

GENERAL SERVICE PROVISIONS (Continued)

29. EARNINGS SHARING MECHANISM (ESM)

A. This provision shall be applicable to Rate Schedule Nos. 1, 1A, 2, 2A, 3, 3A, 4, and 7.

1. Customers receiving service under Rate Schedule Nos. 1, 1A, 2, 2A, 3, 3A, 4 and 7 shall have included on each monthly bill, as an adjustment to the Distribution Charge, a credit resulting from the ESM calculation as part of the Performance Based Rate Plan (PBR Plan). The calculation to determine if a credit is appropriate shall be made each PBR Plan year. The four PBR Plan years are the twelve month periods ending September 30, 2008, September 30, 2009, September 30, 2010 and September 30, 2011. Historical Virginia earnings shall be calculated consistent with the Earnings Test in the Commission's Rate Case Rules. The historical Return on Equity (ROE) will be compared to a 10.5% ROE and any earnings that exceed a 10.5% ROE will be shared with customers as a credit on the monthly bill. The applicability and derivation of such credit will be performed as follows:

- a. The credit will be expressed on a cents per therm basis and shall be comprised of (a) a current factor and (b) a reconciling factor. In no event shall a factor be employed unless the amount is equal to or greater than .01 cents per therm.
- b. The current factor shall be applicable if the historical ROE exceeds 10.5%. The amount credited to customers will be 75% of the incremental earnings above the 10.5% ROE.
- c. The current factor will be calculated annually by dividing the earnings credit amount as determined in A.1.b. above by total weather normalized throughput for the PBR Plan year.
- d. The reconciling factor will be calculated by determining the difference between the actual amount to be credited based on the prior PBR Plan year and the actual amount credited on customers' bills. This amount will be divided by total weather normalized throughput for the twelve months ended March each year.
- e. In each PBR Plan year, the Company commits to annual expenditures of \$6.5 million for mechanical seal replacements in its Virginia service territory, in addition to an annual budget of \$1.5 million for ongoing, normal mechanical seal replacements, for a total commitment of \$32 million. If the Company should not expend the annual \$6.5 million commitment for mechanical seal replacements, the Company will refund to customers an amount equal to the return on and return of the cumulative capital expenditure shortfall.
- f. The Company will incur a penalty equal to 100% of any refund determined in A.1.e, which will be refunded to customers through the ESM. Any shortfall amount determined in A.1.e and any penalty amount will be excluded for purposes of determining historical Virginia earnings in A.1
- g. Net losses associated with the Company's self-optimized asset management activities will be excluded from the determination of historical Virginia earnings in A.1.
- h. The Company will make a filing within 120 days of the September 30 fiscal year of each PBR Plan year providing the data supporting the ESM current factor calculation.
- i. The current factor, if applicable, will be reflected in the billing months of April through March and the reconciliation factor, if applicable, will be included in the billing months of July through June.