Dominion East Ohio Merchant Function Exit

Association of Energy Engineers
September 28, 2006

Topics to be Covered

- Why did Dominion East Ohio take this step?
- What changes in the near term?
- What happened at the supply auction?
- What should customers know?

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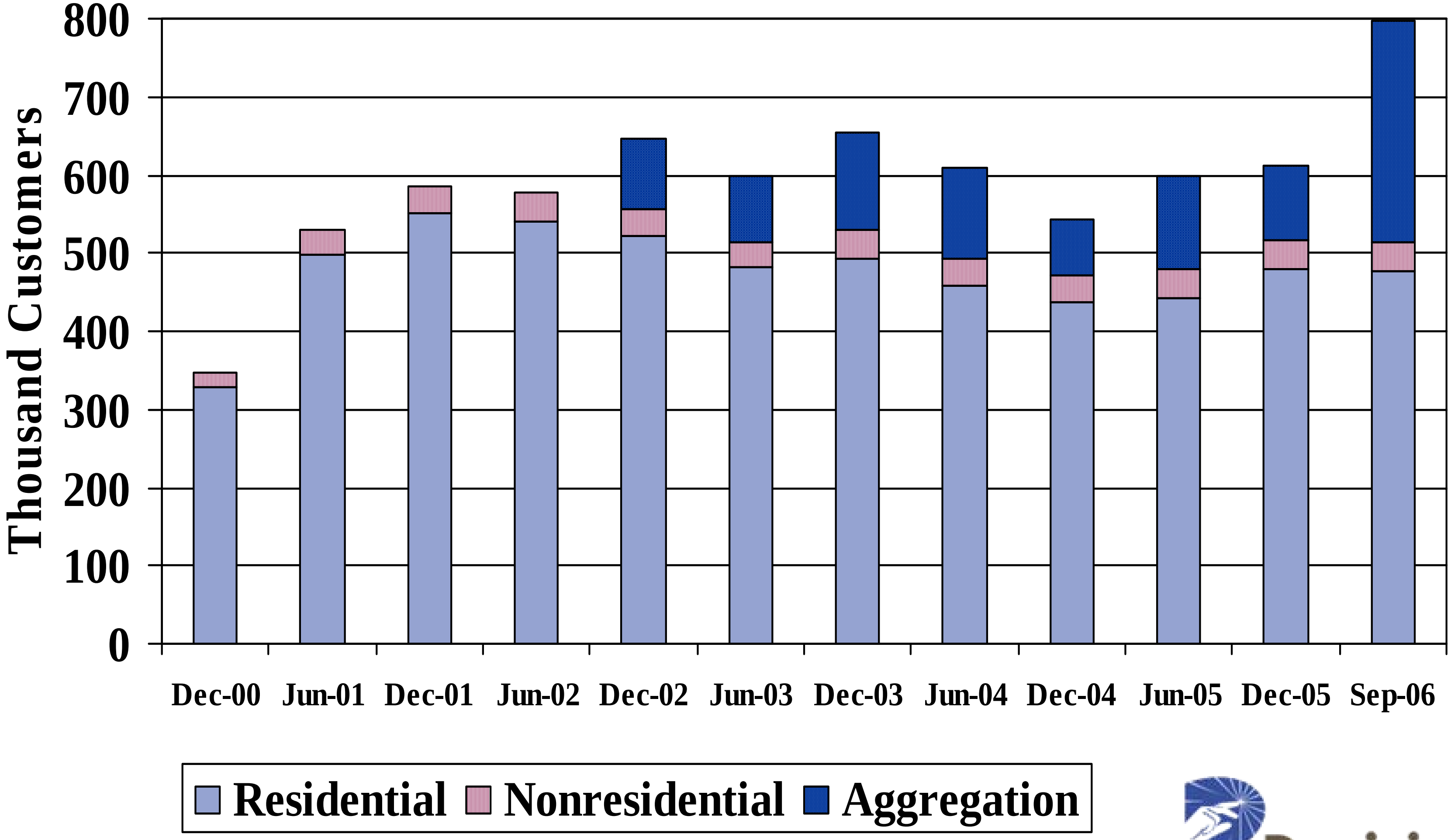
Energy Choice Enrollments



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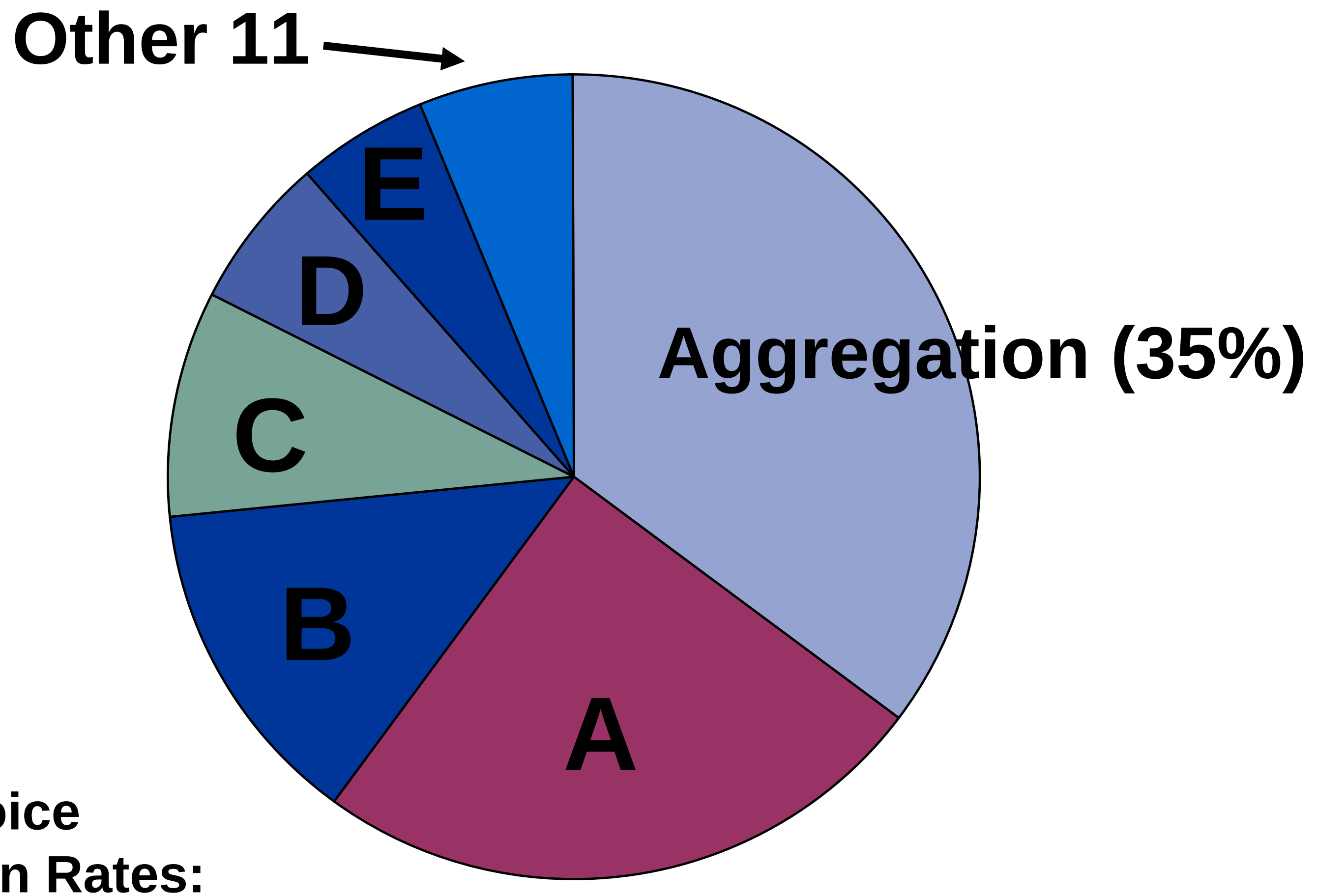
Energy Choice Market Shares – 9/06



Energy Choice Participation Rates:

Residential: 66%

Nonresidential: 66%

Why Exit The Merchant Function?

- Groundwork for an exit has been laid by a successful transition out of the GCR business for nearly 60% of DEO’s customers
- Although it has responded well to unpredictable market erosion thus far, DEO would prefer to exit its remaining GCR business in an orderly manner
- GCR rates that are affected by large unrecovered gas cost distort the competitive market
- By law, DEO cannot make a profit on its GCR service
  - Why remain in a business that at best breaks even?
- Strategically, DEO recognizes that its fundamental role is to provide distribution service, not commodity service

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Key Issues To Be Addressed

Gas Supply

- Supply reliability for Choice and Sales customers
- Provider of last resort in event of supplier default

LDC and Marketer Economics

- Receivable risk (uncollectible expense rider)
- Stranded cost (voluntary vs. mandatory capacity assignment)
- Cost recovery (customer education, operational balancing, etc.)

Transition to Competition

- Phased-in approach vs. immediate “All Out Competition”
- Choice vs. Sales rates (Distortion from unrecovered gas cost)
- Customer education about Phase 1 and Phase 2

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Public Hearing Handout

What Changes…

- Dominion buys its gas from suppliers through a bidding process subject to PUCO approval
- Gas Cost Recovery (GCR) rate is replaced by a Standard Service Offer rate
- Unrecovered gas costs go away
  - Sales and Energy Choice transportation rates are identical
  - Easier for customers to compare offers
- Improved competition and more supplier offers are expected

What Stays the Same…

- Rate for Dominion-supplied gas continues to changes monthly
- Dominion still makes no profit on the sale of gas
- Dominion continues to:
  - Read the meter
  - Respond to emergencies
  - Bill customers
  - Handle customer inquiries
- Customers can still buy gas from Dominion or another supplier

Transition Plan Major Components

- Phase 1 approved as Pilot through 8/08
  - PUCO can order DEO to revert back to GCR
- GCR replaced with standard service offer (SSO) supply acquired through PUCO-approved auction
- Price billed to customers **=** Price paid to suppliers
  - No more unrecovered gas cost
- DEO is Provider of Last Resort if a supplier defaults
- Phase 2 intended to place all eligible customers into direct retail relationship with suppliers
- Stakeholder Group provides input for Phase 2 design
- Phase 2 must be approved by PUCO

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August 29 SSO Auction Process

- Supply volume, not actual customers, was bid out
  - Sales market divided into 12 slices
  - Term of supply agreement was 10/06 to 8/08
- Utilized descending clock auction process
  - Bids were expressed as # of slices (or tranches) to be supplied at the Going Price
  - Going Price (specified as adder to NYMEX) was gradually reduced until just enough tranches are bid
- Maximum share per supplier was for one-third of total
- 12 suppliers participated in first round – 6 suppliers ultimately awarded tranches at a price of $1.44 after 15 rounds
- PUCO approved results on August 30 (supplier names kept confidential to avoid harming them in negotiations for pipeline and other services)

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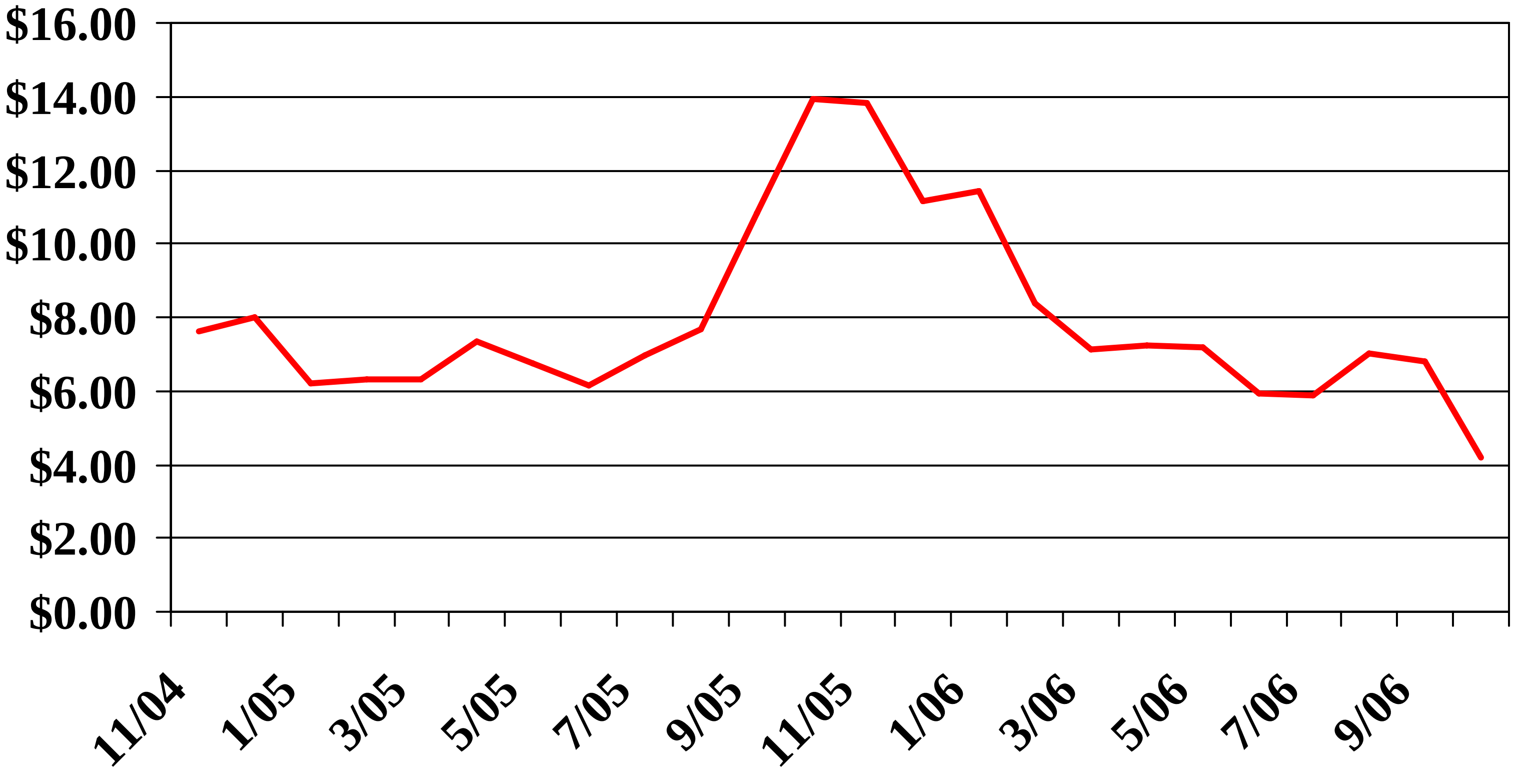
Historical NYMEX Price Volatility



Note: DEO's Standard Service Offer Price = NYMEX Price + $1.44

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Future NYMEX Price Volatility

	Futures Price as of	
	8/29/06	**9/27/06**
Oct-06	$6.88	$4.20
Dec-06 – Jan-07	$10.47 - $11.12	$7.21 - $7.71
Dec-07 – Jan-08	$10.90 - $11.43	$8.59 - $8.95

The October NYMEX contract closed on 9/27/06 at $4.201, meaning that the October SSO price will equal $5.641/mcf.

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Customers should be aware that…

- Dominion is still in the gas sales business.
- Customers can – and are encouraged to – shop around for other suppliers.
- Just like the Gas Cost Recovery rate, the Standard Service Offer (SSO) rate will change monthly.
- The SSO rate will reflect actual market conditions based on NYMEX prices (NYMEX.com).
- The market price for natural gas can change dramatically from one month to the next.
- Customers should not place too much emphasis on the SSO price for any one month.
- Supplier price comparisons from the PUCO and OCC are extremely helpful.

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