

Vermont Gas Systems, Inc.

Description of the Renewable Natural Gas-Program Plan

Program Objectives:

Vermont Gas' innovative Renewable Natural Gas (RNG) program incorporates a renewable energy source into our supply portfolio, it allows customers to purchase RNG and it contributes to the goals of Vermont's Comprehensive Energy Plan. The program fosters the development of Vermont-based RNG projects at farms, landfills, businesses and treatment plants. Vermont Gas' RNG offering further solidifies Vermont as a leader in the creative development, marketing and advancement of renewable energy technologies.

Vermont Gas customers will have the opportunity to participate in the program by paying an RNG Adder that will help to offset the premium cost for this renewable product. A recent Vermont Gas survey indicated that over 85% of our customers are willing to pay 10% more for a renewable product. Vermont Gas projects that over the next 5 years our customers could consume over 500,000Mcf of renewable natural gas, avoiding significant carbon emissions in the state.

Renewable Natural Gas Supply:

RNG is produced from raw materials such as agricultural waste, manure, municipal waste, plant material or food waste. The decomposing and/or digesting of these materials produces raw "Biogas" which is then cleaned and injected into an existing pipeline system as Renewable Natural Gas (a.k.a. Biomethane).

Vermont Gas will purchase both in-state and out-of-state RNG supplies for the program. The in-state RNG supply will be injected directly into Vermont Gas' pipeline system from the Lincoln Renewable Natural Gas project in Salisbury, Vermont. The Lincoln RNG supply will be produced in a manure-based digester and should be available in the fall of 2016, pending completion of that project. Prior to the Lincoln RNG project's start date, Vermont Gas will file a Gas Quality Plan for RNG with the Vermont Public Service Board. This Gas Quality Plan will insure the RNG is properly cleaned and comparable to traditional natural gas. Out-of-state RNG supply is available through a limited number of sources, primarily landfill projects that will inject RNG upstream of our system and Vermont Gas will receive that RNG supply through our TCPL (Trans-Canada Pipeline) connection at Highgate, Vermont. We recently completed a Request of Proposal for RNG supply and are working to have supply contracts in place by March 31, 2016. Our intent is to contract for 100,000-200,000Mcf in year one of the program and ramp up supply in the future years as customer demand increases.

Renewable Natural Gas Tariff:

The retail RNG tariff structure mirrors the Green Mountain Power’s Voluntary Renewable Service Rider¹ (a.k.a. Cowpower). Our RNG Adder will be a simple rate rider in an amount reflecting the percentage of RNG that the customer voluntarily subscribes. The voluntary RNG Adder, similar to the table below will apply to all Vermont Gas’ firm rate classes (R, G1, G2, G3 and G4), for all customers who choose to join the program. Interruptible customers can purchase RNG supply volumes through the lock price program based on the RNG rates available for the requested volumes at the time of the lock.

Vermont Gas RNG Adder (example)

Percentage	Adder/Ccf
10%	\$.064
25%	\$.160
50%	\$.320
100%	\$.639

This RNG Adder will be a separate charge on the customer’s bill in addition to the Daily Access Charge, Natural Gas Charge and the Distribution Charge.

The RNG Adder rate table will be updated with each quarterly PGA filing to reflect changes in traditional natural gas costs. The underlining RNG supply costs should be relatively stable over time due to the fact that the wholesale RNG supply agreements will be fixed price and term contracts. However, the RNG supply costs could vary as new RNG supply contracts come into our portfolio in future years.

Similar to the renewable electricity market, Vermont Gas will have the obligation to match RNG supply volumes with customer RNG purchase volumes. For example, if VGS customers in aggregate purchase 100,000Mcf of RNG in year one, then VGS will need to closely match that demand with RNG supply. Initially, as we ramp the program up VGS will have a surplus of RNG supply that we will carefully track. We are proposing a 12 month “true-up” window that will allow RNG “oversupply” to be sold to customers and if necessary any “undersupply” to be met through additional RNG supply contracts or other means. The true-up is merely to account for the principle that our actual RNG supply volumes must match the RNG sales volumes to customers.

¹ GMP “Cowpower” Tariff-
http://www.greenmountainpower.com/upload/photos/308Voluntary_Renewable_Service_Rider_-_CowPower.pdf

Should Vermont Gas predict a RNG supply shortage (a.k.a. “undersupply”), we reserve the right to either suspend the program prospectively, to purchase carbon offsets comparable to the customers’ RNG sales revenues or in extreme cases retroactively refund any over-collected RNG Adder revenues to customers. Vermont Gas will provide a schedule in our Annual RNG Program Report that details our supply and demand portfolio for the prior year and projected status for the coming year.

From an accounting perspective the underlying RNG supply costs will flow through Vermont Gas’ Purchase Gas Adjustment (PGA) on a quarterly basis, in the identical manner to Vermont Gas’ traditional natural gas supply portfolio. This is consistent with Vermont Gas’ Alternative Regulation Plan (see: Page 12) where the purchase of Biomethane/RNG is identified as a PGA eligible expense. The benefit of accounting for the RNG supply cost in this fashion is that it is consistent with current practices and it avoids creating a separate accounting methodology to address this new product offering. The retail sales revenues collected from the RNG Adder will be applied to the overall gas costs having the net effect of helping to offset the more expensive RNG supply. Over time Vermont Gas’ goal will be to offset all of the additional RNG supply costs with RNG Adder sales revenues.

Renewable Natural Gas: Verification, Attributes, Carbon Offsets and Incentives:

Vermont Gas intends to be consistent with the principles set forth in the Federal Trade Commission’s “Green Guide²”, as well as other state and federal requirements related to the marketing renewable natural gas. Vermont Gas will obtain an attestation of authenticity from our RNG producers and/or from a third-party verification firm.

RNG consumption does generate carbon offsets and Vermont Gas will retire these carbon attributes as we sell the RNG to our customers. For excess RNG supply not sold under this program, Vermont Gas may market carbon offsets or any other available credits relating to this renewable product and any revenues generated will be used to offset Vermont Gas’ RNG costs. Vermont Gas will not “double-count” these offsets as we balance our renewable portfolio.

The US Environmental Protection Agency offers an incentive for RNG used as a vehicle fuel under their Renewable Fuel Standard³ (). Vermont Gas will seek these incentives as applicable, but with less than 50 natural gas vehicles (NGV) in the state the opportunities are limited. Vermont Gas will however pursue these incentives for our NGV customers with the goal of reducing their price at the pump. VGS will include an update on any carbon offset/attribute revenues, federal incentives and other opportunities Vermont Gas is exploring to reduce cost for RNG supplies in the Annual RNG Program Report.

² FTC Green Guides- <https://www.ftc.gov/sites/default/files/attachments/press-releases/ftc-issues-revised-green-guides/greenguides.pdf>

³ US EPA Renewable Fuel Standard- <http://www.epa.gov/fuels-registration-reporting-and-compliance-help>

Annual RNG Program Report:

Vermont Gas will file an Annual RNG Program Report with the Public Service Board and Public Service Department that summarizes the program results by June 30, 2017 and by June 30th thereafter, for the duration of the program. The report will detail RNG sales revenues, RNG supply/consumption matching portfolio and RNG supply verification. The report will include a true-up schedule for any imbalances. Vermont Gas will also provide an accounting of any carbon offset or other incentives that have accrued to the program. Lastly, Vermont Gas will also provide any suggestions to improve the program in the report.