

1 **Q. What does Six Sigma have to do with Hope or Dominion?**

2 A. Dominion has been participating in Six Sigma for several years and the costs of the Six
3 Sigma training, project identification, and implementation are built into DRS's costs and
4 allocated to Hope. So Hope and its customers have been paying, and will continue to
5 pay, for the Six Sigma improvement process at Dominion.

6 **Q. Are there any benefits to Hope from the Six Sigma projects?**

7 A. Yes, according to Dominion documents, there will be substantial benefits to Hope from
8 various Six Sigma projects. I reviewed summaries of dozens of Six Sigma projects and I
9 identified several that will result in direct cost savings to Hope's customer records and
10 collections costs (account 903) during 2005. Costs associated with these projects were
11 incurred during 2004, but the results will not be seen until 2005. Thus, the costs are
12 included in Hope's test year, but the benefits will occur within the first year after the test
13 year. These savings are not reflected in Hope's going-level expense claim.

14 **Q. Are these benefits to Hope known and measurable?**

15 A. Yes, they are. As I mentioned, the key to Six Sigma is that it requires measurement and
16 statistical validation of any claimed savings. Each project is required to produce
17 documentation that verifies any claimed cost savings or other benefits from the project.
18 The findings I will present on these Six Sigma projects are based on the verified, "hard
19 savings" in the final reports for each project. (Some of the projects also have "soft
20 savings" which are more difficult to quantify. I have not included any of the "soft
21 savings" in my findings.)

1 **Q. How many Six Sigma projects did you identify that will produce savings in customer**
2 **records and collection expenses for Hope during 2005?**

3 A. I have identified four projects. I will briefly summarize each project below. In addition,
4 Schedule SJR-7 provides a summary of the cost savings to Dominion from each project
5 and how much of those savings are allocated to Hope. The projects are:

- 6 • Accounts Receivable Conversion (Project No. 2118) – The project
7 implements a process for converting paper checks to electronic
8 transactions at the point where the check is received. Dominion shows
9 hard savings from the project of \$758,377 in payment processing costs
10 during 2005.
- 11 • Reduce Customer Escalated and Agent Assist Calls (Project No. 2159) –
12 This project implements new call-center procedures to reduce the number
13 of calls that are transferred or escalated to someone other than the
14 customer service agent who initially takes the call. Dominion shows hard
15 savings from the project of \$83,616 in customer service costs during 2005.
- 16 • DNP Prioritization – DEO and DH (Project No. 2056) – The project
17 involves developing statistical techniques to determine which DNP (do not
18 pay) customers should be prioritized for collection efforts at East Ohio
19 Gas (DEO) and Hope (DH). The project will result in hard savings at the
20 two companies of \$753,825 in O&M and interest costs during 2005.
- 21 • NCO / Checkwriter (Project No. 1553) – In October 2004, Dominion
22 entered into an agreement with a new payment-processing company to
23 receive payments by phone. The project evaluates the savings from the
24 new processing vendor, and finds hard savings of \$801,833 in payment
25 processing costs during 2005.

26
27 **Q. What is the overall impact of these projects on Dominion and Hope during 2005?**

28 A. The overall impact of these projects will be to reduce Dominion's customer records and
29 collection costs by more than \$2.4 million during 2005. Approximately \$177,000 of
30 these expense savings would be allocated to Hope in 2005, as shown on Schedule SJR-7.
31 As I said earlier, these are known and measurable reductions in account 903 expenses
32 that are charged to Hope by DRS or another affiliate. Thus, if the Commission rejects my
33 primary adjustment to account 903 expenses, based on the costs incurred by comparable

1 companies, then it should reduce Hope's going-level expenses in that account by
 2 \$176,605 to reflect known and measurable savings from these Six Sigma projects.

3 **Hope's Failure to Oversee or Understand Service Company Budget**

4 **Q. Are there other indications that Hope does not exercise reasonable control over**
 5 **affiliated charges?**

6 A. Yes. Hope's budget for Service Company charges for 2005 contains some dramatic
 7 increases over 2004 actual expenses. The following table shows the functions where
 8 Hope's 2005 Service Company budget exceeds 2004 actual expenses by 10 percent or
 9 more:

	2004 Actual	2005 Budget	Percent Increase
Accounting	555,437	659,895	18.8%
Payroll	43,130	48,901	13.4%
Facilities	67,646	92,543	36.8%
Fleet Management	45,820	56,330	22.9%
Travel Services	15,050	18,395	22.2%
Corporate Planning	141,599	177,304	25.2%
Corporate Security	2,669	4,502	68.7%
Employee Benefits/Pension	43,205	51,858	20.0%
Executive/Administrative	641,923	714,739	11.3%
External Affairs/Policy	48,819	60,017	22.9%
Client Services	1,032,193	1,709,902	65.7%
Data Operations	914,919	1,006,538	10.0%
Risk Management	40,212	49,638	23.4%
Tax	137,991	161,875	17.3%
Treasury	153,688	180,907	17.7%
Operations	186,736	275,292	47.4%
Environmental Compliance	120,738	197,638	63.7%
Aviation	100,135	125,544	25.4%

Source: Budget and actual figures from CAD J-15;
percent increase is calculated.

1 We asked Hope to explain the reasons for each of these projected cost increases.
2 Hope's entire response was to state: "The increase in the 2005 budget compared to the
3 2004 actuals is based on two things; 1) no payout to employees under the profit sharing
4 (STIP) incentive plan in the 2004 actuals and 2) merit increase to salaries in the 2005
5 budget." I have attached a copy of Hope's response (CAD J-40) as Schedule SJR-8.

6 Needless to say, this is not an adequate response, and I seriously doubt whether it
7 is accurate. The cost increases to Hope in these categories total \$1.3 million (a 30%
8 increase over 2004), and Hope doesn't even begin to explain or justify them. It is not
9 credible to believe that merit salary increases and profit sharing will account for 60%
10 increases in Client Services (computer-related costs) or Environmental Compliance; or
11 that they will be the only reason why Facilities costs are projected to increase by more
12 than one-third, or why Operations expenses will increase by nearly 50%. This is a further
13 indication that Hope is not exercising any reasonable level of oversight or control over
14 charges from DRS.

15 **Unreasonable Outside Services Expenses (Account 923)**

16 **Q. In your discussion of outside services costs, you showed that Hope's costs in that**
17 **area are substantially higher than at least five of the comparable utilities. Are you**
18 **proposing an adjustment for those costs also?**

19 A. Yes, I am, but not based on the costs incurred by comparable companies. It is possible
20 that some of what Hope calls outside services other utilities may be recovering under
21 executive compensation or some other account, and I do not have access to detailed
22 information about all of those other companies. As a result, my adjustments to outside

1 services are based on specific information for Dominion and Hope, not on a comparison
2 to other companies.

3 **Q. Please summarize your adjustments to outside services expenses.**

4 A. My adjustments to outside services total \$270,599 as summarized in Schedule SJR-9.

5 **Q. Are these adjustments based on a full audit of DRS charges?**

6 A. No, they are not. As I mentioned earlier, I did not conduct a full audit of DRS – that is
7 well beyond the scope (in terms of time and budget) of what could be done in a rate case.
8 Based on what I found, however, it is my opinion that a full audit from a ratemaking
9 perspective is needed of the Service Company. This is particularly the case since the
10 S.E.C. will no longer have any jurisdiction over the Service Company. I would
11 recommend, therefore, that the Commission consider working jointly with its
12 counterparts in other states where Dominion has retail utility operations (North Carolina,
13 Ohio, Pennsylvania, and Virginia) to conduct a full-scale audit of the Service Company’s
14 charges to the operating utilities.

15 **Q. Please give us an overview of your specific adjustments.**

16 A. I have identified seven areas where the charges to Hope from the Service Company are
17 not appropriate for recovery from Hope’s customers. These are summarized as follows:

- 18 • Dues and memberships – eliminate \$257,794 of Dominion executive dues
19 and memberships, of which Hope’s share is 1.04%;
- 20 • Entertainment expenses – eliminate \$120,988 of Dominion executive
21 entertainment expenses, of which Hope’s share is 1.04%;
- 22 • Civic and political activities – eliminate \$62,177 of Dominion expenses
23 for civic and political activities, including lobbying, of which Hope’s
24 share is 1.04%;

- 1 ● Executive severance payment – eliminate \$385,948 of severance payment
2 to Dominion’s gas distribution executive, of which Hope’s share is 9.59%;
- 3 ● Aviation expenses – eliminate all Dominion aviation expenses charged to
4 Hope, totaling \$98,607;
- 5 ● Corporate communications – eliminate all corporate-level Dominion
6 charges for advertising and corporate communications that were charged
7 to Hope, totaling \$81,540; and
- 8 ● External affairs and policy – eliminate all Dominion charges for external
9 affairs and policy that were charged to Hope, totaling \$48,991.

10
11 **Q. Please discuss your first adjustment concerning dues and memberships at the**
12 **Dominion executive level.**

13 A. During 2004, Dominion spent \$257,794 for dues and memberships for its executives, as
14 shown in Schedule SJR-10 (a document that was provided by Hope as part of our on-site
15 discovery conference). Most of the memberships are in private clubs – the
16 Commonwealth Club, Capitol Hill Club, Rolling Rock Club, Old North State Club,
17 Shoreby Club, and Kinloch Golf Club, for example. In addition, there are thousands of
18 dollars in this account where the name of the vendor is not even listed. This is very
19 disturbing, not just from a ratemaking standpoint, but from a corporate governance and
20 accounting standpoint.

21 In any event, I have disallowed all of the dues and memberships for Dominion’s
22 executives. Costs for Dominion executives to join private golf, country, or political clubs
23 should not be borne by Hope’s customers. Those costs should be paid for by the
24 individuals themselves (they are, after all, earning salaries in the hundreds of thousands
25 of dollars or more). But if Dominion’s stockholders desire to pay the expenses for its
26 executives to join these organizations, then stockholders should bear 100 percent of that
27 cost; none of it should be passed on to utility customers.

1 **Q. How much of this cost has been passed on to Hope?**

2 A. That is hard to determine precisely. Most of the entries in this category do not have a
3 specific allocation factor listed. I have assumed, therefore, that the general corporate
4 operations and maintenance expense (O&M) allocator applies, which would assign
5 1.04% of these costs to Hope. I recognize that this is not strictly accurate. Some of these
6 costs would not have been charged to Hope at all, while others (for example costs
7 associated with the delivery executives) would have a much higher percentage assigned
8 to Hope. Without knowing precisely how each cost was assigned, however, it is my
9 opinion that using the general corporate allocator on the entire category is a reasonable
10 estimate of the amount that would have been charged to Hope in the test year. Applying
11 the 1.04% allocation to the expense of \$257,794 would result in a disallowance of \$2,681
12 from Hope's test year expense claim, as shown on Schedule SJR-9, line 1.

13 **Q. Please discuss your second adjustment, concerning entertainment expenses at the**
14 **Dominion executive level.**

15 A. This is very similar to my first adjustment. In 2004, Dominion recorded \$120,988 in
16 entertainment expenses at the executive level, as shown in Schedule SJR-11 (a document
17 provided during on-site discovery). These costs are not appropriate for inclusion in the
18 rates charged to Hope's customers. As is the case with private clubs and similar
19 organizations, if Dominion's stockholders desire to pay for entertaining executives and
20 their invitees, then the stockholders should be responsible for 100% of that cost.

21 **Q. How much of this cost has been passed on to Hope?**

22 A. Again it is difficult to tell. Not every expense has an allocation code listed. So, as I did
23 with dues and memberships, I used the overall corporate O&M allocation factor, which

1 allocates 1.04% of costs to Hope. This would result in an adjustment to Hope of \$1,258,
2 as I show on Schedule SJR-9, line 2.

3 **Q. Is your third adjustment, for civic and political activities, similar to the first two**
4 **adjustments?**

5 A. Yes, it is. Here again, I am recommending the disallowance of all Dominion executive
6 expenditures in two categories: “civic/political activity” and “civic/political lobbying.”
7 The Company provided documents during our on-site investigation that showed total
8 expenditures in this area of \$62,177, as shown in Schedule SJR-12 (again, a Company-
9 provided document). It is highly inappropriate for Hope’s customers to bear any of the
10 costs associated with these activities. While it may be in Dominion’s best interests to
11 engage in political activities, it is unlikely that Dominion’s interest will always be the
12 same as the interest of its customers. It would be grossly unfair to require Hope’s
13 customers to subsidize Dominion’s lobbying efforts and other political activities. As I
14 did with the first two findings, I used the general corporate allocation factor to estimate
15 the amount of these costs that were charged to Hope. That estimate is \$647 during 2004.

16 **Q. For the areas covered in your first three adjustments, do you have any reason to**
17 **believe that the amounts shown on Dominion’s print-outs (Schedules SJR-10, -11,**
18 **and -12) are not fully accurate?**

19 A. Yes, I do. I reviewed a summary of Dominion’s aviation records for 2004 and there are
20 several events listed on those records that certainly appear to be associated with an
21 entertainment, civic, or political activity. In many cases, though, there is not an
22 associated expense in the entertainment, or political activity print-outs that we received.
23 That leads me to question whether the print-outs we received show all such activities.

1 **Q. Can you give us an example?**

2 A. Yes, I can. The aviation records for July 2004 show trips by Dominion executives to
3 Boston, MA, for “Democratic National Convention.” In that month, there is also a trip to
4 Wilmington, NC, to “make preparation for Congressman Richard Burr fundraiser on
5 August 12.” Similarly, there are several trips around July 20 and 21 to bring Dominion
6 executives to Richmond for “Dominion golf invitational and staff meeting.” All of these
7 trips are shown on just one page (out of more than 40 pages of aviation records for 2004),
8 which I have attached as Schedule SJR-13.

9 Importantly, there are no expense entries for any of these events – the Democratic
10 National Convention, a congressional fundraiser, or a golf tournament – on the civic,
11 political, or entertainment printouts that we received.

12 **Q. Are these the only events that appear to be missing?**

13 A. No, they are just an example from one page. Later in 2004, there are similar trips for
14 Dominion executives to attend the Republican National Convention in New York City.
15 In other months, there are specific trips associated with lobbying, other political
16 activities, and entertainment events – most of which do not appear on the entertainment
17 or political activity print-outs we received.

18 **Q. What do you conclude?**

19 A. I conclude that it is highly likely that there are costs associated with political and
20 entertainment events being recovered through other categories, in addition to what I have
21 shown here. This reinforces the need for a full-scale audit of Service Company charges
22 to the regulated utilities.

1 **Q. Please continue by discussing your fourth adjustment, concerning an executive**
2 **severance payment.**

3 A. In September 2004, Dominion's Gas Distribution Executive, Tom Webster, retired. It
4 appears that there was a large severance payment paid in that month, of which 9.59% was
5 charged to Hope. (See response to on-site request, attached as Schedule SJR-14.)

6 **Q. How large was the severance payment?**

7 A. The payment appears as part of the monthly true-up in executive compensation on DRS
8 print-outs. In September, this line item for the gas distribution executive was \$449,737.
9 By comparison, in August, it was \$64,561, and in October it was \$62,289. I have taken
10 the average of the August and October payments, which is \$63,425, and subtracted it
11 from the payment in September. (The printouts are attached as Schedule SJR-15.) The
12 difference, which is \$386,312, appears to be the severance payment to Mr. Webster. Of
13 this amount, 9.59% was allocated to Hope, which is \$37,047. I would disallow this
14 amount because it is a non-recurring expense.

15 **Q. Please discuss your adjustment concerning aviation expenses.**

16 A. Dominion has a fleet of at least three, and in some months four, airplanes. As I stated
17 earlier in my testimony, Dominion spends in excess of \$8 million per year to lease these
18 aircraft, pay pilots, maintain the aircraft, pay landing fees, and so on. If Hope were a
19 stand-alone company, or even if it were owned by a holding company that did not have
20 such far-flung holdings, none of this expense would be necessary.

1 **Q. How are these aircraft used?**

2 A. From the summary of aviation records that I reviewed (roughly a four-page summary for
3 each month), it appears that the planes are used for a combination of business, political,
4 entertainment, and personal travel. While there are many flights that are clearly business
5 related (though, again, they would be unnecessary if Dominion's holdings were not so
6 geographically diverse), there are others that do not fall into that category. Earlier, I gave
7 some examples of flights associated with political events and entertainment.

8 In addition, there are flights that are clearly unrelated to Dominion's business, but
9 are for the personal use of Dominion executives. For example, Dominion's CEO,
10 Thomas Capps, also serves on the boards of directors of two other, unrelated,
11 corporations: Amerigroup Corporation and Associated Electric and Gas Insurance
12 Services (AEGIS). Mr. Capps uses Dominion's corporate jet to fly to board meetings of
13 those other corporations, and the cost is charged to all Dominion companies, including
14 Hope.

15 Similarly, there are flights whose purpose is simply listed as "personal." Further,
16 I also examined detailed aviation records for one month (about 170 pages) that identify
17 the individuals who took each flight. Several flights list the spouses of Dominion
18 executives among the passengers. There is no indication or notation anywhere showing
19 that these individuals reimbursed the corporation for any costs associated with the use of
20 the corporate planes by the spouses of executives. Again the cost of these trips, including
21 spousal travel, are charged to all Dominion companies, including Hope.

1 **Q. How much did Hope pay in aviation costs during 2004?**

2 A. Hope paid \$98,607 in aviation costs during the year, according to its response to CAD J-5
3 (see Schedule SJR-16).^{*} Please note that there are three aviation entries on Schedule
4 SJR-16: one each for direct charges to Hope, DRS costs allocated to delivery companies,
5 and DRS costs allocated to all companies. With the exception of about \$1,000, all of
6 these costs were allocated to Hope; the travel did not directly involve Hope's employees
7 or operations. I recommend disallowing this entire amount. This travel is undertaken for
8 the convenience of Dominion's executives; it is not directly related to the provision of
9 safe and reliable gas service by Hope. As I stated earlier, if it were not for the
10 geographically diverse nature of Dominion's holdings, this type of expense would not be
11 incurred, and it provides no benefit to Hope and its customers.

12 **Q. Does this adjustment disallow all travel expenses?**

13 A. No, it does not. The only expenses I disallow are those directly associated with
14 Dominion's aircraft. There are millions of dollars contained in other categories and
15 accounts for travel expenses by Dominion employees, over and above those incurred to
16 operate and maintain Dominion's aircraft. I have not examined all of Dominion's other
17 travel expenses, so I don't know if there are similar problems with those other travel
18 expenses (that is, I do not know if there are personal, political, or entertainment items
19 included in those).

^{*} The original response to J-5 was in very small print, so I created Schedule SJR-16 to reproduce in larger print the annual total column from J-5.

1 **Q. Your next adjustment is for corporate communications. Please explain that**
2 **adjustment.**

3 A. This is similar to my adjustment for aviation expenses. Dominion incurs millions of
4 dollars each year for corporate communications. At least one-half of the expenses in this
5 category are for advertising, while the rest appear to be for the internal personnel who
6 develop and oversee the corporate communications campaigns. For instance, Dominion
7 is the “official energy partner” of the Washington Redskins professional football team.
8 In my opinion, none of this corporate-level expense is necessary in order for Hope to
9 provide safe and reliable service to its customers. In 2004, Hope was charged \$81,540
10 for corporate communications, as shown on Schedule SJR-16, page 2.

11 **Q. Are you recommending the disallowance of all corporate communications expenses**
12 **charged to Hope?**

13 A. No, my adjustment only covers the costs in this category that are allocated to Hope; that
14 is, corporate-level expenses. In addition to the \$81,540 that I would disallow, Hope was
15 charged an additional \$34,254 as “direct charges” that I would not disallow. It is my
16 understanding that “direct charges” are items that were done specifically for Hope and,
17 therefore, are unlikely to simply promote the Dominion name.

18 **Q. Your next adjustment is for external affairs and policy. Please explain that**
19 **adjustment.**

20 A. This is similar to my adjustment to corporate communications. Dominion incurs millions
21 of dollars each year at the corporate level on external affairs and policy, which is
22 basically a nice way of saying lobbying and other political activities. In addition, Hope
23 also requests certain “external affairs” services from Dominion that are directly charged

1 to Hope. In my opinion, none of these expenses – either the corporate-level charges for
2 which Hope was billed \$41,928 in 2004, or the \$6,891 directly charged to Hope
3 (Schedule SJR-16, pages 1 and 2) – are necessary in order for Hope to provide safe and
4 reliable service to its customers. Therefore, I am disallowing \$48,819 for external affairs
5 and policy.

6 **Q. Please summarize your adjustments to outside services expenses (account 923).**

7 A. My adjustments to outside services total \$270,599 as I previously summarized in
8 Schedule SJR-9. These adjustments are necessary to eliminate charges from the Service
9 Company to Hope that are not necessary for Hope to serve its customers; are one-time,
10 non-recurring expenses; or are inappropriate for Hope to charge to its customers.

11 **Revenue from Affiliate for Billing and Collection Services**

12 **Q. You mentioned earlier that Hope has an agreement to provide billing, collection,**
13 **and other services for an affiliate, DPS. Why does Hope receive revenue from that**
14 **company?**

15 A. DPS sells a service to Hope customers called the Gas Line Repair/Replacement Program
16 (GLRP). It is essentially an insurance program under which a Hope customer pays a
17 monthly fee to DPS, and if the customer's gas service line (the line from the curb to the
18 meter) ever needs to be repaired or replaced, DPS will pay the cost of doing so.

19 In reality, though, DPS doesn't provide any services itself. It has entered into a
20 contract with Hope to provide all services to DPS customers in Hope's service territory
21 (DPS has similar arrangements with Hope's sister gas distribution utilities, Peoples Gas
22 in Pennsylvania and East Ohio Gas in Ohio). A copy of the contract is attached as

1 Schedule SJR-17. Under that contract, Hope provides all billing and collection services
2 for the GLRP fee, for which Hope receives compensation of 8 cents per bill. In addition,
3 if a gas service line ever needs to be repaired or replaced, Hope does the work or
4 contracts with an outside contractor, and then bills DPS for the cost of doing so.

5 **Q. Did the Commission review and approve the contract between Hope and DPS?**

6 A. The Commission reviewed the contract and granted its consent for Hope to enter into the
7 contract with DPS (then known as CNGPS). Case No. 99-0348-G-PC (Aug. 24, 1999).
8 In doing so, however, the Commission stated that it was not “specifically approving the
9 terms and conditions” of the contract, and that “the Commission has continuing authority
10 to reopen or further review and, if necessary, modify the contract and to require specific
11 ratemaking treatment for Hope Gas, Inc.”

12 **Q. Do you have concerns with this contract from a ratemaking perspective?**

13 A. Yes, I do. I have concerns with the entire structure of the agreement, since Hope is
14 responsible, either directly or indirectly, for doing most of the work but is receiving just a
15 tiny fraction of the total revenue that customers are paying. More specifically, though,
16 from a ratemaking perspective I find the 8 cents per bill that Hope is receiving to be
17 grossly inadequate compensation for the service it is providing.

18 The 8 cents per bill is supposed to cover a reasonable portion of Hope’s costs for
19 billing, payment processing, customer inquiry, payment remittance, and related services.
20 These are all costs that Hope would record in account 903 that I discussed earlier.
21 Hope’s going-level expenses, as I developed on Schedule SJR-4, are \$43.17 per customer
22 per year, or approximately \$3.60 per bill. Even if Hope’s costs in this account are

1 adjusted as I recommended (to be similar to the costs of comparable companies), its costs
2 still would be nearly \$1.50 per bill.

3 Moreover, according to some of the Six Sigma project documents that I reviewed,
4 it appears that Hope's cost for call center services is between \$3.00 and \$4.00 per call.
5 With costs of this magnitude, I do not consider 8 cents per bill – which is supposed to
6 compensate Hope for all services, including calls to the call center – to be a reasonable
7 level of compensation to Hope.

8 **Q. How does 8 cents per bill compare to costs received by other utilities for similar**
9 **arrangements?**

10 A. The 8 cents per bill is considerably lower than the costs received by two other utilities I
11 identified that have similar arrangements with affiliates. The first is Peoples Gas, a sister
12 company of Hope, that has the same type of program with DPS in Pennsylvania.
13 According to an audit report issued by the staff of the Pennsylvania Public Utility
14 Commission in January 2003, "Dominion Peoples is allowed to charge \$0.15 per bill for
15 including a monthly surcharge for the Gas Line Replacement Program on Dominion
16 Peoples' customers' bills." A copy of the relevant pages (16 and 17) from the audit
17 report are attached as Schedule SJR-18. Thus, an affiliate of Hope's apparently receives
18 almost twice as much as Hope does for providing exactly the same service.

19 In addition, affiliates of American Water Works Corporation provide a similar
20 service line repair program for their water customers. I have attached as Schedule
21 SJR-19, a copy of the payment provisions in the contract between Pennsylvania
22 American Water Co. and its affiliate, American Water Resources, Inc. That contract, for
23 providing billing and related services that are essentially identical to those that Hope

1 provides, calls for the affiliate to pay a billing fee based on the number of customers
2 billed, plus an additional fee (\$5.61 per call) for each call received in the call center
3 concerning the replacement program. For the number of customers that Hope is billing, it
4 would receive about 32 cents per bill (the 30 cents shown in the contract, escalated for
5 inflation since 2002). This is four times the amount that Hope receives from its affiliate.
6 In addition, under an agreement like the American Water agreement, Hope would receive
7 a call center fee for each call concerning GLRP.

8 **Q. What do you conclude?**

9 A. I conclude that this is yet another instance where Hope is not exercising reasonable care
10 and diligence in overseeing its relationship with affiliated companies. In my opinion, the
11 compensation that Hope receives for providing billing, collection, payment processing,
12 call center, and related services should be at least 32 cents per bill, as would be provided
13 under the American Water agreement. This should be the absolute minimum that Hope
14 receives, since American Water also charges an extra fee for calls to the call center. On
15 Schedule SJR-20, I calculate that the effect of this adjustment would be to increase
16 Hope's going-level Miscellaneous Revenues by \$23,463.

17 Summary and Conclusion

18 **Q. Please summarize the effect of your adjustments.**

19 A. My limited review of Hope's relationships with its affiliates has identified three accounts
20 that should be adjusted to properly remove excessive costs, or add reasonable revenues,
21 due to Hope's relationships with affiliated companies.

1 Hope's customer records and collections expenses are extraordinarily high when
2 compared to gas distribution utilities that are comparable to Hope. If Hope were a stand-
3 alone utility or an affiliate of a different holding company, its customer costs would be
4 less than half of those that it incurs as a Dominion company. There is no reason that
5 Hope's customers should be penalized by Hope's affiliation with Dominion. I have
6 adjusted Hope's customer costs, therefore, to be more in line with its peers. This results
7 in a reduction in customer costs of \$2,938,000.

8 Second, Hope has improperly included charges for seven categories of expenses
9 in its claim for outside services expenses. The expenses I identified are primarily for
10 expenses incurred at the Dominion corporate level that should not be included in the cost
11 of providing utility service by Hope or any of Dominion's other utility operating
12 companies. These include costs to support Dominion's fleet of airplanes, country club
13 dues, entertainment expenses, lobbying, and corporate communications. In addition, I
14 have removed a one-time, non-recurring expense associated with the retirement of a
15 Dominion executive who oversaw gas distribution operations. In total, Hope has
16 included \$270,599 in outside services expenses that are not properly chargeable to
17 Hope's customers.

18 Third, I have adjusted Hope's miscellaneous revenues to reflect revenue that
19 Hope should receive from an affiliate for which Hope provides billing, collection, call
20 center, and other customer services. The current contract, which pays Hope only 8 cents
21 per bill, does not adequately compensate Hope for the services provided. Based on
22 similar contracts in place for other utilities, I have determined that Hope should be

1 receiving an additional \$23,463 from its affiliate as fair compensation for the services
2 provided.

3 Finally, the findings of my investigation, coupled with the recent repeal of the
4 1935 Act, highlight the need for an increased role by this Commission in overseeing and
5 auditing Hope's relationships with affiliated companies. In large part, my adjustments
6 are necessary because of Hope's inadequate oversight and lack of vigilance in working
7 with, and reviewing charges from, affiliated companies. Adjustments of this magnitude,
8 based on just a limited review of Hope's affiliated operations, are a powerful indication
9 that (1) Hope needs to do much more to determine the reasonableness of its affiliated
10 relationships, and (2) the Commission should consider an enhanced level of oversight
11 over Hope's affiliated relationships – including a multi-state audit of the Service
12 Company.

13 **Q. Does this conclude your direct testimony?**

14 **A.** Yes, it does.

DRS Services Agreement

This DRS Services Agreement (this "Agreement") is entered into as of the 1st day of January, 2003, by and between Hope Gas, Inc., a West Virginia corporation (the "Company"), and DOMINION RESOURCES SERVICES, INC., a Virginia corporation, ("DRS"). DRS is sometimes referred to herein as "Service Company".

WHEREAS, each of the Company and DRS is a direct or indirect wholly-owned subsidiary of Dominion Resources, Inc. ("Dominion"), a registered holding company subject to regulation as such by the Securities and Exchange Commission ("SEC") under the Public Utility Holding Company Act of 1935 ("1935 Act");

WHEREAS, DRS has been formed for the purpose of providing administrative, management and other services to Dominion and its subsidiaries ("Dominion Companies") as a subsidiary service company under Rule 88 of the rules and regulations of the SEC for implementation of the 1935 Act, 17 C.F.R. Section 250.88;

WHEREAS, the Company believes that it is in the interest of the Company to provide for an arrangement whereby the Company may, from time to time and at the option of the Company, agree to purchase such administrative, management and other services from DRS;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

I. SERVICES OFFERED. Exhibit I hereto lists and describes all of the services that are available from DRS. DRS hereby offers to supply those services to the Company. Such services are and will be provided to the Company only at the request of the Company.

II. SERVICES SELECTED.

A. Initial Selection of Services. Exhibit II lists the services the Company hereby agrees to receive from DRS.

B. Annual Selection of Services. DRS shall send an annual service proposal form to the Company on or about December 1 listing services proposed for the coming calendar year. By December 31, the Company shall notify DRS of the services the Company has elected to receive from DRS during the following calendar year.

III. PERSONNEL. The DRS will provide services by utilizing the services of such executives, accountants, financial advisers, technical advisers, attorneys, engineers, geologists and other persons as have the necessary qualifications.

If necessary, DRS, after consultation with the Company, may also arrange for the services of nonaffiliated experts, consultants and attorneys in connection with the performance of any of the services supplied under this Agreement.

IV. COMPENSATION AND ALLOCATION. As and to the extent required by law, DRS will provide such services at cost. Exhibit III hereof contains rules for determining and allocating costs for DRS.

V. TERMINATION AND MODIFICATION.

A. Modification of Services. The Company may modify its selection of services at any time during the calendar year by giving DRS written notice of the additional services it wishes to receive, and/or the services it no longer wishes to receive, from DRS. The requested modification in services shall take effect on the first day of the first calendar month beginning at least thirty (30) days after the Company sent written notice to DRS.

B. Modification of Other Terms and Conditions. No other amendment, change or modification of this Agreement shall be valid, unless made in writing and signed by all parties hereto.

C. Termination of this Agreement. The Company may terminate this Agreement by providing sixty (60) days advance written notice of such termination to DRS. DRS may terminate this Agreement by providing sixty (60) days advance written notice of such termination to the Company.

This Agreement is subject to termination or modification at any time to the extent its performance may conflict with the provisions of the 1935 Act, or with any rule, regulation or order of the SEC adopted before or after the making of this Agreement. This Agreement shall be subject to the approval of any state commission or other state regulatory body whose approval is, by the laws of said state, a legal prerequisite to the execution and delivery or the performance of this Agreement.

VI. NOTICE. Where written notice is required by this Agreement, said notice shall be deemed given when mailed by United States registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

a. To the Company:

Hope Gas, Inc.
P.O. Box 2868
Clarksburg, WV 26301-2868

b. To DRS:

Dominion Resources Services, Inc.
120 Tredegar Street
Richmond, VA 23219

VII. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of Virginia, without regard to their conflict of laws provisions.

VIII. ENTIRE AGREEMENT. This Agreement, together with its exhibits, constitutes the entire understanding and agreement of the parties with respect to its subject matter, and effective upon the execution of this Agreement by the respective parties hereof and thereto, any and all prior agreements, understandings or representations with respect to this subject matter are hereby terminated and cancelled in their entirety and are of no further force and effect.

IX. WAIVER. No waiver by any party hereto of a breach of any provision of this Agreement shall constitute a waiver of any preceding or succeeding breach of the same or any other provision hereof.

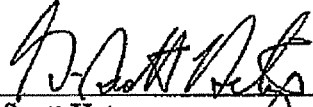
X. ASSIGNMENT. This Agreement shall inure to the benefit of and shall be binding upon the parties and their respective successors and assigns. No assignment of this Agreement or any party's rights, interests or obligations hereunder may be made without the other party's consent, which shall not be unreasonably withheld, delayed or conditioned; provided, however, that, subject to the requirements of applicable state and federal regulatory law, either party may assign its rights, interests or obligations under this Agreement to an affiliate as that term is defined in the 1935 Act, without the consent of the other party.

XI. SEVERABILITY. If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

XII. EFFECTIVE DATE. This Agreement is effective as of January 1, 2003.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above mentioned.

HOPE GAS, INC.

By 
G. Scott Hetzer
Senior Vice President and Treasurer

DOMINION RESOURCES SERVICES, INC.

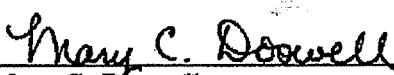
By 
Mary C. Doswell
President

EXHIBIT I

**DESCRIPTION OF SERVICES OFFERED BY DRS
UNDER THIS DRS SERVICES AGREEMENT**

1. Accounting. Provide advice and assistance to Dominion Companies in accounting matters, including the development of accounting practices, procedures and controls, the maintenance of the general ledger and related subsidiary systems, the preparation and analysis of financial reports, and the processing of certain accounts such as accounts payable, accounts receivable, and payroll.

2. Auditing. Periodically audit the accounting records and other records maintained by Dominion Companies and coordinate their examination, where applicable, with that of independent public accountants. The audit staff will report on their examination and submit recommendations, as appropriate, on improving methods of internal control and accounting procedures.

3. Legal and Regulatory. Provide advice and assistance with respect to legal and regulatory issues as well as regulatory compliance, including 1935 Act authorizations and compliance and regulatory matters under other Federal and State laws.

4. Information Technology, Electronic Transmission and Computer Services. Provide the organization and resources for the operation of an information technology function including the development, implementation and operation of a centralized data processing facility and the management of a telecommunications network. This function includes the central processing of computerized applications and support of individual applications in Dominion Companies. Develop, implement, and process those computerized applications for Dominion Companies that can be economically best accomplished on a centralized basis.

5. Software Pooling. Accept from Dominion Companies ownership of and rights to use, assign, license or sub-license all software owned, acquired or developed by or for Dominion Companies which Dominion Companies can and do transfer or assign to it. Preserve and protect the rights to all such software to the extent reasonable and appropriate under the circumstances; license Dominion Companies, on a non-exclusive, no-charge or at-cost basis, to use all software which DRS has the right to sell, license or sub-license; and, at the relevant Dominion Companies' expense, permit Dominion Companies to enhance any such software and license others to use all such software and enhancements to the extent that DRS shall have the legal right to so permit.

6. Employee Benefits/Pension Investment. Provide central accounting for employee benefit and pension plans of Dominion Companies. Advise and assist Dominion Companies in the administration of such plans and prepare and maintain records of employee and company accounts under the said plans, together with such statistical data and reports as are pertinent to the plans.

7. Human Resources. Advise and assist Dominion Companies in the formulation and administration of human resources policies and programs relating to the relevant Dominion Companies' labor relations, personnel administration, training, wage and salary administration and safety.

8. Operations. Advise and assist Dominion Companies in the study, planning, engineering and construction of energy plant facilities of each Dominion Company and of the Dominion Companies as a whole, and advise, assist and manage the planning, engineering (including maps and records) and construction operations of Dominion Companies. Develop long-range operational programs for all the Dominion Companies and advise and assist each such Dominion Company in the coordination of such programs with the programs of the other Dominion Companies.

9. Executive and Administrative. Advise and assist Dominion Companies in the solution of major problems and in the formulation and execution of the general plans and policies of Dominion Companies. Advise and assist Dominion Companies as to operations, the issuance of securities, the preparation of filings arising out of or required by the various Federal and State securities, business, public utilities and corporation laws, the selection of executive and administrative personnel, the representation of Dominion Companies before regulatory bodies, proposals for capital expenditures, budgets, financing, acquisition and disposition of properties, expansion of business, rate structures, public relationships and other related matters.

10. Business and Operations Services. Advise and assist Dominion Companies in all matters relating to operational capacity and the preparation and coordination of operating studies. Manage Dominion Companies' purchase, movement, transfer and accounting of fuel and gas volumes. Compile and communicate information relevant to company operation. Perform general business and operations support services, including business, plant and facilities operation, maintenance and management, travel, aviation, fleet and mail services.

11. Exploration and Development. Advise and assist Dominion Companies in all geological and exploration matters including the acquisition and surrender of acreage and the development of underground storage facilities.

12. Risk Management. Advise and assist Dominion Companies in securing requisite insurance, in the purchase and administration of all property, casualty and marine insurance, in the settlement of insured claims and in providing risk prevention advice.

13. Marketing. Plan, formulate and implement marketing programs, as well as provide associated marketing services to assist Dominion Companies with improving customer satisfaction, load retention and shaping, growth of energy sales and deliveries, energy conservation and efficiency. Assist Dominion Companies in carrying out policies and programs for the development of plant locations and of industrial, commercial and wholesale markets and assist with community redevelopment and rehabilitation programs.

14. Medical. Direct and administer all medical and health activities of Dominion Companies. Provide systems of physical examination for employment and other purposes and direct and administer programs for the prevention of sickness.

15. Corporate Planning. Advise and assist Dominion Companies in the study and planning of operations, budgets, economic forecasts, capital expenditures and special projects.

16. Supply Chain. Advise and assist Dominion Companies in the procurement of real and personal property, materials, supplies and services, conduct purchase negotiations, prepare procurement agreements and administer programs of material control.

17. Rates. Advise and assist Dominion Companies in the analysis of their rate structure in the formulation of rate policies, and in the negotiation of large contracts. Advise and assist Dominion Companies in proceedings before regulatory bodies involving the rates and operations of Dominion Companies and of other competitors where such rates and operations directly or indirectly affect Dominion Companies.

18. Research. Investigate and conduct research into problems relating to production, utilization, testing, manufacture, transmission, storage and distribution of energy. Keep abreast of and evaluate for Dominion Companies all research developments and programs of significance affecting Dominion Companies and the energy industry, conduct research and development in promising areas and advise and assist in the solution of technical problems arising out of Dominion Companies' operations.

19. Tax. Advise and assist Dominion Companies in the preparation of Federal and other tax returns, and generally advise Dominion Companies as to any problems involving taxes including the provision of due diligence in connection with acquisitions.

20. Corporate Secretary. Provide all necessary functions required of a publicly held corporation. Coordinate information and activities among shareholders, the transfer agent, and Board of Directors. Provide direct services to security holders. Prepare and file required annual and interim reports to shareholders and the SEC. Conduct the annual meeting of shareholders and ensure proper maintenance of corporate records.

21. Investor Relations. Provide fair and accurate analysis of Dominion and its operating subsidiaries and its outlook within the financial community. Enhance Dominion's position in the energy industry. Balance and diversify shareholder investment in Dominion

through a wide range of activities. Provide feedback to Dominion and its operating subsidiaries regarding investor concerns, trading and ownerships. Hold periodic analysts meetings, and provide various operating data as requested or required by investors.

22. Environmental Compliance. Provide consulting, cleanup, and other activities as required by Dominion Companies to ensure full compliance with applicable environmental statutes and regulations.

23. Customer Services. Provide services and systems dedicated to customer service, including billing, remittance, credit, collections, customer relations, call centers, energy conservation support and metering.

24. Energy Marketing. Provide services and systems dedicated to energy marketing, including marketing and trading of energy commodities, and energy price risk management and development of marketing and sales programs in physical and financial markets.

25. Treasury/Finance. Provide services related to managing all administrative activities associated with financing, including management of capital structure; cash, credit and risk management activities; investment and commercial banking relationships; oversight of decommissioning trust funds and general financing activities.

26. External Affairs. Provide services in support of corporate strategies for managing relationships with federal, state and local governments, agencies and legislative bodies. Formulate and assist with public relations, advertising, and external/internal communications programs and with the administration of corporate contribution and community affairs programs.

EXHIBIT II**SERVICES THE COMPANY AGREES TO RECEIVE FROM DRS**

SERVICE	YES	NO
1. Accounting	X	
2. Auditing	X	
3. Legal and Regulatory	X	
4. Information Technology, Electric Transmission and Computer Services	X	
5. Software Pooling	X	
6. Employee Benefits/Pension Investment	X	
7. Human Resources	X	
8. Operations	X	
9. Executive and Administrative	X	
10. Business and Operations Services	X	
11. Exploration and Development	X	
12. Risk Management	X	
13. Marketing	X	
14. Medical	X	
15. Corporate Planning	X	
16. Supply Chain	X	
17. Rates	X	
18. Research	X	
19. Tax	X	
20. Corporate Secretary	X	
21. Investor Relations	X	
22. Environmental Compliance	X	
23. Customer Services	X	
24. Energy Marketing	X	
25. Treasury/Finance	X	
26. External Affairs	X	

EXHIBIT III

METHODS OF ALLOCATION FOR DRS

DRS shall allocate costs among companies receiving service from it under this and similar service contracts using the following methods:

- I The costs of rendering service by DRS will include all costs of doing business including interest on debt but excluding a return for the use of equity capital for which no charge will be made to Dominion Companies.
- II A. DRS will maintain a separate record of the expenses of each department. The expenses of each department will include:
 - 1. those expenses that are directly attributable to such department, and
 - 2. an appropriate portion of those office and housekeeping expenses that are not directly attributable to a department but which are necessary to the operation of such department.
- B. Expenses of the department will include salaries and wages of employees, rent and utilities, materials and supplies, depreciation, and all other expenses attributable to the department. The expenses of a department will not include:
 - 1. those incremental out-of-pocket expenses that are incurred for the direct benefit and convenience of an individual Dominion Company or group of Dominion Companies,
 - 2. DRS overhead expenses that are attributable to maintaining the corporate existence of DRS, and all other incidental overhead expenses including those auditing fees, internal auditing department expenses and accounting department expenses attributable to DRS.
- C. DRS will establish annual budgets for controlling the expenses of each department and for determining estimated costs to be included in interim monthly billing.
- III A. Employees in each department will be divided into two groups:
 - 1. Group A will include those employees rendering service to Dominion Companies, and

2. Group B will include those office and general service employees, such as secretaries, file clerks and administrative assistants, who generally assist employees in Group A or render other housekeeping services and who are not engaged directly in rendering service to each Dominion Company or a group of Dominion Companies.
- B. Expenses set forth in Section II. above will be separated to show:
 1. salaries and wages of Group A employees, and
 2. all other expenses of the department.
 - C. There will be attributed to each dollar of a Group A employee's salary or wage, that percentage of all other expenses of such employee's department (as defined in B above), that such employee's salary or wage is to the total Group A salaries and wages of that department.
 - D. Group A employees in each department will maintain a record of the time they are employed in rendering service to each Dominion Company or group of Dominion Companies. An hourly rate will be determined by dividing the total expense attributable to a Group A employee as determined under subsection C above by the productive hours reported by such employee.
- IV The charge to the Dominion Company for a particular service will be determined by multiplying the hours reported by Group A employees in rendering such service to each Dominion Company by the hourly rates applicable to such employees. When such employees render service to a group of Dominion Companies, the charge to each Dominion Company will be determined by multiplying the hours attributable to the Dominion Company under the allocation formulas set forth in Section IX of this Exhibit by the hourly rates applicable to such employees.
- V To the extent appropriate and practical, the foregoing computations of hourly rates and charges may be determined for groups of employees within reasonable salary range limits.
- VI Those expenses of DRS that are not included in the annual expense of a department under Section II. above will be charged to Dominion Companies receiving service as follows:
- A. Incremental out-of-pocket costs incurred for the direct benefit and convenience of a Dominion Company or group of Dominion Companies will be charged directly to such Dominion Company or group of Dominion Companies. Such costs incurred for a group of Dominion Companies will be allocated on the basis of an appropriate formula.

B. DRS overhead expenses referred to in Section II above will be charged to the Dominion Company either on the proportion of direct charges to that Dominion Company or under the allocation formulas set forth in Section IX of this Exhibit.

VII Notwithstanding the foregoing basis of determining cost allocations for billing purposes, cost allocations for certain services involving machine operations, production or service units, or facilities cost will be determined on an appropriate basis established by DRS.

VIII Monthly bills will be issued for the services rendered to the Dominion Company on an actual basis. However, if such actual information is not available at the time of preparation of the monthly bill, estimates may be used. Estimates will normally be predicated on service department budgets and estimated productive hours of employees for the year. At the end of each quarter, estimated figures will be revised and adjustments will be made in amounts billed to give effect to such revision.

IX When Group A employees render services to a group of Dominion Companies, the following formulas shall be used to allocate the time of such employees to the individual Dominion Companies receiving such service:

A. The Service Department or Function formulas to be used when employees render services to all Dominion Companies participating in such service, for the services indicated are set forth below.

<u>Service Department or Function</u>	<u>Basis of Allocation</u>
<i>Accounting:</i>	
Payroll Processing	Number of employees on the previous December 31 st .
Accounts Payable Processing	Number of accounts payable documents processed during the preceding year ended December 31 st .
Fixed Assets Accounting	Dominion Company fixed assets added, retired or transferred during the preceding year ended December 31 st .
Accounts Receivable Processing	Number of payments processed during the preceding year ended December 31 st .
 <i>Information Technology, Electronic Transmission, and Computer Services:</i>	
LDC/EDC Computer Applications	Number of customers at the end of the preceding year ended December 31 st .
Other Computer Applications	Number of users or usage of specific computer systems at the end of the preceding year ended December 31 st .

Service Department or Function	<u>Basis of Allocation</u>
Network Computer Applications	Number of network devices at the end of the preceding year ended December 31st.
Telecommunications Applications	Number of telecommunications units at the end of the preceding year ended December 31st
<i>Employee Benefits/Pension Investment:</i>	
Employee Benefits/ Pension Investments	The number of employee and annuitant accounts as of the preceding December 31st.
<i>Human Resources:</i>	
Human Resources	The number of employees as of the preceding December 31st.
<i>Business and Operations Services:</i>	
Energy Services	Energy sale and deliveries for the preceding year ended December 31 st .
Facility Services	Square footage of office space as of the preceding year ended December 31st.
Fleet Administration	Number of vehicles as of the preceding December 31st
Security	The number of employees as of the preceding December 31st.
Gas Supply	Gas volumes purchased for each Dominion Company for the preceding year ended December 31st.
<i>Risk Management:</i>	
Risk Management	Insurance premiums for the preceding year ended December 31st.
<i>Marketing:</i>	
Shared Projects	Annual marketing plan expenses for the preceding year ended December 31 st .
Other Indirect Costs	Total marketing direct and shared project costs billed to each Dominion Company for the preceding year ended December 31st.
<i>Medical:</i>	
Medical Services	Number of employees on the previous December 31 st .

Corporate Planning:

Corporate Planning

Total capitalization recorded at preceding December 31st.

Supply Chain:

Purchasing

Dollar value of purchases for the preceding year ended December 31st.

Materials Management

Material inventory assets as of the preceding year ended December 31st.

Tax:

Tax Accounting and Compliance

The sum of the total income and total deductions as reported for Federal Income Tax purposes on the last return filed.

Customer Services:

Customer Payment (Remittance) Processing

Number of customer payments processed during the preceding year ended December 31st.

Other Customer Services

For metering, the number of gas or electric meters for the preceding year ended December 31st; otherwise the number of customers for the preceding year ended December 31st.

Treasury/ Finance:

Treasury and Cash Management

Total capitalization recorded at preceding December 31st.

Rates

Total regulated company operating expenses, excluding purchased gas expense, purchased power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31st.

Research

Gross revenues recorded during the preceding year ended December 31st.

- B. **Company Group Formulas to be used in the absence of a service department or function formula or when service rendered by employees is for a different group of Dominion Companies than those companies regularly participating in such service:**

Company Group	Basis of Allocation
All Dominion Companies (includes all Dominion Companies except DRS)	Total operating expenses, excluding purchased gas expense, purchased power expense (including fuel expense), other purchased products and royalties, for the preceding year ended December 31 st for the affected Dominion Companies.

- C. **If the use of a basis of allocation would result in an inequity because of a change in operations or organization, then DRS may adjust the basis to effect an equitable distribution.**

Dominion Resources Services, Inc.
P.O. Box 26532, Richmond, Virginia 23261



Schedule SJR-1, page 16 of 16

Hope Gas, Inc.
P.O. Box 2868
Clarksburg, WV 26301-2868

Effective January 1, 2003, Hope Gas, Inc. entered into a revised services agreement ("Revised Services Agreement") with Dominion Resources Services, Inc. ("DRI Services"). Pursuant to the Revised Services Agreement your company ("Company") initially elected to take certain services from DRI Services.

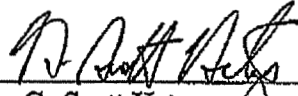
Under the terms of the Revised Services Agreement the Company is to be provided, on an annual basis, with the opportunity to select those services which it desires to receive from DRI Services. Accordingly, DRI Services hereby requests that the Company acknowledges its election to continue receiving services from DRI Services by having an authorized officer sign in the space below. The Company may choose to modify its selection of services at this time by providing DRI Services with written notice of such modification. Until DRI Services has been so notified, it will continue to offer and provide the Company with the initial services elected under the Revised Services Agreement.

Effective January 1, 2005.

Dominion Resources Services, Inc.

Mary C. Doswell
President and Chief Executive Officer

*Seen and Agreed:
Hope Gas, Inc.

By: 
G. Scott Hetzer
Senior Vice President and Treasurer

*Please have an authorized officer of the Company sign this letter and return to Dominion Resources Services, Inc., c/o Karen Chapman, 100 Tredegar Street, Richmond, Virginia 23219. Any questions may be directed to Sharon Burr at (804) 819-2171.



Hope Gas, Inc., dba Dominion Hope
Case No. 05-0304-G-42T
HGI Response to Data Request

Data Response

Requesting Party:

CAD

Data Request Set:

First

Question Number:

J-013

Subpart:

Question:

Please provide any comparisons or studies performed in the last five years that analyze or compare the costs and benefits of acquiring a service from a system company versus acquiring that service from another non-Dominion company.

Answer:

There were no specific studies performed. However, Dominion Hope believes that acquiring services from a system company, such as Dominion Resources Service (DRS) Company is justified based on the following reasons:

1. Services acquired by Dominion Hope from affiliates are provided at cost. There is no profit added to the services.
2. In the case of services provided by DRS, DRS provides a menu of services to all Dominion Hope affiliates and a centralized service company staff achieves economies of scale by leveraging employees and management across many affiliates. This avoids a more costly option of duplicating staff in each affiliate.
3. Because DRS is a larger purchaser of services from other vendors (larger than Dominion Hope or its stand-alone affiliates) DRS gains the benefits of economies of scale that would not be available to smaller purchaser of services.
4. Because of its affiliate relationship and history of service with other affiliates, affiliate personnel have a more intimate knowledge of Dominion Hope and its operations. This avoids the time-consuming and more costly learning curve to address Dominion Hope's needs.
5. Utilizing a corporate structure to provide services helps to maintain standardized processes that cost less to maintain than having potentially differing processes in affiliate companies.

Preparer of Response:

Joseph Gregorini

Date: 04/25/2005



Hope Gas, Inc., dba Dominion Hope
Case No. 05-0304-G-42T
HGI Response to Data Request

Data Response

Requesting Party:

CAD

Data Request Set:

First

Question Number:

J-014

Subpart:

Question:

Please list each service where Hope has made the choice to use a non-Dominion company for a service instead of a Dominion company and the reason for its decision.

Answer:

Dominion Hope does not maintain a list of these services. There are many cases where a Dominion affiliate company is unable to provide services required by Dominion Hope and therefore services are provided by a non-affiliate company. Also, there are other situations where Dominion Hope itself is capable of performing a particular work function but the service is provided by a non-affiliate company. One example of this would be the use of subcontractors on construction projects.

Preparer of Response:

Andrew Weisner

Date:

04/26/2005



Hope Gas, Inc., dba Dominion Hope
Case No. 05-0304-G-42T
HGI Response to Data Request

Data Response

Requesting Party:

CAD

Data Request Set:

First

Question Number:

J-016

Subject:

Question:

When Hope acquires a service from a system company does it first get a bid? If no, list each service where no bid is obtained before retaining the vendor?

Answer:

Hope does not get a bid for services it acquires from other system companies because the cost for such services are based on generally known labor and overhead costs. All such services are identified in the agreements produced in response to CAD First Set of Data Requests, Data Request J-003.

Preparer of Response:

Andrew Weisner

Date: 04/20/2005



Hope Gas, Inc., dba Dominion Hope
Case No. 05-0304-G-42T
HGI Response to Data Request

Data Response

Requesting Party:

CAD

Data Request Set:

Second

Question Number:

J-033

Subpart:

a,b,c

Question:

The attachment to CAD J-2 (first unnumbered page) states: "Affiliates have certain options as to what services they elect to receive from DRS." The document then lists 26 categories of services that affiliates can receive from DRS. Concerning this:

- a. Which, if any, of these 26 categories of services is Hope Gas required to purchase from DRS?
- b. For each category listed in response to (a):
 - i. Please state the specific reasons why Hope Gas is required to purchase the service from DRS.
 - ii. Provide a specific reference in the DRS Services Agreement that shows the requirement.
 - iii. Provide a specific reference to any order of the Securities and Exchange Commission that requires such purchase.
- c. For which, if any, of these 26 categories of services does Hope Gas have the option of providing the services itself, not obtaining the service, and/or procuring the service from an unaffiliated entity?

Answer:

Dominion is organized for DRS to provide centralized services for its affiliates. While Hope Gas is not required to purchase any of the 26 categories from DRS, Hope needs these services to operate our business.

Preparer of Response:

Nancy Fines

Date: 06/16/2005



Hope Gas, Inc., dba Dominion Hope
 Case No. 05-0304-G-42T
 HGI Response to Data Request

Data Response

Requesting Party:
 CAD

Data Request Set:
 Second

Question Number: J-034	Subpart: a,b,c,d,e,f
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Question:

- For each category listed in response to CAD J-33(c):
- a. Why has Hope Gas chosen to procure the service from DRS?
 - b. When did Hope Gas last make an affirmative decision to procure the service from DRS?
 - c. When did Hope Gas last investigate the relative costs and benefits of procuring the service from an alternative source rather than from DRS?
 - d. When did Hope Gas last investigate the relative costs and benefits of providing the service itself rather than procuring the service from DRS?
 - e. When did Hope Gas last investigate the relative costs and benefits of not obtaining the service rather than procuring the service from DRS?
 - f. Provide copies of all documents discussing or related to the decisions and/or investigations referred to in response to subparts (ii) through (v) above.

Answer:

- a. See J-13
- b. January 1, 2005
- c. N/A
- d. N/A
- e. N/A
- f. N/A

Preparer of Response:
 Andrew Weisner, Joseph
 Gregorini, Nancy Fines

Date: 06/14/2005



Hope Gas, Inc., dba Dominion Hope
Case No. 05-0304-G-42T
HGI Response to Data Request

Data Response

Requesting Party:

CAD

Data Request Set:

Second

Question Number:

J-035

Subpart:

a,b

Question:

For each category listed in response to CAD J-33(c), identify the person or persons at Hope Gas who is responsible for making the decision about whether to procure the service from DRS. For each such person:

- a. Is the person employed by, or hold any position with, DRS or any other affiliate?
- b. To whom does the person report? Is that person (the report) employed by, or hold any position with, DRS or any other affiliate?

Answer:

The decisions about whether or not to secure services from DRS are made by executive level management of the Dominion Delivery Business Unit of Dominion Resources, Inc. The Services Agreement is signed by G. Scott Hetzer in his capacity as Senior Vice President and Treasurer of Hope Gas, Inc. Mr. Hetzer, as well as all executive level officers of Dominion are employees of DRS.

Preparer of Response:

Andrew Weisner, Nancy Fines

Date:

06/13/2005

**Hope Gas, Inc., d/b/a Dominion Hope
Case No. 05-0304-G-42T**

**Comparable Natural Gas Distribution Utilities in WV or Neighboring States
(all data, except Hope Going Level, from annual reports to State PUC/PSC for 2004)**

Company	Avg. Resid. Customers	Avg. Total Customers	Sales	
			Revenues (\$million)	Sales (BCF)
Atmos Energy (KY)	161,069	181,515	186.6	19.02
Columbia Gas (KY)	87,519	97,114	123.0	9.87
Union LH&P (KY)	83,028	90,538	118.8	10.81
PG Energy (PA)	142,703	157,749	264.6	24.79
PPL Gas (PA)	65,952	75,539	114.9	10.51
TW Phillips (PA)	56,750	61,084	101.8	10.39
Mountaineer Gas (WV)	183,551	202,860	266.3	24.90
Dominion Hope (WV)	106,649	115,707	148.2	13.76
Hope Going Level	106,169	116,090	144.7	13.47

Notes:

Customers, Sales Revenues, and Sales excludes transportation

Hope going level excluding transportation from Stmt. D, Sch. 1 (customers and sales), and Stmt. A Sch. 1 and Stmt. G, Adj. 6 (revenues)

Criteria for similar utilities:

In WV or neighboring state with annual report data for 2004 available on-line (excludes MD and VA)

Residential customers, total customers, sales revenues, and sales within range of 1/2 to 2 times

Dominion Hope (excludes several large and very small LDCs)

National Fuel Gas excluded because PA annual report includes data for NY operations

**Hope Gas, Inc., d/b/a Dominion Hope
Case No. 05-0304-G-42T**

**Average Customer Costs (a/c 903) for Comparable Gas Utilities
(all data, except Hope Going Level, from annual reports to State PUC/PSC for 2004)**

Company	Account 903 (\$1000)	a/c 903 per Customer	a/c 903 per \$1000 Revenue	a/c 903 per MMCF Sales
Atmos Energy (KY)	1,287	7.09	6.90	67.67
Columbia Gas (KY)	2,758	28.40	22.42	279.43
Union LH&P (KY)	1,584	17.50	13.33	146.53
PG Energy (PA)	3,672	23.28	13.88	148.12
PPL Gas (PA)	1,934	25.60	16.83	184.02
TW Phillips (PA)	1,136	18.60	11.16	109.34
Mountaineer Gas (WV)	3,413	16.82	12.82	137.07
Weighted Average		18.22	13.42	143.11
Weighted w/o high and low		19.97	13.55	144.21
Dominion Hope (WV)	1,831	15.82	12.35	133.07
Hope Going Level	5,012	43.17	34.63	372.09

**Hope Gas, Inc., d/b/a Dominion Hope
Case No. 05-0304-G-42T**

**Average Outside Services Costs (a/c 923) for Comparable Gas Utilities
(all data, except Hope Going Level, from annual reports to State PUC/PSC for 2004)**

Company	Account 923 (\$1000)	a/c 923 per Customer	a/c 923 per \$1000 Revenue	a/c 923 per MMCF Sales
Atmos Energy (KY)	204	1.12	1.09	10.73
Columbia Gas (KY)	7,455	76.77	60.61	755.32
Union LH&P (KY)	694	7.67	5.84	64.20
PG Energy (PA)	133	0.84	0.50	5.37
PPL Gas (PA)	4,016	53.16	34.95	382.11
TW Phillips (PA)	398	6.52	3.91	38.31
Mountaineer Gas (WV)	314	1.55	1.18	12.61
Dominion Hope (WV)	9,530	82.36	64.30	692.59
Hope Going Level	5,983	51.54	41.33	444.17

**Hope Gas, Inc., d/b/a Dominion Hope
Case No. 05-0304-G-42T**

Calculation of Hope Customer Costs (a/c 903) if Same as Comparable Gas Utilities

<u>Line</u>			
1	Average a/c 903 per Customer	18.22	Sch. SJR-4
2	Average a/c 903 per Customer, excluding High and Low	19.97	Sch. SJR-4
3	Higher of above	19.97	Higher of lines 1 & 2
4	Hope going level number of customers	116,090	Sch. SJR-3
5	Estimate 1: Hope cost	2,318,561	Line 3 x line 4
6	Average a/c 903 per \$1000 Revenue	13.42	Sch. SJR-4
7	Average a/c 903 per \$1000 Revenue, excluding High and Low	13.55	Sch. SJR-4
8	Higher of above	13.55	Higher of lines 6 & 7
9	Hope going level revenue (in \$1000)	144,745	Sch. SJR-3
10	Estimate 2: Hope cost	1,961,174	Line 8 x line 9
11	Average a/c 903 per MMCF Sales	143.11	Sch. SJR-4
12	Average a/c 903 per MMCF Sales, excluding High and Low	144.21	Sch. SJR-4
13	Higher of above	144.21	Higher of lines 11 & 12
14	Hope going level sales (MMCF)	13,470	Sch. SJR-3
15	Estimate 3: Hope cost	1,942,559	Line 13 x line 14
16	Hope cost estimate	2,074,000	Average lines 5, 10, 15

**Hope Gas, Inc., d/b/a Dominion Hope
Case No. 05-0304-G-42T**

Summary of Six Sigma Project Savings in 2005

Project	Total Project	Allocation to Hope	Hope Savings
1. Accounts Receivable Conversion	\$ 758,377	3.26%	\$ 24,723
2. Reduce Customer Escalated and Agent Assist Calls	83,616	2.98%	2,492
3. DNP Prioritization - DEO & DH	753,825	16.35%	123,250
4. NCO/Checkwriter	801,833	3.26%	26,140
Total	\$ 2,397,651		\$ 176,605

Allocation Factors:

- 1: Payment processing allocator from CAD J-19
- 2: Customer service allocator from CAD J-19
- 3: Ratio of Hope labor savings to total labor savings from this project
- 4: Payment processing allocator from CAD J-19



Hope Gas, Inc., dba Dominion Hope
 Case No. 05-0304-G-42T
 HGI Response to Data Request

Data Response

Requesting Party:

CAD

Data Request Set:

Second

Question Number:

J-040

Subpart:

a,b,c,d,e,f,g,h,i,j,k,l,m,n,o,p,q,r

Question:

Concerning the information provided in response to CAD J-15, please provide a detailed explanation of the proposed increases (2005 budget compared to 2004 actual) in the following categories of affiliated charges, each of which exceeds a 10% increase:

- a. 5998000 Accounting
- b. 5998020 Payroll
- c. 5998040 Facilities
- d. 5998050 Fleet Management
- e. 5998080 Travel Services
- f. 5998090 Corporate Planning
- g. 5998100 Corporate Security
- h. 5998120 Employee Benefits/Pension
- i. 5998140 Executive/Administrative
- j. 5998160 External Affairs/Policy
- k. 5998170 Client Services
- l. 5998180 Data Operations
- m. 5998230 Risk Management
- n. 5998240 Tax
- o. 5998250 Treasury
- p. 5998270 Operations
- q. 5998320 Environmental Compliance
- r. 5998410 Aviation

Answer:

The increase in the 2005 budget compared to the 2004 actuals is based on two things: 1) no payout to employees under the profit sharing (STIP) incentive plan in the 2004 actuals and 2) merit increase to salaries in the 2005 budget.

Preparer of Response:
Abby Corbin

Date: 06/17/2005

Hope Gas, Inc., d/b/a Dominion Hope
Case No. 05-0304-G-42T

Summary of Adjustments to Outside Services Expenses (account 923)

<u>Line</u>	<u>Category of Expenses</u>	<u>Adjustment to Hope</u>	<u>Reference</u>
1	Dues and memberships	2,681	Sch. SJR-10 (\$257,794) x 1.04%
2	Entertainment expenses	1,258	Sch. SJR-11 (\$120,988) x 1.04%
3	Civic and political activities	647	Sch. SJR-12 (\$62,177) x 1.04%
4	Executive severance payment	37,047	See testimony (\$386,312) x 9.59%
5	Aviation expenses	98,607	Sch. SJR-21
6	Corporate communications	81,540	Sch. SJR-21
7	External affairs & policy	48,819	Sch. SJR-21
		<u>270,599</u>	

Layout HOPE RATE hope information
 Cost Center 700102... CHAIRMAN OF BOARD...
 Report currency USD US Dollar

2004

4

Cost Elem.	Cost element name	Postg	Date	Per	Val.in	RC	Cont Ctr	Vendor Name	CO object name	AUX.acct assignmt_1	Document	Header Text	Doctyp
5308090	Other Dues&Membershp		01/31/2004	1	130.00		700142		FIN ANAL & PLAN-EXEC				AB
5308090	Other Dues&Membershp		01/31/2004	1	50.00		700205		GAS DISTR EXEC				AB
5308090	Other Dues&Membershp		01/29/2004	1	250.00		700205		GAS DISTR EXEC				PC
5308090	Other Dues&Membershp		01/13/2004	1	1,000.00		700577	VIRGINIA BUSINESS COUNCIL	EXTERNAL AFFAIR EXEC	WBS EXEC.ALLOC24		MEMBERSHIP ASSESSMENT	KN
5308090	Other Dues&Membershp		01/13/2004	1	1,000.00		700577	VIRGINIA BUSINESS COUNCIL	EXTERNAL AFFAIR EXEC	WBS EXEC.ALLOC3A		MEMBERSHIP ASSESSMENT	KN
5308090	Other Dues&Membershp		01/20/2004	1	3,750.00		700577	VIRGINIA FOUNDATION FOR RESEARCH &	EXTERNAL AFFAIR EXEC	WBS EXEC.ALLOC26		MEMBERSHIP INVESTMENT	KN
5308090	Other Dues&Membershp		01/20/2004	1	3,750.00		700577	VIRGINIA FOUNDATION FOR RESEARCH &	EXTERNAL AFFAIR EXEC	WBS EXEC.ALLOC3A		MEMBERSHIP INVESTMENT	KN
5308090	Other Dues&Membershp		01/31/2004	1	232.00		700832		TREASURY EXECUTIVE				AB
5308090	Other Dues&Membershp		01/31/2004	1	117.94		703233		LEGAL SERVICES EXEC	WBS EXEC.ALLOC1			AB
5308090	Other Dues&Membershp		01/15/2004	1	19,400.00		703274	VIRGINIA MANUFACTURERS ASSN	EXEC - DELIVERY			2004 Membership Dues	KN
5308090	Other Dues&Membershp		01/30/2004	1	19,400.00		703274		EXEC - DELIVERY			to charge a billing proje	SA
5308090	Other Dues&Membershp		01/30/2004	1	19,400.00		703274		EXEC - DELIVERY	WBS EXEC.ALLOC3		to charge a billing proje	SA
5308090	Other Dues&Membershp		01/31/2004	1	187.22		704004		FIN EXEC DELIVERY				AB
*				1	29,867.16								
5308090	Other Dues&Membershp		02/29/2004	2	65.00		700142		FIN ANAL & PLAN-EXEC				AB
5308090	Other Dues&Membershp		02/29/2004	2	50.00		700205		GAS DISTR EXEC				AB
5308090	Other Dues&Membershp		02/29/2004	2	558.00		700228		DRS RETAIL EXEC				AB
5308090	Other Dues&Membershp		02/04/2004	2	24,000.00		700806	CORPORATE EXECUTIVE BOARD	HR EXECUTIVE			Membership Services	KN
5308090	Other Dues&Membershp		02/29/2004	2	84.00		700806		HR EXECUTIVE				AB
5308090	Other Dues&Membershp		02/27/2004	2	24,000.00		700806		HR EXECUTIVE			to charge a billing proje	SA
5308090	Other Dues&Membershp		02/27/2004	2	24,000.00		700806		HR EXECUTIVE	WBS EXEC.ALLOC1		to charge a billing proje	SA
5308090	Other Dues&Membershp		02/29/2004	2	200.00		700832		TREASURY EXECUTIVE	WBS EXEC.ALLOC1			AB
5308090	Other Dues&Membershp		02/25/2004	2	5,000.00		701720		CHIEF INFO OFFICER				PC
5308090	Other Dues&Membershp		02/29/2004	2	116.00		703233		LEGAL SERVICES EXEC	WBS EXEC.ALLOC1			AB
5308090	Other Dues&Membershp		02/29/2004	2	354.75		703274		EXEC - DELIVERY				AB
*				2	30,427.75								
5308090	Other Dues&Membershp		03/31/2004	3	65.00		700142		FIN ANAL & PLAN-EXEC				AB
5308090	Other Dues&Membershp		03/31/2004	3	289.00		700228		DRS RETAIL EXEC				AB
5308090	Other Dues&Membershp		03/30/2004	3	59.97		700577		EXTERNAL AFFAIR EXEC				PD
5308090	Other Dues&Membershp		03/31/2004	3	4,816.00		700832		TREASURY EXECUTIVE	WBS EXEC.ALLOC1			AB
5308090	Other Dues&Membershp		03/29/2004	3	2,500.00		701720		CHIEF INFO OFFICER				PD
5308090	Other Dues&Membershp		03/31/2004	3	334.75		703274		EXEC - DELIVERY				AB
5308090	Other Dues&Membershp		03/31/2004	3	187.22		704004		FIN EXEC DELIVERY				AB
*				3	8,351.94								
5308090	Other Dues&Membershp		04/30/2004	4	65.00		700142		FIN ANAL & PLAN-EXEC				AB
5308090	Other Dues&Membershp		04/30/2004	4	100.00		700205		GAS DISTR EXEC				AB
5308090	Other Dues&Membershp		04/30/2004	4	289.00		700228		DRS RETAIL EXEC				AB
5308090	Other Dues&Membershp		04/29/2004	4	129.00		700577		EXTERNAL AFFAIR EXEC				PD
5308090	Other Dues&Membershp		04/29/2004	4	182.00		700577		EXTERNAL AFFAIR EXEC				PD
5308090	Other Dues&Membershp		04/29/2004	4	198.00		700577		EXTERNAL AFFAIR EXEC				PD
5308090	Other Dues&Membershp		04/30/2004	4	232.00		700832		TREASURY EXECUTIVE	WBS EXEC.ALLOC1			AB
5308090	Other Dues&Membershp		04/28/2004	4	2,250.00		701720		CHIEF INFO OFFICER				PD
5308090	Other Dues&Membershp		04/30/2004	4	2,250.00		701720		CHIEF INFO OFFICER			to charge a billing proje	SA
5308090	Other Dues&Membershp		04/30/2004	4	2,250.00		701720		CHIEF INFO OFFICER	WBS EXEC.ALLOC1		to charge a billing proje	SA
5308090	Other Dues&Membershp		04/30/2004	4	187.22		704004		FIN EXEC DELIVERY				AB
5308090	Other Dues&Membershp		04/29/2004	4	725.00		704062		Gas & Elec Del Exec				PD
5308090	Other Dues&Membershp		04/30/2004	4	725.00		704062		Gas & Elec Del Exec			to charge a billing proje	SA
5308090	Other Dues&Membershp		04/30/2004	4	725.00		704062		Gas & Elec Del Exec	WBS EXEC.ALLOC3D		to charge a billing proje	SA
*				4	4,358.22								
5308090	Other Dues&Membershp		05/31/2004	5	50.00		700205		GAS DISTR EXEC				AB
5308090	Other Dues&Membershp		05/31/2004	5	289.00		700228		DRS RETAIL EXEC				AB
5308090	Other Dues&Membershp		05/06/2004	5	49,000.00		700806	CORPORATE EXECUTIVE BOARD	HR EXECUTIVE			Membership Services	KN
5308090	Other Dues&Membershp		05/25/2004	5	49,000.00		700806		HR EXECUTIVE			to charge a billing proje	SA
5308090	Other Dues&Membershp		05/25/2004	5	49,000.00		700806		HR EXECUTIVE	WBS EXEC.ALLOC1		to charge a billing proje	SA
5308090	Other Dues&Membershp		05/27/2004	5	2,500.00		701720		CHIEF INFO OFFICER				PD
5308090	Other Dues&Membershp		05/27/2004	5	1,000.00		701720		CHIEF INFO OFFICER				PD