April 15, 2016

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

Re: Docket No. 7970 – April 2016 Quarterly Cost Estimate Update

Dear Ms. Whitney:

This filing provides the quarterly Cost Estimate Update ("Update") for the Addison Natural Gas Project ("Project") and provides updated information from the last cost estimate update submitted in January. This quarterly report covers the three-month period from January through March.

We expect to complete the Project in late 2016, as previously projected, and the Project budget remains at $153.6 million based on completing the project in 2016.

As described below, overall, the Project has made good progress this winter, from putting Segment 1 into service to clearing and pre-construction preparation of the corridor for 2016. The company reports significant progress including:

- Segment 1 – the first 11-mile segment of the project, including the new Williston gate station – is complete and the pipe has been tied in and brought into service. Segment 1 is from the Colchester tie-in with the existing system to the Williston station.
- We are preparing the remaining right-of-way for construction this year. In most of the towns on the route, we have conducted 1) surveys to delineate the construction corridor, 2) clearing to allow activity in the right-of-way, and 3) probing to identify areas where ledge may require removal. We have completed ledge removal in about 30% of the corridor that will see construction in 2016. Assuming that spring road and field conditions are appropriate for the equipment, these activities will continue through the next 6-8 weeks.
- We have met with selectboards and/or town officials along the route to lay out the construction process and schedule as currently projected.

- We have continued to finalize and execute easements with landowners where we had previously reached agreement. Some of these agreements have been reached and will be implemented after the March 31 closing date of this report. Those agreements will be reflected in the next report scheduled for July.
- We are in discussions with Hinesburg Town officials regarding clarifications and improvements to the deed of easement and agreement for activity in Geprags Park, after the Selectboard's decision not to pursue the original agreement in the form it was concluded in August 2015.
- We have given our mainline contractor, Michels Corporation, notice to proceed for the 2016 construction season.

The attached Update presents the most recent assessment of the current forecast through March 2016, with comparisons to the January 2016 update. The overall Project budget remains at $153.6 million, with forecast adjustments reflected as adjustments to the project contingency. They are:

- Right of Way: We have incurred and expect to incur increased costs in right of way acquisition, legal costs of eminent domain proceedings and negotiations, as well as increased commitments to landowners after survey of properties, and consideration of re-route proposals. These have cumulatively resulted in a $1.7 million increase in the ROW budget.
- Construction: Additional construction costs of more than $6.9 million are associated with horizontal directional drilling contract adjustments, rock removal and tree clearing requirements, and adjustment to inspector services.
  - Horizontal directional drilling (HDD): HDD costs have increased related to the challenging completion of the last drill in Segment 1 in late 2015 and early 2016. Additionally, because of issues reported in our last quarterly report, we intend to change our HDD contractor. At this time the project forecast reasonably reflects the potential impact of this change and we are confident in our ability to achieve timely, successful HDD results.
  - Rock: Our 2016 pre-construction field evaluations of the route and the on-going route preparation work have revealed more extensive rock in the corridor than previously anticipated. We have adjusted our construction forecast accordingly.
  - Inspection services and security: We have increased our forecast for inspection and security costs associated with construction this year.
- Overhead: The $3.1 million decrease is mainly due to discontinuing AFUDC (Allowance for Funds Used During Construction) accrual for calendar year 2016, as a result of the Memorandum of Understanding (MOU) capping recoverable Project costs at $134 million. We have correspondingly discontinued accruing AFUDC on the Company's income statement.
- Contingency: Project contingency is reduced by $6.6 million, leaving $6.7 million toward completion of the Project. This is an appropriate margin for the project at this stage.

In addition to this quarterly Project forecast update, there are several items to report to the Board:

- As of March 31, four eminent domain petitions remained pending before the Board. These include the Town of Hinesburg, which we categorized as "uncontested" until recent action by the Hinesburg Selectboard. Since March 31 we have resolved one of the four and we are pursuing every possibility of reducing delay by negotiating with remaining landowners. As we have consistently reported, it is essential to the successful completion of this Project in 2016 and on budget that eminent domain proceedings provide access for timely construction access to these parcels. Disruption-caused delays of Board proceedings have pushed likely access beyond the time for efficient, cost-effective construction. Additional delays in remaining cases will put both the project schedule and budget at risk.

- There are currently three remaining non-substantial changes (NSC) pending related to the Project: MLV-4 (the last item from the third NSC filed), the reroute off the Palmer property which is the subject of the fourth NSC, and the fifth NSC reflecting the adjustment along Old Stage Road as a result of an agreement with the Hurlburts. Status conferences are scheduled for MLV-4 and the Palmer reroute. It is critical that these NSCs be resolved by late June to avoid costly construction skips.

We are working through a few remaining matters with the Agency of Natural Resources (ANR) related to revised collateral permits to reflect NSCs and conditions of the ANR MOU. Resolution of these remaining matters is critical to Project budget and schedule. At this time these issues are all progressing and are not expected to jeopardize Project budget or schedule.

Vice President Jim Sinclair recently retired from the company. As Vice President of Operations, I will lead the Project through to completion.

This has been and will continue to be a challenging Project, with risks to both budget and schedule. We monitor and evaluate these risks on an on-going basis and make adjustments as appropriate to ensure that this Project is completed as cost-effectively as possible. We expect that the customary risks associated with a project of this type and scale may require us, as we progress, to draw on a significant portion of our remaining contingency to complete the Project.

Accordingly, we look forward to working with the Board and other stakeholders to achieve timely resolution of the remaining eminent domain filings and pending non-substantial change requests. Similarly we have been working with other stakeholders to prevent other interference with construction through the remainder of Project construction. This will benefit all of our stakeholders, our communities and our customers by permitting our project team to complete construction in a responsible, cost-effective manner, and minimize the construction impact on all those affected.

The October 2015 MOU between the Company and the Department of Public Service contains a cost cap that limits costs that may be recovered to $134 million, with limited exceptions for some items beyond the Company's control. This MOU continues, and will continue, to protect ratepayers in the event of higher costs.

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

Sincerely,

John St. Hilaire
Vice President, Operations

Attachment

April 2016 Phase 1 Quarterly Cost Estimate Update

Activity	Budget Baseline (A)	Prior Forecast (B)	Forecast Adjustments (C) = (D-B)	Current Forecast (D)	Project Cost Incurred through 3/31/16
Project Management	$7,245,606	$11,669,289	$310,000	$11,979,289	$11,430,929
Engineering and Design	$4,019,136	$4,078,844	$136,562	$4,215,406	$3,936,956
Permitting	$4,577,123	$5,045,763	$73,250	$5,119,013	$4,549,558
Environmental	$2,025,640	$1,906,591	$170,704	$2,077,295	$1,810,108
Procurement	$16,265,381	$14,500,000	$307,741	$14,807,741	$13,175,824
Right of Way	$12,203,771	$12,381,644	$1,710,590	$14,092,234	$12,425,329
Construction	$76,417,509	$74,508,590	$6,986,082	$81,494,672	$42,496,555
Overhead	$15,640,000	$16,190,891	($3,102,054)	$13,088,837	$11,655,859
Project Forecast	$138,394,166	$140,281,612	$6,592,875	$146,874,487	$101,481,118
Contingency	$15,216,167	$13,328,721	($6,592,875)	$6,735,846	n/a
Total With Contingency	$153,610,333	$153,610,333	$0	$153,610,333	$101,481,118

Prior Forecast: Reflects forecast as of last quarterly cost estimate update of January, 2016
Project Costs Incurred through 3/31/16: Includes actuals and accruals through March 31, 2016

Primary Drivers of Forecast Adjustments:

- **Right of Way:** Increased costs in right of way acquisition, including legal costs of eminent domain proceedings and negotiations, as well as increased commitments to landowners after survey of properties, and consideration of re-route proposals
- **Construction:** Additional construction costs are associated with horizontal directional drilling contract adjustments, rock removal and tree clearing requirements, and adjustment to inspector services
- **Overhead:** Decrease is mainly due to discontinuing AFUDC accrual for calendar year 2016