

# Vermont Gas project can tap rate revenues

## Pipeline proposal set for engineering

By JOHN FLOWERS

MIDDLEBURY—The Vermont Public Service Board (PSB) has given Vermont Gas Systems (VGS) permission to use some of its ratepayer revenue to help bankroll a planned expansion of the utility's gas pipeline into Addison County by 2015.

The Sept. 28 PSB order paves the way for VGS to continue planning for an estimated \$60 million to \$70 million project to extend VGS's pipeline from Chittenden County into Vergennes and Middlebury. Company officials said they have already identified around 3,000 potential customers within the two communities whom they claim could save a combined total of \$44 million over 20 years by converting to natural gas, a product they said currently enjoys a 35-percent competitive advantage over fuel oil and even more compared to propane and electricity.

"We are really pleased," VGS Director Steve Wark said on Tuesday of the PSB order. "It allows us to offer another choice to the people of Addison County."

The PSB order allows VGS to create a "System Expansion and Reliability Fund." Instead of passing on future reductions in the wholesale price of natural gas to existing customers, the company will now be able to set aside such money—around \$4.4 million annually—into the new fund that will accrue to help bankroll the project.

Under Vermont Gas's proposal, the money would be returned to ratepayers if the southern expansion does not occur.

Vermont Gas was established in 1965 and currently supplies natural gas to 45,000 clients in Chittenden and Franklin counties. That gas comes from underground in Alberta, Canada and is taken cross-country through the TransCanada Pipeline to Vermont Gas's main pipeline entry point at Highgate. There, it enters a network of 678 miles of distribution pipe and 70 miles of transmission pipe to serve the company's client base of homes, businesses and industries.

Gaz Métro of Montréal, Québec owns Northern New England Energy Corporation, which in turn owns VGS. Gaz Métro is Quebec's largest natural gas company. Gas Metro also owns Green Mountain Power and is on the verge of acquiring Central Vermont Public Service Corp.

Vermont Gas officials have, for the past several years, been looking to extend the pipeline into Addison County and possibly even further south through Rutland County, to connect with the U.S. gas pipeline system near St. George, N.Y.

But expansion south from Burlington will be costly, not to mention fraught with permitting hurdles. The pipeline path will need to either travel along Route 7; via the Vermont Electric Power Co. corridor; or a combination of the two, according to company officials.

Wark said VGS will now spend the next six to eight months consulting with its engineers and stakeholders along the potential pipeline route(s) to firm up the project before submitting it for the necessary permit reviews. If all goes smoothly, the company said the new pipeline infrastructure could be in place and serving Vergennes and Middlebury customers by 2015.

"It's a big project and we want to get it right," Wark said. "We want to work with the communities to make sure the route makes sense and that the design and size of the

project makes sense."

Members of the local business community praised the PSB's decision. Agri-Mark/Cabot, Porter Medical Center, Vermont Hard Cider Co. and Middlebury College have all indicated an interest in considering natural gas as part of their respective energy consumption portfolios.

"I think it's great news," said Addison County Economic Development Corp. (ACEDC) Executive Director Robin Scheu. "Our board has supported this. I think it will be great to give our businesses options."

Michael Rainville is president of the ACEDC board and founder and co-owner of Maple Landmark on Middlebury's Exchange Street. He said that while the ACEDC board has not adopted a formal position on the VGS project, he believes it would be a welcome addition for the business community.

"My personal thought is that it will create an energy alternative for companies either existing or potential, and that will only be a good thing," Rainville said. "It

would help us be more competitive in the economic arena."

It should be noted that the PSB issued its favorable order by a 2-1 vote. Board member John D. Burke issued a dissenting opinion, stating, among other things, that "... asking existing ratepayers in Franklin and Chittenden counties to underwrite this statewide benefit is unfair and, in my estimation,

improper. In this regard, I want to stress that, under VGS's current financial estimates, the incremental

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— VGS Director Steve Wark

revenue will only cover one-third of the carrying costs of the expansion after 10 years. This means that existing ratepayers will have to directly subsidize the expansion, with no direct benefit."

Burke also expressed skepticism that the contents of the expansion fund would be returned to the ratepayers if the project does not move forward.

Matt Cota, executive director of the Vermont Fuel Dealers Association, agreed with Burke's analysis. He objected to what he says is VGS's status as a "state-sanctioned monopoly utility" that does not have to extend itself financially for major purchases like small-scale fuel oil providers do.

Cota believes VGS should have to take out loans for the project rather than use ratepayer money. He said Gaz Metro's acquisition of Vermont's two biggest electric utilities should demonstrate that the Canadian company is solvent enough to finance the project on its own.

"There is no question who is the David and who is the Goliath in this case," Cota said, adding he feared some of the smaller fuel oil dealers would have a hard time competing against VGS.

VGS President Don Gilbert, who was unavailable at press time, said earlier this year the company had already floated its financing plan in a letter to its 45,000 customers. He said only one customer responded with reservations about re-directing the rate reductions.

Wark said VGS would, in fact, be paying for the project, adding the system expansion and reliability fund will help the company maintain level natural gas rates.

"We all take out loans and finance (a project) one way or another," Wark said. "The costs here are amortized over decades, rather than five years."

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