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## Permission for natural gas expansion fund granted

By [Thatcher Moats](#)

VERMONT PRESS BUREAU

MONTPELIER — Plans to expand Vermont's natural gas system took a step forward last Friday when state energy regulators narrowly approved a controversial method for funding the build-out of new pipelines that could eventually carry natural gas into Addison County.

The state's Public Service Board, in a 2-1 decision, said Vermont Gas Systems could take \$4.4 million annually from its existing customers and put it in an "expansion fund." The fund is designed to help pay for the extension of the company's gas network from northwestern Vermont south into Vergennes and Middlebury.

Vermont Gas, owned by Canada-based Gaz Metro, hopes to someday expand the natural gas network into Rutland County and connect to the national system near Lake George, N.Y.

The gas line expansion project, estimated to cost \$60 to \$70 million, is not close to being built. Vermont Gas hasn't yet filed a permit application with the Public Service Board, so the board's decision last week was limited to the expansion fund.

But the board's approval of the fund is a key development, state officials said.

"It's an important step because with this expansion fund, Vermont Gas will enter into the planning and engineering phase, so they can bring to the Public Service Board a fully vetted technical plan to expand the gas infrastructure south, and we expect that will occur over the next year-and-a-half," said Elizabeth Miller, the commissioner of the Department of Public Service.

The Public Service Board, a three-member panel that regulates energy companies, was divided on the Vermont Gas funding proposal, which was originally filed in February.

Two board members voted for it, arguing that the expansion of natural gas could help Vermont economically.

"Such expansion could greatly benefit businesses and residential consumers that currently have no natural gas service available to them by introducing a new lower-cost, and lower-carbon, fuel source," wrote James Volz and David Coen.

Volz and Coen said approving the expansion fund greatly increases the likelihood the project will succeed where other attempts to expand the gas network have failed.

"The Expansion Fund mechanism may also represent one of the best means to achieve the state's goal of expanded natural gas service," they wrote.

But one board member, John Burke, voted against the plan and wrote a dissenting opinion.

Burke said ratepayers in northwestern Vermont shouldn't have to pony up what amounts to venture capital that Vermont Gas should get from other sources.

"I agree that these statewide benefits may be important and I would encourage the Legislature to consider a method to subsidize this ..." Burke wrote. "However, asking existing ratepayers in Franklin and Chittenden Counties to underwrite this statewide benefit is unfair and, in my estimation, improper."

Vermont Gas' 45,000 customers will pay approximately 5 percent more annually as a result of the board's decision.

If the project happens, Vermont Gas plans to use the fund to "smooth rates" so there is less upward pressure on rates as a result of the project.

Burke added that Gaz Metro, a major company that owns Green Mountain Power and just agreed to buy Vermont's largest electric utility, Central Vermont Public Service, appears to be in a position to fund the project. Burke highlights the \$2 billion in gross revenue, \$159 million in net income, and \$425 million in operating cash flow that Gaz Metro showed in its 2009 annual report.

"I am puzzled that the majority is apparently under the impression that (Vermont Gas Systems) is not in a position to contribute the necessary investment capital needed to meet the planning and development costs of the project," Burke wrote.

Steve Wark, a spokesman for Vermont Gas, said it's fair to ask ratepayers to pay for the expansion fund because they are going to be paying for the project through higher rates regardless.

"Ratepayers ultimately will pay for all parts of the system," he said.

The two board members who approved the proposal made the same argument, saying Burke missed a "fundamental point .... Over time, ratepayers will pay all the prudently incurred costs associated with the construction project ..." they wrote. "The Expansion Fund does nothing to alter that reality: it simply would change the timing of those payments in a manner which would make the potential for expansion more likely and feasible, thereby creating the potential for broader benefits."

The Shumlin administration supports the concept of growing the state's natural gas network because of the economic and environmental benefits it could have for businesses and residents, said Miller.

The department supported using ratepayer money to help fund the expansion because there was precedent for it in earlier build-outs of the system, and current ratepayers could benefit from reliability and capacity upgrades to the system made during the expansion, she said.

Until it sees a specific proposal, Miller said it won't be clear whether the administration supports Vermont Gas' plan to expand south to Addison County.

The Vermont Fuel Dealers Association, which represents heating fuel and propane businesses that compete with Vermont Gas, opposes the funding mechanism because it argues that its members don't have the luxury of extracting money from customers to fund expansions.

If a heating oil dealer tried to raise rates to fund an expansion, customers would switch to a

new dealer, said Matt Cota, executive director of the association. Vermont Gas can get away with it because it has a monopoly on the Vermont market, Cota said.

“It further illustrates the competitive disadvantage family-owned heating fuel companies have when they go up against a corporate giant like Gaz Metro,” said Cota.

Wark said Vermont Gas will hire another engineer and start creating a preliminary design. The company will also begin the “stakeholder process,” reaching out to elected officials, businesses and other community members in Addison County to discuss the project.

A route for the southbound pipeline — which will be underground — hasn’t been determined, said Wark, though early talks have focused on VELCO’s existing electric transmission route and the Route 7 corridor.

Wark said the preliminary design and stakeholder process should be done within six to eight months.

Wark said the company is still “several years out until we’re into actual construction.”

[thatcher.moats@timesargus.com](mailto:thatcher.moats@timesargus.com)

[thatcher.moats@rutlandherald.com](mailto:thatcher.moats@rutlandherald.com)

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