



April 17, 2015

Via Hand Delivery and Email

Susan M. Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, VT 05620-2701

Re: Docket Nos. 7970 and 8180: Quarterly Cost Estimate Update

Dear Mrs. Hudson:

On behalf of Vermont Gas Systems, Inc., this submission provides the Quarterly Cost Estimate Update for Phase 1 (Docket No. 7970) and Phase 2 (Docket No. 8180) of the Addison Rutland Natural Gas Project.

Phase 1

The Quarterly Cost Estimate Update for Phase 1 contains the most recent assessment of the current cost forecast as well as a summary of the costs incurred to date. Consistent with the Company's commitment to monitor project costs, the various cost categories have been reviewed and updated to reflect current expectations. After this review, the Company's overall cost estimate for Phase 1 remains at \$154 million, with certain cost categories decreasing and others increasing. Changes in cost categories and other highlights of the Quarterly Cost Estimate Update for Phase 1 are provided below:

- Savings are anticipated in several areas: environmental, procurement, right-of-way, and construction.
- Project management costs are anticipated to increase above the January update because:
 - 1) Previously projected economies of scale assumed concurrent work on Phases 1 and 2 that will not occur due to the cancellation of Phase 2;
 - 2) The extension of the planned project completion date into fall 2016 will require a longer period of project management support; and
 - 3) Additional project management resources will be needed to support regulatory proceedings.
- Contingency is projected to be drawn by approximately \$850,000. This represents about six percent of the budgeted contingency.

- Project costs incurred through March 31, 2015, reflect actuals and accruals. Prior reporting of “Project Costs Incurred” was based on processed invoices. In today’s update the Company estimates an accrual for work performed but not yet invoiced.

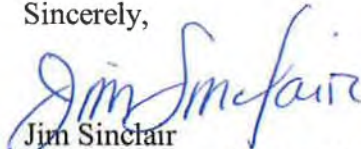
As part of our project management activities, we will continue to monitor project costs on an on-going basis.

Phase 2

As the Board is aware, on February 10, 2015, Vermont Gas filed a request to withdraw its Phase 2 Petition. Accordingly, with this quarterly cost estimate update we are not providing a current forecast for Phase 2. For the Board’s information, Phase 2 costs including actuals and accruals through March 31, 2015, are \$9.5 million. Phase 2 costs include payment of invoices for work performed prior to December 31, 2014, project work performed in 2015 prior to termination of the Facilities Development Agreement with International Paper, and expenses related to closing down Phase 2.

We certify that we have by first-class mail served two copies of this filing on the Public Service Department and one copy to each other party listed on the attached service list. We have also provided a copy of this mailing to each of the parties by electronic transmittal.

Sincerely,


Jim Sinclair
Vice President, System Expansion

cc: Docket 7970 Service List
Docket 8180 Service List



April 2015 Phase 1 Quarterly Cost Estimate Update

Activity	Budget Baseline (A)	Forecast Adjustments (B)	Current Forecast (C) = (A+B)	Project Cost Incurred through 3/31/15
Project Management	\$ 7,245,606	\$ 4,650,000	\$ 11,895,606	\$ 8,689,252
Engineering and Design	\$ 4,019,136	\$ -	\$ 4,019,136	\$ 3,451,424
Permitting	\$ 4,577,123	\$ -	\$ 4,577,123	\$ 3,393,972
Environmental	\$ 2,025,640	\$ (310,000)	\$ 1,715,640	\$ 1,455,015
Procurement	\$ 16,265,381	\$ (1,700,000)	\$ 14,565,381	\$ 10,937,509
Right of Way	\$ 12,203,771	\$ (740,000)	\$ 11,463,771	\$ 7,530,040
Construction	\$ 76,417,509	\$ (1,050,000)	\$ 75,367,509	\$ 20,385,613
VGS Overhead	\$ 15,640,000	\$ -	\$ 15,640,000	\$ 5,612,981
Project Forecast	\$ 138,394,166	\$ 850,000	\$ 139,244,166	n/a
Contingency	\$ 15,216,167	\$ (850,000)	\$ 14,366,167	n/a
Total With Contingency	\$ 153,610,333	\$ -	\$ 153,610,333	\$ 61,455,805

- **Project Costs Incurred through 3/31/15:** Reflects actuals and accruals. Prior reporting was based on processed invoices. In this update the Company estimates an accrual for work performed but not yet invoiced.
- **Project Management:** The following factors impacted the actual and anticipated Project Management costs:
 - Previously projected economies of scale, for concurrent work on Phases 1 and 2, will not be available.
 - The schedule completion date of fall 2016 extends the duration and adds scope over which Project Management Support is needed.
 - Regulatory proceedings, including the remand have resulted in scope change.
- **Environmental:** Analysis of Environmental services identified anticipated lower costs compared to budget.
- **Procurement:** Analysis of the Procurement budget upon completion of major material purchases identified an anticipated lower costs compared to budget.
- **Right of Way:** Analysis of ROW services identified anticipated lower costs compared to budget.
- **Construction:** Analysis of construction services identified anticipated lower costs compared to budget.
- **Contingency:** Forecasting adjustments are reflected as adjustments to contingency.