Exhibit No. DCP-3

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

TESTIMONY OF
MACHELLE GRIM
ON BEHALF OF
DOMINION COVE POINT LNG, LP

Q. Please state your name, address and present employment.

A. My name is Machelle F. Grim. My business address is 120 Tredegar Street, Richmond, Virginia 23219. My title is Director, Regulatory & Pricing, at Dominion Transmission, Inc. ("DTI"), a subsidiary of Dominion Resources, Inc.

Q. Please state your education and professional background.

A. I graduated from West Liberty State College, West Liberty, West Virginia with an undergraduate degree in Business with a specialization in Accounting. I received a Masters in Business Administration from West Virginia University. In 1984, I was employed by CNG Transmission Corporation (predecessor of DTI), in the Corporate Planning area. I subsequently held various positions in the Accounting, Rates, Business Development and Information Technology areas before being appointed to my current position in April 1, 2006.

Q. What are your present responsibilities?

A. On behalf of the interstate pipeline subsidiaries of Dominion Resources, Inc., including Dominion Cove Point LNG, LP ("DCP"), I am responsible for development and implementation of rates and tariff provisions; preparation of regulatory filings, including rate exhibits for certificate applications; and rate negotiations dealing with cost of service, rate design and fuel retention. I also represent these interstate pipelines regarding rate and tariff matters in contacts with representatives of the Federal Energy Regulatory Commission ("FERC" or "Commission"), state commissions, customers, industry associations and others in the industry.

Q. Have you previously submitted testimony before FERC?

A. No.

Q. What is the purpose of your testimony in this proceeding?

A. I have overall responsibility for the preparation of DCP's rate case. In my testimony I specifically address:

- The overall cost of service as presented in Exhibit No. DCP-4. I am responsible for all numbers included in the exhibit, with the exception of operation and maintenance ("O&M") expense supported in the testimony of DCP Witness Verdun and rate base that will be supported in the testimony of DCP Witness Stewart-York.
- Storage information in the format reported in FERC Form No. 2 on Schedule C-3.

- The use of DCP's immediate parent's, Consolidated Natural Gas Company, capitalization as the appropriate capitalization to use in this proceeding.
- DCP's appropriate return on equity, in light of the range of returns supported in the testimony of DCP Witness Moul.
- The appropriate debt cost, based on the cost of long-term debt held by Consolidated Natural Gas Company.
- The appropriate billing determinants and revenues as reflected on Statement G.
- Incorporation of the recommendations of DCP Witness Feinstein on DCP's appropriate depreciation rates and asset retirement obligation and DCP Witness Taylor on the cost for asset retirement.
- The computation of the income tax allowance and the proposed level of taxes other than income.
- The allocation of the Cost of Service among the services offered by DCP, including transportation, peaking service and import service as shown on Statement I.
- The calculations of rates as they appear on Statement J.
- Finally, the financial statements as they appear on Statements L and M.

STATEMENTS AND SCHEDULES

Q. Please provide a list of the statements and schedules included in Exhibit No. DCP-4 and the DCP witness supporting each Statement or Schedule.

A. The listed statements are as follows:

Statement A	Overall Cost of Service
Statement B	Summary Rate Base and Return
Schedule B-1	Summary of Accumulated Deferred Income Taxes
Schedule B-2	Regulatory Assets and Liabilities
Statement C	Cost of Plant
Schedule C-1	Gas Plant by Account
Schedule C-2	Gas Plant Additions
Schedule C-3	Storage Projects
Statement D	Accumulated Provision for Book and Regulatory Depreciation, Depletion, and Amortization
Statement E	Working Capital
Schedule E-1	Cash Working Capital
Schedule E-2	Materials and Supplies and Prepayments
Schedule E-3	Storage Inputs, Outputs and Balances
Statement F-1	Summary Rate of Return
Statement F-2	Capitalization and Cost of Capital
Statement F-3	Debt Capital
Statement G	Revenues, Credits and Billing Determinants
Schedule G-1	Base Period Revenues
Schedule G-2	Test Period Revenues
Schedule G-3	Base Period to Test Period Adjustments
Schedule G-4	At-Risk Revenue
Schedule G-5	Other Revenues
Schedule G-6	Miscellaneous Revenues

Statement H-1	Summary Operation and Maintenance Expenses
Statement H-2	Depreciation, Depletion and Amortization Expense
Statement H-3	Federal and State Income Taxes
Statement H-4	Other Taxes
Statement I	Functionalization, Classification and Allocation of Cost of Service
Statement J	Computation of Rates
Statement L	Balance Sheet as of April 1, 2005 and March 31, 2006
Statement M	Income Statement for the twelve months ended March 31, 2006
Statement O	Description of Company Operations
Statement P	Explanatory Text and Prepared Testimony

I will be supporting all listed schedules and statements with the exception of Statements B, C (excluding C-3), D and E, which will be supported in the testimony of DCP Witness Stewart-York; Statement H-1, which is supported in the testimony of DCP Witness Verdun; Statement O, which is supported by DCP Witness Bomar; and Statement P, which is submitted as separate Exhibits to this filing.

COST OF SERVICE

Q. Please provide an explanation of Statement A.

A. Statement A includes the overall cost of service in the amount of $111,960,628. The overall cost of service is separated into three functions: Other Storage, LNG Terminaling and Processing, and Transmission. The first of these, "Other Storage," refers to the liquefier and related facilities. The second function, referred to as "LNG Terminaling and Processing" (or "LNG Terminaling"), refers to both the onshore and offshore plant used to import, process, store and vaporize liquefied natural gas. The third function, "Transmission," refers to the interstate pipeline facilities. The cost is separated by function to facilitate allocation of costs and the computation of rates for the services provided by DCP. The individual statements support the costs included on Statement A with the exception of the “Asset Retirement Obligation“(“ARO”) reflected on Line 14; that computation is supported in the testimony of DCP Witness Feinstein.

STORAGE INFORMATION

Q. Please discuss Schedule C-3.

A. Schedule C-3, Part 1, shows gas delivered to and from storage by month. For each month, the schedule shows gas belonging to DCP, gas belonging to others and in total. Schedule C-3, Part 2, shows operating information including the number of tanks, total tank capacity, and LNG quantity information.

CAPITAL STRUCTURE

Q. Please discuss Statement F-1.

A. Statement F-1 provides a narrative regarding the rate of return filed by DCP in this proceeding. DCP has filed for a return on equity of 15%, which calculates to an overall after-tax return allowance of 11.33%, a slight increase from the existing after-tax return allowance of 11.20%.

Q. What capital structure are you recommending as appropriate?

A. I am recommending the use of DCP’s parent, Consolidated Natural Gas Company’s (“CNG”) capital structure in this proceeding. The recommended capital structure along with the capital costs and return on equity is shown below and on Statement F-2, Part 1 of Exhibit No. DCP-4:

Consolidated Natural Gas Co.
Capital Structure and Return
(December 31, 2006, Projected)

	Amount (Millions)	Ratio	Costs	Weighted Costs
Long term Debt	$4,300	43.14%	6.50%	2.80%
Common Equity	$5,667	56.86%	15.00%	8.53%
Total	$9,967	100.00%		
		Overall Return		11.33%

The calculation of the zone of reasonableness for the return on equity is supported by DCP Witness Moul's testimony.

Q. Why is it appropriate to use the CNG capital structure?

A. The Commission's preference is to base returns on the company's own capital structure, where the company is the financing entity for its debt. The Commission will use an imputed capital structure (most often that of the corporate parent) if the filing company's capital structure does not meet the requirements of the following three-step analysis:

1. Does the company issue its own non-guaranteed debt?
2. Does the company have its own bond rating?
3. Is the company's proposed equity ratio excessively high when compared with equity ratios approved by the Commission in other

cases and also in comparison with the equity ratios of the proxy group companies?

Q. Does DCP qualify for use of its capital structure after applying the analysis set out by the Commission?

A. No. DCP does not do its own financing, nor does it have a bond rating.

Q. Does CNG qualify for use of its capital structure after applying the analysis set out by the Commission?

A. Yes. CNG is the company that purchased DCP and that does the financing for DCP. CNG has its own bond rating, and its capital structure falls within industry norms.

Q. What capital structure is DCP proposing in this proceeding?

A. As of December 31, 2006, the projected capital structure of DCP's parent, CNG, is 43.14% Debt and 56.86% Equity, which is reflected on Statement F-2, Part 1 of Exhibit No. DCP-4.

Q. Please explain the derivation of the common equity amount shown on Statement F-2, Part 1, Exhibit No. DCP-4.

A. The actual common equity amount as of the end of the base period, or March 31, 2006, is adjusted by projected changes to be made by the end of the test period, December 31, 2006.

Q. Please explain the calculation of the debt amount outstanding and the derivation of the debt cost.

A. The derivation of the long-term debt amount is shown on Statement F-3, Exhibit No. DCP-4. The actual long-term debt amount as of March 31, 2006, is adjusted by the projected additional debt to be issued by the end of the test period, December 31, 2006. The cost of long-term debt as of March 31, 2006, is 6.50%. Any changes to the embedded debt cost will be updated as new debt is issued and a revised debt cost is available.

Q. Did you make other adjustments to the actual debt outstanding as of March 31, 2006?

A. Yes. 01-B Senior Notes due 11/1/2006, bearing an interest rate of 5.375%, were removed from the debt when determining capital structure and debt cost. This debt will mature during the test period and it is Commission policy that long-term debt due to mature within one year is considered short-term debt.

Return on Equity and the Associated Risks of DCP

Q. How was the recommended equity return allowance developed?

A. DCP Witness Moul's analysis supports an equity return of between 13.00% and 15.25%. From that range, I have selected a Return on Equity of 15% based on the specific risks faced by DCP. This selection is appropriate in light of the complexity of Cove Point operations, its status as an LNG import terminal, and the financial and other risks that are described by DCP Witnesses Bomar and Moul.

OPERATING REVENUES

Q. What services are being provided by DCP?

A. As described in more detail in the testimony of DCP Witness Bomar, DCP provides three general categories of service. The first, I will refer to as "peaking services." Peaking services include those offered under Rate Schedules FPS-1, FPS-2 and FPS-3. DCP offers firm and interruptible “import services,” also referred to as “tanker discharging service,” under Rate Schedules LTD-1 and LTD-2. DCP also provides firm and interruptible transportation services under Rate Schedules FTS and ITS.

Q. Please explain the details that Statement G provides.

A. Statement G provides a summary of DCP’s operating revenues for the base and test periods, and the variances between the two periods. Quantities and operating revenue are shown by rate schedule for Revenues from Transportation of Gas of Others through Transmission Facilities (Account No. 489.2) and Revenues from Storing Gas of Others (Account No. 489.4). In addition, surcharges, ACA, capacity release credits and other items are shown separately. .Schedules G-1 and G-2 detail the revenues from all transportation-related services and the revenues from all storage services including both peaking and import services. Schedule G-3 describes the adjustments to base period quantities and revenues.

Q. Please explain the operating revenue details contained in Schedule G-1.

A. Schedule G-1 provides the monthly details for the base period that are summarized in Statement G. Specifically, Schedule G-1 shows transportation service revenue categorized by: (a) service for long term contracts for Rate Schedule FTS, (b) incremental transportation service for Rate Schedule FTS: Cove Point East, and (c) revenue from released capacity. Revenue from peaking service is categorized by 10-day service on Rate Schedule FPS-1, 5-day service on Rate Schedule FPS-2, and 3-day service on Rate Schedule FPS-3. Revenue from import service is reflected on Rate Schedule LTD-1. There is no revenue under Rate Schedule LTD-2. Rate Schedule ITS revenue, and various revenue crediting mechanisms, are addressed in the footnotes of Schedule G-1.

Q. Please explain the operating revenue details contained in Schedule G-2.

A. Schedule G-2 provides the monthly detail for estimated revenue from each of the services offered by DCP in the test period.

DCP identifies all operating revenue in the G schedules. DCP updated its billing determinants based on service contracts that will be in place by the end of the test period. Short term contracts and contracts that expire during the test period are not included in Schedule G-2. One hundred percent (100%) of the reservation rate component of all ITS and authorized overrun revenues are credited to firm service customers, pursuant to the provisions of a settlement in Docket Nos. CP01-76 and RP01-217 dated January 30, 2001. DCP does not propose to change this crediting mechanism in this proceeding.

Q. Please describe how capacity release transactions are depicted in the schedules.

A. Each capacity release transaction is listed within the appropriate category for each applicable month in Schedule G-1. Capacity release contract agreements are designated with a number “5” as the first digit of the contract number. Statoil's contract numbers also begin with the number “5” as the contracts were permanently released to Statoil by El Paso Merchant Energy, L.P.

Q. How are discount transactions and segmentation treated?

A. DCP has included no discounted agreements in the design of rates for this proceeding and is not seeking a discount adjustment. Further, DCP has no revenue from segmentation.

Q. Please discuss the reservation billing determinants.

A. All peaking and LNG import services are fully subscribed; thus, there were no changes in billing determinants reflected for those services on Schedules G-1 and G-2. Billing determinants for FTS and FTS-Cove Point East were reduced for (1) contracts that expired during the base period or will expire during the test period and/or (2) capacity release contracts. Billing determinants for FTS-Cove Point East were increased to reflect a full year's determinants, as the base period only reflected reservation determinants for eleven (11) months because Cove Point East went into commercial service on May 1, 2005.

DEPRECIATION AND ASSET RETIREMENT OBLIGATION

Q. Please provide explanations for Statement H-2 and Schedule H-2(1).

A. Statement H-2 provides the calculation of depreciation and amortization expense for DCP's depreciable and amortizable investment projected to be in service by December 31, 2006, or the end of the test period. Column (b) presents the current depreciation and amortization rates used to calculate current accruals and Column (c) represents the rates supported in the testimony of DCP Witness Feinstein. The amortization of the acquisition adjustment authorized in Docket No. CP01-76 is based on a 20-year life based on the term of LTD-1 shipper contracts. DCP Witness Lovinger proposes the restoration of certain additional plant cost; these restored costs are to be amortized over the average remaining life of the LNG terminaling and processing plant. Schedule H-2 (1) reconciles the depreciable plant shown in Statement H-2 with the aggregate investment in gas plant shown in Statement C.

Q. Do you have any comments with respect to the testimony submitted by DCP Witnesses Feinstein and Taylor?

A. DCP Witness Feinstein provides testimony that supports appropriate depreciation rates for the DCP system and the calculations to support an appropriate asset retirement obligation ("ARO") and negative salvage allowance. DCP Witness Taylor presents testimony supporting extensive studies that result in an estimate of the cost to dismantle the existing facilities and return the property to its natural state. The total estimate of the cost to dismantle as supported by DCP Witness Taylor is used by DCP Witness Feinstein in developing an appropriate accrual to be reflected on DCP's books in anticipation of the eventual retirement obligation.

For DCP's onshore, offshore and liquefaction facilities, DCP Witness Feinstein supports the recovery of the cost of dismantling through an ARO calculation as prescribed in Commission's Order No. 631 that was issued in response to FAS 143. The distinction between the use of a traditional method and the ARO method is based on the utility's legal obligation to dismantle. The ARO method as prescribed by Order No. 631 can be used only if it can be determined that the utility has a legal obligation to dismantle. Under the agreement with the Sierra Club and the Maryland Conservation Council, Inc., DCP is obligated to remove or dismantle all above-ground structures and roadways.

Q. Why is it important to fund the cost of removal of the facilities now?

A. As supported by DCP Witness Feinstein, when it is certain that there will be a net cost to remove and dismantle a facility at the end of its useful life, it is also important to fund that cost over the life of the facility. All ratepayers who utilize the facility should contribute to the long term costs of its removal. It would be grossly unfair to leave the burden to only those ratepayers who utilize the facility as it nears the end of its useful life.

Q. What will DCP do if the Commission does not approve the ARO?

A. DCP will propose to utilize traditional negative salvage methodology for purposes of funding DCP's annual accrual for its eventual retirement obligation. DCP Witness Feinstein sponsors schedules setting forth a negative salvage charge under the traditional methodology.

INCOME TAX ALLOWANCE

Q. Please explain Statement H-3.

A. Statement H-3 sets forth the federal and state income tax calculations. The computation of income taxes is based on a gross-up calculation on the taxable portion of the return allowance. This calculation begins with the Rate Base as shown on Statement B and applies it to the rate of return also shown on Statement B and supported on Statement F-2, Part 2. Line 3 of Statement H-3 is the product of multiplying the rate base by the weighted equity return as supported on Statement F-2, Part 2. This amount represents the Taxable Portion of Return. Line 5 represents the Taxable Portion of Return plus an amortization of the equity portion of AFUDC to arrive at what is generally referred to as the Taxable Base. The Taxable Base is then multiplied by a gross-up of the federal corporate tax rate of 35%, which is calculated by dividing the tax rate by one minus the composite income tax rate. The gross-up of the corporate rate of 35% is 53.85% -- a rate that is generally referred to as the "tax-on-tax" rate. Because state taxes are calculated on both the return allowance and the federal income tax allowance, these two amounts are added and reflected on Line 7. State income taxes are then calculated using the currently effective state income tax rate of 7.02% grossed-up to a tax-on-tax rate of 7.55%. Line 9 reflects the product of multiplying the grossed-up state tax rate by the state tax base shown on Line 7. The sum of State income taxes and Federal income taxes is then carried forward to Schedule A.

Q. Why is it appropriate to use the corporate tax rate?

A. Because DCP is ultimately wholly owned by a taxpaying "C" corporation, the corporate tax rate is the correct rate to apply. DCP Witness Lovinger provides additional testimony on this issue.

Q. Please describe Statement H-4.

A. Statement H-4 reflects taxes other than income taxes as paid during the twelve months ending March 31, 2006, compared to the amount of taxes that DCP will incur based on "known and measurable" changes that have occurred and will occur prior to the end of the test period.

COST ALLOCATION AND COST CLASSIFICATION

Q. Please provide a brief description of the schedules included in Statement I.

A. Statement I begins with Schedule I-1(a) Part 1 that shows the overall cost of service allocated to the three types of services provided by DCP: peaking, import and transportation. The schedules that follow provide support for these allocated amounts. Schedule I-1(a) Parts 2 and 3 show the allocated cost of service and rate base, respectively, for LNG Terminaling and Processing. Both the cost of service and rate base are categorized as (1) On-Shore, excluding 5th Tank ("On-Shore"),

(2) 5th Tank, (3) Off-Shore and (4) Acquisition Adjustment / Restoration of Plant Cost. Schedule I-1(a) Parts 4 and 5 show the allocation of On-Shore cost of service and rate base, respectively, to peaking and import services. Schedule I-1(a) Parts 6 and 7 show the allocation of Off-Shore cost of service and rate base to peaking and import services. Schedule I-1(a) Parts 8 and 9 show the total cost of service and rate base that are directly charged and allocated to peaking services. Schedule I-1(a) Parts 10 and 11 show the total cost of service and rate base that are directly charged and allocated to import services. Schedule I-1(b) Parts 1 and 2 show the cost of service and rate base that are directly charged and allocated to incremental ("Cove Point East Transmission") and non-incremental ("General System Transmission") transportation services. Schedule I-1(d) Parts 1 and 2 show the derivation of the various ratios used to allocate costs. Schedule I-1(d) Parts 3 and 4 show the allocation of Administrative and General ("A&G") Costs. Schedule I-1(d) Part 5 shows the resulting allocation of total costs, using the ratios derived in Statement I-1(d) Parts 1 and 2.

Q. Please describe the method used to allocate A&G Expenses.

A. DCP's A&G Expenses are being allocated to Other Storage, LNG Terminaling and Processing and Transmission using the *Kansas-Nebraska* ("KN") methodology. The Commission adopted the KN method in Opinion No. 731. This method uses a combination of labor and gas plant ratios to allocate A&G costs among functions. An additional allocation, using Gross Plant Ratios, occurs for the A&G Expenses that are attributed to the LNG Terminaling and Processing and the Transmission functions. A&G for LNG Terminaling and Processing is allocated among On-Shore, 5th Tank and Off-Shore; A&G for Transmission is allocated between the Cove Point East Transmission facilities and General System Transmission facilities.

Q. Why is the further allocation necessary?

A. LNG Terminaling and Processing is categorized as On-Shore, 5th Tank and Off-Shore to facilitate the allocation of costs between peaking and import services; therefore, A&G costs allocated to LNG Terminaling and Processing must be allocated among the same categories. A&G for transmission requires the additional allocation because of the incrementally-priced Cove Point East service, which is distinguished in this manner from the rolled-in firm transportation service that is otherwise provided under Rate Schedule FTS.

Q. Are any of the LNG Terminaling and Processing categories not allocated between peaking and import services?

A. Yes. The 5th Tank is dedicated to import services by the terms of the January 2001 Reactivation Settlement. Therefore, it is appropriate for the cost of service associated with this facility to be attributed solely to import services.

Q. Please describe why and how LNG Terminaling and Processing - On-Shore is allocated between peaking and import services.

A. The On-Shore facilities, e.g. storage tanks, vaporizers and piping, are used to provide services for both the peaking and import customers. Therefore, it is appropriate that the cost of service associated with these facilities be allocated between the two services. The allocation methodology used for On-Shore considers both the tank capacity and peak-day sendout applicable to the two customer classes.

Q. Please describe how tank capacity is allocated.

A. DCP has five storage tanks. As mentioned previously, one of the tanks -- the 5th Tank -- is dedicated to the import shippers by terms of the Reactivation Settlement described by DCP Witness Bomar. The other four tanks, which I will refer to as the "original tanks," have a total capacity of roughly 5.0 Bcf. Using the average Btu conversion for the base period of 1.051 Dth per Mcf, this volumetric capacity represents 5,255,000 Dth of total storage capability. Peaking shippers have a total maximum contract capacity of 1,440,000 Dth. Therefore, the tank capacity reserved for the peaking shippers represents 27.4% of the total capacity in the original tanks. The remaining 72.6% of tank capacity is reserved for the import shippers.

Q. Please describe how sendout capacity is allocated.

A. On a peak day, peaking and import shippers have maximum contractual sendout entitlements of 204,000 Dth and 750,000 Dth, respectively. In addition, peaking customers are entitled to nominate Authorized Excess Withdrawal Quantities up to 15% of their Maximum Daily Peaking Quantity. Under the tariff, Authorized Excess Withdrawal Quantities are treated as a firm entitlement, giving peaking shippers, in total, the right to utilize 234,600 Dth per day. Thus, for rate design purposes, peaking shippers have 23.8% of the total peak-day entitlement of 984,600 Dth and import shippers have the remaining 76.2%. The withdrawal period for peaking service is a four-month period from December through March;

therefore, the sendout for peaking services is available during one third (or 33.33%) of the year. The 23.8% peak-day entitlement ratio of the peaking shippers is multiplied by the 33.33% availability ratio to derive an available peak-day ratio share for the peaking service shippers of 7.93%.

Q. How are the tank capacity and available peak-day ratios used in the allocation of costs to peaking services?

A. These two ratios are averaged to derive a Tank Capacity/Sendout Ratio share for peaking service of 17.7%. This ratio is used when allocating On-Shore cost of service and rate base to peaking services.

Q. What happens to the remaining 82.3% of the On-Shore cost of service and rate base?

A. Those costs are allocated to the import services.

Q. Please describe why LNG Terminaling and Processing - Off-Shore is allocated between peaking and import services.

A. During times when tanks are arriving at the terminal on a regular basis, inventory for the peaking service customers is injected into the storage tanks via displacement. In other words, rather than liquefying natural gas tendered by the peaking shippers to DCP on its interstate pipeline, DCP uses the natural gas that is tendered by the peaking shippers in order to satisfy contemporaneous sendout requirements. DCP retains a corresponding quantity of LNG in the storage tanks that otherwise would have been vaporized. Peaking shippers also have the option of obtaining inventory via in-tank transfers from import shippers. Regardless of the method of inventory acquisition that the peaking service customers elect, the reality is that the LNG inventory of the peaking shippers is physically sourced from the imports received by DCP through the Off-Shore facilities. The use of these Off-Shore facilities benefits peaking shippers because it allows them to avoid the substantial fuel retention that would be required for physical liquefaction. Since LNG imports resumed, DCP has not performed liquefaction on site, in favor of these more efficient methods of filling the peaking service inventories. For these reasons, it is appropriate for peaking shippers to be allocated a portion of the cost of service associated with Off-Shore facilities.

Q. How did DCP calculate the appropriate level of Off-Shore costs to allocate to the peaking services?

A. DCP based the allocation of Off-Shore cost of service on the ratio of total contractual capacity for peaking service to total cargos received, net of fuel, during the base period. This Marine Usage Ratio represents the percentage of total LNG received that can be attributed to the contractual capacity of the peaking shippers.

Q. Please explain the derivation of the Marine Usage Ratio in more detail.

A. During the base period, DCP received 197,023,491 Dth of LNG, net of injection fuel. The total contractual capacity for peaking service of 1,440,000 Dth was divided by the total LNG received to derive the Marine Usage Ratio of 0.73%. This ratio is used when allocating Off-Shore cost of service and rate base to peaking services.

Q. What happens to the remaining 99.27% of Off-Shore cost of service and rate base?

A. Those costs are allocated to the import services.

Q. Please describe how Transmission O&M Expenses are being allocated between Cove Point East service and General System Transmission services.

A. As more fully described in the testimony of DCP Witness Verdun, the O&M Expenses associated with the Cove Point East service are identifiable and are, therefore, directly assigned to that service. Transmission O&M Expenses not associated with Cove Point East are directly assigned to General System Transmission services.

Q. Are there additional cost allocations that are being performed?

A. Yes.

Q. Please describe these additional allocations.

A. In the derivation of rate base, Intangible and General Net Plant, Working Capital and Accumulated Deferred Income Taxes are allocated to functional plant using Gross Plant Ratios. In the derivation of cost of service, Taxes Other Than Income and Federal and State Income Taxes associated with the Transmission functions are allocated between Cove Point East and General System using Rate Base Ratios. Likewise, Taxes Other Than Income and Federal and State Income Taxes are also allocated between LNG Terminaling and Processing and Acquisition Adjustment using Rate Base Ratios.

Q. Please describe Schedule I-2.

A. Schedule I-2 requires the cost of service to be classified into fixed and variable cost components and then further classified into reservation and commodity cost components.

Q. Please define fixed and variable cost components.

A. Fixed costs are those costs that are unaffected by changes in the levels of LNG processed or gas transported. Variable costs will fluctuate with changes in the quantity of LNG processed or gas transported.

Q. How is the classification of cost of service items between reservation and commodity components determined?

A. DCP is continuing to use the Straight-Fixed Variable (“SFV”) approach for the classification of the cost of service to the reservation and commodity cost components. Under that approach, DCP has classified all fixed costs as reservation costs and all variable costs as commodity costs.

Q. How are the costs classified in Schedule I-2?

A. For the General System and Cove Point East, the costs associated with each O&M account are identified as fixed or variable. In addition, for the General System, ratios of fixed and variable costs are derived for Total Other Storage Expenses, Total LNG Terminaling and Processing Expenses and Total Transmission Expenses. Theses ratios are used to classify allocated O&M costs as fixed and variable where applicable in Schedule I-2 Parts 2 and 3.

Q. In terms of cost classification, please describe the types of costs that were considered as variable.

A. The only costs identified as variable are compressor fluids. The two compressor stations are associated with Cove Point East transportation service. There are also compressor fluids associated with the vaporizers and other equipment.

Q. Please describe Schedule I-2 Parts 2 through 5.

A. Schedule I-2 Part 2 shows the cost classification for peaking services. The O&M costs are allocated between fixed and variable costs, using the applicable ratios derived in Schedule I-2 Part 1. All other costs are considered fixed. Schedule I-2 Part 3 shows the cost classification for import services. The O&M costs are allocated between fixed and variable costs using the applicable ratios derived in Schedule I-2 Part 1. All other costs are considered fixed. Schedule I-2 Part 4 shows the cost classification for General System Transmission services. The O&M costs are allocated between fixed and variable costs using the applicable ratios derived in Schedule I-2 Part 1. All other costs are considered fixed. And finally, Schedule I-2 Part 5 shows the cost classification for the incrementally-priced Cove Point East transportation service. The O&M costs are identified as fixed or variable costs on Schedule I-2 Part 1. All other costs are considered fixed.

RATE DESIGN

Q. Please describe Statement J.

A. Statement J compares the totals revenues by rate schedule, as computed in Schedule G-2, to the allocated cost of service included in Statement I. In addition, Statement J categorizes (1) the revenue for each rate schedule by the reservation and commodity components, and (2) the allocated cost of service for each rate schedule by the fixed and variable costs. Excluded from Statement J are costs associated with the Annual Charge Adjustment and those costs that are tracked through DCP's Electric Power Cost Adjustment.

Q. Please describe Schedule J-1.

A. Schedule J-1 reconciles the reservation and commodity billing determinants by rate schedule, as contained in Schedule G-2, with those used to design rates in Schedule J-2. The only differences are the commodity billing determinants that are used for the peaking service rate schedules. Rather than using the actual commodity quantities as represented in Schedule G-2, rates are designed on the sum of the Maximum Contract Peaking Quantities as included in each shipper's service agreement.

Q. Please describe Schedule J-2.

A. Schedule J-2 is divided into three parts and details DCP's rate design methodologies.

Part 1 shows the derivation of rates for peaking services. Part 2 shows the derivation of rates for import services. Part 3 shows the derivation of rates for transportation services under Rate Schedule FTS, which also includes the incrementally-priced transportation service resulting from the Cove Point East project and services under Rate Schedule ITS.

Q. Please describe the derivation of the rates for DCP's peaking services as shown on Schedule J-2 Part 1.

A. As defined in DCP's FERC Gas Tariff, Rate Schedules FPS-1, FPS-2 and FPS-3 have a two-part rate consisting of a reservation component and a commodity component. DCP is not proposing to change this rate design. The first step in deriving the peaking service reservation rates is the allocation of fixed costs to the three rate schedules. Total fixed costs (Schedule I-2 Part 2) are allocated equally between deliverability (or demand) and capacity using the *Equitable* Method. For each rate schedule, the Maximum Daily Peaking Quantities ("MDPQ") and Maximum Contract Peaking Quantities ("MCPQ") are totaled. Ratios of each rate schedule's MDPQ and MCPQ to the respective totals are calculated. Using these ratios, the deliverability and capacity costs are allocated to each rate schedule. The allocated deliverability and capacity costs are then totaled for each rate schedule. For each rate schedule, the total allocated fixed cost is divided by the annual MDPQ, to derive the one-part Reservation Rate. The total variable costs (Schedule I-2 Part 2) are divided by the total MCPQ for all rate schedules, to derive the Commodity Rate that is applicable to all peaking services. Overrun rates are derived as the 100% load factor of the relevant maximum rates for service under each rate schedule.

Q. What are the maximum rates for peaking services being proposed by DCP in this filing?

A. DCP is proposing the following maximum rates: Rate Schedule FPS-1: reservation $6.2776 per Dth and overrun $0.2637 per Dth; Rate Schedule FPS-2: reservation $4.4376 per Dth and overrun $0.2032 per Dth; and Rate Schedule FPS-3: reservation $ 3.7021 per Dth and overrun $0.1790 per Dth. In addition, DCP is proposing $0.0573 per Dth as the maximum commodity rate applicable to all peaking services.

Q. Please describe the derivation of the rates for import services as shown on Schedule J-2 Part 2.

A. As defined in DCP's FERC Gas Tariff, Rate Schedule LTD-1 has a two-part rate consisting of a reservation component and a commodity component. DCP is not proposing to change this rate design. Total fixed costs (Schedule I-2 Part 3) are divided by the annual Maximum Daily Delivery Quantity to derive the LTD-1 Reservation Rate. Total variable costs (Schedule I-2 Part 3) are divided by the annual LTD-1 commodity determinants to derive the LTD-1 Commodity Rate. The maximum overrun rate is based on the 100% load factor of the firm service rate. The maximum Commodity Rate applicable for service under Rate Schedule LTD-2 is the 100% load factor of the maximum rate applicable to service under Rate Schedule LTD-1.

Q. What are the maximum rates for import services being proposed by DCP in this filing?

A. DCP is proposing a maximum reservation rate of $8.8409 per Dth, a maximum commodity rate of $0.0031 per Dth, and an overrun rate of $0.2938 per Dth for Rate Schedule LTD-1. In addition, DCP is proposing $0.2938 per Dth as the maximum commodity rate for Rate Schedule LTD-2.

Q. Please describe the derivation of the rates for transportation services as shown on Schedule J-2 Part 3.

A. Schedule J-2 Part 3 shows the cost of service, annual determinants and rates for both the non-incrementally-priced firm transportation service and the incrementally-priced firm transportation service for Cove Point East shippers. Both of these services are provided under Rate Schedule FTS. The interruptible transportation rate for Rate Schedule ITS service is also shown. As defined in DCP's FERC Gas Tariff, Rate Schedule FTS has a two-part rate consisting of a reservation component and a commodity component. DCP is not proposing to change the existing rate design. For FTS, total fixed costs (Schedule I-2 Part 4) are divided by the annual Maximum Firm Transportation Quantity to derive the Reservation Rate. Total variable costs (Schedule I-2 Part 4) are divided by the annual FTS commodity determinants to derive the FTS Commodity Rate. Similar calculations are performed for FTS Cove Point East (Schedule I-2 Part 5). The FTS Overrun Rate is derived as the 100% load factor of the maximum FTS rates. The maximum Commodity Rate applicable for service under Rate Schedule ITS is the 100% load factor of the maximum rate applicable to service under Rate Schedule FTS.

Q. What are the maximum rates for transportation services being proposed by DCP in this filing?

A. DCP is proposing a maximum reservation rate of $0.6292 per Dth, a maximum commodity rate of $0.000 per Dth, and an overrun rate of $0.0207 per Dth for Rate Schedule FTS; a maximum reservation rate of $2.1719 per Dth and a maximum commodity rate of $0.0014 per Dth for Rate Schedule FTS-Cove Point East; and $0.0207 per Dth as the maximum commodity rate for Rate Schedule ITS.

FINANCIAL STATEMENTS

Q. Please describe Statement L.

A. Statement L reflects DCP's balance sheet for the beginning of the base period (April 1, 2005) and at the end of the base period (March 31, 2006). Notes associated with these balances are available for reference in DCP's applicable FERC Form Nos. 2-A and 3-Q.

Q. Please describe Statement M.

A. Statement M reflects DCP's income statement for the base period. Notes associated with the income statement are available for reference in DCP's applicable FERC Form Nos. 2-A and 3-Q.

Q. Does this conclude your testimony?

A. Yes.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

AFFIDAVIT OF MACHELLE F. GRIM

Machelle F. Grim, 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 "DIRECT TESTIMONY OF MACHELLE GRIM 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.

Machelle F. Grim

Machelle F. Grim

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

Notary Public

District of Columbia
My Commission expires: 11/14/07