UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Dominion Cove Point LNG, LP	**)**	**Docket No. RP06-_____**

TESTIMONY OF
ANNE E. BOMAR
ON BEHALF OF
DOMINION COVE POINT LNG, LP

Q. Please state your name and present employment.

A. My name is Anne E. Bomar, and I am Vice President, Federal Regulation, at Dominion Resources, Inc.

Q. Please describe briefly your educational and professional background.

A. I have a B.A. in Economics from Cornell University, and a J.D. from the College of William and Mary, Marshall Wythe School of Law. I am also a member in good standing of the Virginia State Bar.

I joined the pipeline division of Consolidated Natural Gas in 1985, holding various positions in Corporate Planning, Rates and Gas Procurement prior to joining the company's legal department. As an attorney with CNG, I spent nine years in practice before the Federal Energy Regulatory Commission ("Commission" or "FERC") during the era of unbundling of interstate pipeline services. I served as Director-Rates & Certificates at CNG Transmission from May 1999 until CNG's merger with Dominion Resources, Inc ("Dominion") in

2000, when I was named Managing Counsel-Gas Transportation & Storage in the Dominion Law Department. In January 2003, I became Managing Director-Transmission Rates & Regulation for Dominion. I assumed my current position in February 2006.

Q. What are your present responsibilities?

A. I am responsible for certain of Dominion's regulatory matters at the federal level. In particular, my team handles certificate, rate and tariff matters for Dominion's interstate natural gas pipeline companies. We also handle various rate and tariff issues for Dominion's FERC-jurisdictional electric transmission business, and provide support for Dominion's compliance with standards of conduct.

Q. Have you previously submitted testimony before the Commission?

A. No.

Q. What is the purpose of your testimony?

A. Dominion Cove Point ("DCP") has initiated this proceeding through a general rate filing, made under Section 4 of the Natural Gas Act. I will discuss the circumstances and timing of Dominion's various investments in the infrastructure, and the critical role that the Cove Point LNG terminal and related pipeline facilities play in today's natural gas markets. I will also describe the services offered by DCP and the development of the rates that are the subject of this rate proceeding. I will also discuss the risk faced by DCP which justifies the requested return on equity. Finally, I will list the direct testimony that is being submitted by DCP in support of its filing.

Q. Please provide a brief summary of DCP's rate filing.

A. This proceeding involves the first Section 4 rate case to determine just and reasonable rates for unbundled services provided by the Cove Point terminal and pipeline facilities, since they were initially placed in service in 1978. Cove Point began a firm peaking service in 1995. The Cove Point terminal was reactivated to resume LNG imports in 2003, after a long hiatus. As I will discuss further, the existing rates for services at the terminal and on the pipeline are based on initial rates established by the Commission and a series of settlements entered into by successive owners of the facilities and approved by the Commission.

The current rates, however, do not permit DCP to fully recover the investment in new facilities and the refurbishment of existing facilities that was required to place the Cove Point terminal back into operation. DCP is not recovering its full revenue requirement or earning an adequate return on its investment in this strategically located receiving terminal and related pipeline facilities.

Accordingly, the primary purpose of this Section 4 filing is to establish rates that will allow DCP the opportunity to recover the significant costs of operating these facilities and earn an appropriate return on its investment in this much-needed energy infrastructure. DCP should have the opportunity to earn a reasonable rate of return on this investment, consistent with the Natural Gas Act and the Commission's policies designed to spur the development of energy infrastructure, particularly LNG import facilities. In addition, this proceeding must establish rates that properly allocate costs among peaking, import and traditional transportation services that are offered by DCP, in order to reflect the true costs of providing each service.

The next generation of rates must recognize that the challenges and risks faced by DCP in operating an LNG import terminal and associated take-away pipeline are substantially different and greater than those faced by domestic natural gas pipelines. The new rates should also encourage the continued investment that is required to operate and maintain LNG facilities. The global LNG market is developing at a rapid pace, and the U.S. is a relatively recent entrant. As a consequence, the U.S. is still in the process of developing the rules that will apply to LNG import terminals and take-away pipelines. In addition, LNG terminals and related pipeline facilities are subject to regulation by multiple federal, state and local authorities. The evolving nature of this regulatory structure has created a level of complexity and uncertainty that is much greater than that faced by domestic pipelines, whose regulatory climate is more stable.

I will discuss some of the impacts of this regulatory environment on the operation of the terminal and pipeline, and highlight additional risks that must be taken into account in determining a fair return on Dominion's investment in the Cove Point facility.

HISTORY OF COVE POINT

Q. Please describe the DCP facilities.

A. DCP owns and operates an LNG import terminal located in Lusby, Calvert County, Maryland and the Cove Point Pipeline facilities that extend approximately 88 miles from the terminal to interconnections with

Transcontinental Gas Pipe Line Corporation ("Transco") in Fairfax County, Virginia and with Columbia Gas Transmission Corporation and Dominion Transmission, Inc. in Loudoun County, Virginia. A map of the Cove Point facilities is attached as Exhibit No. DCP-2.

Q. When were the facilities first authorized?

A. In 1972, FERC's predecessor agency, the Federal Power Commission, authorized the construction and operation of the LNG import terminal and the pipeline as part of a project to import LNG and transport natural gas to U.S. markets. *Opinion No. 662*, 47 FERC 1624 (1972), aff'd and modified, *Opinion No. 622-A*, 48 FPC 723 (1972). The project was jointly proposed by affiliates of two interstate pipelines, Consolidated System LNG Company ("Consolidated") and Columbia LNG Corporation ("Columbia"), in order to provide bundled natural gas sales services to customers of the two pipelines.

Q. How long was the terminal in operation?

A. The facilities were placed in service in 1978, and performed the LNG import service until 1980, when shipments of LNG to the Cove Point terminal ceased. The last delivery to the terminal arrived on April 10, 1980. For the next fourteen years, the facilities were not used, except for a small amount of interruptible transportation service that was provided through the Cove Point Pipeline.

Q. Please continue with the history of the terminal and its various owners.

A. In January 1988, the Commission approved a settlement that authorized Consolidated to transfer to Columbia its ownership interests in the Cove Point terminal and pipeline facilities at no cost. Thereafter, Columbia and Potomac

Electric Power Company ("PEPCo") formed a partnership, named the Cove Point LNG Limited Partnership, to develop and utilize a portion of the existing, dormant facilities to perform peaking services for domestic natural gas supplies in the supply-constrained Mid-Atlantic region.

Q. Please describe the development and nature of these peaking services.

A. In 1994, the Commission authorized Cove Point LNG Limited Partnership to reactivate the mothballed onshore facilities and to construct a liquefaction unit. The partnership would use the facilities to store liquefied domestic natural gas during the summer for withdrawal on a limited number of days at peak times during the winter. *Cove Point LNG Limited Partnership*, 68 FERC ¶ 61,377 (1994), reconsideration denied, 69 FERC ¶ 61,292 (1994). Cove Point LNG Limited Partnership was authorized to provide 10-day, 5-day and 3-day firm peaking services under Rate Schedules FPS-1, FPS-2, and FPS-3, respectively, and firm and interruptible transportation services under Rate Schedules FTS and ITS. Columbia was also required by FERC to write down the value of its existing investment in Cove Point by over $51 million. Initial rates for FPS services and the transportation services were established under Section 7 of the Natural Gas Act in the 1994 order.

Q. When did the peaking services begin?

A. The FPS service commenced in September 1995. Because the liquefier could create only 15,000 Dth/day of LNG, each FPS customer had to adhere to a delivery schedule to ensure sufficient quantities of gas could be liquefied and placed into tanks for the upcoming withdrawal season. This delivery schedule required gas to be tendered for injection in small, consistent quantities over the Injection Season, which ran annually from April 16 through December 14. The FPS customers were also responsible for tendering significant additional quantities of gas to be retained by DCP as compensation for the fuel used in the liquefaction process. As I will describe in greater detail, the reactivation of the import terminal has enabled DCP to provide FPS service without the need to operate the liquefier in recent years, which means substantial fuel savings and additional flexibility in scheduling injections for FPS customers.

Q. Please describe the efforts to reactive the LNG terminal to resume imports of LNG, prior to Dominion's acquisition of the facility.

A. In 1999, Columbia acquired PEPCo's interest in Cove Point LNG Limited Partnership paying $23.1 million above the net book value of PEPCo's interest at the time, and began the process of reactivating the LNG import terminal. Columbia held a successful open season resulting in contracts with three LNG import customers: Shell NA LNG, Inc. ("Shell"), BP Energy Company ("BP"), and El Paso Merchant Energy, L.P. (El Paso later transferred its contract to Statoil North America Inc. ("Statoil".))

Q. Did Columbia complete the reactivation?

A. No. Before the reactivation application was filed, Cove Point LNG Limited Partnership was purchased by subsidiaries of The Williams Companies ("Williams") on June 14, 2000. Thereafter, Williams negotiated a January 2001 Settlement with the existing peaking and transportation customers and the new import customers. This "Reactivation Settlement" resolved capacity allocation issues among the LTD and FPS customers, in part through Cove Point LNG's agreement to construct a fifth LNG storage tank, and determined, among other things, how the costs of the existing and proposed facilities would initially be allocated between the peaking and import customers.

The Reactivation Settlement also established initial rates that would be charged to peaking, import, and transportation customers following reactivation of import services at the terminal. The Reactivation Settlement recognized a rate base adjustment of $23.1 million, reflecting the above book acquisition cost that was paid by Columbia LNG to PEPCo. The Reactivation Settlement included tariff sheets that established the LTD-1 and LTD-2 Rate Schedules and provided for certain changes to the General Terms and Conditions of Cove Point LNG's tariff.

In January 2001, Williams filed the reactivation application, together with the Reactivation Settlement, at FERC. In the order approving the application, the Commission also approved the Reactivation Settlement, finding that it benefited all supporting parties. *Cove Point LNG Limited Partnership*, 97 FERC ¶ 61,043 (2001); *Order Granting and Denying Rehearing in Part, Granting and Denying Clarification*, 97 FERC ¶ 61,276 (2001); *Order Denying Rehearing and Granting and Denying Clarification,* 98 FERC ¶61,270 (2002).

Q. Please describe the next change of ownership.

A. Nearly a year after the Commission issued a certificate authorizing reactivation of LNG imports at the Cove Point terminal, Williams sold Cove Point LNG to

Consolidated Natural Gas Company (or "Consolidated"), a wholly owned subsidiary of Dominion, on September 5, 2002.

Q. What was the status of the reactivation at the time of Dominion's acquisition?

A. Although Williams had accepted the Commission certificate authorizing reactivation within a week of its issuance in October 2001, Williams had not yet secured the final authorizations from the Commission to commence construction for the project. At that time, Williams was experiencing financial difficulties, and was exploring the sale of assets such as Cove Point. The reactivation had come to a standstill, whether because of Williams' financial condition or because of difficulties in securing the final remaining permits in order to commence construction.

Q. Are you seeking an acquisition adjustment for any amount over net book value paid to Williams by Consolidated?

A. No. Consolidated paid Williams $73 million in excess of net book value. However, we are not seeking to reflect this amount in rates at this time. As detailed by DCP Witness Lovinger, DCP is seeking to restore $28 million in original rate base that was removed as a result of a previous partnership arrangement, at the time the Commission authorized the FPS service. Even though the facility is now fully "used and useful," this portion of rate base was not restored as part of the Reactivation Settlement. As DCP Witness Lovinger explains, it is appropriate to recognize the remainder of this rate base in establishing DCP's rates.

Q. Was the timing of return to LNG import service an issue?

A. Yes. Even before Dominion acquired Cove Point, the timing of returning this plant to LNG import service was becoming an issue. Parties to the Reactivation Settlement estimated that the facilities necessary for reactivation would be placed into service by April 1, 2002, and the proposed new fifth LNG storage tank into service by September 1, 2003. However, at the time of the acquisition, although Williams had a certificate order in hand for nearly a year, necessary construction had yet to begin. The import service customers had become anxious for construction to commence and to be completed, so that imports of LNG could commence. BP, in particular, publicly emphasized the need for timely placement of the Cove Point LNG terminal into service, as an outlet for LNG that would be imported from Trinidad.

Q. What were the challenges faced by Dominion in acquiring the Cove Point facility under these circumstances?

A. Dominion was under considerable pressure to get construction underway and avoid any further slippage of the project. At this point in time, Dominion, as the new owner, was confronted with a range of difficult tasks: (1) reviewing the nature of the existing FPS service obligations and the facilities and operating costs required to maintain these services; (2) understanding the new LTD services to be provided after reactivation and the facilities required to provide these services; (3) becoming familiar with the active physical condition of the facility and the potential operational issues, cost estimates and design alternatives that were contemplated by Williams for reactivation and refurbishment of the terminal in order to resume imports; and (4) assessing the cost estimates for both capital investment and future operating and maintenance budgets. All of this had to be accomplished, if possible, in a manner that would move the reactivation effort forward to try to meet a construction schedule that was already behind the parties' expectations. Additionally, Dominion was somewhat constrained in its ability to make changes to the construction plans, as the Commission's order authorized Cove Point to implement a reactivation design that was put in place by Williams. Williams had already secured contracts and ordered long-lead materials, which DCP Witness Frederick will describe in greater detail. So in proceeding with the project, Dominion faced substantial risks associated with the refurbishment, construction and operation of the terminal, and with responding to the Cove Point customers' expectations of reliable service.

Q. Were the Reactivation Settlement rates sufficient to construct and operate the facilities required to provide the services contemplated by the Reactivation Settlement?

A. No. Apparently, Williams had also realized that the Reactivation Settlement rates would not suffice to cover its reactivation costs, even though actual construction had not begun. Williams and its customers were negotiating to revise the initial settlement rates and to get the terminal reactivation back on track, at the time of Dominion's acquisition of the facility. DCP stepped into Williams' shoes, and quickly finalized two settlements with the Cove Point customers. The Amendment to the January 2001 Settlement ("Amendment") and the October 2002 Settlement that resulted from this process were filed with the Commission and approved at the end of February 2003. *Cove Point LNG Limited Partnership,* Order Approving Uncontested Amendment to Settlement and Settlement, 102 FERC ¶ 61,227 (2003). As a demonstration of its commitment, DCP commenced work at the terminal as soon as Commission authorization could be obtained – even though this action was taken prior to securing Commission approval of the Amendment and the October 2002 Settlement.

Q. Please explain the Amendment provisions that are relevant to this proceeding.

A. The Amendment is an agreement among DCP and its import shippers that acknowledged that the costs of reactivation had increased over and above estimates underlying the rates included in the Reactivation Settlement, and that additional facilities and modifications would be necessary in connection with the reactivation. The Amendment therefore adjusted the rates applicable to import shippers under Rate Schedule LTD-1 to reflect some of the additional facilities and activities whose costs were to be included in the revised rates.

Q. What requirements did the Amendment establish for DCP?

A. Under the Amendment, DCP was obligated to complete the reactivation, including the construction of new facilities and the refurbishment of existing facilities contemplated by the settlement, regardless of their cost -- but to charge no more than the settlement rates during the term of the settlement. Simply put, DCP agreed to spend whatever was required to reactivate the plant, even though the rates for import service were capped for the settlement period. The Amendment rates, adjusted for the elimination of the Transmission component, are the currently effective rates for LTD-1 and LTD-2 service.

Q. Please explain the October 2002 Settlement provisions that are relevant to this proceeding.

A. The October 2002 Settlement is an agreement among DCP, its import shippers and Washington Gas Light Company ("WGL") that resolved certain issues among these parties. The October 2002 Settlement revised the allocation of capacity that was agreed upon in the Reactivation Settlement to include additional peaking services for WGL. The October 2002 Settlement also called for DCP to offer a new, incremental transportation service from the western part of the pipeline system to the eastern part and construct the necessary facilities to provide this service. The incremental transportation is now referred to as the Cove Point East project.

UNRECOVERED COSTS

Q. Do the current rates, as established in the Reactivation Settlement and adjusted by the Amendment, fully recover the costs incurred by DCP to reactivate the terminal for LNG imports and the operating and maintenance costs that DCP continues to incur in providing the services contemplated in the Reactivation Settlement, the Amendment and the October 2002 Settlement?

A. No. DCP fulfilled its obligation to expend what was necessary to put the facility back into import service. However, DCP incurred significant costs in reactivating the terminal above the estimates provided by Williams. DCP Witness Stewart-York testifies that the rate base underlying the current rates does not include all of the costs actually incurred to reactivate the terminal and that are properly to be included in rate base. DCP Witness Frederick explains these costs. As DCP

Witnesses Verdun and Grim will further show, the current rates, which are based on settlements previously approved by the Commission, do not recover the full costs that DCP incurs to safely and reliably operate and maintain the terminal and pipeline for its customers.

Q. Please describe the magnitude of this inadequate cost recovery.

A. Even with the Amendment (and its revised rates) in place, DCP incurred approximately $57 million in capital costs above those projected for the construction of the new facilities and refurbishment of the existing facilities. Soon after commencing construction, Dominion became aware that the cost estimates for the facility refurbishment contemplated by the Reactivation Settlement and the Amendment were unrealistically low. In other words, additional facilities and renovations would be required for reactivation, beyond those included in Williams' reactivation plans. The unexpectedly poor condition of certain facilities, the need for design changes, and other difficulties encountered during construction were disclosed by Dominion in detailed monthly reports filed with the Commission throughout the reactivation process. Adjustments began from the outset of construction, as design flaws in the original plans were identified and the beginning of renovation revealed the need for additional work.

Q. What actions did DCP take after this discovery?

A. In accordance with the Amendment, DCP made the necessary investment to construct and refurbish the terminal in order to meet its service obligations, even though the Reactivation Settlement and Amendment rates which would remain in effect until this rate case resulted in significant underrecovery of revenues by DCP. Those capital expenditures began in October 2002.

Q. Please describe the unrecovered operating and maintenance costs.

A. The terminal operating and maintenance costs were also dramatically understated in the Reactivation Settlement and the Amendment. Although approximately $8.6 million in annual operating costs were anticipated when rates for the facility were last settled, DCP has consistently experienced operating costs approaching triple that level. DCP Witness Verdun will testify as to these operating and maintenance costs.

OVERVIEW OF COVE POINT SERVICES

Q. What services does DCP currently provide?

A. DCP's tariff provides for service under Rate Schedules LTD-1 and LTD-2, which are LNG tanker discharging services; Rate Schedules FPS-1, FPS-2 and FPS-3, which are peaking services; and Rate Schedules FTS and ITS, which are transportation services.

Q. Please describe the service provided under Rate Schedule LTD-1.

A. This rate schedule consists of a firm LNG tanker discharging service. We also refer to LTD-1 as an "import service." LTD-1 service includes the receipt of imported LNG from LNG tankers, which offload their cargoes at the Cove Point pier. LTD-1 service also includes firm storage of this LNG in tanks on the terminal site, and firm entitlements for vaporization of LNG quantities to be sent out from the Cove Point terminal. The vaporized LNG is delivered to points along the Cove Point pipeline and to interconnections with downstream interstate pipelines, by means of the firm and interruptible transportation services that are offered through the DCP tariff, as noted below.

Q. How are import service entitlements quantified in the DCP tariff?

A. The LTD-1 customers are entitled to store and withdraw their Maximum Daily Delivery Quantities ("MDDQ") on a firm basis, and to store quantities of LNG determined by the ratio of 8.51 times each shipper's MDDQ. The LTD-1 customers are also permitted to act as a "single entity" to coordinate their utilization of the terminal.

Q. Please describe the service offered under Rate Schedule LTD-2.

A. This rate schedule constitutes the interruptible version of the LNG tanker discharging service described under Rate Schedule LTD-1. DCP may make the terminal available for interruptible LNG shipments only after providing LTD-1 customers 30 days prior written notice of the requested service and only if the LTD-1 customers do not assert that the requested service would interfere with previously scheduled service. DCP has not provided any service under Rate Schedule LTD-2 to date.

Q. Please describe the firm peaking services offered by DCP.

A. Currently, DCP has four FPS customers, with maximum service entitlements totaling approximately 24% of the terminal's contractual sendout during peak times, and 27.4% of the capacity of the original four tanks. These ratios are more fully described in the testimony of DCP Witness Grim. The FPS customers are local distribution companies. Although the peaking service is, by definition, available to the customer for only a limited number of days each year, these customers are entitled to withdraw their inventories at any time from December 15 through April 15.

Q. How are peaking service entitlements quantified in the Cove Point tariff?

A. The FPS customers are entitled to withdraw their Maximum Daily Peaking Quantities ("MDPQ") on a firm basis. The FPS customers may nominate additional quantities (also characterized as firm in nature), not to exceed 15% of the MDPQ, as "Authorized Excess Withdrawal Quantities." FPS customers are also entitled to an hourly swing in the pattern of their withdrawals at the terminal of 120% of 1/24th of their maximum daily quantities.

Q. And how do the peaking service customers get their inventory into the Cove Point LNG tanks?

A. The tariff calls for the FPS customers to tender quantities of natural gas to Cove Point during the summer injection period in a manner that mirrors the capability of the liquefier. However, the reactivation of the terminal and regular arrival of LNG shipments has permitted DCP to offer a great deal more flexibility on injections for the peaking service customers. This physical reality has freed the peaking service customers from a rigid pattern of acquiring small quantities of gas supply each day through the summer injection period; instead, they can choose to purchase a more substantial quantity of gas—at more economically advantageous times-- to tender for injection because the injection is actually accomplished by displacement. The reactivation of the terminal, therefore, has also allowed FPS customers to avoid the substantial cost of fuel that would otherwise be incurred in running the liquefier. In fact, the liquefaction process can consume more than

20% of energy received, simply to convert natural gas to its liquid state. Reactivation has allowed the FPS shippers to avoid this significant fuel charge during times when tankers are arriving on a regular basis. Although limited volumes are involved, not using the liquefier reduces plant consumption and makes additional volumes of gas available to the marketplace.

Q. Please describe the services DCP offers under Rate Schedules FTS and ITS.

A. DCP provides both firm and interruptible transportation services for either re-gasified LNG or domestic natural gas, utilizing the Cove Point pipeline. For the most part, these services are provided at system-wide, postage stamp rates. However, Cove Point also provides certain incrementally-priced, firm transportation service generally pursuant to terms and conditions of Rate Schedule FTS, as a result of the Cove Point East project.

Q. Has the reactivation of the terminal had any impact on the FPS or transportation-only customers of DCP?

A. Yes, as mentioned above, the FPS customers have benefited significantly in that they now have greater flexibility in their injection schedules and avoid significant fuel costs. In addition, the reactivation of the terminal for LNG imports has introduced new supplies into the Mid-Atlantic region, an area that had previously experienced both supply and capacity constraints. These supplies are available to the FPS and the transportation customers who can now arrange for supplies to be delivered directly by the import shippers from the terminal to the applicable delivery points. Also, in connection with the reactivation, an interconnection with

Transco was added, enabling DCP to receive supplies from Transco, as well as offering additional delivery options.

OPERATIONAL AND REGULATORY RISKS

Q. What has been DCP's experience in operating these facilities?

A. Throughput since reactivation has been greater than anticipated. DCP received its initial cargo of imported LNG in August 2003, and imports at the terminal have provided approximately 325 million dekatherms of needed gas supplies, making Cove Point the most active LNG receiving terminal in the United States during the base period for this proceeding. The frequency of LNG ship arrival and the resulting LNG deliveries have at times far exceeded the level estimated by the prior owners. This level of activity has stressed the facilities because the original design agreed to by the former owner and the LTD customers included little or no sparing capability. The result has been an increase in both operating and maintenance expense and required maintenance which, because of the increased equipment "run time" must be performed at shorter-than-expected intervals. The heavy utilization of the facility has also clearly demonstrated that DCP must stand ready to operate the facility at maximum levels.

Q. Does the age of the Cove Point facilities create additional risk?

A. Yes, it does. The Cove Point LNG terminal facilities were originally designed and constructed in the mid 1970s. Although throughout the reactivation process DCP has invested significant resources in refurbishment of the facilities, one cannot disregard the fact that significant components have remained in place in a salt water environment, in various states of operation and repair, for almost thirty years. It is reasonable to expect that this type of facility will require vigilance in its operation and maintenance, particularly given the significant demands placed on this facility to achieve the high load factors required for service.

Q. Does the combination of services offer any additional risk?

A. Yes. Cove Point is the only LNG import terminal in the United States to also provide a peaking storage service for local distribution companies. The combination of two very different types of services imposes added complexity and risk to Cove Point's operations. The Cove Point terminal was originally designed to receive LNG from tankers and hold the LNG in the tanks for a limited period before re-vaporization. The provision of the peaking services could be considered a less efficient use of the terminal and results in far more complicated operations, with the need to hold injected quantities for a long period and the obligation to provide hourly swings on much different terms than apply to the base-load, tanker discharging service.

Q. Does the operation of the offshore facilities also pose a risk?

A. Yes. DCP is a unique LNG facility in that the pier, where the LNG cargo is unloaded, is located 1¼ miles offshore in the Chesapeake Bay. No other LNG facility in the country is located that distance offshore. Access to the pier is provided through an underwater tunnel. The pier is near the main shipping channel for the Chesapeake Bay. Numerous commercial ships and barges pass by the pier on the way to the Port of Baltimore and other destinations. This aspect of the facility imposes risks that are unique among LNG facilities, and that certainly are different from the operation of a land-based pipeline. For example, deepwater-related risks and even weather conditions that may affect the offshore pier dictate specialized security training and safety precautions that would not be relevant for a typical pipeline operation. As another example, major storms could affect the ability of the terminal to offer a safe berth to offloading tankers – whether for intermittent periods or by causing changes to the channel in the vicinity of the pier – impinging upon Cove Point's ability to meet its contract obligations without incurring significant maintenance costs and facing potential liability under maritime law.

Q. What would happen if a wayward ship or barge collided with the pier?

A. Depending on the severity of the collision, the pier could be shut down indefinitely. The pier is DCP's only facility capable of unloading LNG cargo. If the pier could not be repaired within a reasonable amount of time, the entire LNG import operation would need to be suspended. The Coast Guard has established an exclusion zone around the pier, in recognition of the risk of this type of occurrence.

Q. Does DCP face other risks that are different than those of a natural gas pipeline?

A. Yes. The Cove Point facilities include a significant interstate pipeline facility, which traverses 88 miles through a highly populated region of the United States. Therefore, DCP manages the same risks that any interstate natural gas pipeline would encounter, in addition to its exposure that is unique to LNG.

The recent revival of the U.S. LNG industry has been marked with a substantial amount of regulatory change at the federal level, particularly in facility design and operation. These developments have included both onshore and offshore safety and security requirements, and expanded regulatory requirements and oversight by the FERC, the U.S. Coast Guard ("Coast Guard") and the Department of Transportation ("DOT"). That regulatory evolution can reasonably be expected to continue, as the country looks to LNG imports to satisfy an increasing share of natural gas demand. Any incident, even an overseas accident at the opposite end of the supply chain, has the potential to heighten scrutiny and create increased regulatory oversight. As a result, an owner/operator of an LNG import terminal will face a degree of regulatory uncertainty that is likely to lead to increased costs. These changing regulatory requirements reflect not only circumstances at individual terminals, but LNG industry-wide requirements.

Q. Can you provide an example of how this type of scrutiny can result in increased costs to DCP?

A. Yes. After an unrelated explosion at an Algerian liquefaction plant in 2004, the FERC inspected Cove Point's facility and required additional gas detection equipment to be installed near the air intake for Cove Point's liquefaction unit.

Q. What about risks of regulation at the state and local level?

A. The growth in LNG project development has triggered concerns for other sites, which have been translated to the Cove Point context as well. For example, in the 2005 session, a bill was introduced in the Maryland legislature that would bar construction and operation of LNG facilities – including the Cove Point LNG terminal by definition – within two miles of any residence. While this initiative was not enacted into law, proponents of such limitations will persist. The June 2006 issue of the *Chesapeake Bay Journal* reports that a bill will be introduced in the next Maryland legislative session to "ban LNG plants . . . within five miles of a residential area." Cove Point must expend resources to identify and address these risks and concerns, on an ongoing basis. I expect these types of initiatives to continue at all levels, particularly in an era where LNG is playing such a high-profile role in the energy policy of this country.

Q. Are there any other risks faced by Cove Point that are different from a typical domestic natural gas pipeline?

A. Yes. The Cove Point pipeline and terminal are mutually dependent. Unlike most major pipelines, the Cove Point pipeline depends on re-vaporized LNG from the terminal. Any interruption of supply to the terminal will impact the operation of the take-away pipeline. That is to say, there are no alternative supply sources that can easily be used to substitute for receipts of gas from the terminal. Likewise, the terminal is entirely dependent on the reliable operation of the pipeline. We simply do not have alternative means of LNG delivery, whether by trucks, barges or an alternative pipeline outlet.

Moreover, DCP's current capacity is limited. For example, the only takeaway source from the facility is a single 36-inch line. If this takeaway pipeline were shut down, the facility would be effectively shut in.

Q. Does the facility face additional security risks?

A. Yes. The Cove Point facility faces other risks associated with heightened security requirements in the post-September 11th world. The LNG terminal is considered a "port" for homeland security purposes; it is, and will continue to be, subject to increased security requirements in light of broader scrutiny for all types of shipping industries. The cost can be significant. For example, DCP has increased its security staff six fold since September 11th. And DCP has recently been advised by the Coast Guard that additional security measures will be required, which we expect to reflect in test period updates during this proceeding.

Q. Has the Coast Guard ever closed an LNG terminal for security reasons?

A. Yes. After September 11th, the Coast Guard suspended LNG shipments to the Everett terminal in Massachusetts in order to conduct a security review and revise applicable security plans.

Q. Could the DCP facilities be duplicated today?

A. No, it is highly unlikely that a suitable site could be found to construct and operate comparable facilities today. First, I do not believe that a pier more than one mile offshore could be constructed in the Chesapeake Bay today, with an associated underwater LNG pipeline, without an extensive – and expensive – permitting process. It would be tremendously difficult to acquire and permit a tract of nearly 1,000 acres of undeveloped land on the waterfront for the siting of a new terminal. Cove Point is one of only three operating LNG import terminals on the East Coast of the United States, and today's customers are receiving the benefits of reactivation of a moth-balled terminal that, in my opinion, cannot be replicated. While numerous applications for new LNG terminals have been proposed, siting of new terminals is problematic, and no new terminals have been constructed on the East Coast since the three existing terminals were built in the 1970s.

Moreover, the location of the Cove Point LNG terminal and take-away pipeline provides unique benefits to its customers, who are able to deliver imported natural gas supplies directly into the Mid-Atlantic and Northeast markets at lower cost than imported supplies received from a terminal located on the Gulf Coast. Even if the Cove Point terminal could be replicated, the cost of greenfield construction today would be substantially higher than the reactivation costs reflected in this rate filing. Unlike the Cove Point terminal, of course, new LNG terminals are not subject to cost-of-service rate regulation. They are entitled to market-based rates, while DCP remains subject to cost of service regulation for the services at issue here.

Q. What other risks does DCP face?

A. BP and Shell are currently seeking permits to build their own East Coast LNG importation facilities. Both BP and Shell are major shippers at the DCP facility. If these facilities become operational, there is a risk that demand for the DCP facilities will significantly diminish. Moreover, if they have their own plants when their contracts with DCP expire, it is likely they will prefer to use their own plants, rather than re-contract with DCP. If that projection is accurate and BP and Shell elect to use their own import terminals, there is significant danger that DCP will be left without import shippers following the expiration of current contracts.

Q. Have you seen articles supporting that assumption?

A. Yes. On June 7, 2006 *Energy Daily* published an article entitled "Supplier: US LNG Import Capacity Getting Overbuilt." In the article, the manager of LNG supply and trading for BP Energy stated that LNG facilities in the United States are at risk of being overbuilt.

Q. You mention unique regulatory risks relating to an LNG facility. Please explain.

A. LNG facilities are regulated by multiple agencies, including the Coast Guard, the Federal Energy Regulatory Commission, and the Department of Transportation, in addition to the applicable state and local government regulators. Being regulated by several different governmental agencies dramatically increases the uncertainty that one or more of these agencies will impose additional regulations, which will make operation of the facilities more expensive.

Q. How about regulation by FERC?

A. DCP is heavily regulated by FERC. Commission certificates for LNG facilities have a significantly greater number of safety and operating conditions than certificates for natural gas pipelines. Like the Coast Guard, FERC more closely scrutinizes LNG operations in the post September 11th era. Indeed, recently FERC formed a new LNG Engineering branch that is devoted exclusively to LNG safety and security. This branch will standardize reporting and inspections of the Cove Point LNG terminal. We are advised that this team will undertake annual site visits, rather than the previous bi-annual review, which I expect to result in increased costs for plant operations.

Q. How about regulation by DOT?

A. The Office of Pipeline Safety ("OPS") within the DOT regulates pipeline safety at the DCP facilities. OPS has authority to require new pipeline safety regulations at DCP, which could increase the costs of operating the facility. For example, if

DOT were to impose new regulations on fire suppression, DCP would likely need to retrofit its facility at an additional cost to comply with these regulations. Depending on the extent of such new regulations, DCP may need to shut down its facility for some period of time in order to comply.

Q. Please summarize your testimony.

A. Full inclusion of all the capital costs incurred by DCP to reactivate the terminal is warranted, along with full recovery of its increased operating costs. This strategic asset is now a cornerstone in the United States' effort to stabilize the natural gas market, and critical for the nation's future gas supply needs. The rates established in this case must recognize the importance of this facility, the increases in costs associated with operating the plant, its unique risk of operation, and provide a sufficient return to assure its continued operation and encourage its future expansion.

DIRECT TESTIMONY FILED BY COVE POINT

Q. Please describe the witnesses who will present direct testimony in this case, on behalf of DCP.

A. Witnesses proposing testimony on specific issues are as follows:

- Machelle Grim, Director, Regulatory & Pricing at Dominion Transmission, Inc. ("DTI"), is sponsoring testimony on the cost of service overview, including the cost allocation, rate design and capital structure, billing determinates and operating revenues;
- Paul Moul, Management Consultant, Moul & Associates, is sponsoring testimony on rate of return on equity;

- Michael Frederick, Director, Cove Point Operations, is testifying on the investments required to return the plant to import service;
- Christina Stewart-York, Regulatory & Pricing Analyst at DTI, is testifying as to rate base and plant in service;
- Daniel Verdun, Regulatory & Pricing Advisor at DTI, is sponsoring testimony on the operating and maintenance costs;
- Alan Lovinger, a Vice President of Brown, Williams, Moorhead & Quinn, Inc. ("BWMQ"), is sponsoring testimony on taxes, ADIT and the restoration of the rate base;
- James Taylor, an Associate at BWMQ, is sponsoring testimony on negative salvage costs; and,
- Edward Feinstein, a Vice President of BWMQ, is sponsoring testimony on depreciation.

Q. Does that conclude your testimony?

A. Yes, it does.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Dominion Cove Point LNG, LP) **Docket No. RP06-____**

AFFIDAVIT OF ANNE E. BOMAR

Anne E. Bomar, being first duly sworn according to law, on oath deposes and says: that she is the witness whose testimony appears on the preceding pages entitled "TESTIMONY OF ANNE E. BOMAR ON BEHALF OF DOMINION COVE POINT LNG, LP" in this proceeding; that, if asked the questions which appear in the text of the aforesaid testimony, affiant would give the answers that are therein set forth; and that affiant adopts the aforesaid testimony as her sworn testimony in these proceedings.

Anne E. Bomar

Anne E. Bomar

Subscribed and sworn to before me this 27 day of June, 2006.

Notary Public
District of Columbia
My Commission Expires: 11/14/07

EXHIBIT NO. DCP-2
DOMINION COVE POINT LNG, LP
SYSTEM MAP