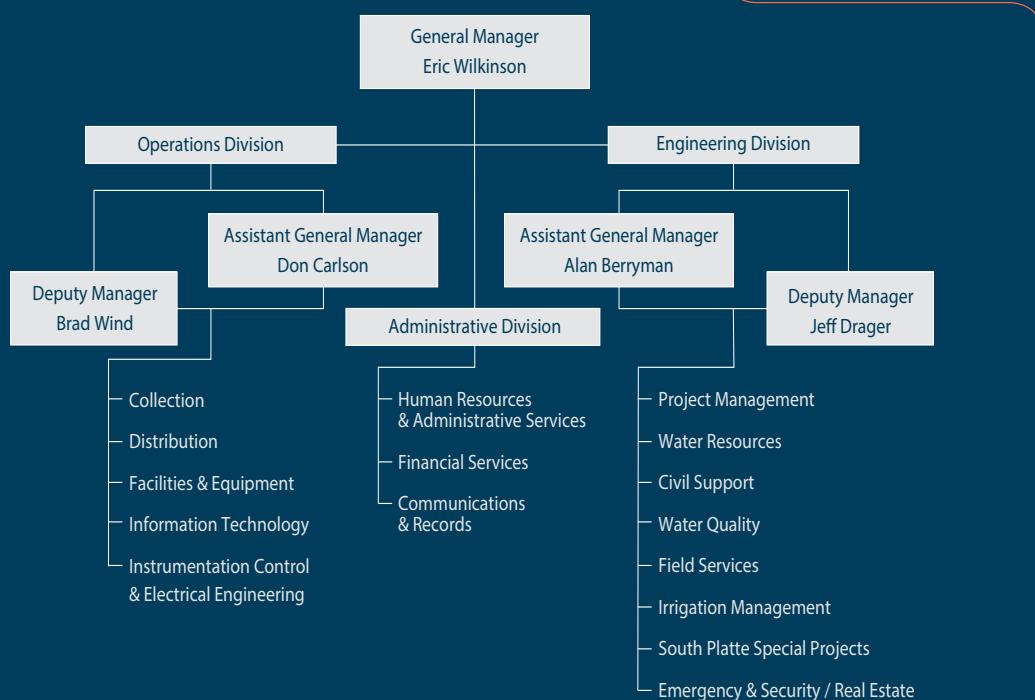
Dale Trowbridge
Weld Co.



Les Williams
Boulder Co.



Dennis Yanchunas
Boulder Co.



TROWBRIDGE APPOINTED TO BOARD

Dale Trowbridge was appointed to the Northern Water and Municipal Subdistrict Boards of Directors representing Weld County.

Trowbridge replaced Weld County Director Jerry Winters, who served on the Boards for 19 years.

Trowbridge is the general manager of the New Cache La Poudre Irrigating

Company and its subsidiaries. He has 20 years of experience managing irrigation and reservoir facilities and many years as a farmer and cattle feeder in the region. His background also includes managing an underground water users association and operating a well augmentation company.

Join us in welcoming Dale to the Board of Directors.

Board studies, implements new rate structure

In 2013, Northern Water began investigating potential adjustments to its rate structure, including water assessments. The rate study process included informational meetings and a two-day public hearing.

Despite Northern Water's historically solid financial position, over the past several years the organization's capital and operating expenses have necessitated a greater reliance on reserve funds. This was partly due to unpredictable economic conditions and flat property tax revenues following the 2008 recession.

Additional factors include increasing maintenance and repairs to aging Colorado-Big Thompson Project facilities, expanding water quality responsibilities, post-wildfire watershed and forest restoration efforts, and C-BT infrastructure repairs following the September 2013 floods.

Several recent Northern Water major expenditures include:

- Endangered Species Recovery Efforts: Northern Water participates in both the Platte River Endangered Species Recovery Program and Upper Colorado River Endangered Fish Recovery Program. Both are multi-year efforts to protect and restore endangered species and their habitats. Northern Water's past and ongoing commitment to these programs currently totals more than \$10 million.
- Carter Lake Outlet Project: A new \$12 million outlet, completed in 2008, improved year-round water deliveries and improved system redundancy. Additionally the reservoir's original outlet gates, built in the 1950s, were refurbished in 2013 at a cost of \$322,000.



Crews install Pole Hill Canal box culvert sections.

- Pole Hill Canal Replacement Project: The original concrete-lined canal, built in 1952, was replaced in 2011 at a cost of \$10.3 million. Northern Water and the U.S. Bureau of Reclamation each funded 50 percent of this project. Contractors removed the existing concrete lining and installed prefabricated concrete box culvert sections and supporting infrastructure.

- Water Quality: Northern Water's Water Quality Program has expanded significantly since its inception in 1991 to include water quality monitoring, studies and coordination with numerous federal, state and local organizations and stakeholders. The C-BT Project is a significant source of drinking water for nearly 900,000 people. Currently Northern Water spends nearly \$2 million per year on water quality monitoring and related programs.

- Forest Health & Watershed Management: Following epic wildfires in 2012 and 2013, Northern Water and other agencies responded to proactively manage and improve the health of forests and watersheds before fires occur, and to protect water supplies following a wildfire. Northern Water has spent approximately \$330,000 over the first two years of these efforts, and anticipates spending nearly \$300,000 per year going forward.

The rate study concluded that Directors should adjust Northern Water's rates to ensure a financially healthy future and to meet the organization's C-BT operation, maintenance, and capital commitments.

As a result, Northern Water Directors increased water assessments for fiscal year 2015 from \$28.00 to \$30.50 per acre-foot unit for open-rate domestic, municipal, industrial and multipurpose contracts, and from \$10.00 to \$10.90 per acre-foot unit for open-rate irrigation contracts. For fiscal years 2016 and 2017, the range of potential assessments is as follows:

Open-Rate Domestic, Municipal, Industrial & Multipurpose

FY 2016 \$35.90 - \$39.10
FY 2017 \$42.50 - \$50.20

Open-Rate Irrigation

FY 2016 \$16.60 - \$17.60
FY 2017 \$25.50 - \$28.50

Record 2014 water year

The 2014 water year proved to be record-setting, with Colorado-Big Thompson Project reservoirs on both the East and West slopes at or near capacity for much of the year.

By the end of October 2014, C-BT Project storage was at an all-time high – more than 200,000 acre-feet above average. Local reservoir storage was also in excellent shape, with Poudre River basin reservoirs setting all-time high records for the month of October.

The C-BT Project's 2014 record-breaking high storage levels were, in part, a result of extremely low deliveries. At slightly more than 120,000 acre-feet, C-BT deliveries in water year 2014 were the second lowest in history.

At the start of the 2014 water year on Nov. 1, 2013, local storage was nearly 20 percent above normal. With above-average precipitation and streamflows in 2014, water users realized they would need much less reservoir water than in an average or dry year.

As a result, local reservoir storage was 30 percent above

average by the end of the water year on Oct. 31, 2014.

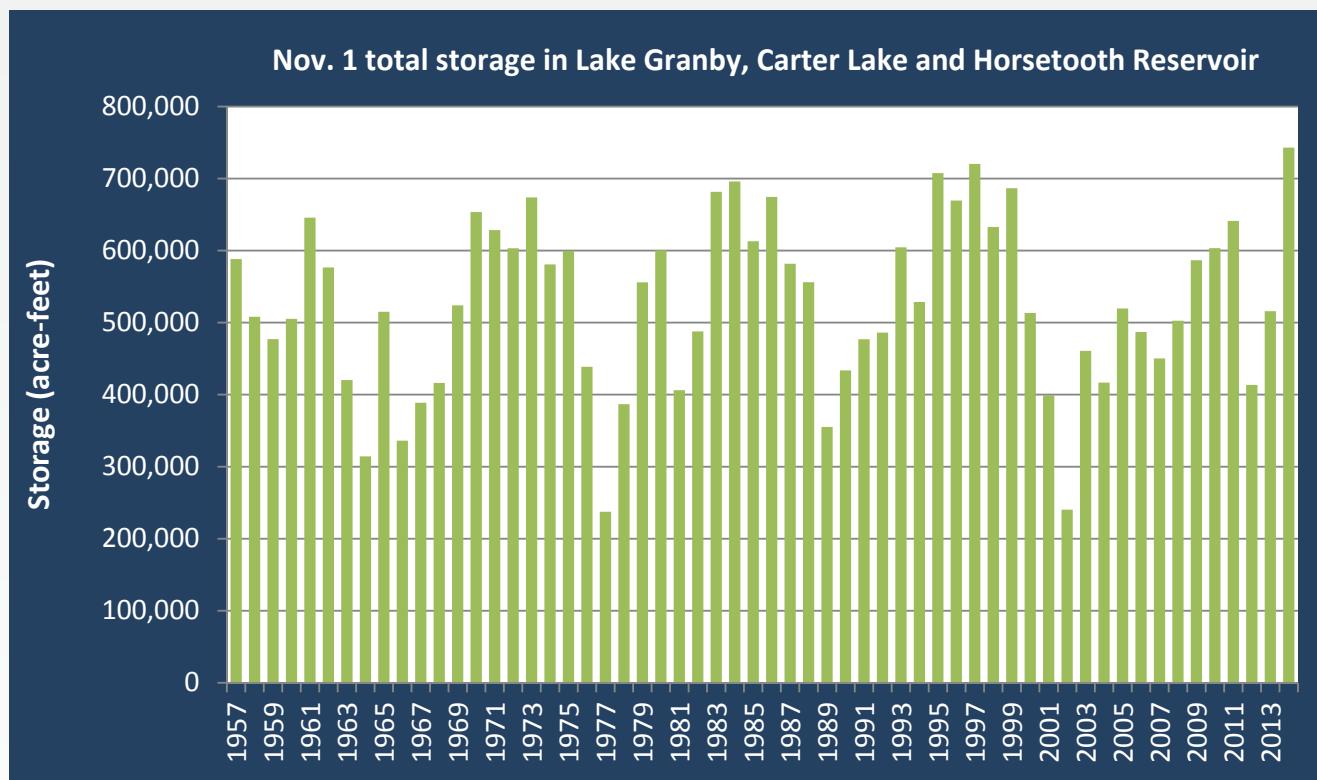
Low deliveries are typically attributed to timely, above-average precipitation and streamflows. The September 2013 floods were one important contributor to below-average water deliveries in the 2014 water year.

The flood's residual effects left groundwater levels well above average, sustaining high flows in creeks and rivers months after the flooding had receded.

With above-average precipitation, the C-BT Project's largest reservoir – Lake Granby – filled and spilled three distinct times during the 2014 water year. Lake Granby and Willow Creek Reservoir, the C-BT's primary West Slope storage vessels, spilled over 20,000 acre-feet in 2014.

Throughout most of the spring and summer, water levels at Carter Lake and Horsetooth Reservoir were also near capacity.

All of these factors are indications that 2015 should be a plentiful water year for Northeastern Colorado.



Lake Granby, Carter Lake and Horsetooth Reservoir ended the 2014 water year in record-breaking fashion with 742,997 acre-feet in storage. The previous record was 720,343 acre-feet set in 1997.

Windy Gap Firming Project poised for design and construction

The Windy Gap Firming Project and its key component Chimney Hollow Reservoir are poised to move toward design and construction after the project reached two milestones in 2014.

The U.S. Bureau of Reclamation issued a Record of Decision for the project and Northern Water and its Municipal Subdistrict signed a new Windy Gap carriage contract in December 2014.

The ROD identifies and confirms Chimney Hollow Reservoir as the project's preferred alternative in its Environmental Impact Statement. The project's federal permitting process began in 2003 under the National Environmental Policy Act. Reclamation released the project's final EIS in 2011.

Northern Water has worked for years with West Slope agencies and environmental advocacy groups to address Colorado River environmental concerns and mitigation plans. In 2012, Grand County Commissioners approved a 1041 permit that outlines several environmental enhancements including additional water supply for the Middle Park Water Conservancy District and more water for stream habitat improvements.

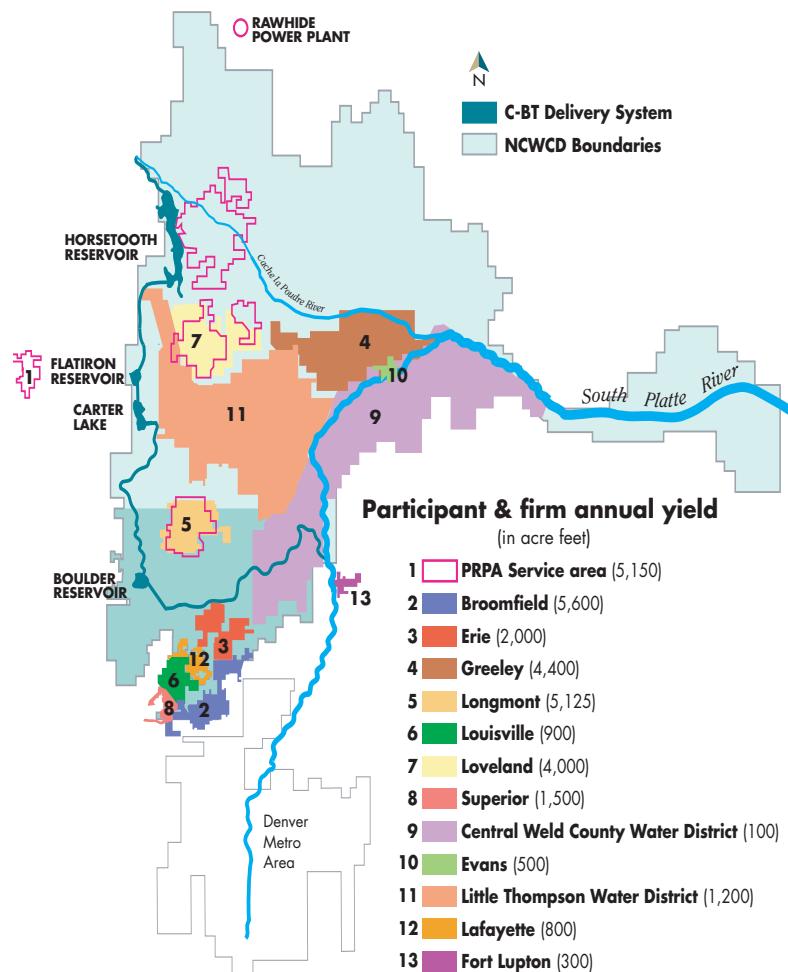
The new carriage contract allows water delivery to the 13 project participants via the Colorado-Big Thompson Project facilities to the proposed Chimney Hollow Reservoir west of Carter Lake for an additional 40-year period. After the project is completed, the Windy Gap Project will provide a reliable supply of more than 26,000 acre-feet of water per year to Northeastern Colorado.

Remaining permitting steps include acquisition of both an Army Corps of Engineers 404 permit and a State Water Quality 401 certification.

If all goes well, Chimney Hollow Reservoir's design phase could be underway by mid 2016 and construction could begin in 2018 or 2019. The project could be completed as early as 2021.

The current cost estimate for the project is \$300 million, however, the Municipal Subdistrict will update this estimate in 2015. The project's 13 participants will bear 100 percent of the project costs.

Windy Gap Firming Project Participant Boundaries



The Windy Gap Firming Project is a collaboration between 12 Northeastern Colorado water providers and the Platte River Power Authority. The project would improve the Windy Gap Project's reliability by constructing a new 90,000-acre-foot storage reservoir for Windy Gap water at Chimney Hollow near Carter Lake. The Municipal Subdistrict is coordinating the Windy Gap Firming Project on behalf of the project's participants.

For the latest news and information on the Windy Gap Firming project, visit chimneyhollow.org.

project updates

NISP moves forward

In 2004, 15 water providers with growing populations joined together to pursue a new water project in Northern Colorado.

The Northern Integrated Supply Project would include construction of Glade Reservoir northwest of Fort Collins, as well as Galeton Reservoir northeast of Greeley.

NISP is currently in the midst of its permitting phase. A supplemental draft to the project's initial environmental impact statement was near completion at the end of 2014, after nearly five years of effort, and that process continues. The U.S. Army Corps of Engineers is the lead federal agency on NISP.

The SDEIS is a detailed examination of five general areas: hydrology, water quality, aquatic resources, riparian and wetlands and geomorphology. Northern Water is confident that any impacts identified by the SDEIS can be mitigated while simultaneously improving the environment.

Despite the lengthy permitting process, NISP's 11 participating cities and towns plus four water districts remain committed to permitting and building both reservoirs. The NISP participants' water needs continue to expand, a reflection of the northern Front Range as the fastest growing region in the state.

NISP would provide 40,000 acre-feet of new water supplies for the region. It would also be an important alternative to the ongoing transfer of water rights from farms to cities, or buy and dry, as the process is sometimes known. It is estimated that more than 60,000 irrigated acres could be dried up if NISP is not built.



Site of the proposed Glade Reservoir.

In addition to ongoing permitting efforts, Northern Water is also developing a plan to mitigate any environmental and water quality issues related to NISP. This will include meeting with the Colorado Parks and Wildlife Commission and developing a fish and wildlife mitigation plan, once the SDEIS is released to the public in 2015.

Construction nears for Granby hydro

Construction is nearing for Northern Water's second hydropower facility, which will be located at Lake Granby. In 2014, Northern Water received a loan from the Colorado Water Conservation Board and also progressed with the project's design and engineering components. Construction is scheduled to begin in 2015.

Northern Water studied a potential hydropower plant at the outlet of Lake Granby for several years. The U.S. Bureau of Reclamation granted Northern Water a preliminary Lease of Power Privilege in September 2011 to pursue permits and to build the Granby Hydropower Project.

The LOPP provides non-federal entities like Northern Water the right to use a Reclamation facility – Lake Granby – to generate hydropower.

To build the power plant, Northern Water received a low-interest 30-year loan through the Colorado Water Conservation Board. The total cost of the project is estimated at \$5.7 million.

Construction is expected to begin in the summer of 2015, including the tunnel penstock and powerhouse. The interior of the plant will be similar to the Trout Hydropower Plant at

Carter Lake, and it will be equipped with two Francis Turbines, provided by Gilbert Gilkes and Gordon, Ltd., London.

When completed in 2016, the Granby plant will produce a maximum of 5 million kilowatt-

hours per year. In comparison, the Trout Hydropower Plant produces 7 to 10 million kilowatt-hours per year.



Site of Granby Hydropower Project.

Mountain Parks Electric, Inc., based in Granby, Colorado, will contract with Northern Water to purchase the hydropower generated at the plant. Mountain Parks provides power to all of Grand and Jackson counties and parts of Summit, Larimer and Routt counties.

Money management

As this 2014 annual report clearly demonstrates, Northern Water is involved in a variety of projects and activities. To manage finances accordingly, Northern Water relies heavily on the framework of business enterprises, which in most cases are focused on a single activity.



Northern Water's headquarters in Berthoud.

Each business activity enterprise comprises its own unique fund to account for revenues, expenses and other financial transactions. In addition, each enterprise fund is managed to ensure that the long-term revenues associated with a specific enterprise sustain that enterprise's long-term activities.

In 2014 Northern Water maintained five enterprise-related funds: Northern Water District, Southern Water Supply Project, Pleasant Valley Pipeline, Northern Integrated Supply Project and Northern Water Hydropower.

Northern Water's Municipal Subdistrict has two enterprises and associated funds for the Windy Gap and Windy Gap Firming projects respectively. The Municipal Subdistrict, which was formed in 1970, is a separate, independent water conservancy district with powers similar to its parent district. These two pages answer the most common questions about our finances: Where does the money come from? Where does it go?

Visit northernwater.org/FinancialReports to view our 2014 Comprehensive Annual Financial Reports, which have detailed information about each enterprise and its respective fund's assets, revenues and expenses. Members of our financial services staff are also available to answer your questions.

Revenues

Northern Water receives about 50 percent of its revenues from property tax collections. These monies, along with annual allotment contract assessments and revenues from service charges, are used to operate and maintain Colorado-Big Thompson Project facilities, and for other activities that conserve and protect Northeastern Colorado's water supplies.

For other operating funds the primary sources of revenue are assessments, which go toward operation and maintenance costs.

For the funds that support the proposed Northern Integrated Supply Project, the Southern Water Supply Project II and Windy Gap Firming Project, each project's participants fund the development costs.

Expenses

Expenses primarily include costs associated with project operations, maintenance, engineering and overhead.

The Northern Water District fund's largest expense is labor. Maintaining the C-BT and other projects requires a great deal of employee time, including operating, maintaining and improving the collection and distribution facilities. The other enterprises reimburse Northern Water for all costs incurred on their behalf.

In addition, Northern Water frequently hires outside firms to conduct engineering and other studies, especially when specific expertise is necessary.

Northern Water also reimburses the U.S. Bureau of Reclamation for a portion of the costs the agency incurs to operate and maintain certain C-BT Project features.

financial highlights

Northern Water enterprises

Northern Water District

Supports the operation and maintenance of the C-BT Project, weather data monitoring, water quality studies, snowpack and streamflow forecasting, water conservation and other activities

Southern Water Supply Project

Supports a 110-mile pipeline and other facilities starting at Carter Lake that serve 12 water providers in the southern and eastern portions of Northern Water's service area

Pleasant Valley Pipeline

Supports a 9-mile pipeline between the Poudre River and Horsetooth Reservoir that serves three water providers in the northern portion of Northern Water's service area

Northern Integrated Supply Project

Supports efforts to permit, design, construct and operate the proposed Glade Reservoir and related facilities to serve 15 participants in Northern Colorado

Northern Water Hydropower

Supports the operation and maintenance of the Robert V. Trout Hydropower Plant at Carter Lake

Revenues

Northern Water District \$32,007,401
Northern Integrated Supply Project \$1,500,058
Southern Water Supply Project \$1,443,915
Pleasant Valley Pipeline \$81,667
Northern Water Hydropower \$481,614

Expenditures

Northern Water District \$25,819,855
Northern Integrated Supply Project \$1,756,998
Southern Water Supply Project \$1,513,056
Pleasant Valley Pipeline \$80,356
Northern Water Hydropower \$371,932



Municipal Subdistrict enterprises

Windy Gap

Supports the operation and maintenance of the Windy Gap Project, which includes a diversion structure on the Colorado River, a pump plant and a 6-mile pipeline to Lake Granby

Windy Gap Firming

Supports efforts to permit, design, construct and operate the proposed Chimney Hollow Reservoir and related facilities to serve 13 participants in Northern Colorado

Revenues

Windy Gap \$14,024,171
Windy Gap Firming \$2,004,202

Expenditures

Windy Gap \$5,212,548
Windy Gap Firming \$2,078,999





220 Water Ave.
Berthoud, CO 80513

Address service requested

Water Collection and Distribution Systems

