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December 23, 2015

Susan Hudson, Clerk
Vermont Public Service Board
112 State Street, 4th Floor
Montpelier, VT 05602-2707

HAND DELIVERED

Re: Docket No. 7970

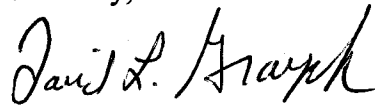
Petition of Vermont Gas Systems, Inc. for a certificate of public good, pursuant to 30 V.S.A. § 248, authorizing the construction of the "Addison Natural Gas Project" consisting of approximately 43 miles of new natural gas transmission pipeline in Chittenden and Addison Counties, approximately 5 miles of New distribution mainlines in Addison County, together with three new gate stations in Williston, New Haven and Middlebury, Vermont

Dear Sue:

Enclosed please find the original and seven (7) copies of the Reply to Direct Briefs on behalf of Nathan and Jane Palmer. A copy will be served to electronic copy recipients upon electronic service with the Board. A copy will be mailed to those attorneys noted below.

Thank you for your assistance.

Sincerely,



David L. Grayck, Esq.

cc: Electronic Service
Louise C. Porter, Esq.
Kimberly K. Hayden, Esq.
Peter H. Zamore, Esq.
Jim Dumont, Esq.
Sandra Levine, Esq.
Richard H. Saudek, Esq.

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7970

Petition of Vermont Gas Systems, Inc. for a)
certificate of public good, pursuant to 30 V.S.A.)
§ 248, authorizing the construction of the)
“Addison Natural Gas Project” consisting of)
approximately 43 miles of new natural gas)
transmission pipeline in Chittenden and)
Addison Counties, approximately 5 miles of)
New distribution mainlines in Addison County,)
together with three new gate stations in)
Williston, New Haven and Middlebury,)
Vermont)

REPLY TO DIRECT BRIEFS BY NATHAN AND JANE PALMER
PROCEDURAL ORDER RE: SUPPLEMENTAL EVIDENTIARY HEARING

Introduction

Nathan and Jane Palmer (Palmer) submit this Reply to Direct Briefs as provided for in the Board’s Order of November 2, 2015 (the “November 2 Order”) in the above referenced matter, as modified at the hearing held on December 9, 2015. The November 2 Order pertains to the submission to the Board by Vermont Gas Systems, Inc. (VGS) and the Department of Public Service (DPS) of a Memorandum of Understanding entered into by and between VGS and DPS on October 7, 2015 (the “MOU”). Because the October 7, 2015 submission of the MOU violated the Board’s rules, VGS subsequently complied with the Board’s rules and filed a motion to admit the MOU on October 15, 2015 (the “VGS Motion”). Based on the evidence, the Board should deny the VGS Motion and conclude that the MOU is a bailout for the sole benefit of VGS’ sole shareholder—Gaz Métro—and, therefore, is irrelevant to the pending Rule 60(b) motions.

Discussion

The memoranda and proposed decision filed, respectively, by VGS and DPS on December 17, 2015 evidence an act of desperation to rescue a failing project by means of an MOU bailout. The MOU is portrayed as a “good deal” but really it foists upon the ratepayers, and the broader Vermont economy, the adverse consequences of VGS’ horrible mismanagement of the project in the context of the historic decline in natural gas prices.¹ In short, the MOU is a bailout clothed as a “good deal.”

If the Board adopts the MOU and adjudicates the project as being used and useful then, apparently, the Board has shielded VGS from potentially multi-million dollar losses in investment on the pipeline project. While there may be future adjudication as to the appropriate investment value (Transcript 12/1/15 42:25-43:16), the MOU will ensure that the project is used and useful, even though it is not fully built or operational. It appears that this is part of the certainty and finality in the CPG process that VGS and DPS believe is warranted, notwithstanding prior Board precedent regarding the risk of investment in utility projects.²

The MOU’s supposed “good deal” is that ratepayer exposure is reduced from \$154 million to \$134 million. But instead of negotiating down from the maximum, the starting place should be that cost recovery is set at \$87 million, the original project cost. Gaz Métro, as the

¹ “Natural gas spot prices hit a 16-year low this week, with the Henry Hub spot price settling at \$1.65 per million British thermal units (MMBtu) on Tuesday, December 15. Futures prices also settled at their lowest level since March 1999, with the near-month contract settling at \$1.790/MMBtu on Wednesday.” U.S. Energy Information Administration, Natural Gas Weekly Update, for the week ending December 18, 2015, <http://www.eia.gov/naturalgas/weekly/>. The Palmers move that the Board take administrative notice of the Update attached to this Reply as the Update meets all the requirements for admissibility under Vermont Rule of Evidence 201, and was not yet in existence when the hearings were held on December 1 and 9, 2015. The Palmers have no objection to the Board taking administrative notice of all subsequently issued Update through the date of the Board’s decision on the pending Rule 60(b) motions.

² See, e.g., *Re: Green Mountain Power*, Docket No. 5983, Fed. 27, 1998 Order, 184 PUR 4th 1; *In re Tariff Filing of Central Vermont Public Service Co.*, Docket 6460, 6/26/01 at p. 23; *Re Central Vermont Public Service Corp.*, Docket 5132, Order entered May 15, 1987.

sole shareholder of VGS, should bear the risk of a project cost above the original cost of \$87 million, not Vermont ratepayers, and certainly not the Vermont economy. This is why the MOU is a bailout.

As a bailout, the MOU has no relevancy to the pending Rule 60(b)(2) and (3) motions. The motions have essentially been pending since the summer. At the October 15, 2015 status conference the Palmers requested that the Board issue its decision on the pending motions without reference to the MOU. The Palmers maintain that the Board should reject the MOU as irrelevant to the pending motions.

In the alternative, if the Board concludes that the MOU is relevant to the pending motions, then the Board must also weigh the issue of safety as it directly pertains to the Palmers, and how safety may be impacted by the MOU. The evidence at the December 9, 2015 hearing (testimony and Exhibit O) was that the first 11 miles of the pipeline were constructed despite repeated warnings that QA controls over welding and other important issues were missing, that VGS' practices resulted in a written notice that pipeline welding violated federal safety regulations, that four sections of pipe were damaged during installation and that by the end of July of 2015 the DPS engineer reported that VGS still had not adopted critical elements of the QA plan. This is of grave concern to the Palmers given that, even with the re-route, the pipeline will be approximately 270 feet from a substantial portion of their property.

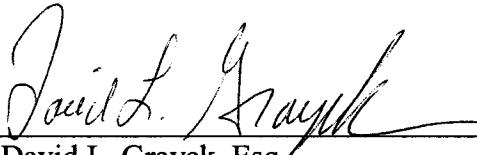
There is no doubt that since the project's original proposal, and the ensuing project cost increases, that VGS has undertaken a series of steps which, in isolation, are portrayed as reasonable, tactical responses to an unforeseen situation or condition. Yet, when the steps are viewed as a whole, they become predetermined steps of a single, overall transaction, aimed at

achieving a specific outcome: rescuing the pipeline project and protecting VGS' sole shareholder--Gaz Métro—from financial risk and actual loss. That is the only purpose of the MOU. Accordingly, the Palmers request that the Board deny the MOU Motion. If the Board insists on considering the MOU as relevant evidence to the pending Rule 60(b) motions, then the Palmers request that the Board find and conclude that the MOU is a bailout at the expense of the rate payers and the Vermont economy.

WHEREFORE Nathan and Jane Palmer request that the Board (i) rule on the pending Rule 60(b) motions based upon the evidence and arguments presented as of August 21, 2015; and (ii) deny the VGS Motion to admit the MOU.³

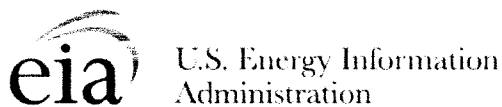
Dated: December 23, 2015.

NATHAN AND JANE PALMER

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³ In addition, the Palmers renew their legal arguments previously filed in this matter, as provided in the November 2 Order at page 5, and repeat, assert, and preserve all objections made at the hearing held on December 1, 2015, and their filing of December 17, 2015. In addition, the Palmers join in, and adopt as their own, the December 17, 2015 filings made by the Vermont Fuel Dealers Association (Post Hearing Memorandum); AARP (Post-Hearing Brief of AARP); Kristin Lyons (Post-Hearing Brief of Kristin Lyons); and the Conservation Law Foundation (Brief Regarding Memorandum of Understanding in Second Remand).



Natural Gas

Natural Gas Weekly Update

for week ending December 18, 2015 | Release Date: December 17, 2015 | **Next Release:** January 7, 2016

In the News:

Natural Gas Prices at 16-Year Low

Natural gas spot prices hit a 16-year low this week, with the Henry Hub spot price settling at \$1.65 per million British thermal units (MMBtu) on Tuesday, December 15. Futures prices also settled at their lowest level since March 1999, with the near-month contract settling at \$1.790/MMBtu on Wednesday.

Although the January contract only fell below \$2/MMBtu this week, prices have been relatively low for several months. Strong production growth and ample storage inventories have contributed to the recent low-price environment; production hit three consecutive records in July, August, and September of this year. Storage inventories topped out at 4,009 billion cubic feet (Bcf) the week ending November 20, 2015.

Warmer-than-normal temperatures since the beginning of November, the start of the heating season, have contributed to lower inventory withdrawals. From October 30 through December 11, storage inventories fell by 85 Bcf. This drop compares to the five-year average decline over this period of 258 Bcf, and to a decline of 253 Bcf last year over this period. In addition to strong production growth and robust inventories, forecasts for a continued warmer-than-normal winter also have contributed to the relatively low futures prices.

The last time the Henry Hub spot price remained below \$2/MMBtu for a sustained period of time was in April 2012. After a warm winter, inventories were at their highest level headed into the injection season. High inventories, combined with production growth at the time, resulted in an average price of \$1.95/MMBtu for the month of April 2012. Much of the surplus of natural gas at the end of the winter heating season was used by the electric power sector during the summer.

Overview:

(For the Week Ending Wednesday, December 16, 2015)

- Natural gas prices are down again at most trading locations for the report week (Wednesday, December 9, through Wednesday, December 16). The Henry Hub spot price began the week at \$2.00/MMBtu last Wednesday and ended at \$1.68/MMBtu yesterday. Prices have not been this low since March 1999.
- At the New York Mercantile Exchange (Nymex), the January Nymex price began at \$2.062/MMBtu last Wednesday and settled at \$1.790/MMBtu yesterday.
- Working natural gas in storage decreased by 34 Bcf, declining to 3,846 Bcf as of Friday, December 11. The net withdrawal from storage resulted in storage levels 16% above a year ago and 9% above the five-year (2010–14) average for this week.
- The total oil and natural gas rig count fell by 28 units this week, with 709 units in service for the week ending Friday, December 11, according to data from Baker Hughes Incorporated. This is the lowest combined oil and natural rig count since September 1999. The oil rig count drove the decline, decreasing by 21 units to 524, and the natural gas rig count decreased by 7 units to 185 units.
- The natural gas plant liquids composite price at Mont Belvieu, Texas, decreased by 6.2% to \$4.56/MMBtu for the week ending Friday, December 11. Natural gas liquids spot prices fell across the board; ethane fell by 7.4%, propane fell by

5.2%, butane fell by 8.9%, isobutane fell by 9.8%, and natural gasoline fell by 3.3%.

Prices/Demand/Supply:

Henry Hub price hits 16-year low. As described in [last week's Natural Gas Weekly Update](#), the Henry Hub price has recently dipped below \$2.00/MMBtu on warm weather, growing supply, and high levels of underground stocks. This week, the price descent continued as the Henry Hub price reached a 16-year low of \$1.65/MMBtu on Tuesday, and closed at \$1.68/MMBtu yesterday. In much of the eastern half of the country, weather for the report period was very mild, exceeding the week's normal average temperatures by 16° or more.

Spot prices down at most trading locations on mild weather. Prices at the Chicago Citygate began the report week at \$2.04/MMBtu and closed the week down at \$1.85/MMBtu. The PG&E Citygate price in Northern California fell from \$2.57/MMBtu last Wednesday to \$2.44/MMBtu yesterday.

Prices remain low in Northeastern locations. New England prices decreased with warmer weather in the region, particularly late last week and over the weekend. Transco Zone 6 NY, serving New York City, fell from \$1.77/MMBtu last Wednesday to \$1.48/MMBtu yesterday, and hit an intra-week low of 90¢/MMBtu on Friday. Tennessee's Zone 4 Marcellus trading point followed a similar pattern; prices began at \$1.07/MMBtu last Wednesday and fell to \$1.04/MMBtu yesterday, hitting an intra-week low of 65¢/MMBtu on Friday. The Algonquin Citygate price, in Boston, increased slightly for the week, beginning at \$1.82/MMBtu last Wednesday and closing at \$1.88/MMBtu yesterday. As with other regional prices, the Algonquin price dipped on Friday, closing at \$1.07/MMBtu. This is the second-lowest the Algonquin price has ever reached; the all-time low was \$0.82/MMBtu on July 2, 2015.

Weather in the Rockies, by contrast, was notably colder for the report period. Prices in the Rockies and the Pacific Northwest generally trended flat or up. The Malin price in southern Oregon increased from \$2.11/MMBtu last Wednesday to \$2.20/MMBtu yesterday. The Opal price in southwest Wyoming increased from \$1.96/MMBtu to \$2.13/MMBtu.

Nymex prices down. At the Nymex, the January contract began at \$2.062/MMBtu last Wednesday and ended the report week down over 27¢, closing at \$1.790/MMBtu yesterday. The 12-month strip, which averages the January 2015 through December 2016 Nymex prices, closed at \$2.184/MMBtu yesterday, 16¢ lower than last week.

Leak at Southern California Gas Co's Aliso Canyon field ongoing. A leak at Southern California Gas Company's Aliso Canyon field is releasing large volumes of natural gas. The company is drilling a relief well and is taking measures to mitigate the leak, but it is expected to take several months for the relief well to be completed.

Supply decreases slightly. According to data from Bentek Energy, natural gas supply this week decreased, driven by a small decline in dry production, and a more substantial decline in U.S. imports of natural gas from Canada. Dry natural gas production fell by 0.3%, or 0.2 Bcf/d, and imports from Canada fell by 13.4%, or 0.7 Bcf/d. The decline in imports was the strongest in the Northeast, which experienced unseasonably warm weather for the report period. Liquefied natural gas sendout remained at minimal levels.

Consumption decreases substantially. U.S. consumption of natural gas decreased by 8.0% compared to the previous report week, led by a decrease in the residential/commercial sector. Residential/commercial consumption fell by 16.4% this week, or 5.4 Bcf/d, as a result of warmer weather, particularly late last week and over the weekend. Consumption in other sectors declined as well; consumption for power generation decreased by 1.6%, and industrial consumption decreased by 3.6%. Exports to Mexico were essentially flat, but are 92% higher than last year at this time. Mexico has been working on pipeline projects to support natural gas-fired generation in the region as part of the country's longer-term energy reform program.

[View this data in a table.](#)

Storage

Net storage withdrawals are smaller than the five-year average and last year's withdrawals. The net withdrawal for the

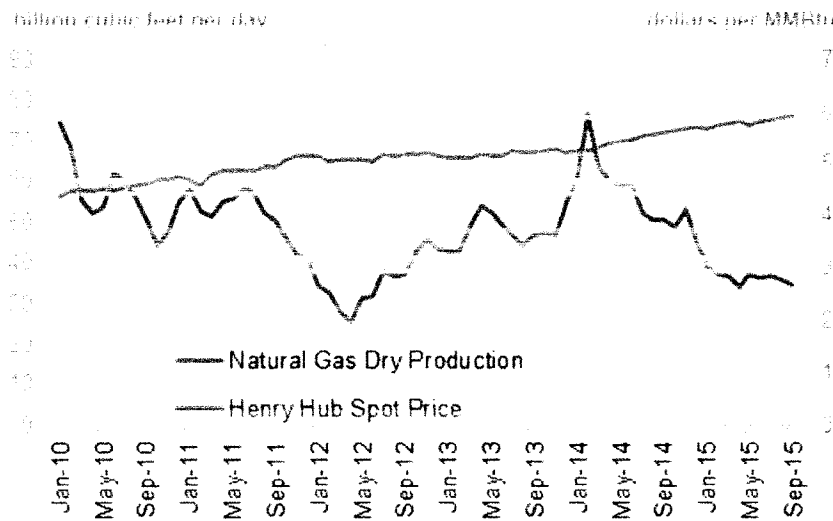
storage week was 34 Bcf compared with the 76 Bcf net storage withdrawal reported the previous week. This withdrawal compares with the five-year (2010–14) average net withdrawal of 120 Bcf for the week and last year's withdrawal of 61 Bcf for the same week. The working natural gas inventory for the storage week ending December 11 totaled 3,846 Bcf, which was 541 Bcf (16%) higher than last year at this time and 322 Bcf (9%) higher than the five-year average for this week.

Storage withdrawals are smaller than market expectations. Market expectations, on average, called for a withdrawal of 41 Bcf for this week. When the EIA storage report was released at 10:30 a.m. on December 17, the January Nymex price fell about 3¢/MMBtu, to about \$1.81/MMBtu and oscillated between \$1.77/MMBtu and \$1.83/MMBtu in the following hour.

Working gas withdrawals are the lowest on record thus far in the 2015-2016 heating season. This week's 34-Bcf withdrawal marked the third smallest net withdrawal reported in December in the history of the WNGSR. The smallest December net withdrawal on record since 2010 totaled 20 Bcf in December 2011. The smallest net withdrawal ever reported in December totaled 11 Bcf in 2006. Since working gas stocks peaked at 4,009 Bcf on November 20, 2015, working gas stocks have declined 163 Bcf, or 54 Bcf/week, which is significantly below the five-year average of about 88 Bcf/week over the same period.

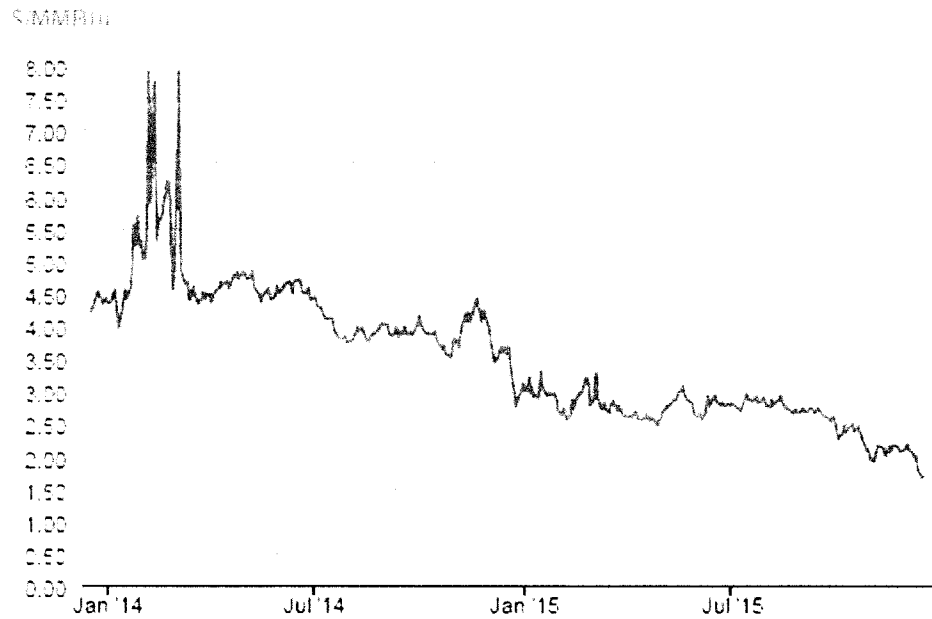
Temperatures during the storage report week are warmer than normal. Temperatures in the Lower 48 states averaged 45° for the storage report week, 7° warmer than the 30-year normal temperature and 3° warmer than the average temperature during the same week last year. There were 139 population-weighted heating degree days (HDD) during this report week, 26 HDD fewer than the five-year average and 23 HDD fewer than during the same period last year.

Natural Gas Dry Production and Henry Hub Spot Prices, January 2010 - September 2015



eia.com © 2015 U.S. Energy Information Administration

Natural gas spot prices (Henry Hub)



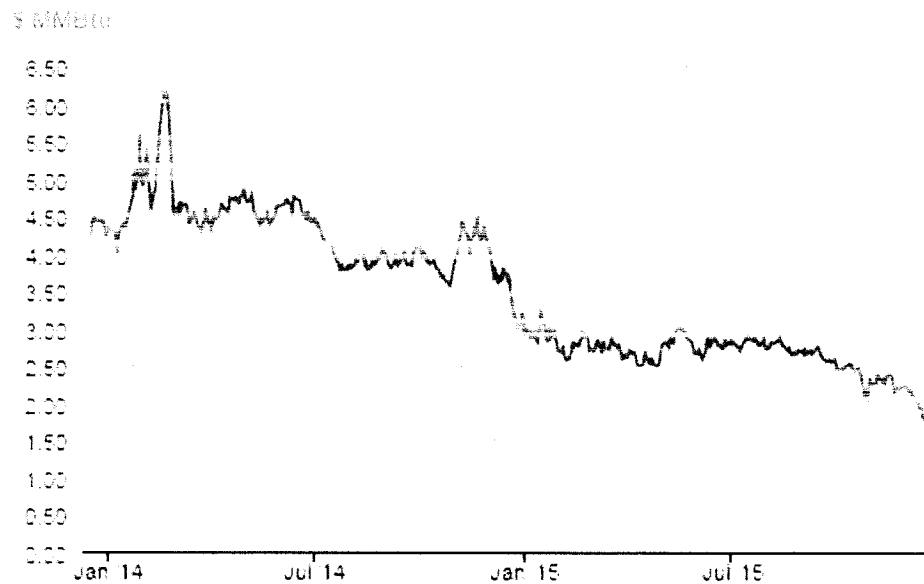
U.S. Energy Information Administration

Spot Prices (\$/MMBtu)	Thu, 10-Dec	Fri, 11-Dec	Mon, 14-Dec	Tue, 15-Dec	Wed, 16-Dec
Henry Hub	1.91	1.77	1.69	1.65	1.68
New York	1.33	0.90	1.40	1.71	1.48
Chicago	1.96	1.75	1.83	1.75	1.85
Cal. Comp. Avg,*	2.24	2.09	2.19	2.28	2.31
Futures (\$/MMBtu)					
January contract	2.015	1.990	1.894	1.822	1.790
February contract	2.075	2.050	1.959	1.886	1.866

*Avg. of NGI's reported prices for: Malin, PG&E citygate, and Southern California Border Avg.

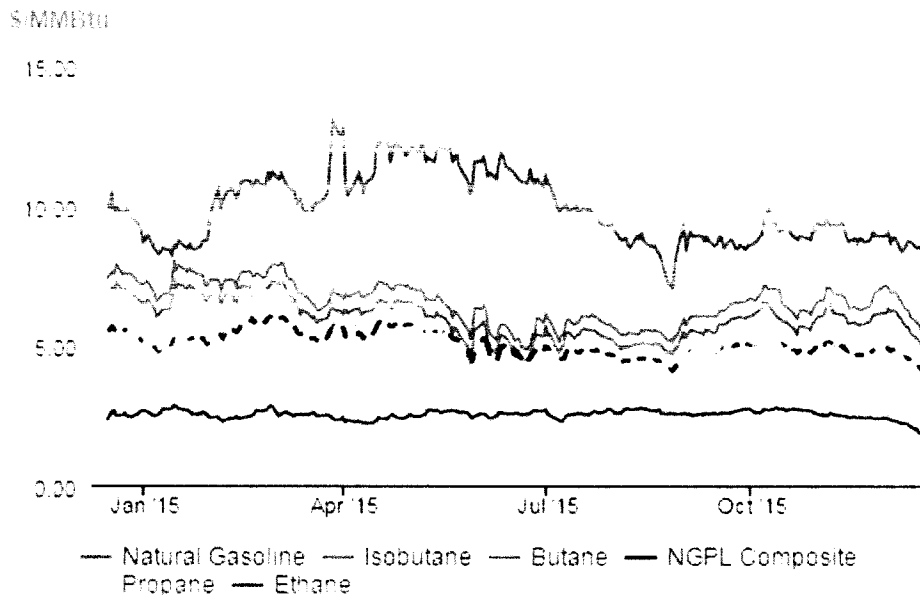
Source: NGI's Daily Gas Price Index

Near-month natural gas futures prices (Nymex)



eia Source: Natural Gas Intelligence

Natural gas liquids spot prices



eia Source: NGL spot prices from EIA's weekly oil and energy report for NGLs composite and Propane, Isobutane, Butane, and Ethane. See www.eia.gov for more.

Note: The NGL composite price is a weighted average of the spot prices for ethane, propane, isobutane, and butane. The weights are based on the relative available weights of these liquids in the total NGL production. The NGL composite price is not a simple average of the spot prices and reflects the relative proportions of each liquid.

U.S. natural gas supply - Gas Week: (12/9/15 - 12/16/15)

Percent change for week compared with:

	last year	last week
Gross production	-0.90%	-0.29%
Dry production	-0.90%	-0.29%
Canadian imports	-18.41%	-13.37%
West (net)	-3.48%	-2.66%
Midwest (net)	30.18%	-0.31%
Northeast (net)	-135.79%	-243.86%
LNG imports	308.01%	4.00%
Total supply	-2.03%	-1.20%

Source: BENTEK Energy LLC

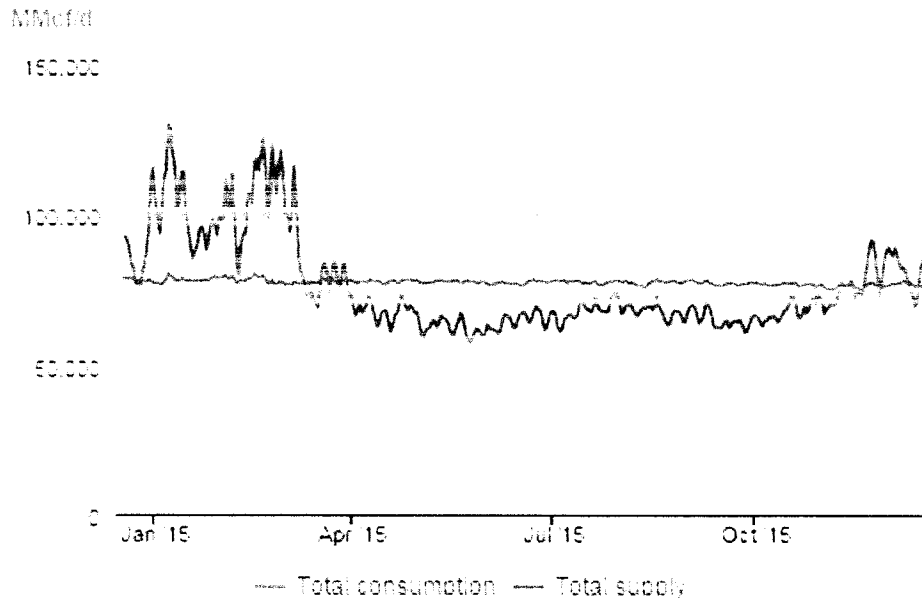
U.S. consumption - Gas Week: (12/9/15 - 12/16/15)

Percent change for week compared with:

	last year	last week
U.S. consumption	-11.3%	-8.4%
Power	10.1%	-1.6%
Industrial	-5.1%	-3.6%
Residential/commercial	-26.9%	-16.4%
Total demand	-9.1%	-8.0%

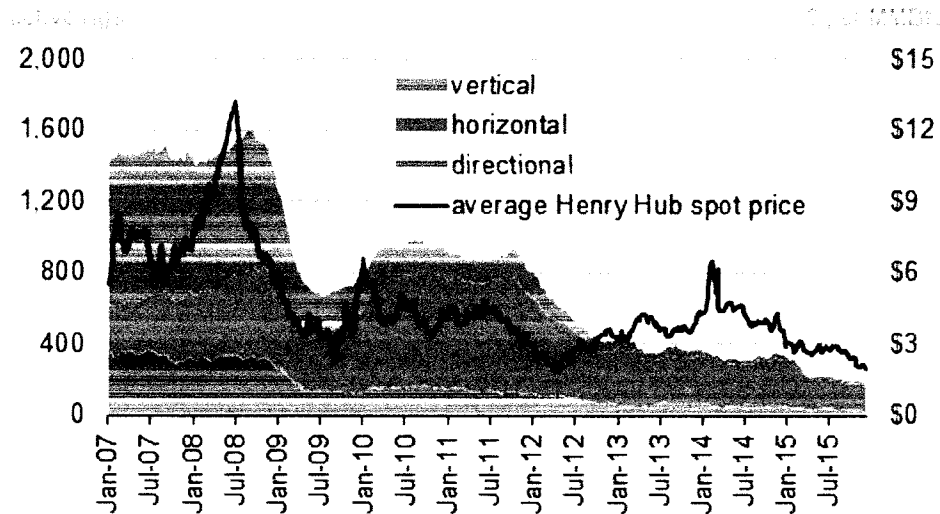
Source: BENTEK Energy LLC

Total supply/demand balance (last 365 days)



eia source: EIA, Oct 2015

Weekly natural gas rig count and average spot Henry Hub



eia source: Baker Hughes

Rigs

	Fri, December 11, 2015	Change from	
		last week	last year
Oil rigs	524	-3.85%	-66.11%
Natural gas rigs	185	-3.65%	-46.53%

Miscellaneous 0 0.00% -100.00%

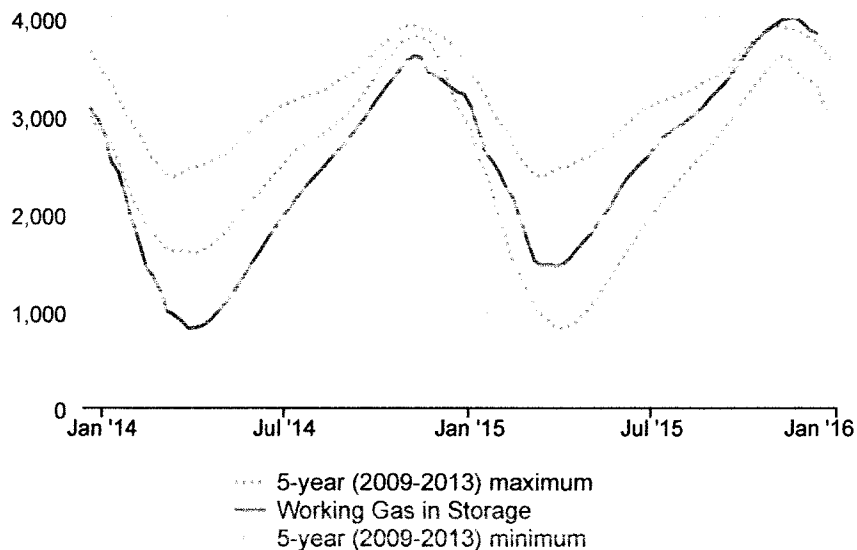
Rig numbers by type

	Fri, December 11, 2015	Change from last week	Change from last year
Vertical	91	-12.50%	-72.42%
Horizontal	554	-2.64%	-59.47%
Directional	64	0.00%	-67.35%

Source: Baker Hughes Inc.

Working natural gas in underground storage

billion cubic feet



Source: Form EIA-912 "Weekly Underground Natural Gas Storage Report"

Working gas in underground storage

Region	Stocks billion cubic feet (bcf)		
	2015-12-11	2015-12-04	change
East	894	910	-16
Midwest	1,066	1,083	-17
Mountain	203	203	0
Pacific	381	382	-1
South Central	1,347	1,340	7
Total	3,846	3,880	-34

Source: U.S. Energy Information Administration

Working gas in underground storage

Region	Historical comparisons			
	Year ago (12/11/14)		5-year average (2010-2014)	
	Stocks (Bcf)	% change	Stocks (Bcf)	% change
East	796	12.3	855	4.6
West	927	15.0	987	8.0
Producing	170	19.4	199	2.0
Total	3,305	16.4	3,524	9.1

Source: U.S. Energy Information Administration

Temperature -- heating & cooling degree days (week ending Dec 10)

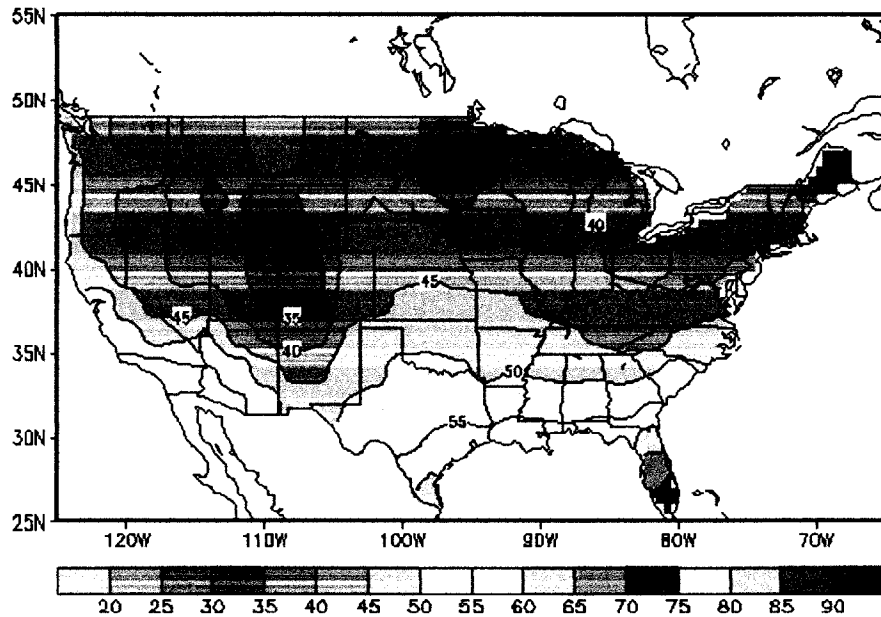
Region	HDD Current	HDD deviation from:		CDD Current	CDD deviation from:	
		normal	last year		normal	last year
New England	167	-49	-52	0	0	0
Middle Atlantic	165	-41	-51	0	0	0
E N Central	180	-55	-47	0	0	0
W N Central	171	-91	-65	0	0	0
South Atlantic	125	-19	-11	11	2	3
E S Central	125	-23	6	0	-1	0
W S Central	80	-29	5	2	-1	-4
Mountain	159	-58	9	0	0	0
Pacific	75	-39	14	0	-1	0
United States	139	-46	-23	2	0	0

Note: HDD = heating degree-day; CDD = cooling degree-day

Source: National Oceanic and Atmospheric Administration

Average temperature (°F)

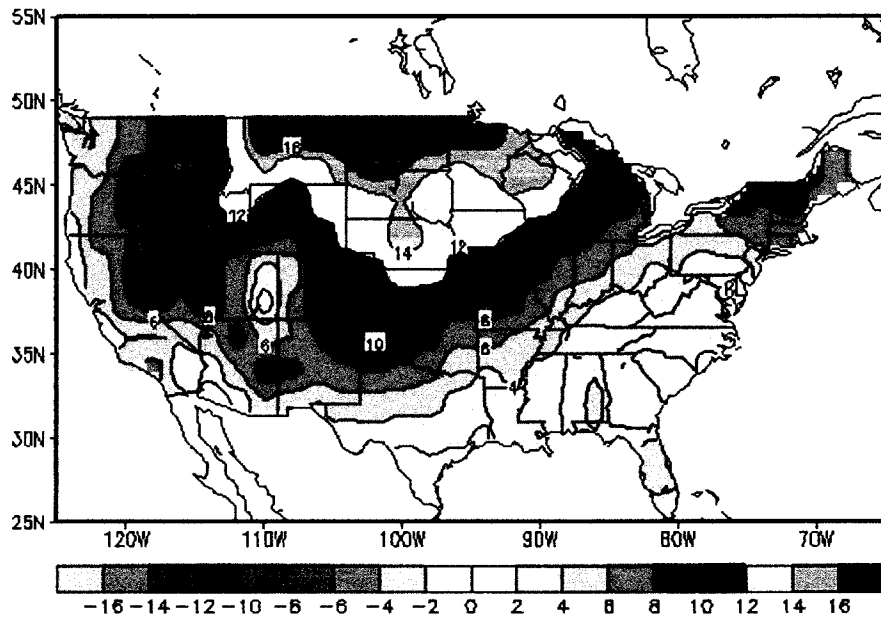
7-Day Mean ending Dec 10, 2015



Source: NOAA/National Weather Service

Deviation between average and normal (°F)

7-Day Mean ending Dec 10, 2015

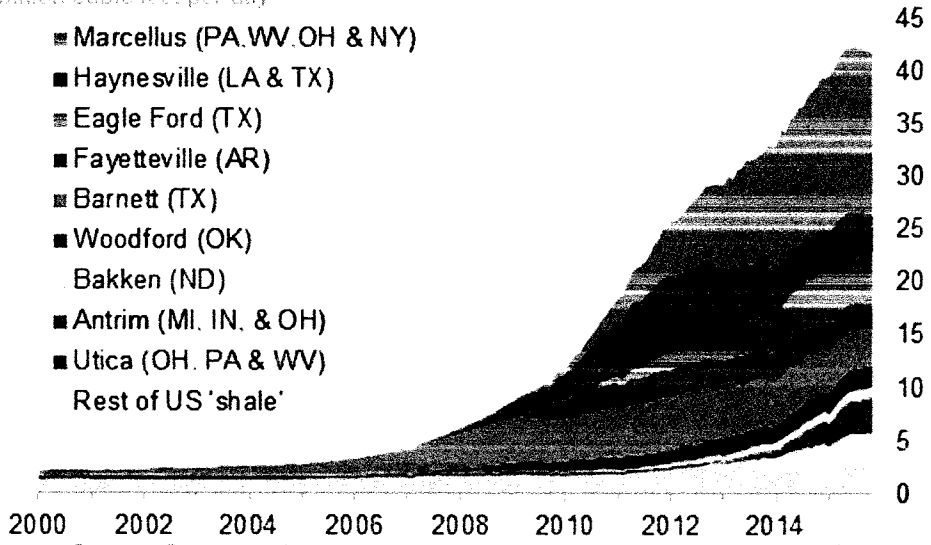


Source: NOAA/National Weather Service

Monthly dry shale gas production

billion cubic feet per day

- Marcellus (PA, WV, OH & NY)
- Haynesville (LA & TX)
- Eagle Ford (TX)
- Fayetteville (AR)
- Barnett (TX)
- Woodford (OK)
- Bakken (ND)
- Antrim (MI, IN, & OH)
- Utica (OH, PA & WV)
- Rest of US 'shale'



Source: EIA derived from state administrative data collected by DrillingInfo Inc. Data are through November 2015, and represent EIA's official shale gas estimates, but are not necessarily fully accounted for in the production totals.



[Download figure data](#)