

NORTH AMERICAN ENERGY STANDARDS BOARD

In Re: Recommendation R05014 / WGQ 2006
Annual Plan Item 6

COMMENTS OF THE PEOPLES NATURAL GAS COMPANY, D/B/A DOMINION PEOPLES

The Peoples Natural Gas Company, d/b/a Dominion Peoples (“Dominion Peoples”),¹ submits these comments on Recommendation R05014 / WGQ 2006 Annual Plan Item 6 of the Wholesale Gas Quadrant (“WGQ”) of the North American Energy Standards Board (“NAESB”).

Summary

The Executive Committee of the WGQ of NAESB should approve the WGQ’s Contracts Subcommittee’s recommended changes to the existing NAESB Base Contract for Sale and Purchase of Natural Gas as amended as set forth in these Comments. Dominion Peoples’ proposed amendment to Section 14 would allow for the subsequent adjustment of the otherwise applicable index price for a purchase and sale of natural gas where one party shows that the otherwise applicable index price has been unduly influenced by manipulation or mistake of reported data. Dominion Peoples submits that the WGQ Executive Committee should add Dominion Peoples’ proposed amendment to the changes recommended by the Contracts

¹ Dominion Peoples is a local distribution company engaged in the business of gathering, purchasing, storing, and distributing natural gas at retail to approximately 355,000 customers in the Commonwealth of Pennsylvania. It is a subsidiary of Consolidated Natural Gas Company, which, in turn, is a wholly owned subsidiary of Dominion Resources, Inc.

Subcommittee before offering the modified version of the NAESB Base Contract for Sale and Purchase of Natural Gas for vote as a NAESB WGQ standard.

Background

On May 2, 2006, NAESB opened a comment period for receiving comments on Recommendation R05014 / WGQ 2006 Annual Plan Item 6, a modified version of the existing NAESB Base Contract for Sale and Purchase of Natural Gas (NAESB WGQ Standard 6.3.1). The modified version will be referred to in these Comments as the "Proposed Contract." The Proposed Contract reflects the work of the WGC Contracts Subcommittee over numerous meetings, as cited in the package itself.² Dominion Peoples participated in most of those meetings. The Proposed Contract is the result of the consideration of numerous proposed amendments to NAESB WGQ Standard 6.3.1 suggested by numerous parties. Dominion Peoples had proposed an amendment, set forth in Appendix A to these Comments, that the Contracts Subcommittee did not support for inclusion in the Proposed Contract and that Dominion Peoples now presents to the WGQ Executive Committee for its consideration.

Comments

The Proposed Contract includes a new clause, Section 14, Market Disruption, that provides procedures to be followed in the event that a market index on which a transaction price is based does not announce or publish information necessary for determining the transaction price. Such an event is, indeed, possible, and Dominion

² These comments are based on the version of the recommendation package available through the following internet link: http://www.naesb.org/pdf2/r05014_rec.pdf.

Peoples supports the amendment. Dominion Peoples further proposes that this amendment be supplemented by establishing procedures to apply in the event that a party to a transaction that is based on a market index believes that the market index has been unduly influenced by manipulation or by a mistake of reported data. Dominion Peoples' proposed language is set forth in Appendix A to these Comments.

The Proposed Contract provides no assurance to buyers and sellers of natural gas that they will not be required to either pay or receive a price for natural gas that, rather than being a true market price, instead, has been unduly influenced by either market manipulation or by mistake of reported data. Dominion Peoples' proposed contract language provides procedures for adjusting price in such an event.

Dominion Peoples' proposed language supplements the Section 14 language in the Proposed Contract. Section 14 deals with a situation where a market index is not published. Dominion Peoples proposed language deals with a situation where a market index is published, but over time one of the contract parties comes to reasonably believe that the published market index was unduly influenced by market manipulation or mistake of reported data. While such an event could indeed be considered a market disruption, it is sufficiently different from the events described in Section 14 of the Proposed Contract that a separate paragraph or section should be used to describe the events.

In addition, the remedy for such an event would of necessity be very different from the remedies described in Section 14. Section 14 presumes a failure in a single index and guides the parties to the closest substitute price for such index. Dominion Peoples' proposed language presumes a failure not in the publication of an index or

indices but rather in the reliability of the selected index to provide true and valid market prices, and it sets up a procedure for either reaching agreement on what market prices would have been absent manipulation or mistake of reported data or resolving disagreement over what market prices would have been.

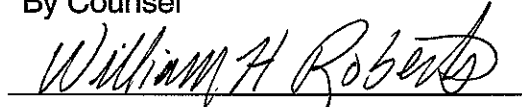
Dominion Peoples' proposed language would minimize potential litigation and potential delay in finalizing contract prices by requiring "baseball" arbitration to resolve pricing differences, i.e., requiring the arbitrator to choose one party's or the other's alternative price and not to compromise at some price between the two alternative prices. This all or nothing arbitration procedure would encourage parties to reach a negotiated resolution before going to arbitration, but if the parties reach arbitration, this procedure would preclude the presentation of unreasonable alternative prices solely for the purpose of setting wide boundaries from which there can be substantial movement to a compromise price. Providing for the prevailing party to recover attorneys' fees following arbitration also discourages frivolous claims.

Dominion Peoples, therefore, requests that the WGQ Executive Committee add Dominion Peoples' proposed contract language, set forth in Appendix A, to any recommended contract submitted for vote as a NAESB Wholesale Gas Quadrant (WGQ) standard.

Respectfully submitted,

The Peoples Natural Gas Company, d/b/a
Dominion Peoples

By Counsel

A handwritten signature in cursive script, reading "William H. Roberts", is written over a horizontal line.

William H. Roberts
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Appendix A

Dominion Peoples' proposed addition to Section 14 of the modified version of the existing NAESB Base Contract for Sale and Purchase of Natural Gas included in Recommendation R05014 / WGQ 2006 Annual Plan Item 6:

If either party believes in good faith that a Market Dislocation Event has occurred during a Trading Day, then, within fifteen Business Days following the date on which the Market Dislocation Event was discovered, such party may provide notice to the other that it is disputing the Floating Price applicable to such Trading Day and provide an Alternative Floating Price together with supporting documentation acceptable in industry practice to support the Alternative Floating Price. In response to a proposed Alternative Floating Price, the responding party may agree with the proposed Alternative Floating Price, may support the original Floating Price, or may propose its own Alternative Floating Price. The parties shall negotiate in good faith to agree on an applicable Floating Price (or a method for determining an applicable Floating Price) for the affected Trading Day. If the parties have not so agreed on or before the fifteenth Business Day following the providing of the Alternative Floating Price, then either party may submit the dispute to arbitration. Once the dispute is submitted to arbitration, both parties shall submit to the arbitrator their respective applicable Floating Price, and the arbitrator shall determine which shall apply. The prevailing party shall be entitled to attorneys' fees. "Market Dislocation Event" means, with respect to an index, that such index has been unduly influenced by manipulation or mistake of reported data, including (but not limited to) data that affects the index but is not reported to the index, e.g., storage inventory data. "Alternative Floating Price" means the price or a portion of the price in the transaction reflecting the party's estimate of what the specified index price would have been absent the Market Dislocation Event.