Vermont Gas
CLEAN ENERGY. CLEAN AIR.

November 5, 2012

To those Planning Commissions and Selectboards named on the attached Appendix A

Re: Vermont Gas Systems, Inc.
Addison Natural Gas Project – Section 248 Permit Process
45-Day Advance Notice of Proposed Project

Dear Ladies and Gentlemen:

In response to recent requests from community leaders and a number of Addison and Rutland County businesses, and consistent with the State's energy policy, Vermont Gas is planning to expand natural gas service into Addison. The Addison Natural Gas Project will involve the extension of the Company's existing transmission system further south to Middlebury, the construction of three gate stations to step the pressure down, and the construction of distribution feeder mains to Vergennes and Middlebury. The purpose of this letter it to notify you, in accordance with Section 248 of Title 30, Vermont Statutes Annotated ("Section 248"), that Vermont Gas anticipates filing its petition in mid-December of 2012 with the Public Service Board ("PSB"), and is providing the information in this 45-day advance notice package to the municipal and regional planning commissions and municipal legislative bodies in accordance with PSB Rule 5.402. This letter describes the Project, the expected Project filing date with the PSB, and the rights of the local and regional planning commissions to comment on the Project plans and participate in the PSB Section 248 process.

The Project is estimated to serve approximately 3,000 new residential and business customers in Addison County, mainly in Vergennes and Middlebury, serving large employers such as Cabot Cheese, Middlebury College, and Porter Medical Center, while providing additional reliability of service to customers in Chittenden County. The Project will also allow the Company to advance its longer-term goal to extend service to the Rutland area.

In order to meet customer needs, Vermont Gas will be requesting a timeline and schedule that will result in issuance of a final Section 248 order and Certificate of Public Good ("CPG") by September, 2013.

About Vermont Gas

Vermont Gas is the state's only natural gas utility. The Company was established in 1965 and has over forty-five years of experience building, operating and maintaining a natural gas system serving Vermont customers. Natural gas is supplied to Vermont Gas via the TransCanada Pipeline that interconnects with Vermont Gas' pipeline system at Highgate, Vermont. We currently serve approximately 45,000 customers in Franklin and Chittenden Counties and hold a Certificate of Public Good to serve the entire state.

In recent years, Vermont Gas has expanded service to into Jericho, Underhill and Hinesburg and most recently, Richmond. These communities are benefiting from the economic and environmental advantages of natural gas. For example, within one year of Vermont Gas' extension of natural gas service to Jericho, 450 residents converted to natural gas - 45% from oil and 55% from propane.

As a result, the residents of Jericho received significant economic benefits:

- Customers converting from oil saved between $315 to $1,450 per year;
- Customers converting from propane saved between $1,300 to $1,600 per year;
- In total, Jericho residents are saving between $390,000 to $650,000 per year;
- The town of Jericho gained over $25,000 in annual tax revenue.

Vermont also gained significant environmental benefits:

- 900 tons of CO_2 emissions are being eliminated annually;
- 12 tons of other greenhouse gas emissions are being eliminated annually;
- Emissions from trucks transporting liquid fuels have been eliminated; and
- Less traffic and wear and tear on Vermont's roadways.

The Addison Natural Gas Project Will Benefit Vermont

While the Company currently serves only areas of Chittenden and Franklin Counties in Vermont, there is a demand to expand the availability of natural gas supply in the State. Vermont has made the reduction of the greenhouse gas emissions a priority. Conversion from oil and propane to natural gas for heating and other thermal processes would significantly advance Vermont's greenhouse gas reduction goals, as natural gas emits about 30% less CO_2 than oil on an energy equivalent basis.

Natural Gas is also a very affordable alternative source of energy for heating and other thermal processes. According to data from the Vermont Department of Public Service in October of 2012, natural gas was about 44% less expensive than fuel oil and 50% less expensive than propane.

Vermont Gas' mission is to expand natural gas service to Addison County in a manner that maximizes economic, environmental and reliability benefits - while maintaining a strong competitive advantage, excellent customer satisfaction, superior safety and positioning Vermont Gas for future expansion to Rutland, Vermont. Expanding natural gas service to Addison County is the first step towards a long term plan to serve Rutland and eventually connect Vermont to the U.S. natural gas system.

The Project creates significant economic benefits to Vermont, including, among others:

- The Project will result in significant net energy savings to Vermont;
- The Project will support economic development;
- The Project will increase the reliability of the state's energy supply.

The Project provides important environmental benefits to all of Vermont, including:

- It will reduce over 16,000 tons of greenhouse gas emissions per year;
- It will decrease fuel usage through increased energy efficiency;
- It will reduce not only the number of heavy vehicles on the roads but also their emissions.

The Project will also provide fuel choices to Vermonters.

Project Description and Construction Plans

The Project includes the following principal components:

(1) Approximately 42 miles of new 12-inch transmission pipeline, extending from our existing mainline at U.S. Route 2 in Colchester, Vermont, to Exchange Street in Middlebury, Vermont (the "Transmission Mainline");

(2) Approximately 5 miles of new 6-inch distribution mainlines that will extend into Vergennes and Middlebury ("Distribution Mainlines"); and

(3) Three new distribution gate stations, one located near U.S. Route 2 in Williston, one south of Plank Road in New Haven, and the third adjacent to U.S. Route 7, south of the Route 7 intersection with Exchange Street in Middlebury.

The Project plans are attached.

Transmission Mainline from Colchester to Middlebury

The Transmission Mainline is an approximately 42 mile segment of new 12-inch diameter natural gas transmission-pressure pipeline that will extend from an interconnection with Vermont Gas' existing 10-inch transmission pipeline on the north side of Severance Road in Colchester,

Vermont to a new distribution gate station at Exchange Street and U.S. Route 7 in Middlebury, Vermont.

To optimize the alignment of the Transmission Mainline corridor Vermont Gas has co-located it with or adjacent to other utility and road infrastructure in order to minimize impacts. The northern segment of the Transmission Mainline, from Colchester to Williston near Interstate 1-89, will generally be located within the right-of-way of Interstate 289 (also referred to as the Circumferential Highway or "CIRC"). This segment of the Project corridor is approximately 11.5 miles from the point of interconnection in Colchester, and extends though portions of the Towns of Colchester, Essex and Williston, to a point east of Interstate 89 in Williston, near the intersection of Interstate 89 and U.S. Route 2.

Several segments of the Project have been re-routed away from the CIRC to avoid impacts to sensitive wetlands, notably in the area parallel to Redmond Road in Williston, and at the Winooski River Crossing in Williston.

Near the intersections of I-89 and Route 2 in Williston, the Transmission Mainline will leave the CIRC and generally run parallel to Vermont Electric Power Company, Inc. ("VELCO")'s existing 115 kV electric transmission line corridor that extends between Williston and Middlebury, Vermont. This segment of the Transmission Mainline extends about 31 miles and crosses through portions of the Towns of Williston, St. George, Hinesburg, Monkton, New Haven and Middlebury. The Transmission Mainline will terminate at a new distribution gate station to be located adjacent to U.S. Route 7, south of the intersection with Exchange Street in Middlebury.

Generally, the Transmission Mainline corridor will occupy a 50-foot wide permanent right-of-way. During construction, Vermont Gas will also utilize an additional 25-foot temporary corridor. Vermont Gas is studying the entire 75-five foot area for purposes of conducting its environmental resource impact analysis for the Section 248 application. Initially, the entire 75-foot width will be cleared of vegetation in order to allow for construction. After completion of construction, the easement area will be graded back to its previous contours and re-seeded.

Distribution Mainlines

There are two Distribution Mainlines. The first is an approximately 3-mile segment of 6-inch pipe that will extend from a new gate station south of Plank Road in New Haven, approximately 4 miles west to the intersection of Route 7 in Vergennes (the "Vergennes Distribution Mainline"). The Vergennes Distribution Mainline will extend though the Towns of New Haven, Ferrisburgh, Waltham and Vergennes, to the intersection of Plank Road and U.S. Route 7 in Vergennes, bringing service to customers in Vergennes.

The second Distribution Mainline is also 6-inch pipe which will run approximately 2 miles along Exchange Street in Middlebury, between a new gate station to be located near the intersection of U.S. Route 7 and Exchange Street, to the Cabot plant on Exchange Street.

Both Distribution Mainlines will be located within the public rights-of way of Plank Road and Exchange Street.

Interconnection Point and Gate Stations

As previously mentioned, the Project includes the construction of three Gate Stations as well as an interconnection point with the existing transmission system. At the point of interconnection with the existing transmission system in Colchester, Vermont Gas will have a small fenced-in area to enclose the valve and a access point for pipeline in-line cleaning and inspection. Each of the three gate stations will include a fenced-in yard with a small parking area, two prefabricated metal buildings, one to house the electronics and one for the regulators and meter, and a concrete pad to mount the pipeline heater.

Alternatives Evaluated

Evaluation of alternatives for the route proposed was completed considering the following factors: reliability; community impact (minimizing the effects of construction, operation and maintenance); environmental (minimization of any environmental impacts); safety; market (will the alternative maximize the availability of gas to customers); constructability (will the construction process be viable); and cost.

An array of several different possible segments were combined into a wide variety of possible routes and were evaluated. Based on the initial evaluation, the range of alternatives was narrowed to four. In conjunction with stakeholder input, these four alternatives were evaluated at length by the Company and its engineering and environmental experts against the seven criteria discussed above, and led us to identify the CIRC and VELCO corridors as the preferred route for the Transmission Mainline. Following months of detailed engineering and resource assessment review by our environmental, archaeological and aesthetic consultants, we further refined the Project design to avoid or minimize impacts to sensitive natural and cultural resources where appropriate.

Transportation

As evidenced by the Project plans attached to this letter, Project construction will occur within or adjacent to existing local and state roads. All work within and adjacent to state and local roads will be performed in accordance with and under applicable state and local highway permits. The The Project plans identify areas where construction will access the pipeline corridors and gate stations, as well as temporary construction areas and laydown sites. Most activity related to the transportation of materials will occur during the construction phase (see schedule, below).

Project components will be delivered via rail and state and local roads, using standard methods of delivery.

Aesthetics

The Addison Natural Gas Project mostly consists of below-grade infrastructure upgrades that will generally not be visible. There will be a limited number of locations where above-ground upgrades will have potential visibility, including gate stations, valve sites, temporary construction areas, and lay down sites. However, potential aesthetic impacts will most likely result from clearing associated with a 50-foot ROW for the transmission pipeline. Specifically, the aesthetic analysis assesses how the project will affect publicly accessible views, and whether any resulting changes could be considered adverse. Most public viewing locations will be from roads that the Project crosses or parallels. Removal of vegetation along the VELCO corridor may increase views of electrical transmission infrastructure, and vegetation removed along roadsides may negatively impact the existing character of those roads.

Vermont Gas has retained expert consultants to assess the aesthetic impact of the Project. The Aesthetic Analysis Report will fully evaluate all areas of aesthetic concern, including recommendations for preservation of important roadside vegetation, and propose appropriate landscape mitigation plantings. The preliminary assessment concluded that the proposed Project will not result in an undue adverse impact to the aesthetics and scenic beauty of the area.

Schedule

The current schedule for the Project is to bring gas service to anchor customers in the Middlebury industrial park by late 2014. The distribution networks in Middlebury and Vergennes would be constructed in 2015, with residential and commercial customers receiving gas service by the 2015/16 winter.

In order to achieve these important milestones, we will file the Section 248 petition and all associated Project permit applications in December, 2012, and ask that the Public Board issue a final Section 248 CPG by no later than mid-September, 2013. This schedule is needed to allow us to commence construction of the Project during the summer and fall of 2014.

Right of Local and Regional Planning Commissions to Comment on the Project Plans

Pursuant to Section 248(f) of Title 30 of the Vermont Statutes Annotated (30 V.S.A. § 248(f)), municipal and regional planning commissions can make recommendations, if any, to the Board and to the petitioner at least 7 days prior to filing of the Petition with the Board. So that the Board may take your views into account, Vermont Gas requests that your comments be submitted no later than December 15, which is approximately 7 days prior to the anticipated filing date. Your commission also has the right to make revised recommendations within 45 days after the date the Petition is filed with the Board if the Petition contains new or more detailed information that was not previously included in these plans.

For additional information regarding this process, including your planning commission's right to participate in the Board's proceedings, please refer to the "Guide to the Vermont Public Service Board's Section 248 Process" which can be found at http://www.psb.vermont.gov.

As the Project moves forward we will continue to have discussions and expect to receive feedback from your representatives, as well as various key stakeholders.

If you are interested in a presentation on this Project, or have comments or request further information, please contact Steve Wark at (802) 863-4511 or via email at swark@vermontgas.com.

Very truly yours,

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APPENDIX A

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