

June 30, 2006

Ms. Magalie Roman Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Dominion Cove Point LNG, LP, Docket No. RP06-_____

Dear Ms. Salas:

Pursuant to Section 4 of the Natural Gas Act and Section 154.7 of the Regulations of the Federal Energy Regulatory Commission ("Commission" or "FERC"), 18 C.F.R. § 154.7 (2005), Dominion Cove Point LNG, LP ("DCP") hereby submits for filing an original and fourteen copies of a request to change its base rates effective August 1, 2006. After a five month suspension, these rates can go into effect on January 1, 2007. DCP also submits for filing the following revised tariff sheets that set forth the proposed rates, for inclusion in its FERC Gas Tariff, Original Volume No. 1:

Seventh Revised Sheet No. 5
Seventh Revised Sheet No. 6
Sixth Revised Sheet No. 7
Seventh Revised Sheet No. 8
Seventh Revised Sheet No. 11
Third Revised Sheet No. 12

Statement of Nature, Reason, and Basis for Filing

This is DCP's first Section 4 rate case since the terminal was returned to active use. In 1972, 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. The project was jointly proposed by affiliates of two interstate pipelines to provide bundled natural gas sales services to their customers. 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 on April 10, 1980. For the next fourteen years, the facilities were not used, except for a small amount of interruptible transportation service provided through the Cove Point Pipeline.

In 1994, the Commission authorized Cove Point LNG Limited Partnership, a joint venture between subsidiaries of Columbia Gas Systems, Inc. ("Columbia") and Potomac Electric Power Company ("PEPCo") to reactivate a portion of the dormant onshore facilities and to construct a liquefaction unit for the purpose of storing domestic natural gas during the summer for use 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. Currently, DCP continues to provide peaking service to four customers: Atlanta Gas Light Company, Virginia Natural Gas, Washington Gas Light Company, and Public Service Company of North Carolina.

In 1999, Columbia acquired PEPCo's interest in Cove Point LNG Limited Partnership 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., BP Energy Company, and El Paso Merchant Energy, L.P. (El Paso later permanently released its contract to Statoil North America Inc.). Cove Point LNG Limited Partnership was purchased by subsidiaries of The Williams Companies (“Williams”) on June 14, 2000. Cove Point was purchased by Consolidated Natural Gas Company, a subsidiary of Dominion Resources, Inc.

Williams negotiated a Reactivation Settlement with the existing peaking and transportation customers and the new import customers. In September, 2002, the Reactivation Settlement determined, among other things, how the costs of the existing and proposed facilities would be allocated between the peaking and import customers and established the initial rates that would be charged to peaking, import, and transportation customers following reactivation of the terminal. The Reactivation Settlement was approved by the Commission in the same order in which the reactivation was certificated. *Cove Point LNG Limited Partnership*, 97 FERC ¶ 61,043; *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).

The Reactivation Settlement stated in Article IV Paragraph 2 that, “Cove Point agrees to file a NGA Section 4(e) general rate case to be effective, assuming the full five (5) month statutory suspension period, no later than October 1, 2007.” This is the filing contemplated by that provision. DCP is not proposing any service or tariff changes in this docket.

DCP is filing for a rate base of \$325,284,032, an increase from the \$266,183,841 underlying the existing rates. DCP’s proposed cost of services is \$111,960,628, compared to the cost of service reflected in current rates of \$75,532,253.

This filing reflects a significant rate increase for import shippers and firm peaking service customers. In the October 2002 Amendment to the Reactivation Settlement, the parties agreed to a cap on the cost of the reactivation that could be reflected in rates prior to the filing of the instant case. As detailed in the testimony of DCP Witnesses Bomar, Grim, Frederick and Stewart-York, the actual prudently incurred cost necessary to restore the facility to import service, including 14 significant post certification design changes, was substantially in excess of the amount estimated by Williams and the amount reflected in the prior settlement rates. Ratepayers have received the benefit of that investment over the past three years, but DCP has not been adequately compensated for that investment. Moreover, for reasons that include the high rate of usage at the terminal, increasing security costs and a tripling of plant head count the cost of operating and maintaining the facility has greatly increased.

When viewed in isolation, the rate increases for import and peaking services appear large. However, because of the prior settlements, the rates for these valuable services have been held artificially low over the past three years. The proposed increase is just and reasonable when placed into the proper perspective. First and foremost, the reactivation project resulted in the refurbishment or replacement of many of the terminal facilities, such as power generation turbines, that are used to provide both services. Additionally, the restoration of LNG import services at the terminal has greatly benefited the three import shippers by giving them access to a terminal located in the heart of the market, with interconnections to three major pipelines serving the Mid-Atlantic and Northeast. Since reactivation, DCP has become the most active terminal in the United States.

The FPS service has also benefited from the reactivation activities. The extensive renovations completed on the aging terminal facilities have resulted in significant improvements

in reliability that enhance the value of the service to the FPS customers. Prior to the resumption of imports, service for the FPS services customers required the use of a liquefier to cool the gas to a liquid state for injection into the tanks. However, the liquefier consumed significant volumes of fuel. With the existing tariff cap on the liquefier fuel rate of 20.5%, for every 5 Dths delivered for injection, the FPS shippers only received 4 Dths in inventory. Because of the regular arrival of LNG tankers at the terminal, DCP has been able inject FPS quantities by displacement. The resulting reduction in fuel use represents a significant savings to the FPS shippers that is not reflected in a comparison of current versus projected demand charges. When compared to the cost of supply alternatives in the capacity-constrained Mid-Atlantic region, the peaking service remains highly competitive.

The rates for other services have less significant changes. DCP is continuing the incremental rate treatment of the Cove Point East facilities and this case reflects a small increase in that rate. DCP is also proposing a reduction in the rate for FTS service in this case.

The Commission referred certain issues related to the use of gas during the start up of import activities in August 2003 to this rate case. Dominion Cove Point LNG, LP, 110 FERC ¶ 61,366 (2005). DCP has determined that the fuel used for start up should be capitalized and recorded in FERC Account No. 101 pursuant to 18 C.F.R. Part 201, Gas Plan Instructions 9.E and 3(21). The Commission also referred to this case the question of whether DCP should be required to refund to its customers revenues received from the sale of gas not needed for start up from the commissioning cargo purchased by DCP. Since DCP purchased the LNG, a commodity, in the open market and bore the entire commodity risk, it is entitled to the full proceeds of the sale of the excess gas. DCP's proposal is supported in the testimony of DCP Witnesses Verdun, Stewart-York and Frederick.

DCP is requesting a continuation of the current depreciation rate of 5% and the establishment of an asset retirement obligation for the LNG facilities and a negative salvage rate for the transmission plant. DCP Witnesses Grim, Feinstein and Taylor provide supporting testimony.

At the time that PEPCo acquired an interest in the plant, the Commission required a writedown in the value of the facilities. In the Reactivation Settlement the parties agreed to an “acquisition adjustment” which effectively restored part of the rate base reduction. In this case, as testified to by DCP Witness Lovinger, DCP proposes to restore to rate base the remainder of that reduction, \$28 million, which will have the effect of restoring the original rate base. At this time, DCP is not proposing to recover an acquisition adjustment to reflect the acquisition premium paid by Consolidated Natural Gas Company.

DCP is utilizing the capital structure of its parent company, Consolidated Natural Gas Company. This capital structure is approximately 57% equity and 43% debt. DCP is seeking a 15% return on equity which equates to an after-tax return of 11.33%, compared to the 11.20% reflected in current rates. The requested return is supported by the testimony of DCP Witnesses Bomar, Grim and Moul.

Materials Submitted with Filing

In accordance with the applicable provisions of the Commission’s regulations, DCP is submitting the following materials:

- (1) its proposed tariff sheets on the enclosed 3-1/2" diskette, with the file name TF063006.asc in accordance with Section 385.2011(b);
- (2) redlined versions of the proposed tariff sheets, as required by Section 154.201(a);

- (3) a Form of Notice for this filing suitable for publication in the Federal Register, as required by Section 154.209;
- (4) a second 3-1/2" diskette, with an electronic copy of its Form of Notice, labeled Notice.asc;
- (5) a Certification of Service to all affected customers and interested State Commissions, as shown on the attached service list, as required by Section 154.2(d);
- (6) the Representation of DCP's authorized accounting representative, as required by Section 154.308;
- (7) Statements A through J, L, M and O (found at Exhibit No. DCP-4 in Statement P) and Statement P, as required by Section 154, together with related schedules and workpapers sufficiently detailed to support the rate changes being proposed herein; and
- (8) a CD-ROM labeled "DCP—Rate Case Filing," containing the electronic version of this filing, as required by Section 154.4.

Effective Date and Motion

Given the substantial nature of the rate increase proposed herein, the proposed rates are expected to become effective January 1, 2007, following the maximum statutory suspension of five months from the proposed effective date of August 1, 2006. In accordance with Section 154.206, DCP reserves the right to file whatever motion is appropriate to place all suspended rates in effect.

Certification of Electronic Filing

The undersigned certifies that she has read the filing signed and knows the contents of the paper copies and electronic media; the paper copies contain the same information as contained on the electronic media; except as noted below, the contents as stated in the copies and on the electronic media are true to the best knowledge and belief of the signer; and, the signer possesses full power and authority to sign the filing.

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Waivers

While DCP knows of no waivers that are necessary to permit this filing to become effective as requested, DCP respectfully requests that, should the Commission determine that any such waivers are required, the Commission grant such waivers as are necessary to make these tariff changes effective as requested.

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Posting, Certification of Service and Service on DCP

Copies of this filing have been posted and mailed to all customers and interested State Commissions, as shown on the attached service list.

The names, addresses and phone numbers of the Company officials to whom any questions regarding this filing should be addressed are:

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* Designated to receive service pursuant to 18 C.F.R. § 385.2010(c).

Respectfully submitted,

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