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**TESTIMONY OF  
DANIEL VERDUN  
ON BEHALF OF  
DOMINION COVE POINT LNG, LP**

9 From April 1991 to December 1992, I was employed by the Illinois Commerce  
10 Commission as an Assistant to Commissioner Shishido-Topel. In that position, I  
11 advised the Commissioner on various regulatory matters related to natural gas,  
12 electric, telecommunications, water and transportation. In January 1993, I was  
13 hired by New York State Electric & Gas Corporation ("NYSEG") as  
14 Administrator – Federal Gas Regulatory Matters where I later held the positions

1 of Manager – Federal Gas Regulatory Matters and Manager – State and Federal  
2 Gas Regulatory Matters. From January 2002 through December 2003, I assumed  
3 the position of Manager – Rates and Tariffs at Energy East Management  
4 Corporation, which provided oversight and coordination of state regulatory  
5 activities for Energy East's five natural gas and electric operating companies,  
6 including NYSEG.

7 Q. What are your present responsibilities?

8 A. In January 2004, I was hired by DTI as Regulatory & Pricing Advisor. In this  
9 position, I am responsible for the preparation and submittal of various filings at  
10 the Federal Energy Regulatory Commission ("FERC" or "Commission"),  
11 including many filings pertaining to Dominion Cove Point ("DCP") and DTI.

12 Q. Have you previously submitted testimony before FERC?

13 A. Yes. I provided testimony on behalf of an ad hoc customer group, which included  
14 NYSEG, in Docket No. RP95-112-000, before the FERC.

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

16 A. I am supporting the operation and maintenance ("O&M") expense for DCP as  
17 reflected on Exhibit No. DCP-4, Statement H-1, including Schedules H-1(1) and  
18 H-1(2).

19 Q. What is the source of the base period accounting information contained in the  
20 Statement and Schedules that you sponsor?

21 A. The information is taken from DCP's books and records.

22 Q. What is the basis for the test period adjustments to the base period data?

1 A. In some instances, the base period accounting data from DCP's books and records  
2 are not representative of DCP's current costs, given known and measurable  
3 changes. In those instances, I have made the appropriate adjustments. I will  
4 discuss and support those adjustments as part of my testimony.

5 Q. Please describe Statement H-1.

6 A. Statement H-1 provides DCP's base period O&M expenses by FERC account by  
7 month. It also reflects, by FERC account, test period adjustments and test period  
8 ending balances. H-1 is separated into Parts 1 and 2. Part 1 reflects all facility  
9 O&M costs other than the O&M costs related to incrementally priced facilities.  
10 Part 2 shows the O&M costs associated with the incrementally priced Cove Point  
11 East transportation service.

12 Q. What level of O&M expense is DCP reflecting in its cost of service for non-  
13 incrementally priced services?

14 A. DCP proposes an O&M expense of \$25,129,986 for non-incremental services, as  
15 shown on Statement H-1 Part 1. This is derived by taking base period O&M  
16 expenses of \$19,569,491, adjusted for known and measurable changes of  
17 \$5,560,495 that DCP expects to occur during the test period.

18 Q. What level of O&M expense is DCP reflecting in its cost of service for  
19 incrementally priced services?

20 A. DCP proposes an O&M expense of \$411,931 for incremental services, as shown  
21 in Statement H-1 Part 2. This is derived by taking base period O&M expenses of  
22 \$274,987, adjusted for known and measurable changes of \$136,944, that DCP  
23 expects to occur during the test period.

1 Q. Does the cost of O&M expense for incrementally priced services shown in  
2 Statement H-1 Part 2 include any administrative and general costs?

3 A. No. There is no allocation of administrative and general costs to incrementally  
4 priced services included in Statement H-1 Part 2. This allocation, as discussed in  
5 the testimony of DCP Witness Grim, is shown in Statement I.

6 Q. How many adjustments did you make to the base period O&M expense?

7 A. I made sixteen (16) adjustments, applicable to Statement H-1 Part 1 and one (1)  
8 adjustment applicable to Statement H-1 Part 2. All adjustments are detailed  
9 individually in Schedule H-1.1. I will describe each adjustment separately below.

10 Q. Please describe Adjustment No. 1—Electric Power Cost Adjustment.

11 A. Adjustment No. 1 removes the Pleasant Valley Compressor Station electric costs  
12 from DCP's O&M expenses. These costs are not recovered in base rates; instead,  
13 they are recovered in DCP's tracking mechanism. This adjustment reduces  
14 DCP's O&M by \$1,517,218.

15 Q. Please describe Adjustment No 2—Estimated Liabilities and Accruals.

16 A. Adjustment No. 2 removes expenses associated with Estimated Liabilities and  
17 Accruals that are incurred but for which DCP has yet to receive the invoices. This  
18 adjustment reduces DCP's O&M expenses by \$418,113.

19 Q. Please describe Adjustment No. 3—Cove Point East.

20 A. Services performed as a result of the Cove Point East project are incrementally  
21 priced. Adjustment No. 3 removes the O&M expenses associated with the Cove  
22 Point East transportation service from the general cost of service. This  
23 adjustment reduces DCP's O&M by \$274,987.

- 1 Q. Please describe Adjustment No. 4—Mirant O&M Agreement.
- 2 A. Adjustment No. 4 reflects the removal from Account No. 857, Measuring and  
3 Regulation Station Expenses, of all sums associated with a non-jurisdictional  
4 agreement under which DCP operates and maintains facilities for Mirant and is  
5 paid for the services provided. The expenses are charged to Account No. 857 and  
6 payments by Mirant are also credited to Account No. 857. This adjustment is  
7 necessary to remove both these costs and payments which are unrelated to the  
8 services for which rates are being set in this proceeding. The net result is an  
9 increase in DCP's O&M expenses by \$34,816.
- 10 Q. Please describe Adjustment No 5 – Annual Charge Adjustment (“ACA”).
- 11 A. Adjustment No. 5 removes from DCP's cost of service those expenses related to  
12 FERC's annual ACA billing under Order No. 472. DCP recovers ACA expenses  
13 using a surcharge mechanism. This adjustment results in a \$520,249 reduction of  
14 O&M expenses.
- 15 Q. Please describe Adjustment No. 6 – Reclassification of Costs.
- 16 A. Adjustment No. 6 reclassifies certain costs associated with Account No. 843.6 –  
17 Maintenance of Vaporizing Equipment to Account No. 847.3—Maintenance of  
18 LNG Processing Terminal. This adjustment more properly identifies LNG  
19 processing costs that would otherwise be attributed to “Other Storage.” As of  
20 January 1, 2006, DCP has recorded these costs in the manner reflected by this  
21 base period adjustment. The net impact from this adjustment is zero.
- 22 Q. Please describe Adjustment No. 7--Labor.

1 A. Adjustment No. 7 increases labor expenses by \$1,173,131 above base period  
2 costs. DCP utilized the April 2006 payroll as the basis for this adjustment. DCP  
3 annualized this payroll amount, and added an allowance for new employees that  
4 are to be added to the workforce by the end of the test period. For employee  
5 bonuses and overtime, an increase was calculated based on the ratio of base  
6 period bonuses and overtime to base period compensation; this increase was  
7 applied to the projected test period compensation.

8 Q. For the adjustment to labor costs that is reflected in Account No. 920,  
9 Administrative and General Salaries, do any of the adjustments incorporate A&G  
10 labor allocated from an affiliate?

11 A. No.

12 Q. Please describe Adjustment No. 8 – Pension Expense.

13 A. Adjustment No. 8 removes the pension expense accrual on the books to conform  
14 to Commission precedent, which does not allow for pension accruals if an actual  
15 cash payment into the pension plan was not made during the base period, and is  
16 not expected to be made during the test period. This adjustment reduces DCP's  
17 O&M expenses by \$514,488.

18 Q. Does DCP have a proposal for pension payments made while the rates set in this  
19 case are in effect?

20 A. DCP proposes to recognize a regulatory asset for all future cash contributions  
21 made to the pension plan during the period of effectiveness of this general rate  
22 case. DCP will include an appropriate amortization for the regulatory asset in its

1 next rate case filing. If an unexpected cash payment is made during the test  
2 period, it will be reflected in DCP's test period updates.

3 Q. Please describe Adjustment No. 9 – Benefits.

4 A. Adjustment No. 9 is an increase to employee benefits of \$49,650. This  
5 adjustment reflects DCP's expected test period increases in non-pension related  
6 employee benefits such as medical and dental insurance benefits.

7 Q. Please describe Adjustment No. 10 – Materials and Other Expenses.

8 A. Adjustment No. 10 is an increase of \$3,454,744 related to materials and other  
9 expenses that cover a variety of operating accounts, as well as administrative and  
10 general expenses ("A&G"). With respect to A&G costs, it covers items such as  
11 projected increases for property insurance, outside services and office supplies  
12 and expense. Adjustments to Account No. 923 represent increases in both  
13 unaffiliated and affiliated outside services. The \$1,961,228 shown on Statement  
14 H-1.1, Part 3, Line 74 includes projected increases in outside contractor services  
15 for activities such as calibration and repair of measurement and testing equipment,  
16 and inspection and repair of onshore and offshore structures. In addition, DCP  
17 expects an increase in non-stock materials and environmental fees.

18 Q. Please describe the allocation method used to assign Dominion Resource Services  
19 Inc. A&G costs to its subsidiary DCP.

20 A. To the extent possible, costs are directly assigned to a subsidiary when the service  
21 provided benefits only that subsidiary.

22 Q. Where costs cannot be directly assigned, how are costs allocated among affiliates?

1 A. If costs cannot be directly assigned, costs are allocated using such methods as  
2 ratios specific to the relevant activity. For example, the number of accounts  
3 payable, employees or vehicles may be used to determine an appropriate  
4 allocation of costs.

5 Q. Have regulatory commissions reviewed and accepted Dominion Resource  
6 Services, Inc.'s allocation policies?

7 A. Yes. The allocation policies have been reviewed and accepted by numerous state  
8 and federal agencies.

9 Q. Please describe adjustment No. 11 – Heritage Trust.

10 A. Adjustment No. 11 is a payment to Cove Point Natural Heritage Trust, Inc. This  
11 \$120,000 adjustment recognizes a reclassification from Account No. 426.1,  
12 Donations, to Account No. 846.2, Other Expenses. The support for the  
13 reclassification is provided in the testimony of DCP Witness Lovinger.

14 Q. Please describe Adjustment No. 12 – Reclassification of Costs.

15 A. Adjustment No. 12 reclassifies labor costs included in employee benefits from  
16 Account No. 926 to Account No. 920, Administrative and General. This  
17 adjustment has no overall rate impact.

18 Q. Please describe Adjustment No. 13 – Self Insurance.

19 A. Due to the rising cost of liability insurance, DCP's ultimate parent, Dominion  
20 Resources, Inc., requires all of its subsidiaries to reduce premiums through self-  
21 insurance. DCP has significant exposure due to the requirement that it self-insure  
22 at certain levels. The proposed adjustment of \$50,000 to property liability  
23 insurance represents the annual premiums that would be in the cost of service if



1 the Company purchased a policy to cover its self-insurance exposure. DCP  
2 proposes to reserve the \$50,000 annual amount on its books. When DCP  
3 experiences a loss for which it is not covered by insurance, the associated expense  
4 will be used as an offset to the reserve. In its next general rate case, DCP will  
5 make appropriate rate base adjustments to reflect the balance in the reserve –  
6 irrespective of whether the reserve has a debit or credit balance.

7 Q. Please describe Adjustment No. 14 – Rate Case Expenses.

8 A. Adjustment No. 14 reflects an amortization of projected rate case expenses  
9 assuming a litigated proceeding. These costs, which represent consultant fees,  
10 legal expenses and other miscellaneous expenses, are estimated at \$2,500,000.  
11 DCP proposes to amortize these costs over three (3) years resulting in a total  
12 annual increase to operation and maintenance expense of \$833,333 per year.  
13 Because DCP incurred consultant and attorney fees related to this rate case filing,  
14 in the base period, only an adjustment of \$725,018 is needed so that the test  
15 period reflects the proposed amortization of \$833,333.

16 Q. Please describe Adjustment No. 15 – Exchange Gas.

17 A. Adjustment No. 15 reflects an adjustment to Account No. 806—Exchange Gas to  
18 remove a gas cost credit of \$3,256,942 from O&M expenses.

19 Q. Please describe Adjustment No. 16 – Gas Costs.

20 A. Adjustment No. 16 removes the effects of gas costs associated with Account No.  
21 812 -- Gas Used for Utility Operations Credit, the net effect of which is a decrease  
22 of \$58,748.

1 Q Please describe Adjustment No. CPE-1 -- Cove Point East Materials and Other  
2 Expenses.

3 A. Adjustment No. CPE-1 includes a test period increase of \$136,944 in material and  
4 other expenses related to project increases in contractor services and materials  
5 required to maintain and operate the compressor stations.

6 Q. Are you aware of any other likely test period adjustments?

7 A. Yes. DCP has been advised by the United States Coast Guard that they will be  
8 imposing additional security requirements on Cove Point. The Coast Guard has  
9 indicated that these security changes will be required before the end of the test  
10 period. When the costs can be quantified, DCP will make the appropriate  
11 adjustment through test period updates.

12 Q. Are you sponsoring any additional Exhibits?

13 A. Yes. I am sponsoring Exhibit No. DCP-23. This Exhibit is DCP's fuel retainage  
14 and compliance filings in Docket No. RP04-197 and contains DCP's calculations  
15 of gas used during plant start-up as discussed in the testimony of DCP Witness  
16 Frederick.

17 Q. Does this conclude your testimony?

18 A. Yes, it does.

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

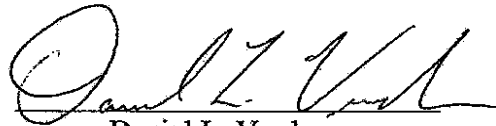
**Dominion Cove Point LNG, LP**

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**Docket No. RP06-\_\_\_\_\_**

**AFFIDAVIT OF DANIEL L. VERDUN**

Daniel L. Verdun, being first duly sworn according to law, on oath deposes and says: that he is the witness whose testimony appears on the preceding pages entitled "TESTIMONY OF DANIEL VERDUN ON BEHALF OF DOMINION COVE POINT LNG, LP" in this proceeding; that, if asked the questions which appear in the text of the aforesaid testimony, affiant would give the answers that are therein set forth; and that affiant adopts the aforesaid testimony as his sworn testimony in these proceedings.

  
Daniel L. Verdun

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

  
Notary Public  
District of Columbia  
my Commission expires: 11/14/07