

# Overland Ditch and Reservoir Company

## President's Annual Review

December 26, 2010

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Dear Shareholders,

**Please note the annual meeting date will be Monday February 7, 2010, 7pm at the Redlands Grange Hall. The meeting date was moved up by a week as a result of an immovable personal schedule conflict. I appreciate the consideration of the board and the shareholders for the accommodation**

I have been on the board for some years now, and by all accounts, we had very good water run for the 2010 season. Given the irregularities of the dry, cold fall and the delayed spring weather, the company experienced no major lost water days, no significant maintenance disasters, and concluded the fall work with the ditch in good shape. Several shareholders this year made inquiries about the possibility of reducing the ditch flow and extending the water run a little longer. In order to function efficiently, the distribution system on Redlands Mesa requires minimum input flows of 40-43 cfs measured at the Leroux Creek (LC) measuring station. Below this number, the distribution boxes become inefficient, water measurement is inaccurate, and the small splits of water get eaten up by evaporative and shrinkage losses. Many of the modern farming irrigation systems you see around Redlands Mesa require certain pressures to work optimally. The length of the water run is also highly dependent on the availability of early basin snow pack, timing of reservoir filling, timing of the start of the reservoir draw down (later the better), and to a lesser extent the presence or absence of summer rain events that may augment additional ditch flows. Until such time as we have more reservoir storage, or can predict the weather with greater accuracy...it is unlikely this situation will change. The satellite flow data kept by the State Engineer for the last several years, reveal that our target flows were consistent with prior years. Getting the water down in the early spring is very important, but remains a huge juggling act that is largely controlled by the weather and motorized access to the lower portions of the upper ditch. At our last meeting, the board and the management team agreed to focus extra time and effort on this issue for the upcoming 2011 season.

In other news, the company has made special efforts this year to cooperate with our State Water Commissioners Steve Tuck and Paul Schmucker. Water issues, by their very nature are contentious. There is never universal agreement. In recent conversations with these two water professionals, they stated this was one of the more "pleasant" years with the company that they could remember. We agree. We like these guys and they do a terrific job for the water community. Say so when you see them.

The overall success of our water run this year was due to a good snow year, solid work by our ditch riders Bob Church (manager) and Bill Stahl, and a committed board of directors. Bob has been with the company in one capacity or another for more than 10 years. Bill is now in his 3<sup>rd</sup> year. These fellows have done a good service for your company. Say so when you see them.

### ***Reservoir Maintenance:***

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The Overland is in full compliance with the State Engineer Dam Inspector's Office for the coming year. Bruce Marvin (company engineer) is compiling an "Emergency Action Plan" for the State Engineer which should be completed this spring. The road surface on the auxiliary damn requires some work. The outlet works, including the two hydraulic gate valves and the discharge pipe were visually inspected this year and found to be in compliance with State standards.

### ***Ditch Maintenance:***

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The combination of unstable soils, falling timber, vegetative in-growth, and spring ice, guarantees that maintenance on the 28 mile long upper ditch is never-ending. The routine fall maintenance this year included a more vigorous effort at controlling willows and tree growth on the ditch bank. Vegetation control included mowing and hand spraying willows on the lower ditch (LC exchange to the point of Redlands Mesa). A small excavator was hired to remove several miles of Aspen and willow in-growth on the lower portion of the upper ditch. Our usual fall cleaning was completed this fall without incident and with the exception of the item described below; the ditch is in very good shape.

**We have one serious ditch stability issue.** For years, the company has struggled with a very unstable section of ditch at about the 12 mile marker just past "Windy Point". The soils are wet on both sides of the ditch, unstable, and slide every year. Each year we repair the cracks and hope to get through another season without a disaster. This year in the spring we were greeted with an 8 foot vertical crack on the ditch bank service road in this same area. It was significant enough that an ATV could not crawl over the crack. We made early repairs and crossed our fingers that the repair would hold for the summer. Recognizing that a more permanent repair was required, the board agreed to hire the professional engineering firm of Applegate Engineering to do an analysis and engineering report on possible repair strategies. That report was completed in November. The final recommendations included installing active "French" style drains on the lower ditch bank to drain the subsoil water away. In addition, the lower bank geometry needs to be restored by removing and re-contouring the soil in that area. Preliminary costs from two sources are in the area of \$40,000-\$45,000. With the help of Rebecca Nichols (RHN water consultants) the company has applied for a Bureau of Reclamation (BOR) grant in the hopes of securing 50% financing for the project. We expect to repair this in the fall of 2011.

**Other repairs** this year have included concrete reinforcement of the support pillars of the LC cross over flume. These foundations were partially washed away in the Karl-Smith reservoir breach some years ago. We also took the opportunity to do some concrete work on the Cow Creek diversion box at the exchange. The access road to the flume and the Cow Creek Diversion Box was improved in order to get concrete truck access. The flume itself is sound.

### ***Water Decree Management:***

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- **Storage Decrees:** The water court actions last year have made the 1918, 1920, 1954 storage decrees "absolute" in the amount of 7170 Acre Feet. Since the Overland reservoir currently can only store 6200 AF, we lack 970 AF of storage to fulfill these decrees. Every 10 years the State Engineer (SE) looks at these storage decrees and

determines whether the owner has made positive efforts to secure storage of the water. In the event that the owner has made no authentic efforts to do so, the SE has the right to declare the water right “abandoned” and take the water from the owner. This process is technically difficult and not likely to happen to the Overland during the next review cycle. It is important to remind the shareholders that we are on a time clock and, if at some point, we don’t store this water, we will lose the 970AF.

- **Call Management:** Although the Overland has very senior water rights on our upper ditch, we don’t have them all. Every year these senior owners “call” their rights and the Overland has to turn out water that is normally captured by our ditch to its rightful owners. Historically, the Overland installed culverts (known as “undershots” in the water world) under the ditch to transport water from these tributaries into their natural drainage when the water was called. There are more than 19 of these structures on the upper ditch. Over the years, as these culverts plugged up or rusted out, they ceased to function properly. A few years ago the Overland was given the choice by the Water Commissioner to either rebuild these structures or consider other strategies to measure and deliver this water. The board looked at rebuilding costs and decided they were too costly. Working with Steve Tuck, a management plan was developed that allowed the Water Commissioner to estimate these flows on a twice weekly basis and then deliver that water to established head gates at either West Hubbard Creek, or West Terror Creek, depending on the call. This allowed the company to maintain two head gates instead of repairing or rebuilding several of the aging undershots. The company has been using this strategy now for two years and the general opinion of all concerned is that this arrangement is working well. Despite a few technical complaints about the process, I personally think it works well and has saved the company an enormous amount of time and maintenance money.

### ***Financial Health:***

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The Company is in good financial shape. Our expenses have been consistent with prior years and remain overall, under budget. Deb Christner has done a terrific job this year to get our books and budget in computerized format such that the board can make easy and quick decisions regarding money at our monthly meetings. If you see her, say thank you!

The company currently has two loans outstanding from the 1987 project:

|              |                         |                           |                  |
|--------------|-------------------------|---------------------------|------------------|
| CWCB C153307 | Balance Due - \$531,982 | Annual Payment - \$32,506 | Maturity 12/2030 |
| CWCB C153527 | Balance Due - \$227,860 | Annual Payment \$35,255   | Maturity 6/2018  |

Currently \$10.00 of your assessment is used to service this debt. Note that in the summer of 2018 one loan will be extinguished and the cost will drop to \$6.85 per share until December of 2030. Currently about 60% of your bill is devoted to servicing debt.

## ***Reservoir Expansion:***

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The reservoir expansion project continues to be stalled in the permitting phase. The US Forest Service has not yet granted a “special use permit” to the company in order to start our environmental analysis of the project. The sticking points are many..but the primary issue is the presence of a special type of wetlands call FENS in our reservoir basin. FENS has the look and smell of peat moss, is allegedly over a 1000 years old, and requires a specific scientific analysis to define its presence. There are hundreds, if not a few thousand acres of this type of wetland on the Grand Mesa. We have about 2800 square feet (0.06 acres) of this wetlands that will be impacted in our proposed project. Currently all projects, including ours, have been halted until the government agencies figure out what to do with it. The permitting agencies involved are the US Forrest Service, Corps of Engineers (Department of the Army), Environmental Protection Agency, and the Fish and Wildlife Service. The far the EPA has considered this wetland ancient and irreplaceable and has dominated the debate at this time. There are some signs that an agreement will be reached in the spring that might allow the Overland to proceed with some environmental studies. Our permit application is now 7 years old. The delays are frustrating have resulted in higher construction and planning costs, and have prevented the company from acquiring the necessary information to make a good decision about the future of the project. The good news is that the company has all the necessary professional consultants in place and can proceed fairly quickly with the environmental and engineering data analysis should a permit be forthcoming.

For the moment, the company still has access to low interest loan funds from the CWCB for these early studies should we get permitted. It’s important for the shareholders to understand that proceeding with this early planning and spending some money for the environmental studies does NOT mean that we are committed to doing the expansion project. Most water professionals that I talk to are astounded that our small company has the ability to store additional water and most recommend that we should purse the project at most any cost. I remind them that the Overland is a small company that, unlike a municipality or a conservation district (Fire Mountain Canal for example), has no “taxing” authority other than the ability to reach ask shareholders to reach into their pockets for the money. That has a finite limit. There is an optimal cost/benefit ratio that is yet to be defined for this project because we are lacking some good data. I am an enthusiastic supporter of the expansion until such time as we can figure that out. Let’s hope we get a chance in 2011.

We are going into 2011 in very good shape. There are 3 board positions open for election at the annual meeting. These include the currents seats of David Kuntz, Bryan Klaseen, and Philip Ceriani. It has been my pleasure to serve as your President for the last year. Managing water is certainly interesting on a good day, and time consuming and contentious on a bad day. I’m happy to report we’ve had mostly good days this last year thanks to a good board and water management team.

Sincerely,  
Philip Ceriani, President