

2008 Heat Content Agreement

Dominion East Ohio
Ohio Oil and Gas Association

Essential Terms

November 18, 2007

Priority Access for Ohio-Produced Natural Gas

● **Low to High Project:** Over the next three years, Dominion East Ohio (DEO) will spend \$15 million on projects to improve and/or augment its current infrastructure to accommodate the movement of Ohio-produced natural gas from DEO's low-pressure systems to its high-pressure transmission systems. From there Ohio-produced natural gas can be delivered into DEO's storage system, off-system markets, and/or to on-system customers. As part of this commitment, DEO will engage in the necessary construction projects for DEO to meet a minimum deliverability of at least 30 mmcf per day into the high-pressure system. These projects will include, but may not be limited to, the installation of significant compression stations. The Low to High Project is separate from, and in addition to, system upgrade commitments made by DEO that are contemplated under existing agreements and are reviewed by the Project Review Committee.

● **Project Review Funds – Original Agreement, Remaining Funds:** By December 31, 2007, DEO commits to spend the \$2 million per year on system upgrades called for in the original agreement for a total of \$10.1 million in capital that has been managed by the Project Review Committee

● **Heat Content Agreement – Project Review Going Forward:** Beginning in 2008 and for each year of the new Heat Content Agreement (HCA), DEO will spend \$2.5 million annually for system improvements to further enhance the receipt of Ohio-produced natural gas into the DEO system. This is an additional \$500,000 per year in capital commitment for the term of the Heat Content Agreement. As in the prior agreement, the Project Review Committee will control the funds and select the enhancement projects that will take place.

Commitments to Ohio-Produced Natural Gas:

● DEO will use all commercially reasonable efforts to provide Ohio-produced natural gas first priority access into DEO's high-pressure transmission system, where it can be delivered into DEO's storage system, to off-system markets, and/or to on-system customers.

● DEO will use all commercially reasonable efforts to provide first priority access to the receipt of Ohio-produced natural gas into its systems, including its gathering, transmission and distribution systems, over other sources of supply consistent with DEO's obligation to operate an open access system in accordance with state and federal regulatory requirements.

● For the term of the new HCA, DEO will annually provide OOGA Services, LLC, with the

option to use up to 1.0 Bcf of its on-system natural gas storage at the prevailing maximum tariff rate applicable to comparable service.

Term of the Heat Content Agreement

- The primary term of the new Heat Content Agreement will be from January 1, 2008 through April 30, 2016. One-year evergreen periods will follow, with a 6-month written prior notice to terminate. The new program will become effective once producers responsible for 90% of existing Ohio throughput into the DEO system have agreed to the contract(s) implementing this agreement. An additional year may be added to the agreement should DEO with OOGA's support achieve certain regulatory provisions as part of rate case proceedings now underway at the Public Utilities Commission.

Fees

The fee structure that is part of the original agreement will change. There are two fees to consider in the new Heat Content Agreement:

- 1. The Heat Content Fee** - a modification of the fee associated with the original agreement. The initial adjustment implementing the Heat Content Fee will commence as of the April 2008 production period.
 - 2. The Low to High Project Surcharge** - a fee collected by DEO to recover capital investment related to boosting Ohio-produced gas into the high-pressure system. The \$0.06 per Mcf surcharge will commence as of the January 2008 production period. This fee will continue until DEO recovers their investment and will terminate at some point in the future.
- **Heat Content Fee:** Essentially, the producer and DEO will equally share the benefit derived from the heat content adjustment applied to Ohio-produced natural gas.
 - The producer's share of the Btu adjustment monetary benefit will be no less than 50% of the total Btu adjustment monetary benefit. That is very similar to the sharing arrangement at the start of the prior agreement. In order to ensure that benefit level, the production enhancement will be adjusted annually, effective with the April production period, in the following manner:

Heat Content Fee (HCF) = $0.5 \times \left(\frac{BTU_{Ohio}}{BTU_{Interstate}} - 1 \right) \times P$ (Generally, P is the sum of the NYMEX 12-month strip price for the period during which the adjusted rate will be in effect)

This is a basic general description. For a more exact description of the fee formula and the variables involved, please refer to Attachment B in the DEO mailing for an expanded explanation and example of how the fee is calculated.

- Events may occur as part of future rate proceedings that could change the value of the benefit DEO receives from the HCF. If that happens, the formula used to determine the heat content fee will be revised and the producer's share of the heat content adjustment will be 55 percent and DEO's share will be 45 percent.

The parties expect to evaluate this situation on or about October 2011.

- **Low to High Surcharge:** As stated above, DEO commits to spend an additional \$15 million for the Low to High Project. DEO will recover that \$15 million, plus 15 percent (for a total of \$17.25 million), through a \$0.06 per Mcf surcharge. The surcharge will begin in January 2008. Upon cumulative payment of the \$15 million plus 15%, the surcharge shall terminate. There is a credit applied to the surcharge of 25% of any increased collections by East Ohio prior to April 2009.

- **The Combined Effect of the Heat Content Fee and the Surcharge:** This is important. The combined effect of the Heat Content Fee and the Low to High Surcharge shall not exceed \$0.50 per Mcf.

Other Considerations

- **Right of Last Refusal on Sale of the Gathering System:** During the term of the Heat Content Agreement and for a period of time after it expires, DEO will grant to OOGA Services, LLC or its assignee the right of last refusal to purchase DEO's gathering system in the event DEO agrees, in an otherwise binding agreement with a bona fide third party purchaser, to sell all or a significant part of its gathering system as part of a transaction that does not involve the sale of DEO in its entirety. As part of the right of last refusal, OOGA Services, LLC or its assignee will have the right to acquire that part of the DEO gathering system included in the transaction for a price equal to the price agreed to be paid by the bona fide third party purchaser less all gathering system capital expenditures that relate to the part of the gathering system involved in the transaction, net of depreciation, made by DEO pursuant to the HCA and the original agreement since its inception in May 1, 2003. If DEO in its entirety is sold to another company during the term of the agreement, this agreement and the terms of this paragraph will transfer with the sale.