

Heat Content Agreement Fee (HCAF) Annual Fee Calculation Formula

HCAF = 0.5 x (BTU_{Ohio} / BTU_{Interstate} - 1) x P, where

HCAF is the heat content agreement fee per Mcf of production covered by the agreement, as measured into DEO's system,

BTU_{Ohio} is the Btu conversion factor used for the applicable Ohio production volumes,

BTU_{Interstate} is the Btu conversion factor used for interstate volumes, and

P is determined annually as the sum of (1) the NYMEX 12-month strip price for the period during which the adjusted rate will be in effect, as determined by averaging the strip price for that period on the last day of trading for December, January and February of the relevant year, plus (2) the average annual basis between Dominion Transmission Inc., Appalachia and Henry Hub, as determined by the average difference between their respective Inside FERC First-of-Month price indexes for the most recent twelve months of available data.

Example: To illustrate the calculation assume that the new fee formula was applied as of April 2007.

NYMEX 12 month strip prices (using the last day of trading for Dec 06, Jan 07 and Feb 07)

	Dec 29 th	Jan 31 st	Feb 28 th
April 07-March 08 12 month Avg.	\$7.620	\$8.365	\$8.196

$$P_{\text{NYMEX}} = \sum \text{Avg. 12 month NYMEX strips} / 3 \text{ months}$$

$$P_{\text{NYMEX}} = \$24.181 / 3 \text{ months} = \$8.060$$

Dominion Basis (using First-of-Month price indexes for Mar 06-Feb 07)

One-month example:

	Dom Appal Index	Henry Hub	Dom Basis Diff
Feb 07	\$7.26	\$6.93	\$0.33

For March 2006 – February 2007 the average monthly Dominion Basis was as follows.

$$P_{\text{Avg. Basis}} = \sum 12 \text{ months of Dominion Basis Differentials} / 12 \text{ months}$$

$$= \$3.57 / 12 \text{ months}$$

$$P_{\text{Avg. Basis}} = \$0.297$$

$$P = P_{\text{NYMEX}} + P_{\text{Avg. Basis}}$$

$$P = \$8.060 + \$0.297 = \$8.36$$

Heat Content Agreement Fee (HCAF)

$$HCAF = 0.5 \times (BTU_{\text{Ohio}} / BTU_{\text{Interstate}} - 1) \times P$$

$$Btu_{\text{Ohio}} = 1122 \text{ Btu}, Btu_{\text{Interstate}} = 1030 \text{ Btu}, P = \$8.36$$

$$HCAF = 0.5 \times (1122/1030 - 1) \times \$8.36$$

$$HCAF = \$0.37 / \text{MCF}$$