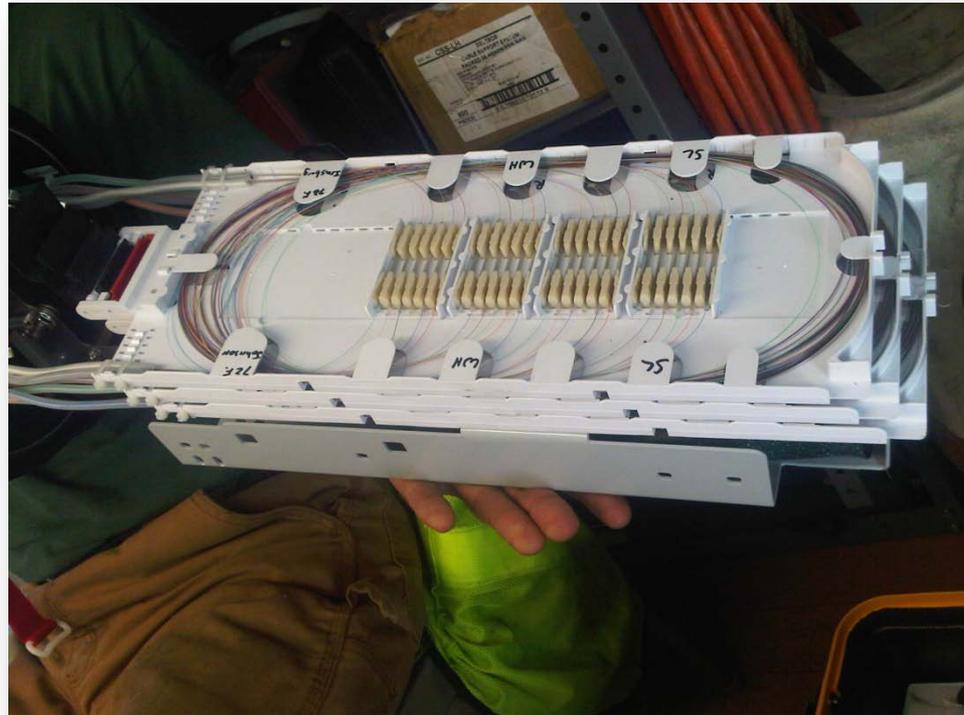


Fiber Optic Backbone Project Update



Fiber Optic Backbone

Project Update

Overview:

- Costs to date for the project (through the end of August) are approximately \$22.3 M (42% spent) of the \$53 M project estimate for fiber installation only.
- The project remains “on track” to meet its budget and schedule goals, based upon analysis to date, risks are detailed in a separate section.
- It appears that the project will utilize the full \$53 M allocated for the work.
- Cost estimating and scoping in review for the lit fiber portion of the project.
- Approximately 100 miles of installation is under review for scope reduction which provides a target of 850 miles for installation.

Fiber Optic Backbone

Project Update

Engineering Design and Procurement

- Engineering is 87% complete, with over 750 miles issued for review, and approximately 600 miles issued “final” for the proposed Subtransmission and Transmission portions of the project.
- Weekly engineering and planning reviews are conducted with GMP and VEC to minimize make ready costs for the project.

Field Work

- Make ready is complete for approximately 305 miles.
- 295 miles of fiber installation is complete, with another 65 miles in construction.
- Approximately 80 miles of material is available.

Regulatory/Permitting Activities

- Negotiations for railroad permitting are required with one remaining railroad.
- Section 10 Crossing Permits continue to be received well in advance of construction.
- VELCO continues to work with GMP, VEC, and Stowe to resolve restrictive and missing easements.

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Schedule

- Work is currently scheduled to be completed at the end of 2012, with an interim target of 500 miles to be completed by the end of 2011.
- Splicing is underway on the follow segments: Rutland, Poultney, Johnson to Irasburg, and Sunderland.
- Construction progress and coordination meetings continue with CVPS, GMP, and VEC.
- Scoping discussions continue with the smaller municipal electric utilities.



- **Risks, Challenges, and Management Items:**

- Understanding the impact of Hurricane Irene to the project (currently a 2 week schedule impact and a delay on highway crossing permits)
- Ensuring schedule coordination among the project stakeholders (making sure that work supports AMI roll out).
- Making sure that material deliveries, construction, and splicing schedules are met to complete projects in a timely manner thus avoiding capital interest charges.
- Ensuring that review of preliminary design work is complete, in particular, field reviews to ensure smooth construction, make ready costs may climb as the work progresses to other DUs
- Managing the impacts and opportunities presented by the merger of GMP and CVPS
- Availability of qualified resources to string the fiber (results from completed projects show that specialized cable installation contractors are the most efficient with installation) example issues with the contractor on Sunderland 3A and Poultney.
- Integrating lessons learned from the winter construction into ongoing and future projects.
- Evaluation of costs to date at 25%, 50%, and 75% physically complete for budget and schedule adherence, focus on overhead costs (engineering, support, and PM)

Fiber Optic Backbone

Project Update

- **VELCO Operating Committee Work:**

- The Operating Committee reviewed the proposed design for the lit fiber network in the August.
- The Operating Committee reviewed estimates for lit fiber in both the VELCO substations and the distribution utility locations.
- The June Operating Committee meeting direction was for distribution utilities who have electronics installed in their substation will be charged the “Access Fee” for the use of the network that considers capital cost of the equipment and will be responsible for the maintenance costs of the electronics, the draft “Access Agreement” is under review.



Fiber Optic Backbone

Project Update

- **Cooperation with Telcoms:**

- VELCO is currently working with both VTel and Sovernet to potentially swap fibers of equal value over each entity's network.
- Both are recipients of significant stimulus funding for broadband infrastructure improvement.
- Successful agreements with both providers will potentially allow the fiber project to avoid building 130 miles of distribution construction.
- VELCO continues to discuss an agreement with Sovernet, issues include the term of the agreement, valuation, and clawback provisions.
- VELCO is currently negotiating an agreement with Vtel.

