August 1, 2014

Governor Peter Shumlin
Pavilion Building
109 State St
Montpelier, Vermont 05609-0101

Governor Shumlin,

In the interest of an orderly, productive state energy development process, utility projects are brought before the Public Service Board to request a Certificate of Public Good (CPG). These CPGs must only be granted when earned by meeting a variety of requirements defined in statute and rule. Currently, GazMetro/Vermont Gas Systems (GM/VGS) has an application before the PSB requesting a CPG for Phase 2 of the Addison Natural Gas Project, which would create a spur pipeline to International Paper in Ticonderoga, New York.

This letter is intended to recap the issues we've brought to you over the last 18 months, and we appeal to your administration, the Department of Public Service, and the Public Service Board as the certifiers and regulators of public utilities to conduct a thorough examination of these concerns. The Public Service Board process must be fact-based and non-political. Its decision will be only as good as the information it receives. The citizens of our state, and especially those of Cornwall and Shoreham, need to know that the right questions are being asked and answered well.

We appreciate the time you and your senior staff have spent with us discussing these issues, which are very much on our constituents' minds. Commissioner Recchia in particular has been responsive to our requests. We remain committed to working with you and your staff toward solutions.

At this point, we as legislators, dedicated to ensuring that all state projects are subject to a fair, comprehensive review, *must urge that no CPG for Phase 2 be issued unless and until the state provides clear and convincing answers to the serious concerns we raise below*, all of which are based in the CPG review process.

1. <u>Constitutional Issues</u>. An earlier letter (6/18/2014) from Senator Bray presented legal issues around determining the public good, especially as measured by the extremely limited "public use" of a pipeline that delivers 99% of its product not to Vermonters, but to a single, private, out-of-state customer. If the project cannot pass this test of constitutionality, the remainder of the issues we raise need not be addressed, as the project *must* be denied a CPG.

   Should the PSB decide to grant a CPG notwithstanding this use question, it ought not to include any right to eminent domain.

2. <u>Climate Change Impacts</u>. A life cycle analysis done for Phase 1 of the pipeline was difficult to interpret because the parties used different assumptions in their calculations. Both sides had biases in favor of their positions. Here, where the pipeline is to be built, interested citizens—advocates and opponents alike—are having trouble drawing reasonable conclusions from this analysis.

   For example, on one side, the gas industry has spent decades telling the public that "gas is clean," and it has recently adjusted this message to respond to climate change concerns. On the other side, opponents have pointed out that methane leakage attributable to natural gas production, delivery and use has an outsized effect upon greenhouse gas impacts and that any investments in fossil fuel infrastructure will worsen climate change. We ask that the analysis done for the International Paper line be more accurate and informative, and we look forward to Public Service Board interrogations during the week of October 6.

3. <u>Cost Benefit Analysis</u>. The term itself assumes that those paying the cost will also reap the benefits. The International Paper spur produces a massive income benefit for one international corporation (GM/VGS) and massive cost saving benefit for another (International Paper). The costs, on the other hand, are paid by the towns and landowners of Cornwall and Shoreham required to host the pipeline. Given this uneven and disproportionate distribution of costs and benefits, we have difficulty in seeing a "public benefit" that merits awarding a CPG.

4. Reliability of the Application's Economic Analysis. The recent Phase I cost overrun of over $35.6 million is staggering—double that of the 20% threshold set by Rule 5.409 that requires PSB notification. Even ardent project supporters must take a step back and ask some questions. We ask that the Department do a rigorous inspection and analysis of the Phase 1 overruns, and then apply what it learns to evaluating the proposed budget for Phase 2. For example, if—and this is clearly now a reasonable hypothetical—the Phase 2 budget were increased by 40%, would the project still be financially viable? Or might we be saddling all current and future GM/VGS ratepayers with decades of higher costs to pay for a project that's an economic loser?

5. Alternative Financing. GM/VGS has advocated for the International Paper spur line by touting its benefit of helping pay for future expansion to Rutland. We fully understand that Rutland could benefit from having access to natural gas. We are not convinced, however, that the International Paper spur is required to make that expansion a reality or even to accelerate it.

   When the PSB approved GM/VGS's 2011 Expansion and Reliability Fund, which raises $125 million for pipeline construction, there was no expectation at that time of building a lateral line to International Paper. The PSB must have concluded that the $125 million dollar fund was a prudent and effective means of supporting expansion. What has changed that undermines that earlier analysis? If that earlier analysis was sound, then Phase 2 cannot now be characterized as essential for getting to Rutland. Even after withdrawals from the Fund are made for Phase 1, there remains a $70 million dollar balance to support further expansion. Is this not adequate?

   GM/VGS's argument that providing gas to Rutland can only be achieved by running a line to Ticonderoga must be viewed with a healthy degree of skepticism. We have asked for an outline of funding and route alternatives to get to Rutland without the IP spur, and we have not been provided with any real work product to date.

   Further, GM/VGS has made representations that Phase 2 contributes $45 million toward reaching Rutland. After subtracting the 35.6 million dollar cost overrun in Phase 1, have we now reduced the total net financial benefit of Phase 2 to only $9 million? Or will current GM/VGS ratepayers in Chittenden and Franklin Counties pick up the 35.6 million dollar tab—on top of the Expansion Fund surcharge they are already paying?

   The source and availability of project funds seems ill-defined, self-serving, and subjective, rather than clearly defined, public-minded, and objective.

6. Alternative Technologies. In the period since the original Phase 2 CPG application was made, cold climate air-source heat pumps have made significant efficiency gains. To-date, the DPS and PSB analysis of natural gas's benefits has focused on fuel swapping (i.e. natural gas as a replacement for oil or propane). Efficiency Vermont's recent analysis of various fuel types shows such heat pumps provide heat at virtually the same cost as natural gas, but without the sort of 70-year NG pipeline infrastructure investment that may produce massive stranded costs within a decade or two. Has the DPS updated its analysis to reflect the life cycle costs of this emerging technology, and if so, does it alter its conclusions?

7. Natural Gas as a Bridge Fuel. In this project, the concept of natural gas as a "bridge fuel,"which has been espoused in the Comprehensive Energy Plan, has no basis, as the bridge characterization is generally only arguable when replacing coal-fired generation with gas-fired generation while simultaneously building greater renewable base load capacity. This project is not a generation project, however; it's a thermal residential and commercial project. Because of this, Phases 1 and 2 represent not the development of a bridge fuel to move us forward, but more accurately a monumental, 200 million dollar commitment—paid for largely by Vermonters—*to remain where we are*, consuming fossil fuels. Because the pipeline's anticipated working lifespan is 70 years or more, we can expect that natural gas will flow through the pipe until late in this century. While we recognize that GM/VGS provides weatherization to its customers, the proposal, as currently constructed, makes no progress in building a more sustainable energy future for Vermont.

We look forward to a vigorous, public examination by the administration, the Department of Public Service, and the Public Service Board of the issues we have laid out. These questions are crucial in and of themselves; the process whereby they are examined is also under scrutiny, and if they are not fully addressed, we are concerned that public confidence in the Certificate of Public Good process will be seriously eroded.

We thank you for your time and consideration.

Sincerely yours,

Senator Claire Ayer | Senator Christopher Bray | Representative Willem Jewett

CC: Commissioner Chris Recchia, Vermont Department of Public Service
Ms. Susan Hudson, Vermont Public Service Board (dockets 8180 and 7970)