



June 21, 2016

Judith C. Whitney, Clerk
Vermont Public Service Board
112 State Street
Montpelier, VT 05620-2701

Re: Docket No. 7970 –Updated Cost Estimate

Dear Ms. Whitney:

Vermont Gas will file our regular quarterly cost update for the Addison Natural Gas Project in July 2016, in accordance with our existing schedule for these filings. Since our last filing in April 2016, however, we have undertaken significant construction planning, contracting and field activities, which have prompted us to revise our cost estimate for the Project upward. This letter serves as an interim update on construction progress and changes to our Project cost estimate.

The Company plans to complete the Project in late 2016, as previously projected. We have made progress, on schedule, in finalizing pre-construction work and beginning mainline construction. Work includes:

- Pre-construction activities: We continue pre-construction activities such as tree clearing, probing and low-impact rock drilling and blasting in Monkton and New Haven in preparation for the mainline contractor.
- Horizontal Directional Drills: We have completed and executed final contracts to complete the Project's horizontal directional drills (HDDs) this year, including for additional HDD support services.
- Mainline construction: Almost 200 contractor personnel and inspectors, began working along Vermont Route 2A in Williston and St. George earlier this month.
- Communication: We continue to work closely with state and local officials along the route to share information and our construction plans.
- Eminent Domain: We are continuing our efforts to complete the two remaining eminent domain petitions currently working their way through the regulatory process.
- Disruptions: We have encountered two events during which groups and individuals have attempted to interfere with our construction activities, on June 6th and again on June 9th. We have worked closely with state and local law enforcement. All have committed significant resources to ensure that these events are managed safely and appropriately. Both of these events concluded safely for everyone involved.

Our planning, final contracting, and intensive fieldwork over the past 60 days have identified several challenges that impact our forecast and budget for the Project's completion. These are consistent with risk areas that we have previously outlined. They include:

- Rock and Ledge: We have discovered through our probing significantly more rock and ledge in the remaining corridor than previously anticipated. This has and will require additional low-impact rock drilling and blasting, increasing construction costs.
- HDD Support: Working with our contractor, we have concluded that additional construction support for remaining HDDs will be necessary and appropriate to complete the drills, increasing construction costs.
- Mainline Construction: We have made forecast adjustments to reflect practical field challenges to maintaining optimal construction execution efficiency in the mainline construction work along the Project route.
- ROW Costs: We have now completed agreements with all but two landowners along the route. We have continued to experience higher than expected costs in reaching these agreements. We have modified our construction plans in the expectation that we will not have access to the final two parcels by our original June 2016 schedule; instead we have planned for our pre-construction and mainline contractors to "skip" these parcels and return to complete construction on them later in the construction season. These skips have resulted in higher construction costs.

With these challenges in mind, we have completed a Project cost estimate review and risk assessment that has increased our forecast to complete the project and total cost estimate including appropriate contingency. We currently forecast the project cost to be approximately \$160 million, with an additional contingency of approximately \$5.6 million, for a total revised budget to complete the project of \$165.6 million. This revised total budget represents an approximately 7.8% adjustment.

As a result of the October 2015 Memorandum of Understanding ("MOU") with the Department of Public Service, this change in project cost will not be borne by Vermont Gas customers, with the limited exceptions set forth in the MOU. For example, to date we have incurred approximately \$225,000 in costs related to unreasonable interference with construction. In this forecast, we have also estimated that we will incur approximately \$300,000 associated with our modified construction plans to "skip" the two remaining right of way parcels currently in the eminent domain process. The cost recovery cap of \$134 million in the MOU ensures that customers are protected from nearly all of the impacts of this cost estimate increase.

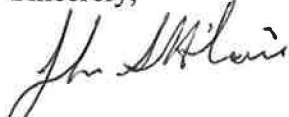
The Company remains focused on an efficient, safe and productive construction season. We have several months of active construction activity in front of us, with attendant risks and uncertainties. For example, extended delay in obtaining access to the final right of way parcels, beyond early Fall, would adversely impact the Project's schedule and add additional costs. The potential for continued unlawful interference with construction activities presents significant cost and schedule risk. We have thus far minimized the potential impact of this risk with significant planning, extensive deployment of VGS employees, retaining appropriate expert outside resources and excellent work of state and local law enforcement. Finally, our project

management team will continue to monitor, manage and mitigate construction execution and field risks attending a project of this scale and scope.

We have provided two copies of this filing to the Public Service Department and one copy to each party on the service list.

Thank you for the opportunity to share this update. We will keep you apprised of our progress as work continues.

Sincerely,

A handwritten signature in dark ink, appearing to read "John St. Hilaire". The signature is fluid and cursive, with the first name "John" being more prominent.

John St. Hilaire
Vice President, Operations

CC: Docket No. 7970 Service List