Large Filing Separator Sheet

Case Number: 07-829-GA-AIR
                         07-830-GA-ALT
                         07-831-GA-AAM

Date Filed: 8/30/2007

Section: 2 of 2

Number of Pages: 185

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                                              Schedule S-4.2

Supplier's or any of its Subcontractors' noncompliance with any law or any costs (including Purchaser's reasonable attorneys' fees) arising from, in connection with, or relating to delays or stop work orders imposed by a government agency or court due to Supplier's noncompliance with any law. This Section is not intended to limit Supplier's right to make claims against any Subcontractor with respect to the Subcontractor's failure to comply with law, but Supplier shall not condition any payment to Purchaser on the existence of any claim against any Subcontractor.

17. Permits, Licenses and Registrations

Except as otherwise provided in this Agreement, Supplier shall obtain, and shall require any Subcontractors to obtain, any licenses, permits, and registrations that it or they may be required by law to hold in order to perform its or their obligations under this Agreement. Supplier and any Subcontractors shall hold and maintain those licenses and permits for so long as this Agreement remains in effect and shall provide copies of them to Purchaser, if so requested.

18. Hazardous Materials

If any of the Materials furnished pursuant to this Agreement are designated by law, either in the form to be furnished or as waste upon disposal, Supplier shall notify Purchaser and propose a non-hazardous or non-toxic alternative if one exists. Supplier shall package and label all hazardous or toxic materials in accordance with applicable laws and with all required certificates, warnings, and instructions for shipping, safety, handling exposure, and disposal in a form sufficiently clear for use by non-technical personnel.

19. Ownership of Intellectual Property

Purchaser shall retain ownership of all information, designs, materials and data provided to Supplier unless otherwise provided herein.

20. Intellectual Property Infringement

(a)   Intellectual Property Indemnity. In addition to and not in lieu of the remedies provided to Purchaser in the Article entitled Indemnity, Supplier shall, at its own expense defend, indemnify and hold harmless Purchaser and Purchaser's Affiliates, and each of their respective directors, officers, employees, contractors, and agents from and against any and all Claims or allegations that all or any portion of the Materials or their use for their intended purpose, infringes any patent, copyright, trademark, or trade secret, including without limitation, payment of all damages and costs awarded or paid in settlement, reasonable attorneys' fees, and costs for providing information and assistance to Supplier for defense or settlement of any Claim or allegation. Supplier's indemnification obligations under this Intellectual Property Infringement Article will not apply to the extent that the infringement is the result of modifications to the Materials by Purchaser.

(b)   Intellectual Property Remedy. At Purchaser's option and at no cost to Purchaser,

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Supplier shall procure for the Purchaser the right to continue using the Materials, replace all that infringes with substantially equivalent noninfringing replacements, modify the Materials to be noninfringing, or refund the compensation paid for the infringing Materials.

21.   Confidential Information

(a)   Confidentiality Information Defined. For purposes of this Agreement, the term "Confidential Information" shall mean each party's proprietary and confidential information including, without limitation, the following:

>   (i) Any trade secret, know-how, invention, software program, application, documentation, schematic, procedure, contract, information, knowledge, data, process, technique, design, drawing, program, formula or test data, work in progress, engineering, manufacturing, marketing, financial, sales, supplier, customer, employee, investor, or business information, whether in oral, written, graphic or electronic form; or

>   (ii) Any document, diagram, photograph, drawing, computer program or other communication that is either conspicuously marked "confidential", known or reasonably should have been known by the other party to be confidential, or is of a proprietary nature, and is learned or disclosed in the course of discussions, studies or other work undertaken between the parties.

>   (iii) Any memoranda, notes, correspondence, facsimile transmissions, e-mail messages, recordings, and all other materials that contain, summarize, or describe any portion of that which is mentioned in Subsection (i) or (ii) above.

(b)   Limited Use. The parties acknowledge that they are to be given access to the other's Confidential Information only for purposes of performing their respective obligations under this Agreement ("Authorized Use") and that they shall maintain the Confidential Information in the strictest confidence. Each of the parties agrees that it will not, without first obtaining the express prior written permission of the other, which consent may be withheld in such party's absolute and sole discretion: (i) directly or indirectly utilize such Confidential Information in its business; (ii) manufacture and/or sell any product that is based in whole or in part on the Confidential Information; (iii) copy or modify Confidential Information, or any copy or portion thereof; or (iv) disclose the Confidential Information to any third party except as permitted by this Agreement. Each party shall limit its disclosure of the other's Confidential Information to employees within its own organization who could be reasonably expected to have a legitimate need to receive such Confidential Information in order to accomplish the Authorized Use. Without limiting the foregoing, in performing its obligations under this Agreement, each party, its employees and its agents shall conduct themselves in accordance with the highest standards established by law with respect to the duties of a person in a position of trust.

(c)   Proprietary Protection. Each party shall have sole and exclusive ownership of all right, title and interest in and to the Confidential Information disclosed to the other,

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including without limitation ownership of all copyrights and trade secrets pertaining to the Confidential Information, subject only to the rights and privileges expressly granted by the discloser. The Confidential Information is considered to include valuable trade secrets belonging to each party.

(d)   Consultants. Prior to disclosure of any Confidential Information received by either party to a Subcontractor, consultant, agent, or other non-employee engaged by such party in any capacity where such non-employee shall have access to the other party's Confidential Information, such party shall first obtain a written agreement from the non-employee: (i) to hold all Confidential Information in confidence and not to use such information for any purpose except as it relates to discussions between the parties or any subsequent business relationship between the parties; and (ii) to return all Confidential Information received immediately after such non-employee has completed its work to the party from whom the Confidential Information was received.

(e)   Return of Confidential Information. Upon termination of the discussions and/or business relationship between the parties, each party shall: (i) deliver promptly to the other party any and all Confidential Information of the other in its possession or under its control that is in tangible form; and (ii) permanently destroy (including deletion of permanent and temporary files, if any, stored on computers or other electronic devices) all Confidential Information of the other in its possession that is in electronic or other intangible form. If requested by either party, the other shall deliver a certificate certifying that it has satisfied the requirements of this Section entitled Return of Confidential Information. Notwithstanding the foregoing, to the extent it would be unreasonably costly or cumbersome, neither party shall be required to delete intangible copies of Confidential Information that is made as part of such party's routine systems back-up procedures.

(f)   Non-protected Information. Each party's covenant not to disclose Confidential Information shall not apply to any information, data or other materials imparted to the extent that any of the following conditions apply:

(i) At the time access is gained, the information is already in the other party's possession or available to it or its employees from any other source having no obligation to the party asserting ownership.

(ii) The information is, or any time hereafter becomes, available to the public without breach of this Agreement by the receiving party.

(iii) After access is gained to the disclosure, the information is at any time obtained by the receiving party from any other person, firm or company having no obligation to or relationship with the party asserting ownership.

(g)   Security. Each party shall safeguard and maintain the confidentiality of the Confidential Information of the other in at least the same manner in which it protects its own confidential and proprietary information of like kind and sensitivity, but in no event shall a party use less than reasonable care. Each party shall assume full responsibility for breaches of this Agreement by any of its employees, Subcontractors, agents, or non-

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employees. Upon either party's request at any time, the other party shall provide a list (including electronic mail addresses) of all recipients authorized to receive Confidential Information.

(h)   Court-Ordered Disclosure. Neither party shall be liable for disclosure of Confidential Information if made in response to a valid order of a court or authorized agency of government; provided that ten days' notice first be given to the other party so it may seek a protective order, if appropriate. If the party asserting ownership of the Confidential Information decides to seek a protective order, the other party shall cooperate, at the owning party's expense, in seeking such protective order.

(i)   No Conveyance or License. Nothing in this Agreement shall be construed to convey to either party any right, title, interest or copyright in any Confidential Information, or any license to use, sell, exploit, copy or further develop any such Confidential Information.

(j)   Injunctive Relief. The parties agree that either party's breach of the provisions of this Article (will cause the other irreparable damage for which recovery of money damages would be inadequate. The non-breaching party shall, therefore, be entitled to obtain timely injunctive relief to protect its rights under this Article in addition to any and all remedies available at law without the need to post a bond or other undertaking.

22.   Taxes

(a)   General. All taxes, including but not limited to, property, license, privilege, excise, gross receipts, value added or other similar taxes that may be imposed on this transaction or on any Materials will be paid by Supplier and will be deemed included in the compensation.

(b)   Unemployment Insurance Taxes, Contributions and Assessments. Supplier shall pay all taxes associated with its employees and Subcontractors and shall comply with all laws applicable to compensation paid to its employees and Subcontractors.

(c)   Minimizing Tax Burden. Supplier shall be responsible for obtaining the benefit of any provision of law, which exempts any portion of the transaction from any tax, custom or duty, (including but not limited to sales and use taxes). Upon request of Purchaser, Supplier shall provide documentation of sales and use taxes allocated to any Materials sold to Purchaser under this transaction. If required by law, Supplier shall register with the applicable governmental body as a retailer to obtain exemption from sales and use tax when procuring Materials to be resold to Purchaser as tangible personal property under this transaction. Supplier shall purchase and resell to Purchaser all Materials identified as tangible personal property without paying or charging Purchaser sales and use tax so long as Purchaser has provided to Supplier a properly executed tax exemption certificate. Supplier shall separately identify all Materials and labor on any invoice or billing document sent to Purchaser. The parties agree to cooperate and implement all such arrangements as are reasonably necessary to legally minimize the taxes imposed on Supplier or Purchaser in compliance with and to the extent required by law.

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23. Assignment

(a) <u>Supplier</u>. Unless Purchaser grants prior written consent, Supplier shall not assign any rights or delegate any duties or obligations pursuant to this Agreement or transfer or otherwise dispose of this Agreement or any part of it or its rights, title, and interest in it, nor assign any monies due or to become due under it. Any assignment or delegation made without the express written approval of Purchaser will be without effect. Any assignment of this Agreement consented to by Purchaser will not relieve Supplier of its responsibility for the due and full performance of it. Supplier will be liable to Purchaser for all acts and omissions of its assignees or other transferees.

(b) <u>Purchaser</u>. This Agreement, and any portion hereof it will at all times be assignable by Purchaser.

24. Electronic Format and Signature

The parties acknowledge and agree that this Agreement may be recorded in an electronic format and may be signed electronically and that each party has the capacity to electronically review and store this signature and to receive the other party's electronic signature.

25. Miscellaneous .

(a) <u>Governing Law; Jurisdiction</u>. The parties intend that this Agreement be governed by Virginia law without giving effect to Virginia's choice of laws principles. Notwithstanding the foregoing, the provisions of the Uniform Computer Information Transaction Act shall not apply to this Agreement. The parties irrevocably submit to jurisdiction in the Commonwealth of Virginia with respect to any dispute between them arising out of, relating to, or in connection with this Agreement, and venue will lie in the Circuit Court for the County of Chesterfield or the United States District Court for the Eastern District of Virginia, Richmond Division. The parties waive their rights to trial by jury.

(b) <u>Non-Waiver of Rights</u>. The failure of either party to demand strict performance of the terms of or to exercise any right conferred by this Agreement is not intended by the parties to be construed as a waiver or relinquishment of its right to assert or rely upon any term or right in the future, or as a consent to any continuing or subsequent failure or breach.

(c) <u>Severability</u>. If any provision or any part or portion of any provision of this Agreement becomes or is declared to be unlawful, invalid, void, or otherwise unenforceable, the rights and obligations of the parties will be reduced only as much as is required to remove the unenforceability. The balance of this Agreement will remain in effect.

(d) <u>Survival</u>. Neither delivering nor Accepting the Materials, nor any termination, expiration, or cancellation of this Agreement, will be deemed to relieve either party of any obligations under it that by their nature survive termination, including but not limited

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to all warranties, guarantees, promises of indemnity, and confidentiality obligations.

(e)   Headings. Article and Section headings are inserted for convenience and are not intended to have any effect on the interpretation or construction of this Agreement.

(f)   Publicity. No information relative to this Agreement shall be released by Supplier for publication, advertising, or for any other purpose without the prior written approval of Purchaser, which approval is entirely within Purchaser's discretion.

(g)   Independent Contractor. Supplier's relationship to Purchaser is that of an independent contractor, and neither Supplier nor any of its Subcontractors, nor any employees of Supplier or its Subcontractors are employees of Purchaser. Supplier assumes sole and complete responsibility for the employment, compensation, control, and conduct of its employees. This Agreement does not create an agency relationship, partnership, or joint venture between the parties.

(h)   Non-exclusivity. Nothing herein shall prevent Purchaser from providing for itself or obtaining from any third party, at any time during the Term or thereafter: (i) any type of Materials in any way analogous, similar, or comparable to the Materials provided hereunder, or (ii) any installation, training, maintenance, or other services related to the Materials. In no event shall this Agreement be construed as a requirements contract or requiring any minimum volume of purchases or spending by Purchaser.

(i)   Non Collusion. Supplier hereby affirms that neither it nor any person or entity acting or purporting to act on its behalf has entered into any combination, conspiracy, agreement or other form of collusive arrangement with any person, corporation, partnership or other entity, which directly or indirectly has to any extent lessened competition between Supplier and any other person or entity for the award of any Purchase Order by Purchaser hereunder.

(j)   Successors and Assigns. This Agreement will be binding on the parties and their directors, officers, agents, successors and permitted assigns.

(k)   Notices. Notices to the parties concerning this Agreement will be effective only if they are in writing and delivered personally, by fax, email or overnight courier, to the person and at the address, fax number, or email address designated in the Purchase Order. Either party may change the person to receive notice or the applicable contact information by providing notice to the other. Properly delivered notices will be deemed to have been received when they are sent.

(l)   Cooperation With Others. Purchaser reserves the right to require Supplier to schedule the order of performance of its obligations under this Agreement in such a manner as will minimize interference with performance by other parties at the job site.

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(m)   Opt Out of Conventions. The parties intend that neither the United Nations Convention on Contracts for the International Sale of Goods nor the United Nations Convention On The Limitation Period In The International Sale Of Goods will apply to this Agreement.

(n)   Integration, Entirety, and Amendment. This Agreement, together with all attachments and incorporated references, is the entire agreement between the parties with respect to the Materials and supersedes any prior or contemporaneous agreement or understanding between the parties regarding its subject matter. The parties will not be bound by or be liable for any statement, representation, promise, inducement, or understanding of any kind or nature not set forth or provided for in this Agreement. No prior course of dealing, usage of trade, or course of performance is intended by either party to be used to supplement or explain any term, condition, or instruction used in this Agreement or to effect any amendment to it. No revision or amendment to this Agreement will be effective unless it is signed by the parties.

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DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION

DEPARTMENT: ADMINISTRATIVE AND CORPORATE SERVICES / DATA PROCESSING

FUNCTION(S): (e)(iii)–(iv)

I.   Policy and Goal Setting / Strategic Planning

The Chief Information Officer, working with the heads of each operating business unit, develops the overall strategic direction concerning information technology ("IT"). Directors in the organization compliment this overall strategy by tailoring it to the specific functional or business area they represent. An IT strategy aligned with the Delivery business strategy is developed annually. IT overall operating goals are set by the CIO and CEO for the Services Company. Goals are reviewed monthly.

Goals for the functional or business area are communicated in multiple ways. The CIO communicates the overall IT goals via newsletter and website to all employees. Group goals are communicated directly to all employees by the responsible Director. Goals are updated quarterly and status communicated to all IT employees. Bi-annual employee meetings for all employees are held and goals are reviewed. Goals relating to the overall organization are administered by the CIO. Goals applying to individual business or functional areas units are administered by the Director.

II.   Internal and External Communication

Internal information is disseminated as described below:

- CIO and leadership team – formal meeting monthly, informal as necessary.

- CIO and Director – formal meeting, informal as necessary.

- Director and direct reports – formal meeting twice a month, informal as necessary.

- Director with Project Manager or Account Manager – formal meeting once a month, informal as necessary.

In order to effectively deliver the IT infrastructure and applications, frequent communications occurs with all departments within Dominion.

The IT organization communicates with state and federal regulatory bodies as it pertains to IT security and risk management. Dominion IT Risk Management personnel are on working groups for government and energy related agencies. Formal and informal meetings take place within these groups. On a very small scale, Corporate

Communications will assist in disseminating IT policies and procedures. They are also used to communicate IT risk management alerts and notifications.

III.　Organizational Structure

Information Technology rolls up through the Services Company. The number of employees by job descriptions (numbers given as Ohio full-time equivalents) is described in the chart below.

Job Title	Total
ADMINISTRATIVE ASSISTANT III	0.5
BUSINESS SYSTEMS ANALYST	5
BUSINESS SYSTEMS SPECIALIST	5
DATABASE ANALYST	1
DIR IT BUSINESS ACCOUNT	0.25
IT ENTERPRISE ARCHITECT	0.25
IT PROJECT MANAGER	4.5
IT SYSTEMS ARCHITECT	2.75
IT SYSTEMS ENGINEER SPECIALIST	0.5
LEAD BUSINESS SYSTEMS ANALYST	2.5
MANAGER IT BUSINESS ACCOUNT	1.5
PROGRAMMER ANALYST	2.5
PROGRAMMER ANALYST SPECIALIST	8.5
SR BUSINESS SYSTEMS ANALYST	5
SR PROGRAMMER ANALYST	23.75
SR SYSTEMS ANALYST	1
SYSTEMS ANALYST	4.75
SYSTEMS ANALYST SPECIALIST	13.75
ASSOC LAN ADMINISTRATOR	1
ENTERPRISE ADMINISTRATOR	1
LAN ADMINISTRATOR	1
LEAD DATABASE ANALYST	1
LEAD LAN ADMINISTRATOR	1
LEAD SOFTWARE SYSTEMS ENGINEER	1
SOFTWARE SYSTEMS ENGINEER	1
SR DATABASE ANALYST	2
SR LAN ADMINISTRATOR	4
SR NETWORK ANALYST	1
SUPV LAN FIELD OPERATIONS	1
SR SOFTWARE SYSTEMS ENGINEER	16
Grand Total	114

IT conducts business at all company locations, including field offices.

IV.   Responsibilities

IT is responsible for procuring and maintaining hardware, software, and other service-related support and technology. When appropriate, IT also works to enhance the system. Security and remediation of these technologies is also an important duty carried out by the department.

V.   Practices and Procedures

Dominion IT maintains an online resource available to all IT employees that contains best practices handbooks for each discipline, key skills and abilities for each position and roles, responsibilities and relationships.

VI.   Decision Making and Control

Decisions relating to the procurement, enhancement, maintenance, security and remediation of IT Technologies including hardware, software, and service related support and technologies are made at the appropriate level in the organization. The Business Unit and/or business process owner monitors the oversight of a project portfolio or a specific project. Managers and/or project managers designated as leads for the initiatives or projects as a response to business unit or business process owner decisions provide direction with the department.

Each initiative may use some or all of the following mechanisms:

- A work management system that contains employees' assignments and due dates.

- Project Plans that reflect employee commitments, duration and expected completion dates.

- Service level agreements established for the initiative, project or operation of a system or process.

Prioritization of the work in each of these areas is determined by the business unit or business process owner. Project Managers, Account Managers and Enterprise Architects handle supervisory power in the department.

VII.   Goal Attainment and Quantification

The Director in review with the CIO, and the CIO in review with the CEO evaluate whether policies or goals have been satisfied. Project cost (budget to actual) and project plans with identified milestones are used to monitor goal performance.

Every IT employee is rated on the corporate values listed below. This comprises 50% of their evaluation rating.

- Excellence – Results Orientation, Change Management, Customer Orientation

- Business Orientation – Financial Acumen, Strategic Planning & Analysis

- Interpersonal Skills & Communication – Influence, Team Player, Conflict Management, Listening, Disseminating Information

- Employee Development & Management – Development, Coaching & Accountability

One quarter of an employee's evaluation is based on the Key Skills and Abilities of their job title. The remaining 25% of their evaluation is based on performance according to goal achievement, specific to their area of responsibility. These goals are agreed to jointly with their supervisor.

Functional Areas Reporting to

The Executive Vice President and

Chief Financial Officer

*   *   *

Accounting

Budgeting & Forecasting

Financial Analysis & Planning

Corporate Risk Management

Corporate Tax Department

Cash Management

DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION

DEPARTMENT: ACCOUNTING

FUNCTION(S):   (b)(ii)

I.   Policy and Goal Setting/Strategic Planning

Annual Operating and Stewardship goals for the Accounting Services Department are established to focus the department on activities that support Dominion's corporate objectives. Goals are solicited from accounting management and are aggregated with accounting support goals from accounting executive management related to Dominion's overall strategic direction. The goal package normally includes certain goals specific to a particular activity and time period, as well as goals that support general corporate stewardship of resources, including expenditure limits and safety goals.

The Chief Financial Officer, the Chief Accounting Officer, and the Vice President, Accounting & Controller, approve Accounting Services Departmental goals. Specific Segment Accounting goals are established by the Segment Controllers in support of the Accounting Services goals. Goal progress is reviewed with employees in group meetings at the outset of the goal period and is periodically reviewed during the year.

II.   Internal and External Communication

Overall, Dominion Accounting Services is organized into Corporate and Segment Accounting Groups, each led by a Segment Controller reporting to the Vice President, Accounting & Controller. There is frequent and regular internal communication between Corporate Accounting and the Segment Accounting Groups.

Most internal information is disseminated within Accounting Services via e-mail, verbally, or in a meeting setting. The department is organized such that small meetings may be convened as necessary to address pertinent issues. Corporate and Segment Controllers, Directors and select Managers within the Accounting Services Department meet monthly and also individually conduct regular staff meetings.

The various functional accounting sections that make up the Accounting Services Department interact and internally communicate most frequently with each other, as well as with the Dominion Tax Department, Dominion Internal

Audit, Dominion Investor Relations, Dominion Corporate and Segment Planning, Dominion Treasury, and Deloitte & Touche (external auditors).

Additionally, Delivery Segment Accounting and Fixed Assets Accounting engage in considerable and frequent internal communications with various Segment management, Field Operations, Gas Supply, Rates/Regulatory, and Legal personnel.

Internal communications of Accounting Services principally encompass:

1) Planning and executing the monthly financial closing process.
2) Maintaining SAP master data related to the General Ledger in the Financial Module and cost objects in the Controlling Module.
3) Preparing financial reports for the SEC 10-K, 10-Q, 11-K filings.
4) Preparing Department of Labor Form 5500 (Dominion benefit plans).
5) Preparing FERC Forms 1 and 2 and the 3-Q.
6) Preparing the State Commission Annual Reports.
7) Collecting and disseminating information as a result of accounting research activities and accounting guidance.
8) Collecting and disseminating information related to derivatives accounting transactional support.
9) Coordination and support of Dominion's Sarbanes-Oxley compliance program.
10) Segment and Corporate financial results – by legal entity.
11) Capital vs. Expense classification decisions.
12) Regulatory filings support such as Base Rate Case and Gas Cost Recovery proceedings.

The majority of external communication is principally related to financial and regulatory reporting. This includes the filing of the SEC 10-K, 10-Q, and 11-K reports, responding to SEC Comment Letters, filing Department of Labor Form 5500, and certain other surveys and reports.

III.   Organizational Structure

A.   Corporate Accounting Department – (CA)

The Corporate Accounting department is part of Dominion Resources Services (DRS). Specifically, the department personnel report directly or indirectly to the Vice President, Accounting & Controller. The Controller reports to the Senior Vice President and Chief Accounting Officer, who in turn reports to the Executive Vice President and Chief Financial Officer.

Vice President, Accounting & Controller (1)

Corporate Accounting personnel:
Director – Accounting (3)
Manager – Accounting (1)
Manager – Six Sigma (2)
Supervisor – Accounting (3)
Remaining staff comprises Accounting Specialists, Lead Accountants, Senior Accountants, Accountants, Accounting Support Associates, and an Executive Assistant.

All Corporate Accounting personnel are located in Richmond, Virginia.

B.   Delivery Segment Accounting Department – (SA)

The Delivery Segment Accounting department is part of Dominion Resources Services (DRS). Specifically, the department personnel report directly or indirectly to the Controller, Delivery Accounting, who in turn reports directly to the Vice President, Accounting & Controller, who in turn reports to the Senior Vice President and Chief Accounting Officer.

The Delivery Segment Accounting organization is divided between Regulated and Non-Regulated sections.

Delivery Segment Accounting:
Controller (1)
Delivery Segment Accounting – Regulated:
Director (1)
Manager (2)
Supervisor (2)
Remaining staff comprises Accounting Specialist, Lead Accountants, Senior Accountants, Accountants, Accounting Support Associates, Union Clerks and an Administrative Assistant.

Delivery Segment Accounting – Non-Regulated:
Manager (1)
Staff comprised of Senior Accountants, Accountant, and Accounting Support Associate.

Delivery Segment Accounting personnel are currently located in Richmond Virginia; Pittsburgh; Clarksburg, West Virginia; and Cleveland.

C.   Fixed Assets Accounting Department – (FA)

The Fixed Asset Accounting department is part of Dominion Resources Services (DRS). Specifically, the department personnel report directly or indirectly to the Controller. The Controller reports to the Vice President, Accounting & Controller, who in turn reports to the Senior Vice President and Chief Accounting Officer.

Fixed Asset Accounting:
Controller (1)
Manager – Accounting (1)
Supervisor – Accounting (3)
Remaining staff comprises Senior Accountants, Accountants, and
Accounting Support Associates.

Fixed Asset Accounting personnel are currently located in Richmond
Virginia; Pittsburgh; Clarksburg, West Virginia; and Cleveland.

Organizational Responsibilities

D.   Corporate Accounting Department

- Perform financial accounting for Dominion's three SEC Registrants,
  Dominion Resources, Consolidated Natural Gas, and Virginia Electric &
  Power Company. Prepare financial statements and perform analytical
  reviews of financial results for the Financial Reporting section of Corporate
  Accounting and for Executive Management.

- Perform centralized debt and centralized benefits accounting for Dominion.

- Maintain HFM financial consolidation application and perform monthly
  financial consolidation as part of the closing process.

- Coordinate the financial audit with Deloitte and the Dominion Internal Audit
  department.

- Maintain SAP master data related to the Financial Module (General
  Ledger) and for the Controlling Module (management reporting).

- Maintain SAP master data related to the FERC GL Translation Module
  and process the Module on a monthly basis for all FERC companies.

- Coordinate and monitor the monthly financial closing process. Execute
  certain centralized closing processes.

- Perform centralized bank reconciliations and escheatment processing for
  Dominion.

- Perform Service Company accounting for DRS, including maintaining SAP
  master data, performing monthly billing, and preparing and filing the FERC
  Form 60 service company annual report.

- Coordinate the Sarbanes-Oxley compliance effort for Dominion.

- Perform analysis and provide accounting support for derivative accounting
  related to Dominion's risk management activities.

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- Perform accounting research related to derivative instruments.

- Perform accounting research related to more complex accounting issues. Coordinate Dominion's implementation of new accounting standards.

- Prepare and file Dominion's SEC reports (10-K, 10-Q, and 11-K). Respond to SEC inquiries and comments.

- Prepare and file Dominion's Department of Labor Form 5500 reports.

- Coordinate the audit of Dominion benefit plans with Deloitte, Dominion Internal Audit, and the Dominion Benefits Department.

- Conduct special projects that target efficiencies and process improvements in the accounting area utilizing the disciplines of Six Sigma.

E.   Delivery Segment Accounting:

The Delivery Segment Accounting group encompasses the reporting and certain accounting responsibilities associated specifically with the Dominion Delivery Regulated entities: Dominion Virginia Electric & Power Company, Dominion East Ohio, Dominion Peoples Natural Gas Company and Dominion Hope Gas Inc., and the non-regulated entities of Dominion Retail and Products and Services.

- SEC Reporting and Support – Delivery Segment: 10K and 10Q Filings

- Earnings reconciliations to budget and prior periods.

- Preparation of Delivery Subsidiary Financial Statements – GAAP and FERC

- State Regulatory Reporting – FERC Form 1 and 3Q filing support: Virginia Electric & Power Company and State Commission Annual Reports – Dominion East Ohio, Dominion Peoples and Dominion Hope.

- FERC Processing – SAP/HFM

- AGA Uniform Statistical Reports

- EIA and DOE Reporting Requirements

- Account Reconciliations

- Bank Reconciliations

- Manual Journals

- Regulatory Filing Support: Base Rate Case, Gas Cost Recovery and M&A/Divestiture Filings

- Revenue Reporting, Review and Analysis

- Miscellaneous Accounts Receivable Billing

- Bad Debt Reserve Analyses – Tariff and Miscellaneous A/R

- Review and approve Project Surcharges and Overhead Rates

- Inter-Company balancing

- Gas Supply Accounting and payment processing:

  1. Interstate Pipeline
  2. Local Production
  3. Storage Accounting

- Accounting Research – Regulated and Retail

- Retail and Products & Services Accounting

- Hedge/Derivative Accounting – FAS133/FAS71

- M&A and Divestiture Support

- Six Sigma Review and Support

- SOX Controls Support

- Satisfy and support audit requirements:

  1. External – Deloitte & Touche
  2. Internal - SOX and Internal processes
  3. Regulatory – Gas Cost and Management Audits

F. **Fixed Assets Accounting:**

The Fixed Assets Accounting area is responsible for the following functions:

- Development and administration of Dominion's capitalization policy and procedures

- Maintaining and reporting of the Company's investment in property, plant and equipment

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- Compliance with Generally Accepted Accounting Principles, federal and state regulations to ensure accuracy for financial reporting and the control and safeguarding of the Company's property, plant and equipment

- Updating of periodic depreciation studies and monthly depreciation accrual

- Maintain SAP master data related to the Project Systems and Asset Management modules

- Monthly calculation of AFUDC and capitalized interest

Fixed Asset Accounting also utilizes outside consultant services in preparation of periodic depreciation studies.

IV. Practices and Procedures

A. Corporate Accounting Department

Corporate Accounting maintains policies that relate to the integrity and control of SAP master data as it affects the financial statements. The department also maintains policies related to overall accuracy of information entered into the financial system and policies related to financial controls necessary to ensure confidence that no material errors are made in the financial records. The policies maintained at the Corporate Accounting level generally do not address specific practices that may be prescribed at the Segment Accounting level. Most of Corporate Accounting policies are maintained on the Dominion intranet site and are accessed electronically.

B. Delivery Segment Accounting

Delivery Segment Accounting develops and maintains procedures specific to the Delivery Segment legal entities that are not encompassed by Corporate Accounting or Fixed Assets Accounting. These practices and procedures pertain predominantly to specific regulatory accounting practices and in maintaining compliance with the Code of Federal Regulations and the FERC Uniform System of Accounts where applicable.

C. Fixed Assets Accounting

Fixed Asset Accounting maintains policies that relate to the integrity and control of SAP project and asset master data as it affects the financial statements. The department also maintains policies related to acquiring and developing fixed assets, classification of capital costs, impairment, and other asset related policies. The policies maintained at the Fixed Asset Accounting level generally do not address specific practices that are maintained by the Exploration and Production business segment. Most of the Fixed Asset Accounting policies are maintained on the Dominion intranet site and are accessed electronically.

V.   Decision Making and Control

A.   Accounting Services Department

The decision making process within the Accounting Services Department is primarily focused on achieving the proper measurement, classification, and reporting of accounting data which supports financial information and requirements for internal and external use. Commensurate with that focus, a broad array of decision-making and control responsibilities are integrated throughout the entire Accounting Services Department, and are aligned with the specific responsibilities described above. These encompass, among other things, implementation of new or changing accounting and reporting standards, adherence to legislative, regulatory, and GAAP guidelines, and the development, implementation and maintenance of critical internal controls and SOX compliance.

The overall responsibility related to these requirements rests with the Dominion Chief Financial Officer, Senior Vice President and Chief Accounting Officer, Vice President, Accounting & Controller, and the various Segment Controllers.

The Accounting Directors are primarily responsible for day-to-day management of the decision-making process. Decision-making authority is delegated to the Manager or Supervisor level, commensurate with the complexity involved. More complex decisions are ultimately reviewed and approved by the above-identified Executives as appropriate.

The following outside bodies/agencies have compliance/oversight standards affecting the work products of the Accounting Services Department:

- SEC – Federal, Regulatory

- FERC – Federal, Regulatory

- State Regulatory Commissions:

    - Virginia State Corporation Commission
    - North Carolina Utilities Commission
    - Public Utilities Commission of Ohio
    - Pennsylvania Public Utility Commission
    - West Virginia Public Service Commission

- AICPA – Private, Regulatory – standards for CPAs

- Sarbanes-Oxley Act, Federal, Legislative

- PCAOB – Private, Regulatory – auditing standards, internal controls standards

- FASB – Private, Regulatory - accounting standards

- EITF – Private, Regulatory – accounting standards

- External auditors engaged for financial audit purposes

VI. Goal Attainment and Quantification

Goal setting is discussed in the Policy and Goal Setting section (above). Ultimate grading of goals is completed annually after the close of the year. Responsibility for this rests at the Accounting Executive Management level (VP and Controller, Chief Accounting Officer, Chief Financial Officer), who look at individual goal results and approve the grading.

Normal Operational/Stewardship goals principally address accuracy, timeliness, and compliance objectives annually. Additional targeted goals are also developed each year addressing specific special project related objectives.

Employees receive regular feedback on individual assignments. Each employee receives an annual performance review. Each employee's review includes evaluation of their contribution to department goals as applicable.

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DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION

DEPARTMENT: BUDGETING AND FORECASTING

FUNCTION(S):   **(b)(iii)**

I.   Policy and Goal Setting / Strategic Planning

The annual process of creating 5-year financial plans and goals is a collaboration among the President and CEO, the Executive Vice President and CFO, Executive Compensation, the Vice President, Budgeting, Forecasting & Investor Relations, and the CFO's of each business unit. The financial plans and goals address Dominion's goals for operating earnings per share, free cash flow, return on investment capital, credit metrics, dividends, and operational metrics. All financial plans and goals are approved by the OCN Committee (Board of Directors).

Dominion Officers review and discuss the financial goals and progress on a monthly basis, which provides an opportunity for them to assess whether the goals have been or will be achieved by year-end. Items discussed include the company's current financial status in relation to the budget, year-end projections, and any other unplanned items that may have had a financial impact. When plans change, the business segment management team along with their Financial & Business Services group, determine the impact of the changes and revise budgets and operating plans accordingly.

II.   Internal and External Communication

Information is generally communicated through a combination of verbal and written communication in staff meetings, electronic mail, and telephone conversations. Formal staff meetings occur monthly, while the other forms of communications generally occur on a daily basis. Financial & Business Services shares financial and operational results through monthly staff meetings and electronic mail.

Delivery Financial & Business Services has very little direct communication with external agencies, although it does provide informational support to the Controller's organization and the Investor Relations group. The Controller's organization files 10K's and 10Q's with the Securities Exchange Commission (SEC). The Investor Relations group has regular communications with the investment community.

III.   Organizational Structure

The Financial & Business Services Group has a staff of 32 employees to serve Dominion Delivery Business Unit. The number of employees by job descriptions are as follows:

1	Director, Financial & Business Services
4	Managers, Financial & Business Services
1	Supervisor, Payment Verification
3	Senior Business Performance Analysts
1	Delivery Business Performance Consultant
3	Financial Analysts
8	Senior Financial Analysts
1	Financial Consultant
6	Senior Planning & Budget Analysts
4	Senior Disbursements Rep

The Manager, Financial & Business Services for Gas Delivery reports to the Director, Financial & Business Services who reports to the Vice President, Financial Management. The Vice President, Financial Management reports to the CEO & President of Dominion Delivery.

IV. Responsibilities

The Financial & Business Services personnel in Gas Delivery are employees of Dominion Resources (Service Company). These employees provide the following functional support to Dominion East Ohio.

- O&M and Capital Budgeting Processes

- Annual Incentive plan/Scorecard Development/Reporting

- Economic/Profitability analysis

- Five-year Financial Plans/Budgets

- Actual vs. Budgeting Reporting & variance analysis

- Establishing financial targets/operational goals/metrics

V. Practices and Procedures

Dominion's budgeting process is performed annually, and it reflects the strategies for achieving the entity-wide financial objectives. Each business segment is provided with financial targets to ensure the objectives are achieved.

Between the months of July and November, using the established financial targets as a guide, each business segment works on finalizing their budgets and objectives consistent with those established at the corporate level. Expected operating results and risks are also analyzed and discussed. An asset management approach is taken in order to maximize operating results and manage risk on the system. This process goes through several iterations before the final budgets and operating goals are finalized and rolled up to Corporate.

VI.   Decision Making and Control

The Financial & Business Services department acts primarily in a consulting role to the Delivery Management team. The department establishes methodologies, guidelines and timelines for the Financial planning and budgeting processes. The group also sets Financial targets consistent with the Corporate and Business Unit Goals and recommends operational goals.

Best Practices or Benchmarking methodologies are utilized in selecting focus areas for operational metrics such as emergency response, customer appointments met, disconnects for non-payment, average speed of answer in the call centers, to name a few.

VII.   Goal Attainment and Quantification

Dominion & Delivery Goal performance is measured by the success of the financial and operational objectives against the actual results. Goals and objectives are measured against the plan on a monthly basis. These results are reviewed monthly at Vice President/Director staff meetings. Comparison between individual employee performance objectives and actual results are reviewed quarterly at meetings between the Manager and the direct reports.

DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION

DEPARTMENT: FINANCIAL ANALYSIS AND PLANNING

FUNCTION(S):   (b)(iv)

I.   Policy and Goal-Setting / Strategic Planning

The Financial Analysis and Planning Department uses surveys and interviews with internal customers to set goals and establish practices that meet their requirements. Goals are discussed and set on a supervisor and employees basis, at various levels within the organization. The Vice President provides strategic direction to the group, following policies and goals set by the Board of Directors, CEO and CFO. The directors within the department are responsible for managing, training and developing a staff of financial analysts and maintaining a high quality work product.

Dominion's strategic direction is determined by its senior executive officers and validated by the Board of Directors. Dominion's operating companies/business units provide senior management proposals for implementing the strategies and ultimately reach consensus on actions that optimally satisfy the strategies' objectives.

An important component of the process is the selection of investments and other business transactions that provide Dominion the assets or restructuring required to position the company to meet its strategic objectives. Proposals are made by senior executive officers and the operating companies. The Financial Analysis and Planning Department makes objective assessments of these proposals and advises project sponsors on the viability of the proposal and its potential impact on Dominion.

II.   Organization Structure

The entire Financial Analysis and Planning Department comprises 16 employees: 1 Vice President, 4 Directors, 3 Managers, and 8 Analysts. The group providing support to Delivery and DEO includes the Vice President, one Director and three analysts.

III.   Departmental Responsibilities

The Financial Analysis and Planning Department is responsible for overseeing the financial analysis of investment opportunities and business transactions. The department's assignments include, but are not limited to:

- Major internal projects

- Acquisitions

- Divestitures

- Restructuring (Partnerships, MLPs, IPOs, Spin-offs, etc.)

The department provides fundamental business profitability and risk analysis to management along with the financial impact on business strategies.

The department's internal customers are:

- Business Unit Management

- Senior Corporate Executives

- Investment Review Committee

- Board of Directors

When required, the department also provides financial guidance, input and training to key employees to assist in achieving short- and long-term business strategies and goals. The department also oversees the implementation of financial analysis methodologies to ensure consistency within Dominion's business units.

IV.   Departmental Practices and Procedures

Any investment or business transaction that requires a commitment that exceeds a specified limit is reviewed the Internal Review Committee (IRC), which consists of operating-company presidents and key corporate officers. Proposals approved by the IRC are submitted to Dominion's senior executive officers for approval. The Board of Directors must approve any investment or business transaction that exceeds a second threshold amount.

The Financial Analysis and Planning Department follows guidelines established by the IRC to ensure that decision makers have all of the information required to make prudent decisions, including a profitability analysis and risk assessment.

The Financial Analysis and Planning Department receives code-of-conduct training and strictly adheres to policies established by legal and regulatory personnel responsible for enforcing Dominion's code-of-conduct policies.

V.   Decision-making and Control

Decisions on department staffing, procedures, budgets and goals are jointly made by the Vice President and Directors. Analyses, risk assessments and other department contributions to IRC presentations are reviewed and approved by the Vice President before their inclusion in an IRC package. The Vice President is also consulted before analyses and other department work products are submitted to senior executive officers.

VI.   Internal and External Communications

Depending on the scope, size, complexity, and origination of an investment opportunity and/or business transaction, the Financial Analysis and Planning Department may interact with a large number people, both internal and external. The majority of those participating provide information for the Financial Analysis and Planning Department. Department personnel work closely with their sources to ensure all of the information required to make a fair and accurate assessment of the project is collected and processed. The majority of the time the information sources are internal employees, but information may also come from external consultants and employees of companies selling stock and/or assets.

Department personnel conduct their investigations in parallel and a consistent manner with operating-company personnel. The sponsoring operating company's management is given updates as analyses are completed and conclusions reached on important issues. The Vice President receives periodic updates when important milestones are reached.

At the conclusion of the investigation, department and appropriate operating-company personnel construct a presentation for the IRC and senior executive officers that summarizes the investigation's important conclusions and recommendations.

The Vice President and Directors also have bi-weekly meetings to exchange information on current assignments.

Goal Attainment and Quantification

Department goals are agreed upon at the beginning of each calendar year. During January of each year, the department conducts surveys with internal customers and seeks comments from key senior executives to measure its performance for the previous year. Department employees are evaluated on feedback received from internal customers and their supervisor's assessment of their performance.

DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND
            ORGANIZATION

DEPARTMENT: CORPORATE RISK MANAGEMENT

FUNCTION(S): (e)(v)

I.   Policy and Goal Setting / Strategic Planning

Corporate Risk Management's role is to protect the asset base of Dominion through effective risk transfer, strong loss prevention program review, and major focus on efficient resolution of third party claims and damage collections. The Corporate Risk Management Department's policy and goal setting is based on its overall mission to assist the business units in the area of (1) risk transfer, (2) first and third party claims resolution, and (3) loss prevention. (See Section IV. Responsibilities for an overview of the three core groups that comprise Corporate Risk Management).

The Director, Corporate Risk Management provides overall strategic direction to these three groups based on corporate goals established by the Senior Vice President and Treasurer and any industry or market specific trends needing to be addressed. Goals are established annually with periodic communication to employees through staff meetings and via e-mail, where applicable. Monitoring these goal objectives throughout the year is the responsibility of the Director, Corporate Risk Management along with the three Managers in charge of the respective groups and the Supervisor, Claims.

II.   Internal and External Communication

Communications within the departmental groups are both internal and external. Internal and external communications may be by on-site meeting, face to face meeting, email, telephone conference, facsimile, instant message, text message, video conference, or by letter. In general, the nature of the other party determines the method of communication. Communication can be formal or informal as required.

A.   Claims Group

Staff are specifically assigned to area locations/regions and internal communications occur most frequently in the Delivery Operations, Legal, Customer Relations, and the Call Center areas. External communications are conducted primarily with customers, claimants, attorneys, and insurance carriers.

The Claims Department also assists Corporate Communications by using its knowledge of safety and other related issues to incorporate these topics into DEO's customer and employee communications, *e.g.*, Customer Connection Newsletter, various bill inserts, New Customer Correspondence, the new Customer's Rights and Responsibilities Booklet and On-Line Information.

B.   Risk Engineering Group

Staff generally have project specific work to assist one of the business segments in the Company. Such projects generally require extensive dialogue with Company engineering and project managers as well as outside consultant dialogue and analysis, when needed.

A public safety education program managed within the group, utilizes direct mailings to teachers of school age children, emergency responders and certain contractors who work within Dominion's Service Territory.

C.   Corporate Risk Group

Staff are specifically assigned to areas of expertise (property versus liability focus) and have strong internal communications within Dominion for informational data gathering required for underwriting of the risk exposures. Additionally, external communications take place with insurance brokerage firms to assist in insurance product placement as well as claims resolution for the more severe incidents respecting first party property or third party liability.

Similarities exist in all three groups as each Manager can be considered "working supervisors" as they each coordinate specific issues on behalf of the Director. Likewise, management is involved in industry association task forces and code development technical committees and representation of issues on behalf of the energy sector. Corporate Risk Management interfaces with various external agencies, including State regulatory agencies, Boiler Inspectors, Fire Marshalls, and Insurance Inspectors.

III.   Organizational Structure

Corporate Risk Management's reporting hierarchy is within the Chief Financial Officer / Treasury area of Dominion. This department reports directly to the Senior Vice President and Treasurer, then to the Executive Vice President and Chief Financial Officer, and ultimately to the President and Chief Executive Officer of Dominion. The overall department has 25 staff members to cover all of the Dominion family of companies with the Claims group comprising 14 employees. Four full time positions are based in our Cleveland office, one in Pittsburgh, and the remaining nine in the Richmond, Virginia office. Additionally, the Risk Engineering area fills three staff positions in Richmond; the Corporate Risk area, eight.

IV. Responsibilities

A brief overview of key activities relevant to each of the three groups follows:

A. Corporate Risk Group

- Analysis of risk transfer techniques (insurance products, self-insurance, etc.) to develop the best strategy to economically and efficiently protect Dominion's assets and to continually manage and monitor these program structures

- Assist the Legal Group in contractual review of insurance and indemnity language to ensure that assets and liabilities are protected and risks are transferred effectively

- Review and investigate property claims in order to mitigate the financial impact towards the Company and ensure the timely collection of claim payments from the Insurance Carriers

B. Claims Group

- Timely response to and resolution of all customer and third party claims. As a result, current policies and practices have been adopted to ensure that customer claims are promptly investigated and that resolution decisions are ethical, fair, and within the best interests of our customer base as well as the Company. DEO's claims management practice incorporates adherence to all applicable standard operating procedures, laws, tariffs, codes, standards, and State and Federal regulations.

- Pursues collection action against third parties to secure payment for damages caused to Dominion facilities or other property.

C. Risk Engineering Group

- Provides expertise in Boiler & Machinery, Fire Protection Engineering, as well as third-party liability exposures.

- Prevents losses to the company that could impact financial performance. The Risk Engineering Group Strategy focuses on two main areas in order to accomplish this purpose, oversight and service.

V. Practices and Procedures

A. Claims Group

The Claims Department uses many reference tools, too voluminous to attach, that it uses in the management of its customer, first and third party claims.

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Some of the prominent references are as follows: The DEO Standard Operating Procedures, Ohio Revised Code, Ohio Administrative Code, DEO's Tariffs, local codes and ordinances, Federal Pipeline Safety Regulations, and the National Fuel Gas Code. The Claims Department also makes contributions to the following customer/employee publications: Customer Connection Newsletter, various bill inserts, New Customer Correspondence, the new Customer's Rights and Responsibilities Booklet and various on-line resources.

B.   Risk Engineering Group

A public safety education program managed within the group, utilizes direct mailings to teachers of school age children, emergency responders and certain contractors who work within Dominions Service Territory.

C.   Corporate Risk Group

The East Ohio Gas Company is a qualified self-insurer in the state of Ohio. On an annual basis, the Corporate Risk Group interfaces with the Bureau of Workers' Compensation (BWC) and provides them with a completed "Application for Renewal of Authorization to Operate as a Self-Insured Risk." Additionally, this group participates with Human Resources to review workers' compensation claims associated with DEO.

VI.   Decision Making and Control

Corporate Risk Management is frequently asked for interpretation and guidance regarding Federal and State regulations. For example, Risk Engineering coordinates compliance with State Boiler & Machinery codes and National Fire Protection codes. Similarly, resolution of claims frequently requires compliance review with gas delivery underground code requirements. Issues of code interpretation are overseen by the Manager of the group as well as the Director, when necessary. Daily staff activity is supervised and coordinated by each of the respective Managers and the Supervisor, Claims. The Director, Corporate Risk Management monitors the decisions made by department employees and provides strategic direction. Overall Risk Management Policy is established by Senior Management.

VII.   Goal Attainment and Quantification

Department goals are coordinated and established annually by the Director, Corporate Risk. These goals are a function of corporate initiatives established by the Senior Vice President and Treasurer and any group specific goals as initiated by the individual Managers. Qualitative goals (i.e. Responsiveness Goal, Collection Ratio Goal) are primarily measured through the reporting capabilities of the departmental claims tracking system. Non-Qualitative goals are measured by comparing accomplishments with targeted expectations with joint consensus from the Manager and Director and approved by the Senior Vice President, generally at the end of the calendar year. Staff

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members are evaluated for their respective goal obtainment based on their contribution to overall department goal performance. Staff members receive periodic feedback on goal status throughout the year.

DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION

DEPARTMENT: CORPORATE TAX DEPARTMENT

FUNCTION(S):   **(b)(ii)**

I.   Policy and Goal Setting / Strategic Planning

As part of the annual planning process, Dominion's senior management articulates the strategic direction for the company. Corporate strategies are identified, developed and communicated to the business units which then create initiatives as well as operating and capital budgets to support these strategies and achieve the desired goals, targets, and performance measures. The Corporate Tax Department is responsible for identifying any tax related issues and potential solutions related to the operating units goals.

The Corporate Tax Department establishes goals that directly support the overall corporate goals for Dominion. The annual goals of the Corporate Tax Department are proposed by the Directors within the department to the Vice President, Tax (VP). Once reviewed and approved by the VP, the specific annual goals are reviewed and approved by the Senior Vice President & Chief Accounting Officer and the Executive Vice President & Chief Financial Officer. The objectives of the annual goals of the Corporate Tax Department directly support the key strategic initiatives of the Company. Any recommended changes to the goals throughout the year are communicated to the VP for consideration and approval.

Once approved, the goals are distributed to all members of the Tax Department. The annual performance appraisals of all individuals throughout the department are based, in part, on achieving the department goals.

Whenever practical, the Corporate Tax Department establishes and utilizes best practices and or benchmarking methodologies in its day-to-day operations. These practices and methodologies are typically based on practices and methodologies that have been established or developed through discussion with other tax departments, including those within the industry. The department also bases its practices and methodologies on discussions with outside consultants and other tax professionals. All best practice and benchmarking methodologies utilized contribute to the successful achievement of the department's goals.

II.   Internal and External Communication

The VP holds staff meetings on a regular basis (some as frequent as weekly) with the Directors within the department. All department Directors hold regular staff meetings. These meetings provide a forum for updates on the progress and status of

projects and discussions involving personnel policies and practices. Open discussion of any questions regarding the department or company occurs at these meetings.

The staff meetings conducted by the Directors provide information for managers, supervisors and staff. The meetings held throughout the Corporate Tax Department typically occur on a monthly or quarterly basis and occasionally on an as-needed basis. Items and events affecting the operations of the individual work groups are communicated through the supervisors to all employees when necessary outside of meetings.

The Vice President, Accounting & Controller holds regular staff meetings with the VP and the operating company controllers where corporate-wide initiatives are communicated and open for discussion.

Twice a year, the Company's Leadership holds an Officer's & Director's meeting where updates regarding the Company's results of operations and operating strategy are reviewed and where the officers and Directors are provided an opportunity for discussion and questions.

The VP meets with the Senior Vice President & Chief Accounting Officer and the Executive Vice President & Chief Financial Officer on an as-needed basis to review the federal consolidated corporate net income tax return and to address any tax questions that arise throughout the year. The VP also attends four Disclosure Committee meetings throughout the year chaired by the Senior Vice President & Chief Accounting Officer at which time the applicable 10Q or 10K disclosures are reviewed and discussed.

The department also receives non-tax general business communications from Corporate Communications highlighting items of interest in the industry especially those involving or impacting Dominion.

The tax department has two staff members who are assigned to Dominion's Sarbanes Oxley team. Meetings are held twice a month.

Various interdepartmental meetings also occur related to Six Sigma projects.

Outside contacts are made regularly, via e-mail, written memoranda and in person, often between Corporate Tax Department personnel and employees of the various taxing agencies with which returns are filed. The Directors communicate with other utilities and with members of industry and professional organizations on tax and accounting issues which may impact the Company. These organizations include the American Gas Association, Edison Electric Institute, Tax Executives Institute and the Interstate Natural Gas Association of America. Oral and written communication also occurs between supervisory personnel and employees of other utilities, to exchange information related to taxes and other business ideas.

Frequent contact among the VP, the Directors and supervisory personnel, and independent auditors occurs during their review of financial statements and regulatory

reports. Occasional contacts are also made with outside legal counsel, as well as state and federal regulatory agencies, including the IRS.

III. Organizational Structure

The Corporate Tax Department's VP reports to the Senior Vice President & Chief Accounting Officer. There are eight Directors who report either directly or indirectly to the VP. Reporting to the Directors is a combined staff of 67 positions ranging from the Administrative to the Manager level. The staff is located in five cities throughout Dominion's service/operating territories with the largest portion of the staff located in Richmond, Virginia.

Of the total staff above, approximately 14 individuals share in the tax-related responsibilities for Dominion East Ohio.

IV. Responsibilities

The Tax Department is responsible for the following tasks and activities:

- Complete all income tax accrual and financial reporting requirements on a timely and accurate manner and in compliance with FASB, SEC and Sarbanes/Oxley.

- Complete all compliance activities in a timely and accurate manner by complying with all applicable tax laws and regulations and remitting and filing all payments and returns on a timely basis.

- Minimizing the System tax expense by fully utilizing all legally available deductions, credits and other benefits provided for under federal, state or local law.

- Effectively manage the audit function with federal and state taxing authorities so as to minimize any potential tax assessments and to resolve all issues at appeals.

- Provide highly competent and cost effective tax research, planning, and consulting services to all System companies related to special projects and strategies.

- Actively participate and, where appropriate, take a leadership role in outside organizations (including TEI, EEI, AGA, and INGAA) in order to keep abreast of new tax developments and best practices.

- Assist in federal, state and local tax legislative efforts.

- Identify and implement software/system improvements that will enhance the tax department functions.

- Provide accurate and effective rate regulatory support for several regulated subsidiaries and ensure tax practices are in accordance with regulatory agency requirements.

- Maintain and utilize an ethical, highly competent and technically proficient System-wide staff of tax professionals in a cost effective manner.

Outside consultants are used as needed to assist in the performance of these responsibilities.

V.   Practices and Procedures

In order for the Corporate Tax Department to meet its goals, it must maintain extensive policies and procedures. Such policies are developed throughout the department by the Directors, with guidance and approval from the VP.

The Corporate Tax Department's compliance process is generally dictated by federal, state, and local statutes, which govern due dates and filing requirements for various returns and payments. The Corporate Tax Department uses a tax calendar to prioritize all returns and payments and to assign associated duties to tax department personnel. CorpTax is the primary accrual and tax return software used. A CorpTax manual has been created to assist the staff in using the software.

Also key to the monthly reporting process is the forecasting of tax expense. Monthly meetings are conducted to review the progress of the returns, payments, and responsibilities and to assign research projects or special studies. The Corporate Tax Department strives to maintain compliance, minimize corporate tax liabilities, and reduce expense. The Tax Department has also developed and implemented procedures designed to comply with Dominion's Sarbanes Oxley control requirements.

All tax department personnel are governed internally by Dominion's ethics and code of conduct policies administrated by Dominion's Legal Department. Most department employees are also governed by the professional conduct standards of the AICPA and various state CPA associations.

VI.   Decision Making and Control

The Corporate Tax Department makes decisions regarding the proper measurement, timing, and reporting of tax data in returns and in the Company's financial statements. The department also assesses the effects of changes to accounting rules related to taxes, new federal or state regulatory orders, as well as legislation, court decisions, and regulations on the Company's tax liabilities. Tax research is performed by the Corporate Tax Department or outside consultants engaged by the Corporate Tax Department.

Decisions on recurring day-to-day matters and minor changes needed to comply with new standards are the responsibility of the Directors, Managers and Supervisors with guidance from the VP. Significant matters are brought to the attention of Senior

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Executive Staff by the VP, who provides the support required for the Senior Executive Staff to make the decisions.

Internal procedures are monitored and tested for compliance by the Internal Audit Department, independent auditors, and regulators. Also, compliance with tax changes is ensured through periodic audits conducted by representatives of the various taxing authorities.

Control of tax data that affects the tax accruals and budgeted tax data is maintained by the Corporate Tax Department. Control of tax data specific to filed returns and payments is also maintained in the Corporate Tax Department. Tax calculations, actual tax expense, and forecasted expense are verified quarterly by Corporate Tax Department personnel.

VII.   Goal Attainment and Quantification

After year-end, the Directors provide written substantiation to the VP for the accomplishment of Corporate Tax Department goals. After review by the VP, the information is then sent on to the Senior Vice President & Chief Accounting Officer for review and approval. Individual employee goals are measured during an annual performance process.

Accuracy of financial statements and accounting files and reports is achieved through the regular review of policies and practices by both internal and external auditors to ensure compliance with established guidelines and standards. Measurement of the accuracy of tax returns is provided by annual or periodic audits by agents of the various taxing agencies. Further agency review, the appeals process, and (in some cases) court action are also available to settle differences in interpretation of the tax law.

DOMINION EAST OHIO

SCHEDULE:	S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION
DEPARTMENT:	CASH MANAGEMENT
FUNCTION(S):	(b)(i)

I.   Policy and Goal Setting / Strategic Planning

Cash Management goals are aligned with the overall corporate goals of the company consistent with policies and procedures established by the Board of Directors. Controls within Cash Management are outlined in Sarbanes Oxley.

Cash Management benchmarks against industry practices in managing bank account controls and procedures and utilizes best practices in providing adequate training and cross training within its functional area.

II.   Internal and External Communications

Cash Management utilizes both formal and informal means of communication on a daily basis within its group. Specific policies relating to cash collections and procedures are outlined in writing. The department has periodic meetings to inform staff on company policy and changes impacting their jobs. As a centralized function, Cash Management communicates with any and all functional areas of the company in an advisory capacity relating to the movement and safekeeping of company funds. It most regularly communicates with Accounts Payable as related to disbursement issues.

Cash Management does not routinely communicate to external regulatory bodies, however, does have frequent interaction with our banking partners. Cash Management does not rely on Corporate Communications to disseminate information.

III.   Organizational Structure

Cash Management reports to the Treasurer who in turn reports to the CFO. The following employees make up the Cash Management group:

- One director.

- One coordinator, Short Term Finance.

- One supervisor.

- Four senior cash managers.

IV. Responsibilities

Cash Management sets the cash positions for assigned companies on a daily basis providing for adequate funding of disbursements, investing excess collected funds, and releasing wire payments. Additionally, the group opens and closes bank accounts and maintains the administrative processes surrounding the bank accounts. The supervisor oversees this function and monitors activity during the day assuring control and accuracy in the work performed. The coordinator issues commercial paper in three commercial paper programs and invests any excess funds. The position also is responsible for projecting daily cash needs. The director oversees the operation, sets policy, and works with all positions in providing adequate liquidity for the company.

Cash Management is a centralized function and is not carried out in field locations. The Cash Management unit does not utilize outside consultants or service contractors.

V. Decision Making and Control

The decisions regularly made by the group include setting daily cash positions. The group must also review prevailing interest rates and maturity dates, to enable it to make investing and borrowing decisions. The group also determines when and whether to release wire transfers. The Treasurer oversees the group's decision-making. Within the group, the Director receives reports from the coordinator and the supervisor. The cash managers, in turn, report to the supervisor.

VI. Goal Attainment and Quantification

Departmental goals are measured against actual results using measurement standards established at the time goals are determined. All department goals are assessed using a standard corporate format. Performance evaluations are performed at least annually using a corporate tool.

Corporate Risk Management

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Sr Vice President & Treasurer
        │
Director, Corporate Risk Management
        │
    ┌───────────────┬───────────────┐
    │               │               │
Manager,        Manager,        Manager,
Corporate Risk   Claims         Risk Engineering
    │               │               │
┌───┴───┐    ┌──────┴──────┐    Engineer III
│       │    Supervisor, Claims      (2)
Sr. Corp     Richmond
Risk Analyst    │
   (4)      ┌───┴───┐
Corp Risk   Sr. Claims Agent
Analyst         (4)
   (1)      Claims Agent
Process Asst IV    (3)
   (1)      Process Asst. IV
                (1)
            Claims, Pittsburgh
            Sr. Claims Agent
                (1)
            Claims, Cleveland
            Sr. Claims Agent
                (1)
            Claims Agent
                (1)
            Assoc. Claims Agent
                (1)
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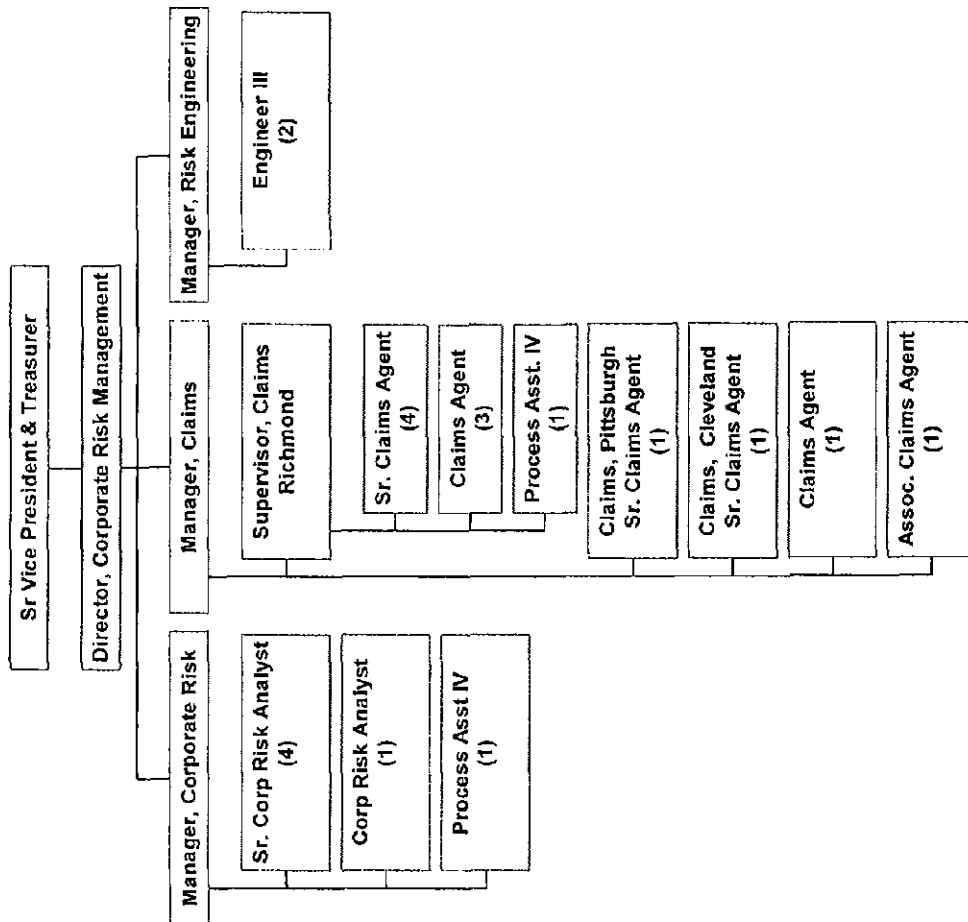
Functional Areas Reporting to

The Executive Vice President

External Affairs and

Corporate Communications

<p align="center">*   *   *</p>

<p align="center">External Affairs & Corporate Communications</p>

DOMINION EAST OHIO

SCHEDULE:	S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION
DEPARTMENT:	EXTERNAL AFFAIRS AND CORPORATE COMMUNICATIONS
FUNCTION(S):	(d)(v)

I.   Policy and Goal Setting / Strategic Planning

The Ohio External Affairs Department supports the company-wide policies established by senior management. Specific division goals are established by the Sr. Vice President of External Affairs & Corporate Communications, Vice President of State and Federal Affairs and the Vice President Corporate Communications and Community Affairs. The policies are communicated throughout the organization and incorporated into the annual performance management system. These policies and goals are further communicated throughout the department by way of face-to-face meetings, publications, and electronic communications.

The following areas directly support Dominion East Ohio – State and Local Affairs, Media Relations, Corporate Philanthropy and Community Affairs.

Strategic planning is usually done via retreats, staff meetings and conference calls with senior level managers. During these planning sessions past activities are reviewed and future plans developed for the business unit, and other areas supported by External Affairs. External Affairs reviews the company's upcoming activities and objectives, conducts an External Affairs needs assessment and develops a comprehensive communications plan to support the business objective. These objectives are then translated into action plans with performance and completion milestones. Individual performance goals are determined and communicated to individual department members.

II.   Internal and External Communication

Communication within and without the External Affairs Department is accomplished a number of ways.

Within the department, information is disseminated by way of face-to-face meetings and using electronic methods (such as e-mail, telephones, and facsimile). As the situation demands, both formal and informal communication methods are utilized. Within the company, the External Affairs Department frequently interacts with Customer Care, Operations, CIS, Rates and Regulatory Affairs. The department also uses news releases when appropriate to publish

information, and supports the Richmond-based Corporate Communications departments in development and dissemination of local company/industry news.

Externally, the External Affairs Department utilizes various communications vehicles to reach designated audiences including news releases, direct mail, electronic communications and face-to-face meetings.

III.   Organizational Structure

External Affairs & Corporate Communications comprises 13 employees: a Managing Director of State and Local Affairs, a Director of Media Relations, a Manager of State Affairs· four Local Affairs Managers, two Media Relations representatives, a Senior Philanthropy Coordinator, a Community Affairs Representative, and two Administrative Assistants. The majority of the Ohio External Affairs staff directly supports Dominion East Ohio.

IV.   Responsibilities

State and Local Government Affairs managers are the company's front line with key constituents, including state and local government officials, regulators, community and business leaders, environmental and safety agencies, and others. Duties include monitoring legislation and regulation, building coalitions for favorable initiatives, assisting in siting for company facilities, managing public forums, acting as local contacts for community affairs and corporate philanthropy programs, and resolving complaints.

The Media Relations team maintains the company's relationship with the news media at all levels, including national, trade, regional and local. The department also creates and disseminates a wide range of news releases and other corporate information, manages official company news channels, and responds to news media inquiries.

Corporate Philanthropy manages the charitable giving and leadership of campaigns that benefit non-profit organizations in communities where Dominion has customers, major facilities or business interests. The department also has a key role in making grant decisions that fill community needs and align with Dominion's business interests.

Community Affairs fosters a positive understanding of Dominion and the energy industry through community activities, programs and forums. It also administers important community service activities and promotes two-way communications between Dominion and key constituencies.

V.   Practices and Procedures

Dominion's Ohio External Affairs departments serve as liaisons to various external audiences. Company representatives maintain regular contact with their constituents through written correspondence, face-to-face meetings, participation

and involvement in industry and community-based organizations and monitoring a variety of local and national media for industry trends and practices. Corporate Philanthropy follows specific guidelines with respect to corporate contributions and Dominion Foundation grants.

VI.   Decision Making and Control

Daily decision-making in the Ohio External Affairs Department is typically made at the lowest feasible level, depending on the magnitude of the decision being made. Work is largely independent, especially when dealing with various constituents. For example, a company representative would simply handle a routine inquiry from an internal or external customer. However, development of statements on a corporate position or action is done in consultation with senior management and other relevant departments, but resolution of the issue is often left to the incumbent. Managers and directors monitor decisions and exercise supervisory authority as needed; however, directors ultimately are accountable to senior management, in particular the Sr. Vice President of External Affairs.

VII.   Goal Attainment and Quantification

To evaluate how well individual employees have carried out their duties, the External Affairs Department conducts annual, face-to-face performance reviews. Employees are evaluated on their performance goals and essential job related behaviors and expectations. Interim meetings are conducted with individual employees on an as-needed basis throughout the year. Monthly reports and project updates are also submitted to ascertain goal attainment.

Functional Areas Reporting to

The Senior Vice President, Law

* * *

Law Department

Environmental

DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION

DEPARTMENT: LAW DEPARTMENT

FUNCTION(S):   (e)(ii)

I.   Policy and Goal Setting / Strategic Planning

The Vice President and General Counsel articulates the strategic direction for the law area, which itself is set in conjunction with the direction set by the Board. Goals for the law department are set annually by the Senior Vice President and General Counsel. Input is given to the Senior Vice President and General Counsel by his practice group leaders, Human Resources, Six Sigma Manager and the Law Administration Manager.

II.   Internal and External Communication

Internal communications are disseminated via e-mail or through discussions at staff meetings. Opinions and advice is given to various areas of the company via e-mail, memoranda, and telephone conversations. Each group leader has group meetings, with the frequency varying between groups. The Gas LDC group has staff meetings every other week. Approximately twice per year, the Senior Vice President and General Counsel has a formal meeting with direct reports.

Communication occurs between Legal Department and most, if not all, of the other departments within the corporation from time to time as the need arises. More specifically, the Gas LDC group communicates most often with Customer Relations, Credit, Rates and Regulatory, Human Resources, Gas Supply, Operations, and Public Affairs.

The Department communicates externally with Federal Energy Regulatory Commission, the Commodity Futures Trading Commission, and the Public Utility Commissions of various states. Communication with these various groups sometimes occurs informally and verbally and at other times involves formal, legal filings.

III.   Organizational Structure

The Law Department rolls up through Dominion Resources Services, Inc. Full-time employees in Ohio include three full-time lawyers, one administrative assistant and 25% for Deputy General Counsel located in Pennsylvania. Ohio full-time employees include three Senior Counsel, one Administrative Assistant III, and one Deputy General Counsel.

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IV. Responsibilities

The Law Department is responsible for advising other entities within Dominion. Given the complexity and breadth of Dominion's business, this advice can be required in a wide variety of contexts. To name a couple examples, the Department must maintain familiarity with laws and regulations affecting procurement activities to enable it to advise the Supply Chain Management Organization. The Department also assists Credit and Collections with functions such as subpoena processing.

The Department also must determine when it is advisable to bring in outside counsel to assist the company. Outside counsel is utilized in various areas of expertise. Specific to DEO would be Labor and Employment, Regulatory, Litigation, Credit, and Bankruptcy.

V. Practices and Procedures

Along with generally applicable codes of conduct, ethical guidelines, and the like, the Department utilizes the attached Outside Counsel Guidelines.

VI. Decision Making and Control

The Law Department provides advice and counsel, and normally does not make decisions. Ultimately, the Business Units consider the advice of the Department and then make decisions. Within the Department, the Deputy General Counsel acts as a supervisor.

All Attorneys are governed by their state bar association ethical standards. Violations of such standards are reported to the bar association and an investigation is conducted by the bar. In addition, the Legal Department is subject to the same "compliance" monitoring as the rest of the corporation.

VII. Goal Attainment and Quantification

The nature of the Department's business makes it more difficult to quantify goals, but individual performance is of great importance to the Department. Each employee within the Law Department is evaluated by his or her direct supervisor at least once per year.

DOMINION LAW DEPARTMENT
120 Tredegar Street
Richmond, VA 23219

Law Department Contact List

- For general questions about the invoice process or the enclosed guidelines, please contact the following:

1) Troy Springer	Law Administration Manager	804-819-2305
2) Kim Croasdale	Legal Administrator	804-819-2147

- For specific questions about the matter you have been assigned, please contact the appropriate attorney listed below:

1) Thomas Allen	Assistant General Counsel	304-627-3332
2) Kristina Beard	Senior Counsel	804-787-5616
3) Karen Bell	Assistant General Counsel	804-819-2269
4) Rudolph Bumgardner, IV	Assistant General Counsel	804-819-2138
5) Sharon Burr	Assistant General Counsel	804-819-2171
6) Stephen Cargill	Senior Counsel	405-749-5248
7) Georgia Carter	Assistant General Counsel	804-819-2404
8) Cyril Coombs	Senior Counsel	804-819-2253
9) Donald Creach	Assistant General Counsel	804-819-2499
10) Lillian Cuoco	Senior Counsel	860-444-5316
11) Joyce Dailey	Senior Counsel	412-497-5668
12) Jean Demarr	Senior Counsel	216-736-6334
13) Duane Duclaux	Senior Counsel	804-787-5606
14) Mark Floyd	Senior Counsel	713-756-6300
15) Susan George	Deputy General Counsel	412-497-6891
16) John Harrison	Senior Counsel	405-749-5246
17) Timothy Jacquet	Assistant General Counsel	281-873-1634
18) Gary Jeffries	Senior Counsel	412-473-4129
19) Malcolm Johns	Deputy General Counsel	281-873-1505
20) Dennis Lane	Deputy General Counsel	804-787-5608
21) Paige Lester	Senior Counsel	804-819-2122
22) Melinda Lewis	Senior Counsel	804-819-2389
23) Vishwa Link	Senior Counsel	804-819-2458
24) George Marget	Assistant General Counsel	804-819-2272
25) Francine Mathews	Counsel	804-303-5489

26) Morenike Miles	Senior Counsel	804-819-2169
27) Mark Murray	Senior Counsel	804-819-2286
28) Jane Myers	Senior Counsel	304-627-3348
29) Jill Nadolink	Senior Counsel	804-819-2288
30) Cynthia Oakey	Counsel	804-819-2274
31) Horace Payne	Senior Counsel	412-497-6889
32) Margaret Peters	Senior Counsel	804-819-2277
33) Michael Regulinski	Assistant General Counsel	804-819-2794
34) William Roberts II	Senior Counsel	412-497-6825
35) Scott Robinson	Deputy General Counsel	804-819-2250
36) James L. Sanderlin	Senior Vice President	804-819-2103
37) Charles Scher	Senior Counsel	804-819-2262
38) John Sharer	Assistant General Counsel	804-819-2271
39) Mary Jo Sheeley	Senior Counsel	804-819-2819
40) Marisa Sifontes	Senior Counsel	804-819-2491
41) Margaret Sledge	Assistant General Counsel	281-873-1558
42) Gregory Staton	Senior Counsel	804-787-5607
43) James F. Stutts	Vice Pres. & General Counsel	804-819-2117
44) Pamela Walker	Deputy General Counsel	804-819-2270
45) Mark Webb	Deputy General Counsel	804-819-2140
46) Robert Westbrooks	Senior Counsel	216-736-6244
47) Jacqueline Wilson	Senior Counsel	304-627-3343
48) Michael Zontini	Senior Counsel	216-736-6242

Providing Legal Services

The Dominion Law Department engages outside counsel when we are confident in their abilities and when they have our trust. As lawyers, all of us know and feel the daily pressures of the practice of law, whether that practice resides inside our company or outside with you. We think those pressures are confronted best by a relationship of mutual respect and courtesy between inside and outside counsel. Our goal at Dominion is to provide the highest quality legal services at the lowest achievable cost. If we work

together within these guidelines, we will be successful in effectively representing our joint client.

We send these guidelines to you to accompany our letter confirming your representation of Dominion or as a periodic reminder for existing outside counsel. Although these guidelines will govern the relationship, we may have special arrangements with you that are different in some respects. If that is the case, our special conditions will apply.

Primary Firm Counsel

Dominion requires that each law firm assign a partner as the primary contact for Dominion as it relates to the business relationship (the Primary Firm Counsel). Dominion's expectation is that the Primary Firm Counsel will:

- Serve as Dominion's primary contact for the business relationship
- Negotiate fee structures
- Allocate firm resources to Dominion's benefit
- Promote the firm's investment in technology to support Dominion's initiatives
- Conduct performance reviews
- Focus on diversity issues within the law firm to support Dominion's goals
- Assist in the resolution of business issues

Primary Project Counsel

When the Dominion Law Department attorney responsible for a legal matter engages outside counsel, the Dominion attorney and Primary Firm Counsel will agree on the attorney in the firm who will have primary responsibility for the project (the Primary Project Counsel). Dominion's expectation is that the Primary Project Counsel will:

- Handle day-to-day project related tasks and challenges
- Provide an Initial Assessment for the engagement
- Manage the project plan and budget
- Ensure that communication responsibilities and expectations are achieved in all situations
- Discuss project staffing with Dominion counsel
- Ensure work product quality
- Utilize technology to Dominion's economic benefit
- Ensure that all work product is transmitted to Dominion

Client Communications

Dominion's Law Department manages and directs legal services for Dominion. Therefore, it is outside counsel's obligation to confirm the retention and scope of the assignment with the appropriate attorney within the Dominion Law Department. We

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recognize that it may be necessary at times for outside counsel to work directly with a Dominion business person. However, we expect such an arrangement to be pre-approved by the Dominion attorney and for the Dominion attorney to be kept informed of all developments. Unless such an arrangement is pre-approved, please contact the Dominion attorney for approval whenever Dominion business personnel request services directly of your firm. If you are not properly retained or work is not properly authorized for a matter, your firm will not be entitled to payment for services performed.

Conflicts

Before undertaking representation of Dominion, we expect that outside counsel will perform a thorough check for and fully disclose any conflicts of interest. In addition to client conflicts, Dominion also may consider it to be a conflict of interest where outside counsel is advancing (or is considering advancing) a material legal issue that is adverse to Dominion's interests. Dominion requests full disclosure of representation of competitors, adverse issues, state or federal regulatory boards and agencies.

Efficiency

Because we are confident in your abilities, we do not wish to become involved in your day-to-day management decisions regarding the representation. However, we ask that you remain aware of our concerns about efficiency. Outside counsel should strive to develop staff that is familiar with relevant issues and situations that affect Dominion. We expect appropriate level associates to prepare initial drafts of documents and for you to make reasonable staffing decisions. We understand that it may be necessary from time to time for you to replace an attorney on a given matter. However, we would not expect to be billed for the time required for the replacement attorney to acquire the same level of knowledge about the particular matter as the original attorney. Continuity in staffing will enable you to provide services more efficiently.

Nothing disturbs a business person more than the appearance at meetings or other events of more lawyers than seem necessary. We expect the attendance at meetings of only those lawyers who are there to provide legal advice or whose presence is necessary to gain information that is crucial to the representation. Clearly that is a judgment call on your part, but if you foresee the need to have more lawyers present at a meeting than we may reasonably expect, please discuss that beforehand with the Dominion lawyer who is managing the matter.

Diversity

Dominion is committed to diversity in the workplace. Our companies conduct business in many parts of the United States, and we value the perspectives and varied experiences that are found only in a diverse workplace. We recognize that diversity makes for a broader, richer environment that produces more creative thinking and solutions. Thus, we believe that promoting diversity is essential to the success of our respective businesses. We expect the law firms that represent our companies to work actively to

promote diversity within their workplaces. We will look favorably upon the efforts of current and prospective outside counsel who promote this objective.

Budgeting: Strategic Planning

In all matters in which your firm will be representing Dominion, we ask that you work with the Dominion attorney to prepare a strategic plan and budget forecast. We provide budget estimates to our business clients, and they rely upon them in making business decisions.

The forecasts are best understood when the matter can be divided into component parts with a budgeted amount for each. We recognize that budget estimates are just that, but we want you to contact the Dominion attorney who is managing the matter if at any time you foresee a substantial budget overrun. Attachment 1 is a format that you may use, although you are not required to use this form if others may be more useful.

We ask that the budget be updated as developments require and as the Dominion attorney may request. At a minimum, we ask that your firm provide us with a written report on any updated budgets semi-annually in instances where legal fees and expenses are forecasted to exceed $25,000 during the course of representation, and quarterly where legal fees and expenses are forecasted to exceed $50,000 during the course of the representation. In addition, from time to time, for Dominion's internal budgeting purposes, the Dominion attorney may request an update of projected billings and expenses for one or more matters for the remainder of the year.

Legal Fees

We will discuss with you the hourly rates of each attorney and paralegal assigned to Dominion matters before your firm provides services to Dominion. When billed hourly, we will pay for services on a "time and charges" basis, with overhead included in the hourly rate. We ask that you prepare annually a proposed schedule of rates for all timekeepers if you expect to have any changes from the previous year. We also ask that these proposals be submitted 30-60 days in advance of any anticipated change in rates so that we may have sufficient time to discuss these changes and reach an agreement as to the rates for the upcoming year.

Expenses

Dominion will pay for certain expenses that are not included in the overhead that is part of your hourly rate. **Dominion requires that these expenses be billed without surcharge or other mark-up; only actual expenses incurred will be reimbursed.**

- Photocopy: Dominion's internal copying costs are in the range of $.05 per page. We would expect outside counsel per page costs to be in that range as well.
- Outside Printing: Actual cost only with name of vendor, date ordered and description of item(s) printed.
- Computer Research: Not all of our outside counsel charge for computer research, viewing the cost as overhead akin to the costs of maintaining a library. However, if your firm has a fixed policy to charge all clients for computer research then Dominion will pay the actual costs per search or minute. All work product resulting from the research must be provided to Dominion. If your firm has a flat rate arrangement with the legal research vendor, we expect Dominion's rate per minute of the flat fee to be based on a fair apportionment across all clients.
- Courier/Messenger/Delivery Services: Actual charges broken down by cost per shipment (hand delivery and express courier services only when specifically requested by Dominion).
- Fax Charges: Actual cost for the local or long distance phone time.
- Long-distance Telephone Calls: Actual charges excluding overhead adjustment or premium.

Travel

Dominion will pay for coach airfare, quality hotels and reasonable meals for those of your attorneys traveling for Dominion. Any other arrangements must be pre-approved. Your firm's use of a business travel service to obtain reduced coach fares is encouraged and appreciated. Attorney travel time is billable only when the attorney is performing work for Dominion during travel time, or the travel time prevents the attorney from putting in a regular billable work day on behalf of Dominion or another client. Travel time on weekends or holidays is billable as if a regular workday. Alternatives to travel, such as conference calls or video-conferencing, should be considered whenever possible.

As discussed above, we expect that your firm's rates have been calculated to include all overhead and internal charges associated with your firm's practice. Accordingly, Dominion will not pay for the following costs:

- Time expended in replacement or training of attorneys.
- Billing entries for work performed prior to the date range of the invoice.
- Absent unusual circumstances, secretarial and paralegal overtime.
- Attorney administrative time for docket control, filing or scheduling of travel arrangements.
- Secretarial or clerical tasks, including those performed by paralegals, but not limited to, scheduling meetings, or depositions, proofreading, delivering documents, creating files, collating, copying, filing, or making travel arrangements.
- Preparing/reviewing of invoices or creating budgets.

- Reviewing professional journals, industry publications or attending seminars.
- Office supplies, including binders, folders, covers, etc., unless the Dominion attorney pre-approved the purchase of such supplies.
- Postage.
- Word Processing.
- Entertainment expenses and other personal items purchased or fees incurred while traveling, such as travel insurance, shoe shines, movies, liquor, or hotel honor bar charges. Laundry service expenses are only permitted for trips consisting of five or more consecutive days.
- IT support, systems or software.
- "Other Charges" or items billed simply as "Other" or "Miscellaneous".

Billing

When opening a new matter, the Dominion attorney managing the matter will provide you with the information that you will need to include on your invoice. We track the costs of every matter, so it is very important that your accounting department follow our billing format. Attachment 2 is our Short-Form Guidelines setting forth the information we require on your invoices. **Invoices failing to comply with these guidelines will not be accepted.**

The Dominion attorney managing a given matter is also responsible for receiving and approving all legal invoices. Invoices must be submitted on a monthly basis, and a separate invoice must be submitted for each matter. Quarterly invoices are preferred if the average monthly charges (fees and expenses) for the quarter will be less than $1,000. For a matter performed on a flat-fee basis, the invoice should be submitted upon completion of the matter.

We ask that you provide a detailed description of the services provided each day during the billing period, with the names of each professional providing services, a breakdown of the time spent by each such professional and the hourly rate charged by each such professional. Please note that we now require, in addition to the names and hours associated with a given invoice, you to supply with each invoice a cumulative listing of all timekeepers who have worked on a given matter and their respective cumulative time.

Dominion requires specificity in billing descriptions. General descriptions such as "review of file," "meeting preparation," or "research" are not acceptable. Similarly, any correspondence, pleading or other document that is prepared or reviewed must be specifically identified and described. If a timekeeper has prepared a research or strategic memorandum, the memorandum should be provided to the Dominion managing attorney.

Audit and Periodic Review

The Dominion Law Department reserves the right to conduct audits of outside counsel legal bills. Audits may include examination of timesheets, expense reports, original receipts and work product in connection with any outside counsel invoices. In addition,

your firm may be called upon periodically to prepare reports to Dominion outside auditors.

The Dominion Law Department may evaluate its outside counsel periodically for quality of service, efficiency and adherence to Dominion's Guidelines for Outside Counsel. Dominion reserves the right to terminate outside counsel's representation at any time without notice. Dominion recognizes outside counsel's right to terminate the representation of Dominion at any time, provided that Dominion has a reasonable amount of time to secure alternate representation such that Dominion suffers no legal detriment from the termination.

Upon the Dominion Law Department's written request at the termination of an engagement, the outside firm will deliver to Dominion the contents of the entire file involving the engagement, without charge except for the actual, necessarily incurred costs of mailing or similar delivery. The "entire file" includes, without limitation, all notes, work product, research memoranda, billing records and supporting schedules, and internal notes, memoranda or other documents concerning the outside firm's evaluation of Dominion or of any of its representatives. The outside firm shall have the right to retain a copy of the entire file, but shall do so at its sole expense.

Third-Party Professional Services

Because needed expertise may be found in-house or the Dominion Law Department may have a preferred resource, any retention of experts or consultants must be pre-approved. In addition, outside counsel should coordinate with Dominion to determine whether Dominion may have a supplier relationship in place before engaging third-party suppliers such as transcription service providers, bulk photocopying, etc.

Settlement Authority

The decision to try, settle or appeal a case rests solely with the Dominion Law Department in consultation with the appropriate business persons. Under no circumstances should the firm agree to settle a case on Dominion's behalf, or release any substantial right, or otherwise commit Dominion on any issue without the Dominion Law Department's approval. When the firm has been authorized to engage in settlement discussions or other negotiations, Dominion counsel shall be fully and timely advised of the status of such discussions.

Media Relations

No firm is authorized to comment publicly on Dominion matters. All media inquiries should be directed to Dominion.

Closing Remarks

A successful relationship between your firm and Dominion depends not only on the quality of the services provided and the results achieved, but also on your firm's productivity, efficiency and cost control. We ask that you work with us in achieving these goals, and we look forward to a mutually beneficial relationship.

The Dominion Law Department is a steward of the Company's reputation in business, government affairs and in the local communities it serves. Outside counsel is a visible and trusted element in this representation. A shared appreciation of this critical relationship is the foundation of an enduring business partnership.

Attachment 1
MATTER BUDGETING TEMPLATE

Date: _____

Dominion's Matter Name: _____

Dominion's Matter No: **Legal.**_____

Dominion's In-House Counsel: _____

Outside Counsel: _____

A. Matter Background:
This section should contain a brief statement of the matter's facts and its procedural status.

B. Forecasting:
Here we seek your professional opinion of the probable disposition of this matter. We would like your assessment of the likelihood this matter will proceed as far as the phase in question. In other words, with respect to each of these phases, what is the likelihood the case will not have settled or been otherwise disposed of by the time that phase arises? For example, if you think there is no chance of settlement before trial, but a 50% chance of winning on an early dispositive motion (e.g., a 12(b)(6) motion), the likelihood of proceeding to written discovery and depositions would be 50%. If you believe there is another 50% chance of winning a late motion (most likely a post-discovery motion for summary judgment), and there is still no likelihood of settlement, the chance the matter will proceed to trial becomes 25%.

> *For example:*

Phase	Probability of Reaching
Pre-Litigation	100%
Pleadings	70%
Early Motions	70%
Fact Discovery	50%
Retain Experts	50%
Depositions	40%
Pre-Trial Motions	40%
Trial Preparation	10%
Trial	5%
Appeal	3%

C. Time and Cost Estimates:

This section should detail your cost estimate of the resources required and the time frame for which those resources will be needed. If you believe these costs will be spread out over more than one calendar year, please estimate the costs per year. A narrative of the activities you believe will take place in chronological order would be helpful. As well, any major cost assumptions (e.g. expert witness fees, # of depositions and cost per deposition) should be noted.

For example:

Attorney Name	Title	Rate
Timekeeper #1	Partner	$400
Timekeeper #2	Partner	$400
Timekeeper #3	Associate	$250
Timekeeper #4	Paralegal	$125

Phase	HOURS NEEDED		
	Partner	Associate	Paralegal
Pre-Litigation	70	40	10
Pleadings	40	25	6
Early Motions	10	8	2
Fact Discovery	12	10	8
Depositions	15	12	10
Pre-Trial Motions	15	13	6
Work With Experts	4	3	1
Trial Preparation	20	15	9
Trial	25	20	10
Appeal	15	12	5
TOTAL HOURS - est.	226	158	67
TOTAL COST - est.	$90,400	$39,500	$8,375

Total Estimate for Professional Services	*$138,275*
Total Estimate for Experts	*$25,000*
Total Estimate for Depositions	*$35,000 (5 depositions, $7,000 each)*
Total Estimate for Ancillary Charges	*$1,500*
Grand Total	*$199,775*

D. Major Cost Assumptions (list as appropriate)

1. Document Production / Review
2. Numbers of Witness and Expert Depositions
3. Etc.

(This estimate covers the time frame of October 1, 2006 through March 31, 2007)

[PLEASE NOTE: THIS IS AN EXAMPLE OF A LITIGATION MATTER, BUT THE STRUCTURE AND INFORMATION APPLIES EQUALLY TO ALL MATTER TYPES.]

Attachment 2
INVOICE GUIDELINES FOR OUTSIDE COUNSEL

The Law Department within Dominion Resources Services, Inc. has established procedures for processing outside counsel invoices. These procedures enable us to keep track of outside legal fees and to ensure efficient processing and timely payment of invoices.

We need your cooperation in adhering to the guidelines that are set forth below. Regrettably, invoices that do not meet the guidelines will be rejected.

Attached is a sample of our preferred form of an outside counsel invoice. It is fairly standard. What is especially important is that each matter is separately invoiced, i.e., we will not accept multi-matter invoices. In addition, Dominion requires specificity in billing descriptions. General descriptions such as "review of file", "meeting preparation", or "research" are not acceptable. The guidelines follow:

1. **Address** – Unless instructed otherwise, all invoices will be mailed to:

    Dominion Resources Services, Inc.
    Accounts Payable Department
    P. O. Box 25459
    Richmond, Virginia 23260-5459
    Attn: Law Department

    If you prefer to e-mail a TIF or PDF file, please use the following e-mail address: AP_Invoices_Legal@dom.com

2. **Required Coding** – Each invoice must provide the following clearly displayed on the first page of the invoice:

    (a) Matter Title (which must be identical to Dominion's matter title)
    (b) Dominion In-House Attorney
    (c) Dominion's Matter Number – This should be obtained from the in-house Attorney

3. **Invoice Information** – Each invoice must provide the following:

    (a) Invoice Date
    (b) Invoice Number
    (c) Bill-Through Date

4. **Services** - Daily time entries must be outlined as follows:

    (a) Date
    (b) Timekeeper Name
    (c) Hours (preferably in increments of six-tenths of an hour)
    (d) Dollar Amount for the Time Entry (in U.S. currency)
    (e) Description

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5.   **Costs** – A list of costs should immediately follow the outline for the services relating to that matter.

      (a)   Soft Costs (i.e., copies, faxes, long-distance) must be summarized as separate line items.

      (b)   Hard Costs (i.e., out-of-pocket expenses for court reporter fees, court costs, travel expenses) must be itemized and fully described.

      (c)   Total Dollar Amount for Costs

6.   **Grand Total** – A grand total of fees and costs must be provided.

7.   **Summary of Timekeepers** – A listing of timekeepers, their classification (Partner, Associate etc.) and their respective hours, hourly rates and amounts must be provided. The listing is to include all timekeepers who have provided services since that matter was opened.

8.   **Your Firm's Federal Tax I.D. Number** – Your Federal Tax. I.D. Number must appear in an obvious area near your letterhead.

By following these guidelines we can effectively manage the financial aspect of our engagement. If you have any questions about these guidelines, or foresee any problems in implementing them in a particular situation, please contact our Legal Administrator, Kim Croasdale, at (804) 819-2147 or our Law Administration Manager, Troy Springer, at (804) 819-2305.

OUTSIDE COUNSEL LAW FIRM

**1234 Main Street
City, State, Zip
Telephone Numbers
Tax I.D. No. XX-XXXXXXX**

Dominion Resources Services, Inc.   September 1, 2006
Accounts Payable Department   Invoice No. 23456
P. O. Box 25459
Richmond, VA 23260-5459
Attn: Law Department

For Professional Services Rendered through August 30, 2006, in connection with the following:

Dominion's Matter Name: Jones v. Smith
Dominion's Matter No: Legal.C12345
Responsible Attorney: James F. Stutts

Date	*Timekeeper*	*Hours*	*Amount*	*Description*
8/6/06	L. Johnson	.3	$105	Review of letter from J. Stutts regarding evaluation of matter; preparation of letter responding thereto
8/14/06	K. Smith	7.2	$1,440	Travel to and from client's office (6 hrs.); preparation of schedule of discovery documents
8/22/06	L. Johnson	.7	$245	Revise schedule of discovery documents

Total for Professional Services*   *$1,790

Other Charges

Photocopy	$10
Messenger / Courier	$50
(2 hand deliveries per request from J. Stutts, $25 each)	
Research	$25
Long Distance Telephone	$10

Total for Other Charges*   *$95

TOTAL CURRENT INVOICE*   *$1,885

TIMEKEEPER SUMMARY – THIS INVOICE

Timekeeper	*Title*	*Rate*	*Hours*	*Amount*
L. Johnson	Partner	$350	1	$350
K. Smith	Associate	$200	7.2	$1,440
			Total All Timekeepers	*$1,790*

TIMEKEEPER SUMMARY – ALL INVOICES

Timekeeper	*Title*	*Rate*	*Hours*	*Amount*
L. Johnson	Partner	$350	9	$3,150
K. Smith	Associate	$200	10	$2,000
T. Roberts	Paralegal	$125	6	$750
			Total All Timekeepers	*$5,900*

CUMULATIVE SUMMARY

	Fees	*Costs*	*Total*	*Total Budget*	*Variance*
Year-to-date	$3,000	$450	$3,450		
Life-to-date	$5,900	$1,050	$6,950	$10,000	$3,050

LAW DEPARTMENT TOTALS BY JOB TITLE (As of 4/27/07)	
JOB TITLE	*TOTALS*
COUNSEL	
Sr. Vice President - Law	1
Sr. Vice President & General Counsel	1
Deputy General Counsel	6
Assistant General Counsel	11
Sr. Counsel	27
Counsel (two are part-time)	3
TOTAL	49
PARALEGAL	
Paralegal I (1 is part-time)	4
Paralegal II (1 is part-time)	5
Legal Specialist	3
TOTAL	12
EXECUTIVE / ADMINISTRATIVE ASSISTANTS	
Executive Assistant I	2
Administrative Assistants III	16
TOTAL	18
OTHER	
Ethics & Compliance Specialist	2
Ethics Program Coordinator	1
Law Administration Manager	1
Legal Administrator	1
TOTAL	5
GRAND TOTAL	*84*

DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND
ORGANIZATION

DEPARTMENT: ENVIRONMENTAL

FUNCTION(S):   (a)(x)

I.   Policy and Goal Setting / Strategic Planning

Under the leadership of the Vice President & Chief Environmental officer, Dominion Environmental Services (DES) establishes goals and objectives each year for environmental matters. They are in alignment with corporate goals and initiatives established by the Board, the Chief Executive Officer, and other business unit upper management. These goals are established and reviewed annually, and communicated via email and staff meetings. Policies and procedures are established to support compliance with all applicable environmental laws, regulations and requirements. Gas Environmental Services (GES), the part of DES that provides environmental support to Dominion East Ohio (DEO), communicates to DEO management the goals, policies, and procedures that are relevant to DEO. Management at DEO is responsible for determining facility specific or operation specific goals, where appropriate, to align with business objectives. Their local management is responsible for implementing processes to achieve these goals, with GES's support.

The development of annual goals is based on key performance indicators to set priorities. These include legal and other requirements, significant environmental issues, technological improvements, financial, operational, and business requirements, as well as past historical performance.

II.   Internal and External Communications

DES is responsible for communicating environmental policies, expectations, regulatory requirements, impact assessments and compliance guidance to all company business units and employees. This is accomplished through a variety of means.

Monthly environmental operational and performance briefing updates are conducted with senior-level management to address ongoing environmental issues, requirements and performance.

Twice per month, an Environmental Activities report summarizing key legislative or regulatory developments, compliance issues and other environmental issues of interest is provided electronically to management.

DES maintains an internal intranet website, which contains all pertinent environmental compliance and guidance documents. This is also used to provide updates on key environmental issues of interest to the company.

DES Policy staff tracks, reviews and is responsible for the coordination of internal impact assessments of all proposed and final environmental regulations and legislation. A Lotus-Notes based program is used to notify responsible staff of new regulations with potential impact on the Company. Regulation summaries are prepared for proposed and final rules and legislation and are used to communicate potential and actual impacts and issues of concern to company operations. These summaries communicate environmental regulatory requirements that will be needed in developing company compliance strategies and plans.

DES also coordinates and supports company projects and business development initiatives. This support involves evaluating and communicating environmental permitting requirements and due diligence activities with DEO staff.

DES prepares and maintains environmental compliance plans, guidance documents, environmental compliance manuals, and incident reporting procedures. These are used internally to communicate specific environmental requirements and compliance measures and practices associated with facility compliance. An online database system is used to ensure compliance with on-going environmental requirements.

DES serves as the official contact with environmental regulatory agencies at the federal, state and local levels for purposes of compliance reporting; compliance issue resolution; permitting issues; communication; and negotiation of company positions on environmental issues. Agency communications occur via phone, e-mail, written submissions and comments, public hearings, or face-to-face meetings. DES staff actively engages with external stakeholders through various industry and business organizations, as well as ad-hoc technical advisory groups at the national, regional and state level.

DES provides direct support to Corporate External Affairs to communicate company policies in the legislative arena, through development of talking points, position papers, and briefing materials.

Any and all media inquiries (radio, television reporters, newspaper, magazine or trade publication journalists) are referred directly to Corporate Communications. DES provides support to Corporate Communications staff where needed in responding to various media inquiries and any environmental-related media events.

DES, with the assistance of Corporate Communications and the Information Technology Department, maintains an on-line environmental report

to communicate Company environmental policies and performance to external stakeholders on the Company's public Internet site.

III.   Organizational Structure

Environmental compliance support for DEO is provided by the Gas Environmental Services (GES) group, which is part of the DES organization that rolls up to the Dominion Resources Services Business Unit.

GES has 20 full time employees. Those with a particular focus on DEO include one Environmental Manager, one Environmental Specialist and one Senior Environmental Compliance Coordinator. Additionally, one Manager of Environmental Policy, one Manager of Oil Programs, one Engineer III and one Environmental Specialist II provides part-time support to DEO. These employees are not part of the GES group, but are part of the DES corporate organization. These employees are located at Cleveland; Clarksburg, West Virginia; and Richmond, Virginia.

IV.   Responsibilities

The environmental program at Dominion starts with top management's expectation that it is every employee's responsibility to carry out Dominion's environmental policies and programs while maintaining a primary focus on achieving full compliance with all environmental requirements.

The management team and employees of Dominion's four primary operating segments (Dominion Generation, Dominion Energy, Dominion Delivery and Dominion Exploration & Production) carry the primary environmental compliance and compliance planning responsibility. Ultimately, DEO facility operations have "first-line" environmental compliance responsibility with environmental professionals directly supporting them in maintaining and improving environmental compliance and processes.

The corporate environmental staff of Dominion Environmental Services (DES), led by the Vice President & Chief Environmental Officer, ensures environmental requirements are fully communicated to operations and ensures the assistance to operations in planning for any future environmental requirements. Corporate environmental staff is involved with monitoring, shaping, analyzing and reporting regulatory developments. In support of DEO, corporate environmental staff in Gas Environmental Services (GES) provides a wide range of services including obtaining permits and licenses for construction and operations, technical assistance during construction, waste reporting and tracking, cost effective remediation coordination, environmental risk assessment, advice on real estate purchases and sales, and environmental emergency response (spills, etc.) support. Other corporate groups, including Legal Services, External Affairs and Audit Services, provide environmental support to operations in their respective areas.

V. Practices and Procedures

In addition to complying with all applicable environmental laws and regulations, we do the following:

- Make environmental concerns an integral part of the planning and decision-making process and commit sufficient resources to implement effective environmental programs.

- Practice sound environmental stewardship of all company-owned facilities and properties and all natural resources under management.

- Educate employees to be accountable for environmental stewardship and encourage them to seek innovative ways to improve the environmental safety of operations.

- Minimize, mitigate or restore any adverse environmental impacts caused by operations.

- Maintain open channels of communication with employees, government agencies, public officials, the media and the public to meet their information needs in regard to energy and environmental issues.

- Participate with government agencies and others in framing responsible laws, regulations and standards affecting the community, the workplace and the environment.

- Promote the efficient use of energy resources through cost-effective conservation and energy management programs.

- Ensure the proper handling and disposal of all wastes, and minimize their creation while pursuing opportunities to recycle and reuse waste materials.

- Support research and development of programs and technologies aimed at minimizing the environmental impacts of company operations.

- Evaluate environmental performance through periodic reviews and audits to ensure that conduct is consistent with these principles.

Dominion's Corporate Environmental Policy sets the overarching, broad standard by which the Company will conduct its operations. Because of the diversity of specific business processes (electricity generation, electric and gas transmission, distribution and retail operations, natural gas production, nuclear power generation, exploration & production, etc.) the specific procedures by which the Company complies with applicable legal requirements are generally found at the subsidiary level. However, the environmental aspects of certain business processes identified as common throughout Dominion's business are

addressed through Environmental guidance common to the Company. These environmental guidance documents are found at Dominion's Environmental intranet web site and constitute the procedures to be followed by all Company operations in the conduct of their business. Dominion's business subsidiaries utilize standard operating procedures to further address environmental requirements. DEO specifically incorporates Environmental Standard Operating Practices that are developed for Dominion's Gas Operations.

VI. Decision Making and Control

The corporate environmental staff of DES, led by the Vice President & Chief Environmental Officer, ensures environmental requirements are fully communicated to operations and ensures assistance to operations in planning for any future environmental requirements. Corporate environmental management and staff also are involved with monitoring, shaping, analyzing and reporting regulatory developments. GES staff and the GES Manager are actively involved in direct environmental operations support and are augmented by operational staff in the operating groups that provide environmental support in many key areas. Operations have the ultimate compliance decision-making responsibility, with some routine decisions delegated to GES staff. Other corporate groups, including Legal Services, External Affairs and Audit Services, provide environmental support to operations in their respective areas. DES provides the interface with environmental regulatory agencies at the federal, state and local levels on all aspects of environmental issues with the environmental regulatory agencies providing an additional check and balance on the company's environmental programs.

The primary agencies establishing environmental compliance and reporting requirements are the Ohio EPA, Ohio Power Siting Board, State and Local Emergency Response Commission, Ohio Department of Natural Resources, the PUCO, Ohio Historic Preservation Office, U.S. Fish and Wildlife (Ohio Branch), and local agencies. Additional regulatory oversight and coordination are provided by the U.S. EPA (Region 5) and the Army Corps of Engineers.

VII. Goal Attainment and Quantification

Goals are established for environmental matters and are measured, communicated and understood throughout each business unit. Goals are established by the business units, with input from Dominion Environmental, to align with business unit objectives, where appropriate.

Local and Business Unit management are responsible for determining facility specific or operation specific goals, where appropriate, to align with business objectives. Local management is also responsible for implementing processes to achieve goals.

The following key performance indicators are considered to set priorities when establishing goals:

1. Legal and other requirements;
2. Significant environmental issues;
3. Technological options;
4. Financial, operational and business requirements;
5. Stakeholder views;
6. Consistency with environmental policy

Goal performance is reviewed annually by DES and DEO management.

Functional Areas Reporting to
The Senior Vice President, Regulation

*   *   *

Rates & Tariffs

DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION

DEPARTMENT: RATES AND TARIFFS

FUNCTION(S):   (c)(i)-(v)

I.   Management of Rate Related Operations/Rate Reform Projects

The primary objective of DEO's rate related operations and rate reform projects is to develop and gain Public Utilities Commission of Ohio ("PUCO") and, if applicable, Federal Energy Regulatory Commission ("FERC") approval for just and reasonable rates and appropriate terms and conditions of service that comply with all applicable legal and regulatory requirements; yield a sufficient return on rate base; recognize customer class requirements and costs of service; and enable the company to provide cost-effective utility service to its customers. The process and procedures for achieving those objectives can best be described as a stakeholder process involving both internal and external parties affected by the company's rate related operations.

The internal stakeholder process involves communication with other departments that may be affected by a particular rate initiative. For example, the Pricing and Regulatory Affairs department ("Department") worked extensively with Call Center, Delivery Operations, Credit, Information Systems and Customer Relations personnel, among others, in developing the company's response to the PUCO's recently issued Minimum Gas Service Standards. In another matter, the Department worked cooperatively with LDC Gas Supply, Dispatch, Storage and Transmission Operations, and Accounting personnel, among others, in developing the company's proposed Phase 1 process to exit the traditional regulated GCR commodity sales function. The Department also consults with inside and outside legal counsel and, on occasion, consultants as it develops the details of proposals and/or responses to regulatory proceedings. By considering the range of internal stakeholder interests prior to making a formal or informal proposal to external stakeholders, DEO is able to set forth a comprehensive approach to the initiative.

The external stakeholder process involves communication with outside parties that may be affected by the rate related operation or rate reform project. The communication process inevitably includes PUCO Staff, as well as other outside interests depending on the operation or project. For example, the Department typically discusses issues related to interstate pipeline capacity recontracting with both the PUCO Staff and the Ohio Consumers' Counsel ("OCC") due to the impact that such decisions have on sales customers. In other matters, such as the stakeholder process established for the aforementioned Phase 1 effort, DEO reaches out to a much wider range of interests that include Staff, OCC, other consumer advocates, wholesale and retail gas suppliers/marketers and industrial customers. Given the diverse interests to

be considered, there are often instances where no consensus position emerges from the stakeholder group. In such cases, DEO will consider the various positions taken by the parties in developing a proposed approach that is consistent with the rate related objectives set forth above.

While the organizational structure of the Department is quite compact, the resources available to the department are wide-ranging and extensive. DEO's Director, Pricing and Regulatory Affairs, reports to the Vice President, Gas Regulation, who is responsible for the regulatory affairs of Dominion's three gas LDCs. That Vice President reports to the Senior Vice President, Regulation, who in turn reports to the Chairman, President and CEO of Dominion. Reporting to the Director position is a Manager, Pricing and Regulatory Affairs, who has a Regulatory Pricing Analyst reporting to her. The Department has ready access to considerable resources in virtually every area of Dominion, whether it resides in Customer Service, Gas Operations or any of the many functional areas that report through the Service Company, which include Accounting, Treasury, Information Systems and Legal, to name a few.

II.   Rate Program Analytical Process

DEO also relies on the internal stakeholder process described above to analyze various aspects of its rate program efforts. That approach enables the company to take advantage of subject matter experts in a wide range of areas and avoid the duplication of resources that would be entailed in staffing its Pricing and Regulatory Affairs area with the requisite expertise. The Department works closely with other areas on a one-on-one basis as well as in meetings in which a multitude of disciplines are represented.

The Department coordinates its efforts with other areas involved in Planning by providing input into the planning process, assessing the regulatory implications of Planning initiatives and supporting approved programs as required. In turn, personnel engaged in the Planning process support DEO's rate program by providing overall direction and context for regulatory initiatives and ensuring that they are coordinated with other efforts that may affect, or be affected by, rate operations in some manner. As certain regulatory issues arise, such as the Minimum Gas Service Standards, the Department coordinates its response with Gas Delivery Operations in order to evaluate Operating impacts. On many occasions, Gas Delivery Operations supports the adequacy of DEO's rate program and related projects by assigning a single point person that is assigned to gather and coordinate Gas Delivery Operations' input, recommendations and responses to the issue under review.

Cost and Benefit Analysis is a critical step in assessing alternative rate programs and the advisability of specific projects. Affected functional areas often assign a budget coordinator or analyst to gather information on the capital, labor and other costs that may be affected by a particular initiative. Those efforts often include a so-called gap analysis in which a current state is compared to the projected or desired state in order to determine what resources may be needed to move the company toward its objectives. Those incremental costs are typically compared to anticipated benefits,

which could be financial in nature or simply result in the company being in compliance with a new regulation. When financial in nature, the Cost-Benefit Analysis often takes a discounted cash flow approach to determine the net present value of a particular course of action under various scenarios. When non-financial in nature, the analysis often evaluates the time and resources needed to achieve compliance with, for example, newly enacted Ohio Revised Code or Ohio Administrative Code requirements. Central to that analysis is the company's Data Collection effort. Given the wide range of issues addressed by the company's rate programs, Data Collection involves an equally wide range of quantitative and qualitative information obtained from internal and external parties to support fact-based decision-making. Those Data Collection and Cost and Benefit Analyses, which are also the pillars of Dominion's Six Sigma program, support DEO's rate program by ensuring that investments and initiatives are consistent with providing cost-effective utility service and achieving just and reasonable rates of return on rate base investments.

In considering alternative rate program approaches, the company performs Risk Assessments that take into consideration operational, financial and related implementation risks. As an example of operational risk, DEO had to consider the risk to commodity service reliability related to its role as the provider of last resort as it sought to exit the merchant function. In another matter, the company had to assess the credit risk of individual suppliers participating in its Energy Choice program in the context of House Bill No. 9, which set forth minimum service standards for suppliers participating in such programs. In yet another instance, Dominion's Information Systems area had to consider the implementation risks associated with a number of billing system programming changes required by Minimum Gas Service Standards. Those Risk Assessments, which are performed by different areas depending on the impact of a particular program, contribute to the adequacy of DEO's rate program by assessing resource and time constraints, developing contingency plans and generating awareness of potential pitfalls as the company considers various courses of action.

The company views Revenue and Earnings Stability as a goal or outcome, rather than a discrete task. The areas above are the major drivers of DEO's ability to achieve that goal or outcome for its jurisdictional operations. If the preceding activities are performed well, they will support capital investments, operating expenditures, and rate programs that promote adequate and stable base rate revenue and jurisdictional earnings. In other words, the outcome of DEO's Planning, Operating Impact Evaluation, Cost and Benefit Analysis, Data Collection and Risk Assessment activities determine whether the company will achieve the Revenue and Earnings Stability that is a desired result of its rate related operations and rate reform projects.

III. Implementation Management

The implementation management process for rate reform projects utilizes the stakeholder process described above, albeit with an emphasis on execution rather than planning. DEO management recognizes that well-laid plans and accurate analyses must be combined with proper execution in order to be successful. As a result, the same groups and individuals that participate in the planning and analysis phases of a

project are often involved with its implementation under the same project manager and executive sponsor. Appointing an entirely different group to implement a rate reform project could jeopardize execution if it were not well acquainted with the developmental effort. Such a hand-off could also make it difficult to track down process failures because no single area or individual is accountable from start to finish. By contrast, DEO's implementation management for rate reform projects provides continuity as well as accountability. Effective project execution also relies on effectively communicating project status to management and team members through conference calls, e-mail updates and informal ad hoc discussions as needed. In addition to assigning the right people to the implementation phase, the company's performance management process, which includes establishing and reviewing performance expectations, ensures that proper direction and feedback is provided to individuals on the team.

Although the Department is involved with a number of rate reform projects at any given time, its most recent efforts involve the following:

Merchant Function Exit – In 2006, DEO began Phase 1 of its plan to exit the traditional GCR commodity service function. Phase 1, which involved a transition to Standard Service Offer commodity service through a descending clock auction for wholesale gas supplies, is expected to last until August 2008. If approved, Phase 2, which is currently in design and is likely to involve a similar auction for retail customers, will begin in September 2008 and last through March 2010 after which DEO may request approval to permanently place all eligible customers into a direct retail relationship with Energy Choice suppliers. This project is intended to meet the rate program objective related to the provision of cost-effective utility service to its customers by improving the competitive market for natural gas commodity service.

Minimum Gas Service Standards – In 2006, the PUCO approved Minimum Gas Service Standards that address such areas as meter reading, call center performance and credit practices applicable to small commercial customers. DEO is currently in the midst of completing the information system and business practice changes needed to comply with the standards. The principal information system changes are expected to be complete by year-end and reporting of performance relative to the standards will begin January 2008. While perhaps not a rate reform project in the strict sense of the term, compliance with the standards nonetheless consumes substantial Departmental resources and will have rate related impacts in future base rate proceedings. As such, this project is intended to meet the program objectives related to complying with the applicable regulatory requirements and providing cost-effective utility service to its customers

Automated Meter Reading ("AMR") – In conjunction with the aforementioned service standards, DEO has proposed a mechanism to recover the incremental depreciation, property taxes and return on investment associated with a five-year deployment of AMR devices throughout its service territory. If the mechanism is approved by the PUCO as part of this base rate case proceeding, the deployment will last from mid-2007 through mid-2012 and will support a move to monthly meter reading well before it is complete. The Department coordinated a number of meetings with Staff leading up to the

December 2006 application and will continue to do so in order to obtain input and direction for the project from PUCO Staff. Because it deals with cost recovery and rate design issues, this project is intended to meet the program objectives related to obtaining a sufficient return on rate base investments, recognizing customer class costs of service, and providing cost-effective utility service to its customers

Base Rate Proceeding – As addressed in the testimony that will accompany the application, DEO will be pursuing a host of rate reform projects in this case. Those projects include a decoupling mechanism, accounting authority to utilize over-accrued depreciation reserves to fund AMR and expanded demand-side management programs, and a number of changes to the underlying terms and conditions of service, including the imposition of a late payment charge. DEO anticipates that rates resulting from the proceeding may be placed into effect during the second quarter of 2008, although implementation of certain aspects such as the demand-side management and AMR deployment will occur over a longer time frame of three to five years. Because it addresses so many issues, this project is intended to meet the all of DEO's rate program objectives in some form or fashion.

IV.   Customer Involvement

Customer interests are introduced into DEO's rate operations both directly and indirectly. The primary means of directly introducing customer interests into the company's rate operations are market research and focus groups conducted on specific topics of interest, customer complaint statistics or trends that highlight opportunities for improvement in certain company operations, and public hearings such as those conducted in Case No. 05-474-GA-ATA that provide customers with the opportunity to comment on company proposals before the PUCO. PUCO Staff or the OCC will also convey specific customer interests to the company through the complaint handling process.

Intervenors acting on behalf of customer groups indirectly introduce customer interests into DEO's rate operations. Those interests may be conveyed formally in comments, testimony and/or briefs filed in specific cases or informally through the external stakeholder process described above. The company will also meet with PUCO Staff, OCC and others on occasion to discuss potential customer impacts and concerns associated with certain rate programs or initiatives. Those meetings may be the result of a proposal the company or Staff intends to file or the outcome of an audit or other review performed by Staff. Regardless of the vehicle by which customer interests are introduced, DEO takes them into account as it strives to balance ratepayer, shareholder and regulator interests in the pursuit of its rate program objectives. It does so by reviewing those interests with the appropriate internal and external stakeholders and determining how best to address them in the context of proposals that the company is considering.

V.   Commission and Staff Reporting

As in many other areas, DEO relies on a mix of formal and informal processes for reporting rate operations and rate reform programs to the Staff and Commission. In most cases, the process begins with an informal dialogue with appropriate Staff that may rely on e-mail correspondence or meetings at which the company reviews a handout addressing the issue(s) at hand. In many cases, such as discussions involving capacity recontracting decisions, DEO will provide extensive background information, an analysis of the options that it considered, and a recommended course of action that it would like Staff to evaluate. In such discussions, Staff is always careful to point out that its failure to take exception to a particular course of action cannot be construed as pre-approval or Commission approval. Notwithstanding that caveat, the company values the direction that Staff has occasionally provided on an informal basis.

More formal reporting occasionally occurs during open meetings or technical conferences conducted at the request of the Commission or Staff. On such occasions, the company summarizes a prepared statement or makes a brief presentation that addresses the topics specified by the Commission and answers questions from Staff or Commissioners as required. On other occasions, Staff will submit formal or informal data requests of the company on specific matters to which the company will respond. In instances where DEO has so committed or is obligated, it will provide updated information regarding the status of its rate programs to Staff on a periodic basis, typically through e-mail or, if so required, through documents docketed under an appropriate case number.

Another primary means of reporting rate programs to the Commission is through the filing of applications, comments, testimony, briefs and other documents in specific proceedings. Although that process is often more burdensome that other approaches, DEO recognizes the importance of an appropriate record and, as described previously, uses an internal stakeholder process where necessary to ensure that any such filings accurately reflect the company's position on the issue under review.

Functional Areas Reporting to

The Vice President and General Auditor

*   *   *

Audit Services

DOMINION EAST OHIO

SCHEDULE: S-4.2, MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION

DEPARTMENT: AUDIT SERVICES

FUNCTION(S):   (b)(vi)

I.   Policy and Goal Setting / Strategic Planning

Corporate level goals are set by upper management. Audit Services is responsible for goal-setting, measurements and scoring criteria for the department. Audit Services' strategic direction is articulated in its Mission Statement.

Audit Services provides risk-based, independent and objective assurance, and consulting services. These are developed through an annual structured risk assessment process that includes consultation with corporate executives and operating management, assessment of business changes, and governmental and regulatory requirements. The annual risk based audit plan is approved by the Audit Committee.

All department documentation is maintained using audit-function software. All members of audit management and staff have access at all times to this software. Annual audit plans, department goals and other significant items are communicated upon completion or as needed via staff meetings or email.

Dominion Audit Services is professionally staffed and operates in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* of the Institute of Internal Auditors.

II.   Internal and External Communication

In addition to the internal access to department documentation mentioned above, annual audit plans, department goals and other significant items are communicated upon completion or as needed via staff meetings or email. Audit Services also maintains an informational website on the Dominion intranet that provides basic information on charter, mission, staffing and contacts. Results of audits are formally presented in written audit reports. The reports follow specific criteria detailed in the Administrative Manual. Findings are discussed in a designated series of closing meetings with audit management.

Internal Department staff meetings are held periodically, at least quarterly. Other Departments, as necessary at completion of each audit. Departments where communication occurs most frequently are those where audits are being performed. In response to requests for information, for example. Audit Services interacts with the public utility commissions and other state, local and federal agencies as necessary. Communication is most often in writing.

COI-1378801v1

III. Organizational Structure

The Vice President and General Auditor reports to the President and Chief Executive Officer of Dominion and has unrestricted access to the Audit Committee of the Board of Directors, the Chairman of the Audit Committee, the Chairman of the Board, the Chief Financial Officer and the business unit Chief Executive Officers. *Periodic reports are made to the Audit Committee both in the presence of management and alone.*

The department has 47 professionals and two administrative assistants.

- 1   Chief Audit Executive / Vice President
- 5   Audit Directors
- 2   Audit Specialists
- 13   Lead Auditor
- 9   Senior Auditors
- 1   Senior IT Auditor
- 4   Auditors
- 5   IT Auditors
- 7   Associate Auditors
- 2   Administrative Assistants

IV. Responsibilities

Audit Services provides risk based, independent and objective assurance and consulting services. External contractors are utilized to supplement the Environmental audit staff.

V. Practices and Procedures

In addition to the generally applicable standards of conduct with which it must comply, the department also conducts it business in accordance with and utilizing an Administrative Manual and a Sarbanes-Oxley Testing Guide. These documents are attached.

VI. Decision Making and Control

Audit Services provides assurance and consulting services related to compliance with policies, procedures and internal controls. It also performs management testing related to compliance with Sarbanes-Oxley. Decisions are monitored by executive management and the Audit Committee of the Board of Directors. Changes in direction are provided by Audit Management, the Chief Auditing Executive and Audit Directors.

All audit reports are reviewed by audit management and are signed by Audit Directors. Staff performance is reviewed at least annually. Audit Services has a formal Internal Quality Assurance program. The department undergoes a review in accordance with the *International Standards for the Professional Practice of Internal Auditing* and

Code of Ethics of the Institute of Internal Auditors every five years. Supervisory power is handled by the Chief Audit Executive and Audit Directors.

Compliance Standards for Audit Services are established by, *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* of the Institute of Internal Auditors. Staff with professional certifications and licenses must comply with any specific requirements of the issuing authorities.

VII. Goal Attainment and Quantification

Departmental goals are measured against actual results using measurement standards established at the time goals are determined. All department goals are assessed using a standard corporate format. Performance evaluations are performed at least annually using a corporate tool.

Dominion

AUDIT SERVICES MISSION STATEMENT

"We are a dedicated team that improves Company performance by: analyzing activities and processes, providing innovative and practical ideas, and ensuring the Company has appropriate, cost effective internal controls. Our mission will be accomplished by maintaining an independent, efficient, highly trained staff responsive to changing business conditions."

Dominion

AUDIT SERVICES CHARTER

Introduction

Audit Services is responsible for delivering an independent, objective assurance and consulting service designed to add value and to improve the operations of Dominion and its subsidiaries (Company). It will help the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate the effectiveness of risk management, control, and governance processes. It will provide reasonable assurance that established systems of internal control adequately safeguard assets and will ensure that business processes are executed in accordance with Company procedures. In addition, Audit Services will assist management in the effective discharge of its responsibilities by furnishing analyses, appraisals, recommendations, counsel, and information, and by promoting cost effective internal controls.

Reporting Relationships

The Vice President and General Auditor reports to the President and Chief Executive Officer of Dominion and has unrestricted access to the Audit Committee of the Board of Directors, the Chairman of the Audit Committee, the Chairman of the Board, the Chief Financial Officer and the business unit Chief Executive Officers. Periodic reports are made to the Audit Committee both in the presence of management and alone.

Authorization

Audit Services shall have full, free, and unrestricted access to all activities, records, property, and personnel of the Company, including any partnerships, joint ventures, licensees, contractors, vendors, agents, or other operations where audit rights exist.

Responsibilities

Audit Services is responsible for auditing all activities of the Company to include financial, operating, environmental, and data processing activities. It will also respond to special assignments from senior management in a timely manner, including due diligence reviews, consulting assignments, and other special reviews. Results will be reported to management and will include recommendations for changes and improvements where desirable.

Audit Services is a staff function that does not exercise direct authority over persons whose work it reviews. It is not Audit Services responsibility to make financial or operating decisions, to establish operating policy, to change employee work methods, or to otherwise implement corrective action commensurate with audit recommendations. Audit recommendations, if reasonable, should be adopted; but changes in methods, controls, procedures or policy are the responsibility of operating management.

Objectives

The principal objectives of Audit Services are to provide reasonable assurance to management and the Board of Directors that:

- The systems of internal controls and procedures are efficient and effective.
- Transactions occur only with management's general or specific authorization.
- Authorized transactions are accurately recorded to allow correct, complete, and reliable financial and operational reporting.
- Company operating methods, systems, policies, procedures and practices are efficient and effective.
- The Company is in compliance with established policies and procedures, as well as laws and regulations.
- There is adequate coordination between Audit Services and the independent auditors and that Audit Services provides direct support to the independent auditors when appropriate.
- Company assets are adequately safeguarded from theft and unauthorized use.

Reporting Responsibilities

Audit findings will be discussed with appropriate levels of management of the audited function. Results of audits shall be reported to the vice president and the department head responsible for the audited function, the related business unit controller, and other senior management as appropriate.

Audit Services will ensure that appropriate action is taken with respect to audit recommendations. Management may, because of cost or other considerations, decide to accept a risk and not implement a recommendation made by Audit Services. If such risk is deemed a significant risk, Audit Services will report to senior management and the Audit Committee the condition, the risk and the reason for not adopting the recommendation.

Summary reports of audit activities shall be prepared and presented to the members of the Audit Committee by the Vice President and General Auditor at least annually.

Standards of Audit Practice

Audit Services will be professionally staffed and operated in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* of the Institute of Internal Auditors.

March 1, 2006

Dominion Audit Services

Sarbanes-Oxley Test Guide

06/15/2006

Audit Services
Sarbanes-Oxley Testing Guide

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Audit Services
Sarbanes-Oxley Testing Guide

I.   Introduction

The purpose of this guide is to define how Audit Services will plan and execute activities related to compliance with the Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002

In January 2002, Congress enacted the Sarbanes-Oxley Act of 2002 (the "Act"), which defined a variety of rules to protect investors by improving the accuracy and reliability of corporate financial statements and disclosures made pursuant to the securities laws and other related purposes.

Two sections of the Act which establish key requirements are section 302 Corporate responsibility for Financial Reports, and section 404 Management Assessment of Internal Controls.

Section 302 requires the principal executive officer and principal financial officer to:
- certify that each annual or quarterly report filed with the SEC is true, complete, and fairly presents in all material respects the financial condition and operating results of the company for the reported period;
- establish and maintain internal controls designed to ensure such officers are aware of material information regarding the company's financial condition and operating results;
- evaluate the effectiveness of the company's internal controls and present their conclusion about the effectiveness based on their evaluation;
- disclose to the company's external auditors and the audit committee all significant deficiencies in the design or operation of internal controls and any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls, and;
- Indicate whether or not any significant changes in internal controls took place subsequent to the evaluation date. These changes include any corrective actions regarding significant deficiencies and material weaknesses.

Section 404 requires the annual report filed with the SEC to contain:
- An internal control report that states management's responsibility for establishing and maintaining adequate internal controls for financial reporting and an assessment of the effectiveness of these controls as of the end of the reporting period, and;
- The company's external auditor's attestation of and report on the internal control assessment made by management.

Each of these sections can be viewed in the full text of the Sarbanes-Oxley Act of 2002 that can be found at:
> 'Ojgs02\Vol2\Shared\Audit Services\Sarbanes-Oxley Reference Library\SOX Act\SOX Act of 2002.pdf'.

The Public Company Accounting Oversight Board (PCAOB)

The "Act" establishes the Public Company Accounting Oversight Board (PCAOB) to "oversee the audit of public companies that are subject to the securities laws, . . . in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors."

Section 103(a)(1) of the Act directs the PCAOB to establish auditing and related attestation standards, quality control standards, and ethics standards to be used by registered public accounting firms in the preparation and issuance of audit reports, as required by the Act or the rules of the Securities and Exchange Commission (SEC), or as may be necessary or appropriate in the public interest or for the protection of investors. PCAOB rulings do not take effect until approved by the SEC.

PCAOB final and proposed rulings can be found on the PCAOB web site (www.pcaobus.org).

Four Auditing Standards have been issued by the PCAOB:
- Auditing Standard No. 1, "References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board", requires registered public accounting firms to include in their reports on engagements a reference to the standards of the Public Company Accounting Oversight Board.
- Auditing Standard No. 2, "An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements", provides the requirements and guidance to public companies and registered public accounting firms in their compliance to section 404 of the Sarbanes-Oxley Act of 2002.
- Auditing Standard No. 3, "Audit Documentation", provides the rules for registered public accounting firms to use in the documentation of the audits they complete to comply with the "Act". This standard contains the definitions of the terms "Reviewability Standard" and "Rebuttable Presumption".
- Auditing Standard No. 4, "Reporting on Whether a Previously Reported material Weakness Continues to Exist", provides direction on how to determine existence of and report on a previously reported material weakness".

Copies of these standards can be found on the PCAOB web site and as PDF documents on: 'Ojgs02\Vol2\Shared\Audit Services\Sarbanes-Oxley Reference Library\PCAOB Auditing Standards\".

Use of the COSO Control Model

With regard to Section 404 of the "Act", management must assess the effectiveness of the company's internal controls using a suitable, recognized control framework. Audit Services will perform the testing that Dominion management will use to assess the effectiveness of the company's internal controls. The PCAOB states that The Committee of Sponsoring

Organizations of the Treadway Commission (COSO) report titled *Internal Control – Integrated Framework*, known as the "COSO Report" provides a suitable framework for performing management's assessment. Dominion has incorporated the COSO framework to assess the effectiveness of the company's internal controls.

Note that several copies of the entire COSO report titled "Internal Control – Integrated Framework" are available in Audit Services. The report includes the following volumes: "Executive Summary", "Framework", "Evaluation Tools", and "Reporting to External Parties".

II. Reference Material

A significant amount of reference material is available that is related to the Sarbanes-Oxley Act of 2002. Not all references can be provided; however, the following are some key reference points to learn more about the "Act" and its requirements.

1. www.pcaobus.org
   - This is the web site for the Public Company Accounting Oversight Board (PCAOB). The site contains background information and links to all final and proposed rulings and standards. It also contains a link to the Sarbanes-Oxley Act of 2002.

2. www.coso.org
   - This is the web site for The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The site contains background information about the COSO control model and links to the Executive Summary of the "Internal Control – Integrated Framework".

3. The Sarbanes-Oxley Reference Library on the Audit Services shared drive: 'Ojgs02\Vol2\Shared\Audit Services\Sarbanes-Oxley Reference Library\' Some of the documents (and their file names) on the drive are:
   - Full text of the Sarbanes-Oxley Act of 2002 – "\SOX act of 2002.pdf"
   - PCAOB Auditing Standard No. 1 – "\pcaob auditing std 1(auditors reports).pdf"
   - PCAOB Auditing Standard No. 2 – "\pcaob auditing std 2(audits of internal control).pdf"
   - PCAOB Auditing Standard No. 3 – "\pcaob auditing std 3 (documentation).pdf"
   - PCAOB Auditing Standard No. 4 – "\pcaob auditing std 4 (previous MW).pdf"
   - PCAOB Questions and Answers
   - An Earnst & Young white paper summarizing the PCAOB Auditing Standard No 2 "\EY summary of PCAOB std #2.pdf"

III. Definitions

The first three definitions that follow, Control Deficiency, Significant Deficiency, and Material Weakness, were taken directly from the PCAOB Auditing Standard No. 2.

Control Deficiency

"8. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis."

"• A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met."
"• A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively."

Significant Deficiency

"9. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected."

"Note: The term "remote likelihood" as used in the definitions of *significant deficiency* and *material weakness* (paragraph 10) has the same meaning as the term "remote" as used in Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies* ("FAS No. 5"). Paragraph 3 of FAS No. 5 states: When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. This Statement uses the terms *probable, reasonably possible*, and *remote* to identify three areas within that range, as follows:
a. *Probable*. The future event or events are likely to occur.
b. *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
c. *Remote*. The chance of the future events or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is either reasonably possible or probable."

"Note: A misstatement is *inconsequential* if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would clearly be immaterial to the financial statements. If a reasonable person could

not reach such a conclusion regarding a particular misstatement, that misstatement is *more than inconsequential.*"

Material Weakness

"10. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected."

"Note: In evaluating whether a control deficiency exists and whether control deficiencies, either individually or in combination with other control deficiencies, are significant deficiencies or material weaknesses, the auditor should consider the definitions in paragraphs 8, 9 and 10, and the directions in paragraphs 130 through 137. As explained in paragraph 23, the evaluation of the materiality of the control deficiency should include both quantitative and qualitative considerations. Qualitative factors that might be important in this evaluation include the nature of the financial statement accounts and assertions involved and the reasonably possible future consequences of the deficiency. Furthermore, in determining whether a control deficiency or combination of deficiencies is a significant deficiency or a material weakness, the auditor should evaluate the effect of compensating controls and whether such compensating controls are effective."

Risk Navigator

A software tool by Paisley Consulting used by Dominion to house and organize internal control documentation and testing results. Process owners are responsible for keeping internal control documentation up to date.

Risk Navigator Hierarchy

Eight functional levels are used in Risk Navigator to organize the company's internal control structure for documentation and test purposes related to the Sarbanes-Oxley Act of 2002. This hierarchy includes:

Mega Process - e.g., Revenue
Major Process - e.g., Rates, Meter Reading, etc. (for the Revenue Mega Process)
Process - e.g. Regulated Gas, Regulated Electric (for the Revenue Mega Process)
Sub Process - e.g., CCS, SBS, ESCRIPT (for the Revenue Mega Process)
Segment - e.g., Delivery
Functional Area - e.g., Customer Service, Regulatory (for the Delivery Segment)
Business - e.g., Delivery Metering, Regulatory and Pricing (for the Delivery Segment)
Location - none for the Delivery Segment, but it could be New Orleans, Houston, etc.

Business Process

A key process to the operation of a business cycle that is supported by multiple control objectives. There are usually multiple Business Processes within each Mega Process.

Control Objective

A goal or standard set by management to help ensure proper completion of business processes. There are one or more control objectives related to each Business Process.

Control Activity

A policy or practice followed to help achieve management's objectives. There are one or more control activities related to each control objective.

Control Test Form

The workpaper created in AutoAudit to document Control Activity tests. Contents of this form will be uploaded to Risk Navigator.

Process Owner

A vice president or director level management responsible for a Mega or Major Process.

Test Plan

AutoAudit Audit Program

SOX Issue

AutoAudit Observation

Financial Statement Assertions

Completeness, Cutoff, Recording, Validity, Valuation, and Presentation. More to be added.

IV. Testing Practices

IV.1. General

Audit Services will use AutoAudit to document the testing performed to comply with the Sarbanes-Oxley Act requirements. All documents retained to support the audit should be converted to an electronic format and stored in AutoAudit. The test results for each Control Activity will be transferred to Risk Navigator.

In general, the tasks needed to be completed by Audit Services are:
- Complete the planning activities steps for SOX audits
- Develop the audit program
- Conduct design effectiveness testing
- Conduct segregation of duties testing
- Conduct operating effectiveness testing
- Prepare workpapers
- Determine appropriate samples for testing
- Evaluate the testing results and record conclusion
- Transfer the results to Risk Navigator

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- Prepare the audit report for the area reviewed

A diagram of the AutoAudit workflow is presented in Appendix A and a brief description of each of these activities follows:

IV.2. Completing the Planning Activities steps
A "SOX Pre-audit Planning Activities" form has been created in AutoAudit to identify the critical planning steps associate with each SOX related audit. The steps on this form should be completed prior to conducting audit testing.

IV.3. Developing the Audit Program
A key activity to be performed each year for each SOX audit is to develop the audit program. For new audits, this will involve creation of the program from scratch. For existing audits, this will involve updating prior audit programs, stored in the AutoAudit standards library, based on current process documentation of control objectives and control activities.

The development of the audit program should include an assessment of all control activities to identify primary controls and to ensure agreement with controls determined to be primary by the process owner. Primary controls may be defined as those that are of significant relevance to the associated control objective. In most cases, when the Auditor and process owner agree on the designation of primary controls for an objective, the auditor will only need to test primary controls. However, in some cases, it may be necessary to include key secondary controls to provide adequate coverage for a control objective. Key secondary controls are generally less significant and are often considered mitigating controls when a primary control fails testing.

Some practices that may be helpful when developing an audit program are:

- If applicable, review previous work papers for additional contacts, data needed, observed gaps, recommended process improvements, etc.

- Discuss potential changes to the documentation with process owners and Accounting Control representatives.

- Follow-up on prior year deficiencies and recommended process improvements to ensure management has addressed the issues properly.

- Access Risk Navigator from the Audit Program and download all Control Activities into AutoAudit. The Control Activities are selected for download by using the "Select Controls from RN" button.

- Determine what testing methods to employ.

- Determine if changes have been made to the processes being tested and ensure the test plan reflects the changes in controls.

- When preparing business process test plans, include the minimum number of control activities necessary to demonstrate the control objective is achieved.

- Ensure the control objectives and control activities are identified using the numbering system for these items in Risk Navigator. This will allow a quick cross-reference mechanism between AutoAudit and Risk Navigator.

An audit program should be prepared for each respective Business Process and will list the control objectives, control activities, and a description of the tests to be performed. Additionally, the audit program will contain a section to document the design effectiveness test and the segregation of duties test.

The audit steps should describe the tests to be done in detail. The steps should include:

- The type of testing being conducted, e.g., examination of documents, corroborative inquiry with observation, corroborative inquiry with re-performance, etc. (See section IV.6 of this guide for a description of these types of tests.)
- The specific tests to be performed.

If a complete description of an audit step can not be determined at the time the audit program is prepared, the step should be revised during testing to accurately and completely reflect what was done to conduct the test. Also, during the course of testing, unanticipated conditions and processes may be encountered that require a change to the audit program. The program can, and should, be revised to reflect this new information about the process being reviewed.

Following completion of the audit test program, the program should be reviewed by the responsible audit manager for completeness, accuracy, coverage, and consistency with other programs and approved.

IV.4. Design Effectiveness Testing

Management has designed controls to ensure that financial statement items, and underlying account balances and classes of transactions are, in all material respects, complete, valid and accurate. To adequately complete SOX audit testing, the auditor must first verify that controls being tested are designed in a manner that is adequate to perform their control function. This is called design effectiveness testing.

If the testing for design effectiveness for a control fails, do not conduct operating effectiveness testing for that control. The failure should be treated as any other testing failure within the SOX testing.

The following is a description of testing for design effectiveness from the PCAOB Auditing Standard No. 2

"4. Testing and Evaluating the Effectiveness of the Design of Controls"

"To be effective, internal controls must be designed properly, and all the controls necessary to provide reasonable assurance about the fairness of a company's financial statements should be in place and performed by appropriately qualified people who have the authority to implement them. At some point during the internal control audit, the auditor will need to make a determination as to whether the controls would be effective if they were operated as designed, and whether all the necessary controls are in place. This is known as design effectiveness."

"The procedures the auditor performs to test and evaluate design effectiveness include inquiries of company personnel, observation of internal controls, walkthroughs, and a specific evaluation of whether the controls are likely to prevent or detect financial statement misstatements if they operate as designed. Auditing Standard No. 2 adopts these methods of testing and evaluating design effectiveness. The last step is especially important because it calls for the auditor to apply professional judgment and knowledge of and experience with internal control over financial reporting to his or her understanding of the company's controls."

The Standard also states the following about design effectiveness:

"88. Internal control over financial reporting is effectively designed when the controls complied with would be expected to prevent or detect errors or fraud that could result in material misstatements in the financial statements. The auditor should determine whether the company has controls to meet the objectives of the control criteria by:
   • Identifying the company's control objectives in each area;
   • Identifying the controls that satisfy each objective; and
   • Determining whether the controls, if operating properly, can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements."

"89. Procedures the auditor performs to test and evaluate design effectiveness include inquiry, observation, walkthroughs, inspection of relevant documentation, and a specific evaluation of whether the controls are likely to prevent or detect errors or fraud that could result in misstatements if they are operated as prescribed by appropriately qualified persons."

The first bullet in paragraph 88 above: "• Identifying the company's control objectives in each area;" is done by management during the process documentation

The second bullet in paragraph 88 above: "• Identifying the controls that satisfy each objective;" is again done by management and these are the controls that are tested.

The third bullet in paragraph 88 above is: "• Determining whether the controls, if operating properly, can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements." This action is performed by Audit Services.

The following steps should be performed to evaluate design effectiveness:

- Review the Business Process, associated Control Objectives and Control Activities to ensure they provide adequate information to prepare the audit program. The documentation should provide enough information about the control being performed to describe who, what, where, when, and how.

- Evaluate the Control Objectives to determine if they are reasonable and appropriate to control the Business Process. Management's Control Objectives should be designed to prevent or detect errors related to financial statement assertions. Management's assertions are that the financial statements are complete, valid and accurate. In Risk Navigator, Management should have documented the assertion related to the Control Objective; i.e., Completeness, Cutoff, Recording, Validity, Valuation, and Presentation.

- Evaluate the Control Activities to determine if they are reasonable and appropriate to satisfy the Control Objectives. The Control Activities should be designed to ensure that the Control Objectives are accomplished when the Control Activities are operating effectively.

- Evaluate the "Importance" field in the Control Activity to verify agreement with the Process Owners assessment of Primary/Secondary status. Management has conducted an evaluation of the "best" control to achieve the Control Objective. If the auditor disagrees with Management's assessment, the matter should be discussed with Audit Services Management.

- During Operating Effectiveness testing, conduct a walkthrough of the Control Activity (this walkthrough can be used as your inquiry for Corroborative Inquiry testing) and determine if the documentation in Risk Navigator accurately reflects actual controls. A walkthrough will confirm the auditors understanding of the process, confirm the design of the control, and confirm if the control has been placed in operation.

These tests require judgement. Work with Audit Services Management to clarify instructions. Any exceptions should be discussed with Audit Services Management. Results of Design Effectiveness testing should be documented in the Control Test Form for a primary Control Activity tested for the Business Process. The Control Test Form should be doc linked to the appropriate section in the Audit Program.

IV.5. Segregation of Duties

The objective of segregation of duties is to ensure that no single individual is placed in such a position that (s)he can perpetrate and conceal errors and irregularities while performing regularly assigned duties. This objective can be obtained by segregating three principal activities: authorization of transactions, custody of assets, and accounting for transactions. For each Business Process documented in Risk Navigator, information on how segregation of duties is being achieved should exist.

The auditor should observe that segregation exists by watching how procedures are being performed and who performs them, observing whether access to valuable and/or highly pilferable assets is restricted, and inquiring as to the job duties of employees. Examples of segregation of duties for various business cycles are provided in the Sarbanes-Oxley Reference Library in the Segregation of Duties folder.

An IT segregation of duties matrix is provided in the Sarbanes-Oxley Reference Library in the Segregation of Duties folder.

IV.6. Operating Effectiveness Testing

Management controls, designed to ensure that financial statement items, and underlying account balances and classes of transactions are, in all material respects, complete, valid and accurate, should be operating effectively. The auditor must verify that controls being tested are operating in a manner that is adequate to perform their control function. This is called operating effectiveness testing.

The following steps should be performed to evaluate operating effectiveness:

- Determine if you are testing one control activity or a combination of controls, which could be all primary or some combination of primary, secondary, and key secondary. If you are testing one control activity that is designed to achieve the control objective on its own, the control should be operating at a highly effective level. If you are testing a combination of controls where each control contributes to the achievement of the control objective, the controls should be operating at an effective level. See Section IV.9 for a more thorough discussion of highly effective and effective levels of control.

- Determine whether control activities, which are common to multiple business processes or IT applications, have been previously tested or scheduled for testing. If so, include a cross-reference and DocLink to previously tested activities. Cross-references to previously completed tests result in more effective utilization of test activities. In addition, use of cross-references may provide a more thorough effort in the current test plan with no additional testing activities being required. Even in situations where the control activity tested is not primary to the current objective, it may be advantageous to cross-reference other testing if the test plan will be enhanced by the reference.

- Determine if you are going to use Examination of Documents alone or Examination of Documents plus Corroborative Inquiry testing.

    Examination of Documents involves inspection of documents or transactions for evidence to assure the control being tested is operating effectively. This type of testing, also called attribute testing, usually involves verifying that some attribute, or characteristic, of the transaction is correct or not correct by comparing the transaction to a source document. The goal may be to determine that a price is accurate, that an

expenditure has been approved, or that an item has the correct stock number. When the auditor relies solely on an examination of documents, it is necessary to select larger sample sizes to achieve the desired assurance that a control is operating effectively. See Section IV8 and IV10 for more thorough discussions of sample sizes.

To reduce the size of the sample selected for testing, the auditor can use Examination of Documents plus Corroborative Inquiry. Corroborative Inquiry is not simply talking to people or conducting interviews to "corroborate" the process documentation. It is a combination of interviews, document review, observation, and re-performance that combine to support the fact that adequate controls exist. Two or more of these additional testing methods are needed to support the reduced attribute testing in order to adequately verify that controls are in place. The additional methods selected will depend on the processes involved and the controls being tested. Descriptions of these tests are provided below:

> Interviews - The interviews done as part of the Corroborative Testing verify that persons performing the control understand the process and know how to perform it correctly. When a walkthrough is performed during design effectiveness testing, it can serve as the interview portion of Corroborative Testing.

> Document Review - The document review includes a review of documents, other than the "source documents", that support the fact that the control being tested is in place. These other documents could be reports, logs, spreadsheets, or other records.

> Observation - Observation involves watching the person perform the process that contains the control to ensure the control is effective and routinely performed.

> Re-performance - Re-performance is when the auditor re-performs the control activity to ensure the control is effective and the result obtained is the same as when it was initially executed.

The following is a description of testing for operating effectiveness from the PCAOB Auditing Standard No. 2.

> "92. An auditor should evaluate the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control possesses the necessary authority and qualifications to perform the control effectively."

> "93. *Nature of Tests of Controls*. Tests of controls over operating effectiveness should include a mix of inquiries of appropriate personnel, inspection of relevant documentation, observation of the company's operations, and reperformance of the application of the control. For example, the auditor might observe the procedures for opening the mail and processing cash receipts to test the operating effectiveness of controls over cash receipts. Because an observation is pertinent only at the point in time at which it is made, the auditor should supplement the observation with inquiries of company personnel and inspection of

documentation about the operation of such controls at other times. These inquiries might be made concurrently with performing walkthroughs."

"94. Inquiry is a procedure that consists of seeking information, both financial and nonfinancial, of knowledgeable persons throughout the company. Inquiry is used extensively throughout the audit and often is complementary to performing other procedures. Inquiries may range from formal written inquiries to informal oral inquiries."

IV.7. Work Paper Documentation

For SOX audits, workpaper creation begins in the "SOX Completion Table" form by creating the "Sarbanes-Oxley Pre-Audit Planning Activity" form and the "SOX Audit Program" form. The "Sarbanes-Oxley Pre-Audit Planning Activity" form is prepared using the same methods as traditional audits.

Use the following naming conventions in the "SOX Audit Program" form:

- Audit Program Section = Use a sequential alpha reference (i.e., A, B, C)
- Audit Program Name = Business Process name

Creating a Workpaper

The "SOX Audit Program" form contains a "Select Controls from RN" button. The auditor uses the "Select Controls from RN" button to extract from Risk Navigator a read only copy of all "Control Activity" forms related to the audit. The respective "Control Activity" forms are automatically related to the respective "SOX Audit Program" form within AutoAudit. All "Control Activity" forms should be extracted for each Business Process.

The "Control Activity" form contains a "Control Test" button that is used to create the "Control Test" form. The "Control Test" form replaces the "Audit Workpaper" form used in traditional audits. One "Control Test" form must be created for each "Control Activity" form. The "Control Test" form will contain information that is passed back to Risk Navigator.

The "Control Test" form contains two tables at the top. The first table documents the Control Activity hierarchy assigned by the process owner and the second table is to be completed by the auditor (this is the information that is passed back to Risk Navigator). Use the following guide to complete the required fields:

- "Test Title" = Enter the Control Objective Number / Control Activity Number (i.e., RE5010/RE802)
- "Test Period" = Enter the specific date which the auditor reports on the effectiveness of controls. The format of the date entry should be mm/dd/yyyy
- "Testing Reference Section" = Enter a reference to the specific Control Activity that relates to the Control Test Form. The format should be Audit/Audit Program Section/Control Objective Number/Control Activity Number

- "Test Conclusion" = Enter the appropriate conclusion, either Not Rated (not tested), Pass, or Fail.

Workpaper Format
Below the second table is a rich text field, which is used by the auditor to document all the work. The work should be documented using the following format:

- Purpose -- A brief description of the intent of the Control Activity. Use action words e.g. "To determine; To evaluate"

- Scope -- Description of what/how much is covered in the workpaper.

- Conclusion -- Include the basis for the conclusion followed by a statement indicating if the Control Activity is designed and operating effectively. Note any exceptions and cross-reference to the work that supports the conclusion.

- Testing -- Describe audit steps to be conducted. Document work performed. Include specific sources of information (e.g., dates of interviews detailed document references). Be sure to indicate the purpose and use of any attachments.

Attachments and supporting documents
Refer to the following when making decisions as to what supporting documents need to be retained and attached to the workpaper.

Scanning and copying documents:
Include copies of documents in the work papers:
1 - When needed to support an exception.
2 - When needed to support a judgement call on a potential exception.
3 - When the documents being reviewed are routinely destroyed by the user shortly after use in the normal course of business.

Also, when reviewing a large number of documents, it is good practice to include a copy of one of the documents as an example of the type of testing done even when no exception has occurred.

Do **not** include copies of documents:
When no exception has occurred, and the documents reviewed will be retained by the user for a year or more. In this case, you need to clearly describe what documents were reviewed, how and where you got the documents, and how they were used in the testing. This description should be complete enough to allow a reader to go find the documents without having to go back to the auditor who did the testing.

Screen prints:
Include prints of screens viewed in the work papers:
1 - When needed to support an exception.

2 - When needed to support a judgement call on a potential exception.
3 - When the information on the screen is not maintained in the automated system for an extended period of time. In other words, if data history is routinely purged, and you would not be able to see it later in the year.

As with documents, when reviewing a large number of screens, it is good practice to include a print of one of them as an example of the type of testing done.

Do **not** include screen-prints:
When no exception has occurred, and the data being reviewed will be retained in the system for a year or more. In this case, you need to clearly describe how you got to the screen, and how the data was used in the testing. This description should be complete enough to allow a reader to go to the screen and view the data without having to go back to the auditor who did the testing.

DocLinks
DocLinks should be established between the audit program/workpaper and all cross-referenced work.

IV.8. Determining the appropriate sample size for testing
When the auditor relies solely on an Examination of Documents testing, it is necessary to select larger sample sizes to achieve the desired assurance that a control is operating effectively. Examination of Documents plus Corroborative Inquiry requires smaller sample sizes to achieve the desired assurance.

See the table below for guidance on sample size.

Control Nature	Frequency	Number of Transactions in Population	Items to test - Examination of Documents (EOD) Only	Items to test – Examination of Documents with Corroborative Inquiry Testing
Manual	Many times per day	365+	60	25
Manual	Daily	365	24	15
Manual	Weekly	52	12	5
Manual	Monthly	12	5	2
Manual	Quarterly	4	2	1
Manual	Annually	1	1	1
Programmed	Test one application of each programmed control activity if supported by effective controls, otherwise test similarly to a manual control.			
IT General Controls	Follow the guidance above for manual and programmed aspects of IT general controls.			

IV.9. Evaluating exceptions

A control is said to be operating at highly effective or effective levels when the number of exceptions noted do not exceed the maximum exceptions allowable as presented in the "Expanded Sample and Exception Evaluation Table" in section IV.10.

A primary control activity that, on its own, is designed to achieve a control objective must be operating at a highly effective level to pass the activity during testing. Several control activities that work together to achieve a control objective must all be operating at an effective level to pass the activity during testing.

In other words, when the number of exceptions do not exceed the maximum allowable, shown in the Expanded Sample and Exception Evaluation Table, the Control Activity is reliable and a "pass" conclusion should be entered on the "Control Test" form. When the number of exceptions exceed the maximum allowable the auditor should "fail" the activity.

When exceptions are noted during testing, two methods exist to resolve the exceptions and consider the Control Objective met.

The first method is to select additional mitigating control activities within the control objective and test these controls. Mitigating controls may be documented as key secondary or secondary controls under the objective being tested. Successful tests of these mitigating controls result in determining the control objective is met despite the failure of the primary control activity. This method can be used when one or more exceptions are noted during testing. Discuss the selection of mitigating control activities with audit management, process owners, and Accounting Controls representatives.

The second method is to expand the sample size and continue testing the control activity in which the exceptions were originally noted. This method can only be used when one or two exceptions are noted in the original sample and the control is performed many times per day. See section IV.10 for more information on expanding the sample size.

IV.10. Expanding the sample sizes when exceptions are noted

When the auditor notes an exception that is not representative of the population, e.g. a random clerical error, the auditor may want to consider expanding the sample size to a level that will better represent the population. When this expanded sample is tested, if no additional exceptions are noted, the control can be considered to be effective. Expanding a sample is only appropriate for controls with a frequency of many times per day, or 365+ as noted in the above table.

The tables below provide typical sample sizes when expansion of sample sizes is used. Additionally the tables provide the maximum exceptions allowable when evaluating

exceptions. A more thorough discussion of evaluating exceptions, "Highly Effective" controls, and "Effective" controls is provided in section IV.9.

Expanded Sample and Exception Evaluation Table			
Corroborative Inquiry, Manual Control, Performed Many Times per Day			
Highly Effective		Effective	
Maximum Exceptions Allowable	Sample Size	Maximum Exceptions Allowable	Sample Size
0	25	1	25
1	50	2	50

Expanded Sample and Exception Evaluation Table			
Examination of Documents Only Manual Control Performed Many Times per Day			
Highly Effective		Effective	
Maximum Exceptions Allowable	Sample Size	Maximum Exceptions Allowable	Sample Size
0	60	2	60
1	100	4	100

IV.11. Recording Your Conclusion

After testing is completed, the auditor must document the test conclusion. A summary narrative of the conclusion should be entered in the rich text field of the Control Test form. Also, enter a "Test Conclusion" using the drop down box provided in the Control Test form. The "Test Conclusion" will either be pass, fail, or not rated. When the test conclusion is pass or not rated, perform the first level approval in AutoAudit and forward the form to Steve Marin for second level approval.

When the test conclusion is fail, use the "Obs" button on the Control Test form to create a SOX Issue form in AutoAudit. The SOX Issue form is similar to the AutoAudit Observation form. When completing the SOX Issue form, include a description that is adequate to allow the reader to understand the cause of the test failure. Initially, enter either "Verbal Discussion" or "Audit Report" in the Disposition field. When "Audit Report" is selected as the disposition, an additional "SOX Disposition field" is automatically created. Enter "Preliminary Deficiency" in the SOX Disposition field and perform the first level approval of the SOX Issue form and Control Test Form. The final disposition of the SOX Issue will be determined through discussions between Audit Services, Accounting Controls, and the process owners.

IV.12. Transferring Test Conclusions from AutoAudit to Risk Navigator

Upon second level approval of the Control Test form, the information contained in the tables (i.e., "Test Title", "Test Period", "Testing Reference Section", and "Test Conclusion) automatically are batched and transferred to Risk Navigator overnight.

IV.13. Creating an Issue in Risk Navigator

When testing of a Control Activity fails, an issue must be created in Risk Navigator. No issue should be added to Risk Navigator without thorough discussion with the Director, Audit Services, SOX & IT.

Steps to Creating an Issue (SOX ISSUE in Auto Audit) in Risk Navigator

1. Locate the appropriate Business Process Document in Risk Navigator (RN) through drill down.
2. Locate the appropriate Control Objective (CO) that you tested.
3. Locate the Control Activity (CA) that failed your test.
4. While in the CA form, scroll down to the **Control Activity Tester Section** (in green), find the **Issues** label, and click on the **Create** link next to the **Issues** label.
5. Find your SOX Issue Form within **Auto Audit (AA)**. Copy and paste the **Subject** section from **AA** into the **Issue Title** field in Risk Navigator. Copy and paste the **Observation** section from **AA** into the **Issue** field in RN. Lastly, cut and paste the **Background and Discussion** section from **AA** into the RN **Issue** field just below where you previously pasted the **Observation**.
6. Copy and paste the **Recommendation** section from **AA** into the **Recommendation** field in Risk Navigator.
7. In the RN Issue document, scroll down to the **Source:** field located below the Issue Coordinator field. Click on the **Internal Audit** radio button.
8. Scroll down to the **Issue Created Date:** field. Enter "Today's date".
9. Select **Preliminary** in the **Issue Priority** dropdown box.
10. Select **Operating Deficiency** or **Design Deficiency** in the **Issue Type** dropdown box.
11. Select **Compliance, Financial** or **Security** in the **Issue Group** dropdown box.
12. Scroll down and click on the **Submit** button. Do Not Forget to Do This.
13. After your have Submitted the Issue, you should now be back at the **Control Activity** form. Refresh your screen. You should see the newly created Issue in the **Control Activity Tester Section.**
14. Click on the **Issue** to go back to the RN Issue document.
15. Scroll down to the **Issue Coordinator** section. Click the **Lookup name** link. Highlight the **1-SOX Issues** Lotus Notes address name, and click **Add**. Highlight **your name** and click the **Remove** button. Click **OK**.
16. Click on the **Email Letter Icon** at the **Issue Coordinator** section, click **OK** and an email will be sent to **1-SOX Issues.**
17. Click **Submit.** You have now completed the Issue creation process in RN.
18. An email will be sent to Accounting Controls. They will reply to that email with a sequential (sequential to RN) reference number. Add the reference number followed by a

dash to the beginning of the **Subject** field in Auto Audit on the **SOX Issue Form**. The Accounting Controls reference number sequence is RNYY-NNN:
- RN = Risk Navigator
- YY = year
- NNN = number of issues received in order of receipt.

For example, for Issue number #5 received by Accounting Controls, the reference number would be RN05-005. Please use the complete reference number in all Audit Services documents.

19. Process completed.

Additional Note: You can create more than one Issue for each control activity.

IV.14. Retesting

Control Activities that fail initial testing are usually retested. A separate audit program titled "Retest" should be created in AutoAudit within the respective audit. Only those control activities to be retested should be extracted from Risk Navigator. The workpaper documentation process is the same as described in IV.7. After the test is completed, the same steps described in IV.11. and IV.12. should be conducted to record your conclusion and transfer test conclusions from AutoAudit to Risk Navigator. A Control Activity can fail retests multiple times before passing.

IV.15. Communicating results to process owners

- Keep process owners and other appropriate personnel up-to-date with testing progress and issues identified.
- Document, in Risk Navigator, the results of activities tested, the explanations of activities not tested, and the issues regarding gaps or deficiencies.
- Document, in AutoAudit, management's response to gaps or deficiencies and the action plans to address the issues.
- Audit Services may conduct follow up work to ensure the action plans have been executed and issues have been addressed.

An Audit report will be issued to the Process Owner after completion of testing for each business cycle. The distribution of the report will follow the guidelines for standard audit reports. The report is a summary of the scope, objectives, and results of the audit. No significant background information is needed. The report should list the items that were recorded in Risk Navigator for resolution by the Process Owner. If other significant items were noted that are not appropriate for recording in Risk Navigator, consult with the responsible audit manager for determination of the disposition of these items.

IV.16. Roll Forward Testing

Although management must make an assessment of controls "as of" a specific date, i.e. December 31, it is not possible to test all of the controls on that date. Control testing occurs throughout the year and the effective date of the control tests are recorded in the workpapers in the "Test Period" block on the Control Test form. Roll Forward testing is the process used to bridge the gap between these interim test dates and the "as of" date of management's assertion.

The PCAOB Auditing Standard #2, paragraph 100 states:

> 100. When the auditor reports on the effectiveness of controls "as of" a specific date and obtains evidence about the operating effectiveness of controls at an interim date, he or she should determine what additional evidence to obtain concerning the operation of the control for the remaining period. In making that determination, the auditor should evaluate:
>
> • The specific controls tested prior to the "as of" date and the results of those tests;
>
> • The degree to which evidence about the operating effectiveness of those controls was obtained;
>
> • The length of the remaining period; and
>
> • The possibility that there have been any significant changes in internal control over financial reporting subsequent to the interim date.

The objective of Roll Forward testing is to provide reasonable assurance that, for critical controls, the design of the controls has not changed since the interim test date, and the operation of tested controls remains effective as of December 31. A critical control is one that, if not operating effectively, could result in a material misstatement of the company's financial statements.

To achieve this objective, the following process will be used to complete Roll Forward testing.

Part I - Required Control Tests
• IT GCC change management controls over automated applications will be tested.
• Non-routine transactions, significant estimates or judgements, and year-end processes will be tested.
• Primary controls subject to a significant change since the interim test date will be tested.
• Critical controls will be tested.

Part II - Identification of controls to test during the Roll Forward period.
• Perform the following steps:

- Obtain a list of all Control Activities documented in Risk Navigator from Accounting Controls.
- For each business process and IT application, send the list of controls to the appropriate Team Lead for review. Instruct the Team Lead to identify changes made to the control since the interim test date and return to Audit Services.
- Evaluate the returned lists of controls to determine where changes occurred and test controls that have had a significant change.
- For each business process and IT application, identify the tested critical Control Objectives and Control Activities.
- For all critical controls where the interim test date is prior to the fourth quarter and the control is manual, test the control as part of Roll Forward testing.

V. SOX Business Process and IT Application Risk Assessment

V.1 Introduction:
Dominion has a rigorous method to identify the business processes and automated systems that are in-scope for Sarbanes-Oxley related testing. This method uses both quantitative and qualitative analyses of financial statement accounts to identify the significant accounts and the associated controls over the accounts. The results of this analysis are a list of processes that management can use when evaluating the design and operating effectiveness of the controls.

Recognizing that the financial statement reporting risk associated with the different in-scope processes may be different, Audit Services has developed a risk assessment process to apply to each of the in-scope business processes in order to establish the correct nature, timing, and extent of testing that should be performed.

V.2 Background:
PCAOB Release No. 2005-009 "Policy Statement Regarding Implementation of Auditing Stand No. 2" states that "Risk assessment allows the auditor to focus on higher-risk areas while expending less effort in areas of lower risk." PCAOB Release No 2005-023 "Report on the Implementation of Auditing Standard No. 2" further emphasizes using a "Risk-Based Approach" for more effective and efficient audits. It stated that:
> An auditor's assessment of the risk that the financial statements could be materially misstated should have a pervasive effect on the amount of work that the auditor performs.
> The nature, timing, and extent of the auditor's testing should be altered to reflect the level of risk assessed within a given area.
> Auditors should not necessarily take a uniform approach to their testing. The amount of effort expended in testing should be related to the level of risk for the area/process being tested.

Therefore, risk assessment testing will be performed in order to modify the nature, timing and extent of SOX testing so that it better reflects the level of risk associated with each

business process and/or sub-process area. Descriptions of the different levels of SOX testing that will result from the risk assessment evaluation are included below.

V.3 Risk Assessment Testing Criteria:

The following table presents the Risk Assessment Criteria to use in the evaluation of the business processes and applications. It also shows the ranking levels used and some guidance to use in the evaluation.

Criteria	Description	Risk Rank = 3	Risk Rank = 2	Risk Rank = 1
Directly related to Financial reporting	Relate the impact of the process outputs on the balance sheet and/or income statements.	Closely related to financial reporting.	Moderately related or indirectly related to financial reporting.	Not related to financial reporting.
Opportunity for fraud	Rank the opportunity for fraud in the process. Consider purchasing/supply chain; invoice volume, preferred vendors, collusion, and oversight practices.	High risk of fraudulent activity. Decentralized process with no automated controls or adequate management review.	Moderate risk of fraudulent activity. Some independent business areas with informal review procedures.	Low or No Risk of fraudulent activity. Centralized process with automated controls and management review and approval.
Protection of assets	Evaluate the impact of the process on the physical security of assets at Dominion's sites. Consider protection from both internal and/or external threats.	Great impact on physical security of assets. Aging facilities with minimal or no access controls.	Moderate impact on physical security and assets. Some access controls but they may need updating, procedures are not current.	Little or no impact on physical security or assets. Physical access controls are operational and up-to-date.
Management attitude	Rate management's overall integrity, ethics, and appetite for risk. Refers to "Tone at the top" – a COSO-based approach.	Management rarely, if ever, demonstrates a commitment to integrity and ethical standards when making business decisions and/or frequently makes business decisions that put the company at risk. Complacency - stagnant process, but constant org changes. No clear direction from	Management normally demonstrates a commitment to integrity and ethical standards when making business decisions and seldom makes business decisions that put the company at risk. Dynamic process but management is in touch with employees through various methods.	Management always demonstrates a commitment to integrity and ethical standards when making business decisions and never makes business decisions that put the company at risk. Stagnant process with no org changes and stability at the

		management or communication channels.		management level with clear lines of communication.
Transactions	Evaluate the process using a quantity-based approach. Consider # of transactions, dollar value of transaction, invoice volume, etc.	High #, dollar value or volume of transactions. Numerous exceptions requiring manual intervention, numerous low dollar transactions with minimal review.	Moderate #, dollar value or volume of transactions. Detective controls to identify exceptions, some informal review required.	Low #, dollar value or volume of transactions or no transactions. Preventive controls in place, timely management review and resolution of exceptions.
Separation of Duties	Assess the appropriateness of each person's role in the process. Consider custody of assets and recording, review and reconciliation of transactions.	Separation of duties is not appropriate or adequate to protect the company's assets. No limitation of who can obtain access, no periodic review of access.	Separation of duties would protect the company's assets in most situations. Population of users is limited to a business unit, informal review and granting of access.	Separation of duties is appropriate and adequate to protect the company's assets. Role-based access with periodic management review.
Level of expertise required for process roles	Rank the level of expertise required. Expertise should be proportionate to the specialization and risk of the process area under review. Specialization increases risk.	Requires a high level of expertise. Single person ownership with no/informal review of actions performed.	Requires a moderate level of expertise. Limited group of people with internal review of actions performed.	Requires a low level of expertise. General job role that anyone can perform, but edit checks, field verifications and actions are verified automatically before granting of requests.
Physical Infrastructure management	Evaluate how well management protects Dominion's physical infrastructure. Consider maintenance activities, repair schedules, history of repairs, factory/manufacturer recalls and/or failures resulting in environmental /OSHA violations.	Management does a poor job of protecting Dominion's physical infrastructure. Aging facilities with numerous OSHA/MSDS violations and/or unscheduled repairs or maintenance.	Management does an average job of protecting Dominion's physical infrastructure. Moderate age of facilities with minimal unscheduled repairs and/or violations.	Management does a good job of protecting Dominion's physical infrastructure. New facility or facility with exceptional maintenance and lack of repairs needed history.

Reliance upon significant estimates	Rate the use of estimates in the process. Estimation increases the risk that management decisions could be made using unreliable information. Consider forecasting, budgeting, reserves (cash and non-cash), accruals and variance analysis.	Estimates are frequently or normally used. No formal training or experience in forecasting, no statistical or industry data to support conclusions.	Estimates are occasionally or rarely used. Some estimation performed by individuals with some estimation experience. Reliance based upon some historical data.	Estimates are never used. Reliance placed upon industry norms, statistical history and expected volumes in the future using formalized forecasting techniques.
Complexity of the process	Assess the complexity of the process. Often the risk of material errors increases with the complexity of the process.	Process is complex. Manually intensive with little or no automated controls, unknown number of interfaces, inputs and outputs, process cannot be diagramed or explained sufficiently.	Process is average. (Neither simple or complex.) Some automated controls in place with limited interfaces and known number of inputs and outputs.	Process is simple. Automated process with preventive and detective controls in place, all interfaces, inputs and outputs are documented and verified by management.
Includes a specific risk	Determine if a specific risk exists in this area or the area is related to a footnote in the financial statements. Include a statement in the comment block that identifies the specific risk or related footnote.	Specific risk exists. Directly related to one of the specific risk areas listed in the CURRENT YEAR Specific Risk table.	Indirectly related to one of the specific risk areas listed in the CURRENT YEAR Specific Risk table, or directly related to one of the specific risk areas listed in the PRIOR YEAR Specific Risk table.	Specific risk does not exist. Not related to one of the specific risk areas listed in the Specific Risk table.

V.4 Evaluation Methodology:

1. Assess each Criteria relative to the impact the process has on the materiality of the financial statements. See the detailed instructions for each risk criteria in the above table.
2. Assign and record the corresponding ranking (1, 2, or 3) to each risk criteria.
3. For business processes with multiple significant sub-processes, perform the assessment for each sub-process. The business processes identified as having multiple significant sub-processes are Fixed Assets, Revenue-Gas, and Revenue-Electric.
4. If a risk criteria is rated a "3" but is confined to a narrow area with in the business process, add a comment stating where in the business process the risk resides.
5. If a 2 or 3 is assigned to the "includes a specific risk" criteria, state which specific risk applies.

6. When all criteria have been assessed for each process and sub-processes, and they are entered into the Risk Tracking spreadsheet, the numerical results will be totaled and averaged to obtain the relative level of risk.

V.5 Testing Approach:

Following the risk assessment, the in-scope business processes and applications will be grouped by relative risk, and will be evaluated to determine if the nature, timing, and extent of testing should be modified.

Two testing levels will be used. Tier 1 consists of those business processes ranked in the top 75% of the risk rankings. Tier 2 consists of those business processes ranked in the bottom 25% of the risk rankings. The Tier 2 processes are candidates for alteration of the nature, extent and timing of the SOX testing, consistent with PCAOB Auditing Standard #2.

- Testing Approach (Business Processes)
  Tier 1:
  - Perform Walkthroughs
  - Perform Design Effectiveness testing (all processes)
  - Perform Operating Effectiveness testing
    - Performed at the control activity level for all objectives
  Tier 2
  - Perform Walkthroughs
  - Perform Design Effectiveness testing (all processes)
  - Perform Operating Effectiveness testing
    - Test objectives related to specific risks (if applicable)
    - Test monitoring controls over all Objectives (Budget-to-Actual, Account Reconciliation, variance analysis, key management reviews, etc.)
    - Test controls over remaining uncovered risks (if needed)
    - Implement cycle testing where appropriate

Testing Approach (IT Applications)
  Tier 1
  - Perform Walkthroughs
  - Perform Design Effectiveness testing (all processes)
  - Perform Operating Effectiveness testing (cover the three GCC areas identified below)
    - Information System Security
    - Systems Implementation and Maintenance
    - Information Systems Operation

  Tier 2
  - Perform Walkthroughs
  - Perform Design Effectiveness testing (all processes)
  - Perform Operating Effectiveness testing (cover the two GCC areas identified below)
    - Information System Security
    - Systems Implementation and Maintenance

Alter Timing
Implement cycle testing where appropriate

V.6 Testing Procedures for Tier 2 Business Processes:

- Testing Procedure for Tier 2
    Broadly describe the risks based on the Objectives
    Conduct walkthroughs of critical processes
    Perform Design Effectiveness Testing for all processes
    Identify and test controls that cover current year Specific Risks
    Identify monitoring controls that cover the broad risks for all Objectives
    Test the monitoring controls or reference audits where these controls are tested
    Identify remaining uncovered risks or uncovered Objectives
    Test primary controls over remaining uncovered risks and Objectives

VI. Evaluation of Risk-Based Audit Observations

To comply with section 302 of the Sarbanes-Oxley Act of 2002, management must evaluate, each quarter, the effectiveness of internal controls and must report whether or not there were significant changes in internal controls during the quarter. To assist management in making this assessment, and to support our input to the Quarterly Controller's Checklist, Audit Services reviews all validated risk-based observations identified during the quarter for financial statement impact and potential material changes to controls.

The risk-based observations are evaluated on the following four criteria:
- Is the Observation related to a documented SOX control? If "yes", the related SOX control number is identified.
- Does the Observation indicate a control breakdown that could adversely affect Dominion's ability to record, process, or report financial data?
- Does management's response to the item result in a significant change in control?
- If the response to Q1, Q2, or Q3 is yes, state the Control Deficiency Level. (Deficiency, Significant Deficiency or Material Weakness)

Only those risk-based observations that have been confirmed as valid findings through discussions with the business process owners are to be evaluated.

Appendix A. AutoAudit Workflow Diagram

Dominion

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AUDIT SERVICES
ADMINISTRATIVE MANUAL

AUDIT SERVICES
ADMINISTRATIVE MANUAL

AUDIT SERVICES
ADMINISTRATIVE MANUAL

AUDIT SERVICES
ADMINISTRATIVE MANUAL

Audit Services is a function established within Dominion to independently appraise corporate activities and assist Company management in the effective discharge of their responsibilities. Audit Services' responsibilities include evaluating the Company's system of internal control and determining the reliability of financial data, operational efficiency, and compliance with corporate and regulatory procedures. Audit reports are generated from independent reviews and include analyses, evaluation, recommendations, and pertinent comments concerning the function or activity examined.

This manual contains information to assist Audit Services' staff members in the performance of their assigned responsibilities. The information contained herein is not intended to be in conflict with any existing Company procedures or manuals. If such conflicts occur, the Company manual or procedure shall take precedence. It is not intended that this manual be definitive or limiting to any department member in exercising sound judgment, being innovative, or using creative approaches in performing assignments. Internal auditing is a professional role that operates in a constantly changing environment; it demands flexibility and quick adaptation to change by both staff and management.

The purpose of this manual is to document the policies, procedures, and operational practices of Dominion Audit Services. It also provides the framework necessary to plan, perform, and complete an audit assignment. This manual is a tool that is available to all Audit Services employees. It is a valuable part of the employee orientation program and should serve as a reference text for audit activities and administration.

The objectives of this manual are to promote consistency and effectiveness of operational practices, improve communications, increase departmental productivity, and to promote compliance with applicable professional standards.

The information contained in this manual has been expressed in the form of guidelines, since individual circumstances must always be taken into account. It is not intended to be all-inclusive or a vehicle to limit an auditor's creativity. Should you have any questions about the content of this manual, please direct them to the appropriate Audit Manager, or to the Vice President and General Auditor.

AUDIT SERVICES
ADMINISTRATIVE MANUAL

The responsibility for initial development and subsequent revisions to the policies and procedures contained in this manual is assigned to the Vice President and General Auditor who may delegate this responsibility as appropriate.

The official copy of the Audit Services Administrative Manual is maintained on the Audit Services web site. Hard copy versions may be assigned to individual department staff members with the permission of the Vice President and General Auditor.

The Audit Services Administrative Assistant is designated manual custodian and is responsible for entering revisions to the automated version of the manual. The Administrative Assistant will also maintain a list of the holders of all hard copy versions and will distribute manual revisions to these holders. The hard copy manuals remain the property of Dominion Audit Services.

Individual employees are responsible for maintenance of their assigned hard copy manual. If the employee is transferred to another position outside Audit Services or to a different work location, the employee should contact the manual custodian for instructions on the proper disposition of the manual.

AUDIT SERVICES
ADMINISTRATIVE MANUAL

Audit Services acts as an independent staff function that reports to the Executive Vice President and Chief Financial Officer of Dominion. It's roles and responsibilities are defined in the Audit Services Charter, which is approved by the audit Committee of the Board of Directors. The Vice President and General Auditor has unrestricted access to the audit committee of the Board of Directors and periodically meets alone with them. Such an organizational structure provides the management access and the authority needed to assure appropriate consideration of audit findings and recommendations. The audit function serves in an advisory capacity and does not design, develop, nor implement Company policies and procedures.

4.1   AUDIT SERVICES MISSION

"We are a dedicated team that improves Company performance by: analyzing activities and processes, providing innovative and practical ideas, and ensuring the Company has appropriate, cost effective internal controls. Our mission will be accomplished by maintaining an independent, efficient, highly trained staff responsive to changing business conditions."

4.2   AUDIT SERVICES CHARTER

Dominion

AUDIT SERVICES CHARTER

Introduction

Audit Services is responsible for delivering an independent, objective assurance and consulting service designed to add value and to improve the operations of Dominion and its subsidiaries (Company). It will help the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate the effectiveness of risk management, control, and governance processes. It will provide reasonable assurance that established systems of internal control adequately safeguard assets and will ensure that business processes are executed in accordance with Company procedures. In addition, Audit Services will assist management in the effective discharge of its responsibilities by furnishing analyses, appraisals, recommendations, counsel, and information, and by promoting cost effective internal controls.

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Reporting Relationships

The Vice President and General Auditor reports to the President and Chief Executive Officer of Dominion and has unrestricted access to the Audit Committee of the Board of Directors, the Chairman of the Audit Committee, the Chairman of the Board, the Chief Financial Officer and the business unit Chief Executive Officers. Periodic reports are made to the Audit Committee both in the presence of management and alone.

Authorization

Audit Services shall have full, free, and unrestricted access to all activities, records, property, and personnel of the Company, including any partnerships, joint ventures, licensees, contractors, vendors, agents, or other operations where audit rights exist.

Responsibilities

Audit Services is responsible for auditing all activities of the Company to include financial, operating, environmental, and data processing activities. It will also respond to special assignments from senior management in a timely manner, including due diligence reviews, consulting assignments, and other special reviews. Results will be reported to management and will include recommendations for changes and improvements where desirable.

Audit Services is a staff function that does not exercise direct authority over persons whose work it reviews. It is not Audit Services responsibility to make financial or operating decisions, to establish operating policy, to change employee work methods, or to otherwise implement corrective action commensurate with audit recommendations. Audit recommendations, if reasonable, should be adopted; but changes in methods, controls, procedures or policy are the responsibility of operating management.

Objectives

The principal objectives of Audit Services are to provide reasonable assurance to management and the Board of Directors that:

- The systems of internal controls and procedures are efficient and effective.
- Transactions occur only with management's general or specific authorization.
- Authorized transactions are accurately recorded to allow correct, complete, and reliable financial and operational reporting.
- Company operating methods, systems, policies, procedures and practices are efficient and effective.
- The Company is in compliance with established policies and procedures, as well as laws and regulations.

- There is adequate coordination between Audit Services and the independent auditors and that Audit Services provides direct support to the independent auditors when appropriate.
- Company assets are adequately safeguarded from theft and unauthorized use.

Reporting Responsibilities

Audit findings will be discussed with appropriate levels of management of the audited function. Results of audits shall be reported to the vice president and the department head responsible for the audited function, the related business unit controller, and other senior management as appropriate.

Audit Services will ensure that appropriate action is taken with respect to audit recommendations. Management may, because of cost or other considerations, decide to accept a risk and not implement a recommendation made by Audit Services. If such risk is deemed a significant risk, Audit Services will report to senior management and the Audit Committee the condition, the risk and the reason for not adopting the recommendation.

Summary reports of audit activities shall be prepared and presented to the members of the Audit Committee by the Vice President and General Auditor at least annually.

Standards of Audit Practice

Audit Services will be professionally staffed and operated in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* of the Institute of Internal Auditors.

March 1, 2006

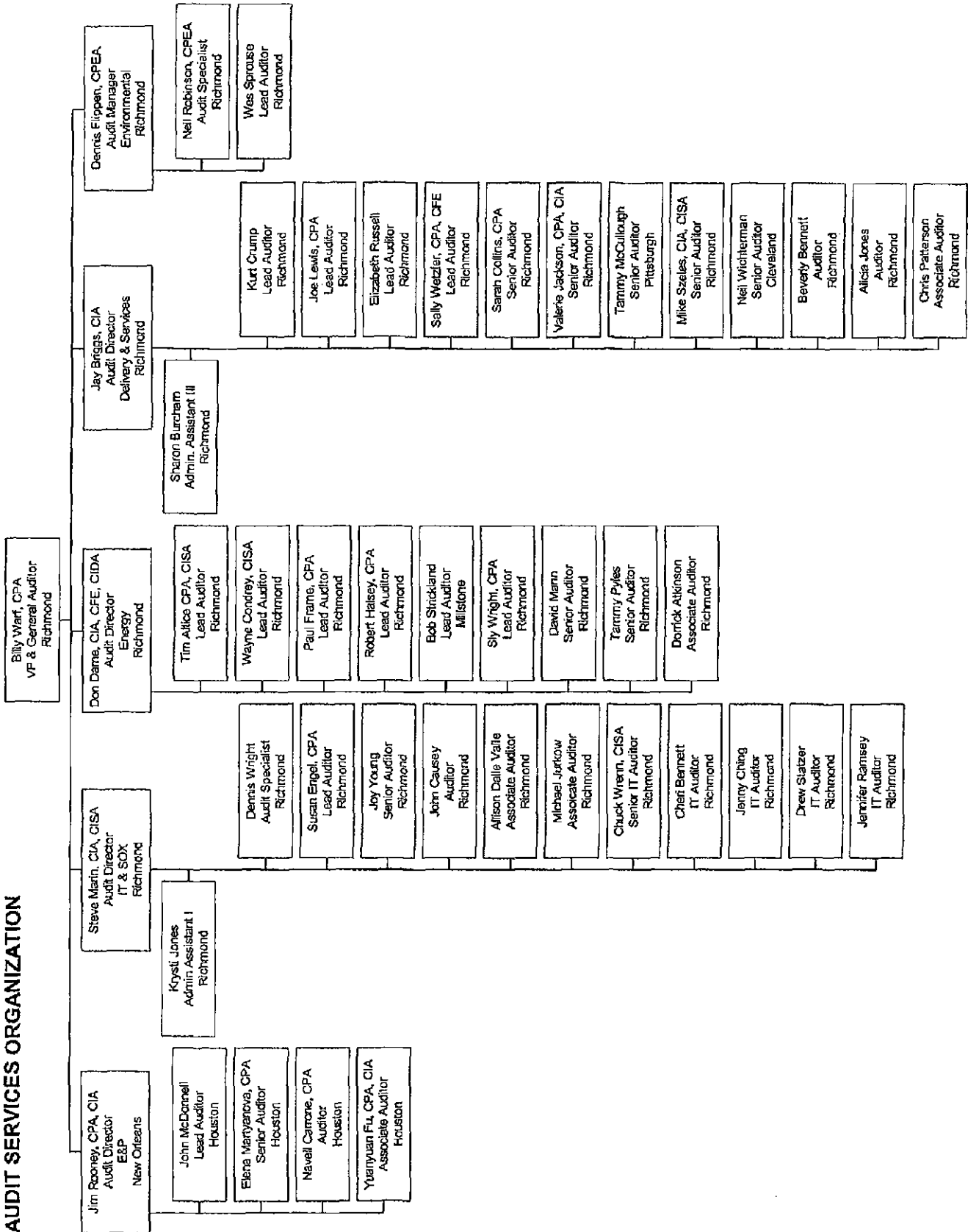## 4.3 INDEPENDENCE AND OBJECTIVITY

Independence and objectivity are essential in the effective discharge of the internal audit function. Independence is obtained primarily through organizational structure and through the acceptance and support of Company management. Independence in this context means the ability to carry out work freely, objectively, impartially, and in an unbiased manner. Audits, performed with an independent mental attitude, which is free from conflicts of interest, can be objective. This objectivity is enhanced by the independent reporting relationship and further strengthened by keeping internal audit personnel independent from the development and installation of Company policies and procedures.

4.4 AUDIT SERVICES ORGANIZATION

Billy Warf, CPA — VP & General Auditor — Richmond

Audit Directors / Managers:

- **Jim Rooney, CPA, CIA** — Audit Director E&P — New Orleans
- **Steve Marin, CIA, CISA** — Audit Director IT & SOX — Richmond
- **Don Dame, CIA, CFE, CIDA** — Audit Director Energy — Richmond
- **Jay Briggs, CIA** — Audit Director Delivery & Services — Richmond
- **Dennis Flippen, CPEA** — Audit Manager Environmental — Richmond

Jim Rooney — E&P:
- John McDonnell — Lead Auditor — Houston
- Elena Martyanova, CPA — Senior Auditor — Houston
- Navell Carrone, CPA — Auditor — Houston
- Yuanyuan Fu, CPA, CIA — Associate Auditor — Houston

Steve Marin — IT & SOX:
- Krysti Jones — Admin. Assistant I — Richmond
- Dennis Wright — Audit Specialist — Richmond
- Susan Engel, CPA — Lead Auditor — Richmond
- Joy Young — Senior Auditor — Richmond
- John Causey — Auditor — Richmond
- Allison Dalle Valle — Associate Auditor — Richmond
- Michael Jurkow — Associate Auditor — Richmond
- Chuck Wrenn, CISA — Senior IT Auditor — Richmond
- Cheri Bennett — IT Auditor — Richmond
- Jenny Ching — IT Auditor — Richmond
- Drew Slatzer — IT Auditor — Richmond
- Jennifer Ramsey — IT Auditor — Richmond

Don Dame — Energy:
- Tim Altice CPA, CISA — Lead Auditor — Richmond
- Wayne Condrey, CISA — Lead Auditor — Richmond
- Paul Frame, CPA — Lead Auditor — Richmond
- Robert Halsey, CPA — Lead Auditor — Richmond
- Bob Strickland — Lead Auditor — Millstone
- Sly Wright, CPA — Lead Auditor — Richmond
- David Mann — Senior Auditor — Richmond
- Tammy Pyles — Senior Auditor — Richmond
- Dorrick Atkinson — Associate Auditor — Richmond

Jay Briggs — Delivery & Services:
- Sharon Burcham — Admin. Assistant III — Richmond
- Kurt Crump — Lead Auditor — Richmond
- Joe Lewis, CPA — Lead Auditor — Richmond
- Elizabeth Russell — Lead Auditor — Richmond
- Sally Wetzler, CPA, CFE — Lead Auditor — Richmond
- Sarah Collins, CPA — Senior Auditor — Richmond
- Valerie Jackson, CPA, CIA — Senior Auditor — Richmond
- Tammy McCullough — Senior Auditor — Pittsburgh
- Mike Szeles, CIA, CISA — Senior Auditor — Richmond
- Neil Wichterman — Senior Auditor — Cleveland
- Beverly Bennett — Auditor — Richmond
- Alicia Jones — Auditor — Richmond
- Chris Patterson — Associate Auditor — Richmond

Dennis Flippen — Environmental:
- Neil Robinson, CPEA — Audit Specialist — Richmond
- Wes Sprouse — Lead Auditor — Richmond

5.1   EXTERNAL AUDITORS

The external auditors perform as an independent contractor principally to determine whether the Company's financial statements fairly present the financial position of the Company in accordance with generally accepted accounting principles. The firm of Deloitte & Touche currently serves the Company in this capacity.

The external auditor's opinion as to the fairness of financial statements is important to all who use such statements. The opinion states whether or not the independent auditor considers the financial position of the company and the results of its operation to be presented fairly in conformity with generally accepted auditing standards. Such standards, which are fully explained in the AICPA's "Statement on Auditing Standards" include, among others, the standards of fieldwork. Such standards require that a study and evaluation of the existing internal controls be performed in addition to the inspection, observation, and confirmation of competent evidential matter.

Essentially there is not, nor should there be, any conflict between the function of the external auditor and that of the internal auditor. The external auditor works closely with Audit Services to ensure there is an adequate system of internal control and a complete understanding of the scope of the work of each group. When this is done properly, the work of each group will be complementary and there should be no confusion, duplication, or conflict between them.

To further coordinate this effort, the external auditors are furnished with copies of internal audit reports and provided access to supporting working papers upon request. Audit Services staff members are periodically assigned to work with external auditors in connection with their annual examination of the Company's financial statements. Additionally, the external auditors meet with the Vice President and General Auditor frequently to discuss matters of mutual interest.

5.2   CORPORATE SECURITY

Generally, it is the responsibility of Corporate Security to investigate and pursue prosecution of any fraudulent activity in the Company, including external contacts, interviews, polygraphs, etc. It is Audit Services' responsibility to review, evaluate, and analyze Company records involved in any such investigation. The auditor is expected, through Audit Services' normal reporting channels, to notify Corporate Security of any detected or suspicious fraudulent activity when conducting regularly assigned audit duties. Corporate Security notifies Audit Services when assistance is needed during their investigations.

6.1   AUDITOR RESPONSIBILITIES AS A PROFESSIONAL

Audit Services adheres to the guidelines set forth by the Institute of Internal Auditors (IIA) and the Information Systems Audit and Control Association (ISACA). A primary goal of both of these organizations is to promote and improve quality and competence within the profession.   The IIA standards are published as the *Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics*. The ISACA standards are published as the *Standards for Information Systems Auditing.* These publications contain general guidelines governing professional conduct and each department member is expected to understand their content and to adhere to the principles they contain.

The auditors should also have some awareness of accounting rules and regulations prescribed by the Securities and Exchange Commission (SEC), the Federal Energy Regulatory Commission (FERC), the Public Company Accounting Oversight Board (PCAOB), the Council of Petroleum Accountants Societies (COPAS), and the state regulatory commissions.

The image projected by each Audit Services employee and the manner in which the audit duties are performed significantly affects an individual's performance rating and directly affects each employee's promotability within and outside the department. Therefore, Audit Services has adopted the following additional specific guidelines on ethics and conduct:

1.   Audit plans and schedules are considered confidential and should not be discussed outside the department by other than authorized department management personnel.

2.   Audit results are considered confidential and should not be discussed with other than Company employees who have a need to know or as is necessary in the conduct of an audit. Generally, comparison of one auditee with another, making critical comments about other departments, sections, or Company employees during an audit is undesirable.

3.   The integrity of audit personnel and audit related activities should be beyond question. Therefore, each department employee is expected to refrain from any activity that could create even the appearance of a conflict of interest or in any way compromise the objectivity of any audit.

4.   An effective auditor-auditee relationship is expected and can be developed if both parties exhibit a positive attitude and interact with each other in an open, frank,

tactful, and cooperative manner. An auditor with a secretive or authoritative attitude will hinder communications and reduce the level of cooperation with the auditee, which will ultimately reduce the effectiveness of the audit.

5.   It is not the auditor's responsibility to order or dictate that a specific routine or procedure be followed or to make any demands of auditees, regardless of their employment position. Also, the auditor should not instruct an auditee to take any corrective action or design or install operating policies and procedures. Audit Services is a service organization that uses creativity, initiative, and cooperation in making suggestions and recommendations to bring about remedial action.

6.   The audit should not attempt to police or cure a specific situation. It is the responsibility of line management to implement changes resulting from the audit or to assume any risks by not accepting such results. The auditor is expected to achieve full disclosure of the facts in a specific situation, report those facts, and make appropriate recommendations.

7.   The auditor should demonstrate a sincere interest in Company management's improvement of Company operations and be supportive of Company and departmental management and positively accept established policy, procedures, and methods. However, each employee is encouraged to question, discuss, and make suggestions for improvement to appropriate management concerning perceived problems involving audit findings and their resolution or any other Company activity. If satisfaction is not received in any particular level of supervision or management within the department, the auditor is encouraged to pursue action outside the department through our independent reporting relationship.

6.2   AUDITOR RESPONSIBILITIES WITH RESPECT TO FRAUD DETECTION

Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. A more simple definition of fraud is the crime of obtaining money by deceiving people.

The PCAOB Auditing Standard #2 states that part of management's responsibility when designing a company's internal control over financial reporting is to design and implement programs and controls to prevent, deter, and detect fraud. Because of this, Audit Services needs to have an increased sensitivity to potential fraud during audit planning and testing.

The IIA *Standards for the Professional Practice of Internal Auditing* state that internal

auditors are responsible for having sufficient knowledge to identify the indicators of fraud, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Auditors should be alert to control weaknesses that could allow fraud to occur. Some examples of fraud indicators are unauthorized transactions, transactions that lack adequate supporting documentation, missing transactions, override of controls, unexplained pricing exceptions, and unusually large material losses. When indicators of fraud have been detected, the auditor should discuss the indicators with Audit Services management and evaluate the indicators to determine if further investigation is needed. If additional investigation is warranted, the responsible audit manager will contact the appropriate Dominion departments and Audit Services will assist in the investigation as needed.

Because of the emphasis given to fraud detection by the IIA and the PCAOB, Audit Services should provide appropriate consideration of the potential for fraud in every audit. To this end, the standard Audit Planning work paper includes an audit step requiring this consideration.

Auditing is a profession that requires a balanced mixture of education, experience, communication skills, and analytical abilities. Internal auditors are exposed to different situations in a constantly changing environment. To meet the demands of our profession and to enable us to continue to provide the quality service management has come to expect, we are committed to the professional development of our personnel.

The professional development of our auditors includes not only scheduled seminars and programs, but attendance at meetings of professional organizations, utilization of the Company Tuition Refund Program, and on-the-job training. This combination of resources should enable each auditor to meet job requirements as well as any mandatory continuing professional education requirements.

The Company can only provide the opportunity for professional development. As a professional, it is up to each auditor to establish and meet his or her own professional development goals. Moreover, because all development is essentially self-development, it is the obligation of the individual to take full advantage of the opportunities presented to accelerate personal and professional growth.

7.1 PROFESSIONAL DEVELOPMENT PROGRAMS

The goal of formal professional development is for each staff member to receive adequate job related training, within established budgetary guidelines, to maintain their certifications, to enhance their ability to perform their job, and to provide a continuing benefit to the department and to the company.

At least annually, each employee will meet with their manager to plan their training, giving consideration to the following:

- certification needs, generally 40 or more hours per year
- individual development needs
- emerging trends and new technologies
- availability and location
- budgetary guidelines
- audit schedules
- company and Audit Services needs
- progress in meeting requirements of the Core Training Program

The Core Training Program described below was designed to provide guidance in the selection of courses. It has given consideration to varying experience levels of auditors and, if followed, should provide a strong foundation for the individual auditor. In approving course selections, management will generally give precedence to requirements of the Core Training Program.

Approved training will take various forms such as outside seminars, courses provided by the Dominion Performance Development Center (PDC), MIS, IIA, AICPA, AMA, ISACA courses, and courses developed internally. In addition, employees are encouraged to take advantage of the Dominion Tuition Assistance Program. For details, refer to the employee policy, "Tuition Assistance".

Self-study courses may also represent an acceptable form of training; however, while these courses may be beneficial, seminars offer more enrichment via interaction with peers and discussions regarding personal experiences. Accordingly, self-study courses will be considered for approval on a case by case basis. The approved training hours (time off from work without loss of pay) for a self-study course will be limited to a maximum of the number of credit hours offered by the course.

Seminars or classes should be selected which will equip the individual with the skills necessary to complete assigned tasks and assume added responsibility. Training selected should have a direct payback to the Company and to Audit Services in the form of improved quality of audit work or enhanced efficiency by improving auditor knowledge in subjects such as risks, controls, audit techniques, business practices, information technology, legal issues, accounting matters and business trends.

Periodically, training will be scheduled for presentation to all auditors at department staff meetings. Such courses will be scheduled in advance to reduce the impact on the audit schedule and the content of the program will be of a broad general interest.

Each staff member is responsible for reporting his or her training information. AutoAudit provides data entry screens for this information in its Personnel Administration section of the Management Information module (black tab).

Core Training Program

Each auditor should have adequate training to perform his or her audit responsibilities in an efficient, effective manner. The Audit Services Core Training Program has four primary objectives:

- To provide training which will have a direct payback to the Department and to the Company in the form of improved quality of audit work and enhanced efficiency.

- To provide sufficient training to enable employees who are professionally certified (CPA's, CIA's, CISA's, etc.) to maintain their certification.

- To maintain a high level of awareness among our audit staff of audit risks and of current audit techniques.

- To ensure each auditor has an adequate level of understanding of audit practices.

The program is flexible and should accommodate staff at varying levels of experience. It includes a core component designed to achieve a minimum and consistent level of training among the staff. In addition, training courses can be selected on an individual basis to meet specific departmental needs, or to establish a departmental specialist in a specified area.

The program is not intended to be all-inclusive, but is expected to be flexible enough to meet the needs of the Company, the Department, and each individual. A limited number of specialties have been described, but additional specialties may be identified which would require a separate list of courses. The course sponsors listed are suggested because our experience has shown them to provide a consistent level of good quality training at a reasonable price. However, the courses may be taken from a different vendor if quality is not compromised and the price is more reasonable.

Introductory Training

The following is a list of courses available which should be scheduled during the first two to three years for staff with no previous audit experience or for staff who have not had equivalent courses. This listing is intended to be representative of the types of courses available from which to choose. Alternatives will likely be determined by the staff member's prior training, work experience and audit specialty.

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COURSE	SPONSOR
Introduction to Microsoft Office	IT
Introduction to Windows (current version)	IT
Introduction to the Internet	IT
Introduction to CBMS	IT
Introduction to CCS	IT
Introduction to SAP	IT
Introduction to ACL	IIA

Basic Auditing:

Fundamentals of Internal Auditing	MIS
Tools and Techniques for the Beginning Auditor	IIA

Report Writing:

Audit Report Writing	IIA
Writing Better Audit Reports in Less Time With Less Effort	MIS
Effective Business Writing	PDC

Basic IT Auditing:

IT Auditing and Controls	MIS
Auditing Information Systems	IIA
Platform Operating System (MVS, VMS, DOS)	IT
Communications Monitor (TSO, Netview)	IT
Command Language (JCL, DCL)	IT
Making the Transition from IT to IT Auditing	MIS

Intermediate Training

For staff with two to four years audit experience, and who have completed the Introductory Training, or equivalent, courses such as those below should be scheduled over an approximate three year period:

COURSE	SPONSOR
Advanced Microsoft Office	IT
Advanced Windows (current version)	IT

Intermediate Auditing:

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Advanced Auditing for In-charge Auditors	MIS
Process Flow Auditing	MIS

Fraud Detection:

Fraud Detection & Investigation for Internal Auditors	IIA
Fraud College for Auditors	MIS
Fraud Auditing	KPMG

Industry Audit Series: Utilities Conference	IIA

IT Auditing:

Advanced Computer Applications Auditing and Testing		MIS
How to Audit the Application Development Process		MIS
Controlling and Securing Netware	MIS	
Audit and Security of Windows NT		MIS
Controlling and Securing UNIX Based Operating Systems		MIS
Controlling Client / Server Environments		MIS
Introduction to Internet Security		MIS

Advanced & Specialized Training

After completion of requisite Introductory and Intermediate Training, Advanced and Specialized courses should be added to the schedule and tailored to the individual based on assignments, interests, and developmental needs. A partial, representative list of such specialty courses which should be considered are categorized below:

SPONSOR

EDP Audit Specialists

Audit, Control, and Security of CICS	MIS
Enterprise System Analysis for MVS/ESA	MIS
Audit & Security of CICS & CICS/ESA	MIS
Security & Audit of SNA	MIS
Novell LAN Administrator	IT
Intro to ACL for Windows	ACL

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Construction and Contracts Specialists

Auditing Contracts	MIS
Effective Auditing of Construction Activity	IIA
Construction Internal Audit Specialist	KPMG

Employee Benefit Specialist

Auditing Employee Benefits Plans	MIS

Environmental Specialist

Environmental Audits	ERC
Environmental Regulatory Compliance Audits	ASTM
ISO 14000 Plus Training for Auditors & Certification	IIA
EEI Peer Review Program Training	EEI

Basic Training

Intro to ACL for Windows	ACL
SAP (SAP R/3 Overview) Advanced (Task Team Members only)	SAP
Acquisitions, mergers, and divestitures	MIS

Abbreviations:

ACL	ACL Services, Ltd.
AMA	American Management Association
ASTM	American Society for Testing and Materials
EEI	Edison Electric Institute
ERC	Environmental Resource Center
IIA	Institute of Internal Auditors
IT	Dominion Information Technology (or IT recommended)
ISACA	Information Systems Audit and Control Association
KPMG	KPMG Peat Marwick
MIS	MIS Training Institute

7.2   MEMBERSHIP IN PROFESSIONAL ORGANIZATIONS

Audit Services provides a fully paid group membership to the IIA for all Audit Services employees.

The Company reimburses employees for 50 percent of dues paid to other selected job related professional, technical and trade organizations.   Such memberships are those which are held in the name of the employee and are directly related to the employee's job. See the employee policy, "Memberships/ Professional Certifications " for more information.

The following are organizations that have been identified as being directly related to the work performed by Audit Services. While this list is not intended to be all inclusive, requests to join other organizations must be made in writing and job related justification must be detailed. Such requests must be approved by the Vice President and General Auditor before reimbursement can be requested.

- American Institute of Certified Public Accountants
- Computer Security Institute
- Information Systems Audit and Control Association
- Institute of Internal Auditors
- Institute of Management Accountants
- National Association of Certified Fraud Examiners

Attendance at meetings held locally is encouraged and reasonable costs of dinner meetings are reimbursed. Participation in local organizations as an officer or member of the board of directors is also encouraged and Audit Services will support, to a reasonable extent, the activities associated with such positions. Audit Services does not; however, provide the time or reimburse expenses associated with attendance at national conventions unless such are held concurrently with an approved seminar.

7.3   PROFESSIONAL CERTIFICATION

Professional certification is further evidence of interest in one's chosen field and indicates a certain professional status that cannot be obtained in any other way. For those who plan a career in auditing or a related field, we recommend becoming a Certified Public Accountant, Certified Internal Auditor, Certified Environmental Auditor, or Certified Information Systems Auditor. For those who are working toward certification, Audit Services will:

- Pay, through the Company tuition assistance program, for successfully completed refresher courses needed to prepare for examinations;

- Reimburse for reasonable expenses involved in taking the examination and grant time off from work on the dates of examination without loss of pay;
- Reimburse the fee for the initial sitting for the examination, and;
- Pay renewal fee for professional certification provided the certification enhances the current job duties.

Additional certifications such as Certified Fraud Examiner, Certified Management Accountant, and Certified Investment and Derivatives Auditor may also qualify for reimbursement on an exception basis depending upon specific circumstances. In these instances, approvals for reimbursement must be obtained from the Vice President and General Auditor on a case by case basis.

Audit Services will only approve payment for two refresher courses and will reimburse the examination fee and related expenses for the initial sitting for the examination. However, the necessary time off without loss of pay will be permitted for any reexaminations up to a maximum of four sittings.

7.4   CAREER PLANNING

The establishment of personal career goals and proper career planning are among the most difficult, yet important decisions faced by an individual. Audit Services offers a unique opportunity for career planning in that it provides an opportunity for a challenging career in auditing as well as exposure to a variety of careers throughout the Company. This diversity of experience offered may be used by individuals to assist in their career planning.

An early consideration in planning a career should be to identify, if possible, the desired career path. Once such a path has been chosen, it is incumbent upon the individual to adequately prepare for the chosen field of endeavor. Regardless of the decision made, accomplishment of a career plan depends largely on the degree of excellence of performance in the current position. Audit personnel are in a position to be identified by Company management as potential supervisors and directors; therefore, using job talents to the utmost at all times can be of great benefit to the individual.

Because the Company is concerned about the future of each individual, staff members should feel free to regularly discuss career plans with an Audit Manager or the Vice President and General Auditor. Otherwise, this subject will normally be discussed during periodic performance reviews. The goal of Audit Services is to develop and promote within as well as provide opportunities to be promoted to other positions within the Company.

The use of the Job Opportunity Bulletin System (JOBS), on the Dominion

Intranet, to identify opportunities outside the department is encouraged. Before applying for a position available through JOBS, the employee should ensure that the minimum requirements specified are met, and generally should have been in his/her present position for at least one-year. Most importantly, the employee should ensure that the position is right and fits a personal career path.

7.5 PERFORMANCE APPRAISALS

The appraisal procedure is a tool to monitor employee performance and provide feedback to the employee about his/her performance.

The annual appraisal is required by Company procedures and is documented by the Performance Summary and Feedback form. This is signed by the Audit Manager and employee and becomes part of the employee's permanent record in Human Resources.

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Department planning is an ongoing process that encompasses the identification of the goals and objectives of Audit Services and all departments throughout the Company. The focus of this section of the manual is planning as it relates to establishing the annual audit schedule for the department.

One of the primary objectives of Audit Services is to provide adequate and reasonable audit coverage. This requires the use of an annual risk assessment of the potential audit population to properly allocate available audit resources. The risk assessment process relies on a review of the Company's operations and plans, and results in the development of an annual audit schedule.

Stated simply, the development of the annual audit schedule can be summarized as follows:

- Identification of the audit population
- Ranking the population based on relative risk (Risk Assessment)
- Estimation of required time to complete each audit
- Estimation of available time
- Preparation of audit schedule
- Executive approval of audit schedule

8.1 IDENTIFICATION OF THE AUDIT POPULATION

The audit managers and selected staff members compile a list of all potential audits. The starting point for identifying the audit population is the list compiled in the previous year. The list is reviewed and revised based on suggestions from Company management and the audit staff, and any new or changed conditions affecting the Company.

8.2 RISK ASSESSMENT

The audit managers and selected staff members perform a risk assessment after the audit population has been identified. The risk assessment methodology is described in detail in Section 17 of this manual. The underlying factors in performing the risk assessment are:

- Financial impact,
- Management emphasis,
- Controls environment,
- Key indicators,
- Audit frequency and,
- Liquidity of assets and fraud potential

For each potential audit, each factor is weighed on a scale of 1 to 4, with 4 indicating the greatest risk.

To prepare an effective risk assessment, it is necessary to have a good understanding of the objectives and responsibilities of the area being evaluated. There are numerous ways to obtain such an understanding. The first is to review information found in the Policy and Procedures Manual, and other authoritative corporate or departmental manuals. A second way is to review prior workpapers and audit reports if available. A third way is to discuss the issues with knowledgeable members of the audit staff, including the Vice President and General Auditor. Finally, if the area has not been previously audited, discussions can be held with the appropriate management personnel of the area being evaluated.

In preparing the risk assessment, the facts considered in assigning the weighing factors, particularly extreme highs or lows are documented.

When the risk assessment is complete, each potential audit is ranked from highest risk to lowest risk. The resultant lists of prioritized audits are reviewed jointly by the audit managers and the Vice President and General Auditor to evaluate the relative risk rankings.

8.3 PREPARATION OF THE AUDIT SCHEDULE

Each potential audit on the prioritized list is assigned an estimate of time to complete. Such estimates are made by determining how much time previous audits have taken and the expected scope of the proposed audit.

Total available staff audit hours are determined by giving consideration to vacations, holidays, training, administrative time, unanticipated special projects, and estimated sick time.

Beginning with the highest risk rated audits, the estimated hours for each audit are accumulated until the total available audit hours are reached. The resulting list of audits becomes the proposed audit schedule for the department.

8.4 EXECUTIVE APPROVAL OF THE AUDIT SCHEDULE

The proposed audit schedule is routed to Executive Vice President and Chief Financial Officer for review and approval.

8.5   AUDIT ASSIGNMENT

Audit managers must consider many factors when making audit assignments to ensure the best audit possible within the constraints of available staff and budget. These factors include the general experience level of each auditor in relation to the team being formed, related previous audit experience, auditee contacts, staff development, rotation of in-charge duties, and rotation of travel.

In addition, an auditor's ability to maintain objectivity must be considered when making audit assignments. Auditors will not be assigned to test controls in areas in which the auditor's relatives are employed in important or internal control sensitive positions. Also, auditors will not be assigned to test controls in areas to which they were recently assigned or are scheduled to be assigned.

8.6   MODIFICATIONS TO THE AUDIT SCHEDULE

During the year, it may become necessary to modify the audit schedule to meet new current risks, respond to management requests for unscheduled audit work, or to adjust for unanticipated changes in the department or the Company. When changes are necessary, they are made with the approval of the Vice President and General Auditor.

8.7   STAFFING PLANS AND FINANCIAL BUDGETS

To provide adequate and cost-effective service to the Company, the Vice President and General Auditor evaluates annually the effect of changing the current staff size and experience level. Changes are made based on a balancing of various corporate needs such as the need for: specific type of audit coverage, special skills, and fiscal responsibility.

Use of an automated time reporting system is intended to ensure that costs associated with controlling time do not outweigh the related advantages or adversely affect audit flexibility. The AutoAudit automated working papers software (AAS) provides the elements necessary to budget, schedule, and record audit activities, as well as report the time spent on these and other activities. It is the auditor's responsibility to properly account for and record, on the proper AAS form, all scheduled work hours.

9.1   TIME REPORTING

The AAS Time Reporting Menu is used to enter the auditor's daily activities (See Section 13.3, Employee Attendance Reporting). Time reporting for each month is to be completed by the last working day of the month.

9.2   AUDIT PLANNING AND TIME SUMMARIES

The Administrative Assistant enters the following into AAS at the beginning of an audit:
- Activity
- Job Number (SAP Billing Suffix)
- Total number of scheduled hours

The auditor-in-charge is required to complete an audit plan showing budgeted hours prior to beginning the field work phase of an audit assignment. The time budget for an audit should be included in the AAS Administrative Summary, and should detail the budgeted and actual hours.

9.3   DEPARTMENT AUDIT SCHEDULES

Audit schedules are published monthly and should be discussed at department staff meeting. The schedules identify audits and auditor assignments for the following seven weeks. Any schedule assignment conflicts should be brought to the attention of the auditor-in-charge or Audit Manager for corrective action.

9.4   ANNUAL AUDIT SCHEDULE

The annual audit schedule is the primary control used to monitor staff assignments and to ensure audits are completed in a timely manner. The schedule is compiled using risk analysis from each business unit. The process includes definition of the audit population, gathering financial and operating data, conducting management interviews, scoring the updated population, preparation of a summary matrix and presentation of the proposed audit plan to senior management. A copy of the approved schedule will be released to staff members each year after appropriate reviews and approval.

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The overall objective of Audit Services is to provide the Company with effective, efficient, quality audits. Accomplishing this objective requires skilled, dedicated professional people at all levels, a thorough understanding of each of the Company's business units, and a well-designed audit approach.

The planning phase of an audit can be the most critical. No plan can cover all contingencies; but reasoned, logical planning will facilitate the performance of an audit. Potential problem areas can be anticipated and adjustments made.

Adequate audit planning promotes efficiency in both the use of audit resources and the conduct of the audit. The planning process should be documented and include the standards delineated within the IIA's *Standards for the Professional Practice of Internal Auditing*, which are:

- Establish audit objectives and scope of work.
- Obtain background information about the activities to be audited.
- Determine the resources necessary to perform the audit.
- Communicate with all who need to know about the audit.
- Perform, as appropriate, an on-site survey to become familiar with the activities and controls to be audited, to identify areas for audit emphasis, and to invite auditee comments and suggestions.
- Write or update the audit program.
- Determine how, when and to whom audit results will be communicated.
- Obtain approval of the audit work plan.

The auditor in charge is responsible for planning the audit. The preparation and planning for an audit is an essential component in the audit process. Effective planning should result in a more effective audit.

10.1 BACKGROUND INFORMATION

Background information consists of the information obtained from preliminary reviews and discussions.

- Discussions are held with the management of the department or function under audit to gain insight concerning areas of interest, plans, goals, and objectives.
- Reviews include reading prior working papers and audit reports, researching associated literature, examining organization charts, corporate policies, job descriptions and jurisdictional statements.

10.2 RESOURCES

The auditor in charge should ensure that the audit manager is involved in the formal planning process and is aware of the resource requirements. Resources include audit staff, time budgets and schedules, transportation, travel budget, etc.

10.3 COMMUNICATIONS

Except in those rare circumstances where the element of surprise is an important factor in conducting an audit, arrangements should be made to discuss the audit with the appropriate auditee department manager. Prior to these discussions, Audit Services may send an engagement memo, which outlines the objectives and scope of the upcoming audit. The objectives and scope should be provided to and discussed with the auditee department manager whether or not an engagement memo is sent. In addition, department executives should be notified of the start of all audits in their areas of responsibility.

The manager should be assured that all questions of significance will be discussed with affected supervision during the course of the audit. Attempts should be made to identify areas of management concern, explain the audit objectives and scope, and the nature of assistance the auditors may offer, and to request assistance, which may be required from area personnel.

10.4 SURVEYS

The purpose of a preliminary survey is to familiarize the auditor with the area to be audited, to aid in developing an audit program, and to form a firm foundation for the audit. Preliminary surveys should be conducted whenever there have been significant changes in the area to be audited or whenever an area has not been recently audited. Preliminary surveys may consist of an on-site tour or a "walk-through" of a remote facility with emphasis on the flow of work, key controls, management style, and quality of employees. Preliminary survey questions should be structured to answer for the auditor: what is the job, who does it, why is it done, and how is it done?

10.5 AUDIT OBJECTIVES AND SCOPE

The scope should define the limitations of the audit, setting forth a statement

describing what the audit will cover. The objectives should be delineated and established so that an audit program can be developed to meet those objectives.

10.6 AUDIT PROGRAM

The audit program should be written to support the intended scope and objectives of the audit. It should be a detailed plan of action, which will provide guidance and a means of control. A well-thought-out program will enable the auditor performing the procedure to stay on track and within the budget.

Each audit program should clearly state the objectives and degree of testing required to accomplish the objectives. Audit programs should contain procedural statements rather than questions. Procedures should be arranged in a logical fashion and, if the procedure is complex, provide additional explanations.

The audit program should not limit the ability to exercise sound judgment and should be flexible enough to allow the auditor to adjust to actual conditions encountered during the audit. It should be reviewed and approved by the audit manager prior to beginning the audit. And any changes to the audit program, which affect the scope or objectives, should have prior approval from the audit manager or auditor-in-charge.

10.7 WORK ASSIGNMENTS

The audit procedures should be divided among the auditors assigned to the audit and thoroughly explained to assure that each auditor understands the assigned duties and can perform as a contributing member of the team. The Administrative Summary and the Completion Table in AutoAudit should be completed by the auditor-in-charge, and explained at the pre-audit meeting.

10.8 SAMPLING

Due to the large volume of transactions usually involved in the evaluation of controls, samples are commonly examined. It is generally assumed the sample chosen closely resembles the entire population of transactions. However, when the sample is chosen at the discretion of the auditor, there is no reliable basis for that assumption. Statistical sampling can be used so that a basis for the assumption can be mathematically supported. Once the level of confidence and precision is determined, the sample size is computed. The sample is then tested and the results evaluated and compared to the attribute parameters chosen. By

using these steps, the sample will be statistically valid and can be assumed to be representative of the entire population.

Statistical sampling is not always the best sampling method and use of it must be weighed against the benefits received. In some cases, the method of recording transactions is such that selecting a true random sample would not be feasible due to the increased time involved. Also, the control being tested may not be material enough to warrant the time required.

If a number of exceptions are found in the testing, a larger sample may be necessary to determine the extent of conformity with, or deviations from, the control being tested.

10.9 COORDINATION WITH IT DEPARTMENT

The IT Department provides a contact Project Manager who is responsible for our information technology needs. For those audits where the need for data is from a system unfamiliar to or seldom used by Audit Services, the IT Project Manager should be contacted. The IT Project Manager will research the request and forward it to the appropriate IT group for processing.

10.10 DATA EXTRACTION COORDINATION

A number of audits require data to be extracted from client-server, mid-range, or mainframe systems; therefore, planning should address how this is to be accomplished. Certain staff members in the department who have had specialized training have been designated to assist with data extraction. The need to extract data from complex systems may require coordination with our IT Project Manager (See section 10.9 above).

Before requesting a new application, the auditor making the request should determine if existing reports or inquiry screens could provide the needed information.

There are several software packages available for extracting data from the Company's client server and mid-range systems including the following:

- ACL (Audit Command Language) for Windows – Uses a variety of internal functions, views, and batch routines to extract data, perform statistical analyses, and sampling for audit purposes.

- ACL Direct Link for SAP R/3 – Extracts data from SAP applications by generating ABAP (Advanced Business Application Programming) programs based on selected tables, fields and filters. The extracted data can be downloaded automatically or stored to be retrieved at a later time.

- SAP – An integrated business system designed to help organizations run such business processes as inventory management, creating requisitions, processing sales orders, paying invoices, payroll, etc. Data can be extracted using ABAP or Information Technology (IT) programming resources.

- Bindview – Collects data, analyzes and reports on the controls and security operations of Novell Netware, Windows NT, and Windows 2000 network operating systems. This tool is primarily used for IT audits.

- Monarch – A database tool that allows a user to view, print, analyze and extract data from existing computer reports which reside on mainframe computers, servers, or PCs.

- SNAP REPORTER – A product from Paisley Consulting which can be used for data mining and reporting of Lotus Notes databases and many other file formats.

- AUTOSECURE – Collects data, analyzes, and reports on the controls and security operations of Unix system variants. This tool is primarily used for IT audits.

The audit workpapers should be used to document the data extraction and other routines used while performing audit testing related to audit assignments.

Audit Services' software languages for use with the mainframe computers are as follows:

1. PANAUDIT PLUS   This is a specialized audit oriented extension of EASYTRIEVE. Its standard routines, reports, and sampling techniques will be used whenever possible and, along with EASYTRIEVE, it is the Audit Services' primary mainframe extraction language.

2. EASYTRIEVE PLUS This is the Company's primary data extraction, report-

writer language. It is used in maintenance of existing applications and to supplement PANAUDIT PLUS.

3. Miscellaneous — Existing utility programs; such as, QMF or EZ-IQ; production programs, and screen displays will be used where they provide the desired result and time savings. Other, more time consuming tools, such as COBOL or ASSEMBLER will be used only when absolutely necessary.

Job Control Language (JCL) for use on the mainframe computer is usually complex and should normally be prepared by the IT audit staff, unless existing JCL can be copied.

IT auditors will formally control and support jobs written by them and stored on their computer libraries. They will provide informal assistance on those jobs written by non-IT auditors. Regardless of who develops the job, each new application should be tested and reviewed against known valid information before being used to support an audit.

All software routines used to support an audit should be documented. The documentation should provide the information needed to run the routines for future audits. Non-IT auditors who create audit software are responsible for preparing such documentation and forwarding it to an IT auditor for review and filing. IT auditors are responsible for such documentation on software coded by them.

For mainframe computer jobs, the IT auditors will maintain controlled permanent computer libraries (data set named 000AUD.JOBSDOC.DATA) of software code and JCL to be retained. For client-server jobs, the audit software will be maintained on the audit shared drive (J:). Other auditors coding their own software must notify the IT auditors of software and JCL to be copied to the appropriate libraries.

Time Sharing Option (TSO) will be used by Audit Services to communicate with and submit jobs to the mainframe computers. Training and procedures for use of TSO are provided by IT and consideration of any such training should be discussed with the audit manager prior to scheduling. IT Auditors will informally assist in the use of TSO.

While the mainframe computer is an extremely efficient and productive audit

tool, it can also be expensive. Jobs run during non-prime or at lunchtime cost half as much as those run during prime time. Whenever possible, jobs should be submitted with job class instructions to be run overnight.

Working papers serve both as evidence of the work done to support the auditor's conclusions and as tools to aid the auditor in performing work. Audit working papers also evidence the exercise of due professional care and document compliance with the professional standards. Information included in working papers should be sufficient, competent, relevant, and useful. Section 2300 of the *Standards for the Professional Practice of Internal Auditing* defines sufficient, reliable, relevant, and useful as follows:

- Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusion as the auditor.
- Reliable information is best attainable through the use of appropriate audit techniques.
- Relevant information supports audit findings and recommendations and is consistent with the objectives for the audit.
- Useful information helps the organization meet its goals.

Working papers are the tool used by the auditor to properly organize work and prepare for oral and written presentations. While an auditor may have excellent analytical skills, he/she must be able to communicate ideas to be completely effective. Therefore, the working papers should support the conclusions reached and be the basis for the communication of the results.

In addition to serving as a reference for the preparer when called upon to report findings or to answer questions, it may be necessary for individuals external to the department or to the company to review the working papers. To facilitate this process, it is essential to maintain comprehensive working paper documentation and cross-referencing, i.e., doclinking in AutoAudit, of interrelated items that provide evidence of audit findings and serve as support for conclusions and recommendations.

Audit Services primary working paper documentation tool is AutoAudit, a LOTUS NOTES based software package from Paisley Consulting. This product allows auditors to create and store audit plans, working papers, observations, memos, and audit reports in one retrievable database.

There may be situations, deemed appropriate by the audit manager, the Vice President and General Auditor, or the Vice President and General Counsel, to keep working papers to a minimum or prepare them manually. In these situations, AutoAudit will not be used to create or store working papers.

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11.1 BASIC WORKING PAPER REQUIREMENTS

1. Working Paper Format

   Below the second table is a rich text field, which is used by the auditor to document all the work. The work should be documented using the following format:

   - Purpose -- A brief description of the intent of the Work paper. Use action words e.g. "To determine; To evaluate"

   - Scope -- Description of what/how much is covered in the workpaper.

   - Conclusion -- Include the basis for the conclusion followed by a statement indicating if the Tested control or process is designed and operating effectively. Note any exceptions and cross-reference to the work that supports the conclusion.

   - Testing -- Describe audit steps to be conducted. Document work performed. Include specific sources of information (e.g., dates of interviews detailed document references). Be sure to indicate the purpose and use of any attachments.

   Attachments and supporting documents:

   Refer to the following when making decisions as to what supporting documents need to be retained and attached to the workpaper.

   Scanning and copying documents:

   Include copies of documents in the work papers:

   1 - When needed to support an exception.
   2 - When needed to support a judgment call on a potential exception.
   3 - When the documents being reviewed are routinely destroyed by the user shortly after use in the normal course of business.

   Also, when reviewing a large number of documents, it is good practice to include a copy of one of the documents as an example of the type of testing done even when no exception has occurred.

   Do **not** include copies of documents:

When no exception has occurred, and the documents reviewed will be retained by the user for a year or more. In this case, you need to clearly describe what documents were reviewed, how and where you got the documents, and how they were used in the testing. This description should be complete enough to allow a reader to go find the documents without having to go back to the auditor who did the testing.

Screen prints:

Include prints of screens viewed in the work papers:

1 - When needed to support an exception.
2 - When needed to support a judgment call on a potential exception.
3 - When the information on the screen is not maintained in the automated system for an extended period of time. In other words, if data history is routinely purged, and you would not be able to see it later in the year.

Do **not** to include screen-prints that do not support the work.

The source for attachments and screen prints should be noted in the work paper.

2. Hard copy reports, e.g., computer printouts, procedure manuals, and contracts may be filed in an audit file that is stored in the department filing cabinets. Hard copy reports should be appropriately referenced in the AutoAudit working papers.

3. In order to maintain consistency, an alphanumeric system is used for indexing. The alpha letter indicates a particular section of the working papers and the number specifies the respective page number.

4. Where appropriate, working papers should be doclinked to provide cross-referencing.

5. Tickmarks are a shorthand means of documenting the completion of an audit step. Standard tickmarks have been included in the design of our AutoAudit working paper system. These standard tickmarks can be supplemented by adding others using the keyboard symbols. As these tickmarks have no special or uniform meaning in themselves, an explanation of each tickmark should be made on the working paper on which it appears or, when manual working papers are used, referenced to

a tickmark legend directly following the working papers to which it pertains. The legend should be cross-referenced to these pages.

6. Responsibility for each audit and the related working papers is assigned to the auditor-in-charge who will perform a first level working paper review. Ultimate responsibility for the review of working papers rests with the Vice President and General Auditor. The Vice President and General Auditor has chosen to delegate this responsibility to the audit managers who will perform a second level review of working papers. The review can take place remotely with all discussion being handled within the AutoAudit system. Reviewers and auditors should use the comment function of AutoAudit as a means to convey information regarding specific working papers.

11.2 CONTENT REQUIREMENTS FOR WORKING PAPER FILES

Audit Services performs both traditional and non-traditional audit reviews and projects. Depending on the type of the audit assignment, traditional or non-traditional, auditors will normally comply with all requirements listed in this section. However, when a non-traditional audit review or project is undertaken, 1. (Audit Planning) and 2. (Audit Objectives and Programs) can be skipped.

1. Audit Planning

   Documentation of the planning process should be contained in the Planning Activities form in AutoAudit for each set of working papers and where applicable may include:

   - applicable materials specific to the audit area
   - results of the pre-audit meeting with auditee management
   - significant changes in audit area
   - requests for information
   - preliminary pre-audit controls review
   - risk analysis
   - sampling strategy
   - audit objectives and scope of work
   - preliminary audit plan
   - resources necessary to perform the audit (may include specialized expertise)
   - key audit dates
   - confirmation of reasonableness of audit hours

- discussion of scope and objectives with Audit Manager or Vice President and General Auditor

2. Audit Objectives and Programs

Audit objectives and audit programs are contained in the working papers. Objectives or goals are definitive statements that specify action required to achieve desired results. Audit programs are specific detailed steps that specify the nature and extent of testing to accomplish the defined objectives. All audit objectives and audit programs must have audit management approval before beginning the review.

3. Project/Activity Checklist

There are audit projects, i.e., non-traditional audits or other assignments, for which the use of the standard Planning Activity and Audit Program forms is not appropriate. The Project/Activity Checklist should be used in lieu of the Planning Activity and Audit Plan forms. Discuss these projects with the audit manager to clarify the assignment and define its scope and objectives. Throughout the effort, document the necessary activities based on the checklist and the professional judgment of the auditor.

Documentation may include, but is not limited to the following:

- meeting notes
- correspondence
- significant documents
- e-mail messages, which illustrate decisions or points of view of the key players or organizational representatives

Note: Care should be taken when deciding whether to document sensitive data in the work paper. If you are not sure, check with your manager.

The results of this non-traditional audit activity may still result in observations and either an audit report or audit memo.

4. Examining and Evaluating Information

Information to support audit results should be documented. The documentation can take the form of analysis, narratives, interviews, observations, etc. If sampling techniques are to be used, they are to be documented in the working papers with the applicable test(s) of transactions. Statistical sampling documentation should contain:

- population
-      population source
- sample size
- method of sample selection (random, dollar unit, attribute)
- materiality
- confidence level
- interpretation of results or conclusions reached

Other types of sampling methods, e.g. judgmental, documentation should contain:

- population
- sample size
- technique used for sample selection (including for example -starting point, percentage selected, etc.)
- interpretation of results or conclusions reached

5.   Observation Forms

Observation forms are used to record audit findings and discussions with management. Observation forms are traceable to the final audit report and doclinked back to the working paper.

Audit findings reported on observations forms generally contain:

- condition found (observation)
- cause of problem   (discussion and background)
- effect of problem   (risk)
- recommendation   (recommendation and management response)
- disposition

6.   Audit Reports

Audit reports should be maintained in the working papers with the supporting documentation.
Accordingly, copies of signed audit reports are placed in a file maintained by the Departmental Administrative Assistant. All written audit reports must be objective, clear, concise, constructive and timely, and at a minimum contain:

- objective(s)

- scope
- results of the audit
- audit opinion (where warranted)
- auditee response if applicable

Audit objectives inform the reader why the audit was conducted and what it was expected to achieve.

Scope statements identify the audited activities and include, where appropriate, supportive information such as time period audited. If deemed necessary, related activities not audited may be identified to more clearly define the boundaries of the audit.

Results include findings, conclusions (opinions), and recommendations. Where appropriate, opinions should be expressed in audit reports. Findings are pertinent statements of fact and are based on the following attributes:

Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (what should exist).

Condition: The factual evidence that was found in the course of the examination (what does exist).

Cause: The reason for the difference between the expected and actual conditions (why the difference exists).

Effect: The risk or exposure that is encountered because the condition is not the same as the criteria (impact of the difference).

7.   Following Up:

Audit report topics will be followed up at the discretion of the audit manager and Vice President and General Auditor. If an existing condition was described and given a date by which correction was to be expected, then the item should be followed up accordingly.

In the case of client responses in which a recommendation is to be implemented at some future time, it may be appropriate to follow up during the next audit cycle.

To ensure that the AutoAudit follow-up reminder feature is triggered, be sure to add an action date in the correct field in the work paper.

8.   Administrative:

Administrative matters that pertain to audits are documented in the Administrative Summary Section of the working papers.

The culmination of much of our audit effort is the audit report. It must be factual, clear, and concise. For the report to be effective in attaining the desired improvements, it should be practical, constructive, and receive proper distribution. In addition, it should be timely, attractively formatted, and well organized to invite careful reading. Distribution alone does not guarantee the report will be read with active interest.

12.1   GENERAL CONSIDERATION

Auditors are obligated to report their findings. Whether results are communicated orally or in writing, that communication constitutes a report. Listed below are the common elements of the standard written audit report format to be used by Audit Services:

- Cover Letter and Executive Summary
- Background
- Objectives and Scope
- Audit Opinion (where warranted)
- Observations and Recommendations

While a written communication is nearly always the best way to communicate audit findings and document what was communicated, there may be occasions when oral reports are sufficient or even more appropriate. Examples may include sensitive or confidential issues or interim status reports. Whether oral or written, report content and precision should measure up to the same standards.

Written reports are signed by an Audit Manager; however, in certain cases it may require the signature of the Vice President and General Auditor.

12.2   COVER MEMO

Audit reports that are two pages or less do not require a separate cover memo.

When a cover memo is required, it should contain the report title and date of issue, objectives and scope, and a brief listing of significant audit findings. The report title should be brief but specific. The report date should be the date the report is released. The listing of audit findings should summarize the audit issues at a high level in order to focus the readers' attention on the results of the audit, and allow the reader to determine if there is a need to review the details of selected findings. The audit findings should include a brief statement of the

audit observations, recommendations, and management responses in a way that can easily be presented to executive management.

12.2.1 EXECUTIVE SUMMARY

In some circumstances, an executive summary may be prepared as a document separate from the cover memo and audit report. The executive summary should summarize the audit findings, recommendations, and management responses in a way that can easily be presented to executive management. It must be brief, but should be specific enough and complete enough to enable the reader to fully understand the issues presented. A poor summary is one that attempts to repeat too much of the findings. The auditor may want to express an opinion here as to the overall condition of the function being audited.

The executive summary is generally prepared as a presentation tool that improves communication of results to executive management. It can be presented to management separately or in addition to the audit report, but the audit report is the official result of the audit and must be retained as such. The executive summary, if prepared, should be retained as a document in the workpapers.

12.3 BACKGROUND, OBJECTIVES, AND SCOPE OF WORK

The report will contain background and scope information that may be combined or separate, depending on length. Background information is intended to aid auditee management who receive the report, but have not been directly involved in the audit, understand the details by putting audit findings into the proper context. If an audit is performed by special request, this should be indicated in the report.

The audit scope should include the audit objectives, the time period covered, and any limitations in scope.

The report should also disclose in general terms whether internal controls were evaluated, the kind of sampling used, special analytic techniques, interviews, etc. It should be clear from this section whether the audit was comprehensive or a limited review.

12.4 OBSERVATIONS AND RECOMMENDATIONS

Observations and recommendations should be identified in such a way as they may be easily referenced. Unless the observations are presented in a special format, such as arranging comments by audit area, they should appear in a sequence of the most important first.

The format for each observation includes the following: a statement of the observed condition, a discussion and background, the risk, the recommendation, and the management response.

- Statement of the observed condition: This is a brief statement of the noted finding.
- Discussion and background: This section presents the facts that support the finding. Audit findings are matters of fact, not opinion. After presenting the facts, point out why these factual circumstances result in a deficiency. Usually this requires an explanation of the standard used to conduct the testing that resulted in the finding. Explain this in cause-and-effect terms that a layman can understand. Do not write as though all readers will have a sound background in audit theory or the auditee's environment. Persons such as audit committee members do not know the auditee's operations like the manager does. Even those who are familiar with theory and procedures will more quickly assimilate your message. Using this style forces you to understand the cause and effect and assures that the proposed solutions clearly match the perceived problem.
- Risk: This section identifies what effect the findings will have on the company if the situation is not corrected.
- Recommendation: Make recommendations specific, practical, and relevant. Explain the action to be taken and how it resolves the problem. Should the problem be resolved prior to issuance of the report, that fact should be acknowledged.
- Management Response: This section includes whether or not management agrees with the observation and recommendation, and what action will be taken to resolve the issue. When requesting management responses from multiple individuals via a memo or draft report, the auditor should be clear as to who should respond to each item. Also, in the request, state clearly that the management response should state (1) who will implement the resolution to the issue, (2) what action will be taken, and (3) when the resolution will be fully implemented.

12.5 DISTRIBUTION

The preferable method of audit report distribution is in an electronic format via the company's electronic mail (email) system. The subject line of the email should clearly state that the document being sent is a final audit report to ensure the email does not go unnoticed or unread.

Generally, audit reports will be issued to the department executive responsible for the area being audited. Copies of audit reports will be distributed to the appropriate business unit directors; the business unit financial executive; the Vice President and Controller, Dominion; the business unit Controller; the Vice President and General Auditor; the audit manager and auditors responsible for the audit, and other appropriate management personnel.

It may be desirable to include others on the distribution list, particularly in those situations where comments in the report may have an impact on a department other than the department being audited. The responsible auditor and audit manager should take care to ensure all affected departments receive a copy of the final report.

Reports may also be requested by external entities such as external auditors, the Federal Energy Regulatory Commission, the state regulatory commissions, etc.

Our reports are confidential and as such should not be given to anyone not on the distribution list without prior consent of the Audit Manager.

12.6 QUALITY CONTROL

Before any report is issued, it will be approved by the Audit Manager and the Vice President and General Auditor. Every statement of fact, date, amount, and statistic will be cross-referenced to the supporting working papers. Reports will be proofed and checked for mathematical accuracy, if necessary, by someone other than the drafter.

The drafting and editorial review process improves any report. It is the rule, not the exception, that a preliminary draft will undergo several changes before it is finalized. Even the originator can usually recognize improvements if he or she rereads the draft several hours after writing it. Reports should be reviewed for comment by at least one person not directly involved with the audit. This will assure that the report will be understood by others who will read it after it is

released.

12.7 TIMELINESS AND REPORT ISSUANCE

Timeliness is essential for the report to be useful for management. If findings indicate such immediate action is required that it would not be prudent to await the report release, the manager of the area involved and the appropriate audit manager should be advised immediately by the in-charge auditor. This special advisory should be recorded in the working papers and disclosed in the report.

The following are suggested practices that may improve the quality and timeliness of audit reports. Additional suggestions may be found in section 12.10 REPORT PREPARATION GUIDE.

- Engage the auditee during the audit to formulate a management response upon identification of an issue, do not wait until fieldwork is complete. Prepare the observation form and consider developing a suggested response or paraphrasing the response based on your discussions with the auditee.
- Schedule the various level exit conferences as close together as possible. Prepare the draft report and conduct the management level exit conferences within 7 calendar days of the completion of the fieldwork.
- Provide deadlines to management for their responses to audit recommendations, generally within 2 weeks. If practical, schedule executive level conferences to take place shortly after responses are due.
- When the opportunity arises, meet with executives on multiple reports to eliminate the need for multiple meetings.
- For those reports where no significant issues are noted, issue the final report to the responsible Director instead of the Vice President. The decision should be supported in the administrative summary of the working papers and will be at the discretion of the Audit Manager. Special request audits may be addressed to such levels of management as deemed appropriate by the Audit Manager. As always is the case, be available to meet with the Vice President at their request if clarification of an issue is required.

12.8   GRAPHICS AND OTHER STYLIZING TECHNIQUES

Graphic presentations are frequently used to help explain and assist in the assimilation of information. Auditors are encouraged to provide graphics; e.g., charts, analytical schedules, etc, to present information effectively. Graphics afford an opportunity to add color and variety to a report, and make it more interesting and convincing. For example, including a bar chart showing an increasing trend in bad debt write-offs would be a way to convince the reader of the importance of your report on credit and collection efforts. A chart plotting the rates of escalation under a fuel purchase contract against the trend in general inflation could illustrate that even though a contractor is not violating contract terms, it may be time to renegotiate.

In all cases, attention should be given to the overall appearance of reports. With effective use of spacing, indenting, listing, and margins, reports can be made more appealing and better organized.

12.9   SPECIAL CONSIDERATIONS

Audit reports in the utility industry are in many respects a public document and should be written with this in mind. As stated earlier, our reports are made available to Federal and State commissions, the IRS, and may also be available to consumers' counsel, intervenors, etc. This is reason to emphasize once again the need to carefully distinguish between fact and opinion. Qualifications and caveats should be included where necessary. For example, if you report on potential claims against a contractor, be sure to recognize in the report that your findings are intended only to make those responsible for the contract aware of the potential for claims, and that you understand that negotiation often involves trade-offs. To make a claim sound more certain of collectibility than is really the case could result in undue criticism of Company management if negotiation or litigation with a contractor is unsuccessful.

The potential for public review is also a good reason to write the report in a constructive tone. It is never necessary to castigate the auditee, and it only serves to decrease the likelihood of implementation of recommendations. Positive comments on good performance are appropriate.

12.10 REPORT PREPARATION GUIDE

Activity	Who	Comments / Best Practices
Prepare a list of findings/observations for discussion with local management.	AIC	Provide the observations to local management as they are identified during the audit. As stated in Section 12.7 of the Audit Admin Manual, "Engage the auditee to formulate a management response upon identification of an issue, do not wait until field work is complete." Possibly use the standard comment capability of AutoAudit for audits which have consistent types of findings, such as, Inventory and Procurement Card audits.
Perform a field closing with responsible local supervisors and managers.	AIC	The goal here is to inform management of all potential report items. Encourage management to formulate a response. Encourage all responsible levels of management to attend. Attempt to included the Director level as well to avoid additional exit meetings. As stated in Section 12.7 of the Audit Admin Manual, "Conduct the management level exits within 7 calendar days of the completion of the field work."
Develop the DRAFT report in AutoAudit.	AIC	The DRAFT report is prepared in AutoAudit, and reviewed by the audit manager. It may be moved into WORD for initial distribution.
Send the DRAFT report to management. Request a response to all recommendations within 2 weeks.	AIC	The DRAFT report is sent to the same management group who attended the field exit, plus the Director level if they did not attend the field closing. When practical, schedule the executive level exits now to encourage management to return responses quickly.
Receive management responses and enter into audit report in WORD and AutoAudit.	AIC	Use the responses as provided by management. The only changes should be those necessary to correct grammar and spelling. If substantial changes are needed to improve clarity, review the change with the auditee. Do not wait to enter the responses into AutoAudit.
Determine the need for additional meetings prior to sending the final report.	AIC, AM	Additional meetings may be needed if the auditee disagrees with a recommendation, if their response does not adequately address the audit recommendation, or if other issues arise during the reporting process. These additional meetings may be avoided if all levels of management are encouraged to attend the initial exit meeting. Note - if management disagreements can not be resolved, call attention to it in the cover letter of the final report.
Schedule the closing meeting with the responsible executive	AM or admin assistant	Some groups do not always hold an exit meeting at the executive level. The reasons for this include, local customs, the remote location of the executive, or the executive's preference. Send an electronic copy of the final report to the executive prior to the meeting. It should be sent well in advance of the meeting to allow adequate time for the executive to review the report.
Meet with the responsible executive to review the final report.	AIC, AM, General Auditor	Depending on the level of significance of the report items, this meeting may not be needed. The responsible audit manager will determine the need and will schedule the meeting when needed.
Distribute an electronic or hard copy final audit report	admin assistant	The Audit Services preferred method is to distribute the final report via the company's electronic mail (email) system. Determine the preference of the recipients.
Attach the final report to the AutoAudit workpapers	admin assistant	

13.1 WORK SCHEDULES

The Company strives to balance the business needs of the company and the personal needs of employees by allowing flexible work schedules. Decisions regarding implementation of flexible work schedules are at Management's discretion.

The normal workweek consists of five eight-hour days (40 hours). The available alternative work schedule is the compressed workweek, also called the "compressed 9s" or "modified 9s" workweek. This schedule consists of eight nine hours days and one eight hour day worked over a two-week period. Assignment to the compressed workweek must maintain a balance between the "A" and "B" team personnel. Work schedules that deviate from the above require senior executive approval.

When staff members are working in the field, they should attempt to maintain a work schedule that conforms with the schedule at that field location. Four ten-hour day schedules have been approved for Audit Services employees engaged in audits where it is determined to be justified and more productive.

13.2 TRAVEL TIME

When performing an audit requiring overnight travel, the auditor is expected to make travel arrangements that best accommodate an efficient execution of the audit. When traveling to and from audit assignments, half of the actual travel time should be charged as time worked. Travel time that falls outside normal working hours is not compensable.

When a staff member's work location is within driving distance from his/her home, a reasonable allowance should be made in the starting and quitting times for a one-way drive in excess of their normal commute time.

13.3 EMPLOYEE ATTENDANCE REPORTS

The AutoAudit Time Reporting Form is used to document hours spent on audits, activities, and to record time off, including time off with or without permission. Time reporting is to be completed by each auditor at the end of each month. The Audit Services Administrative Assistant transfers the AutoAudit time records to the Time Entry System (TRAC). Employee attendance reports are generated and distributed to each employee monthly for review and confirmation.

13.4   REPORTING ABSENCES

When an employee is absent from work due to illness, injury, or other unplanned reason, it is the employee's responsibility to promptly notify the Audit Manager, the Audit Services Administrative Assistant, or other designated individuals. The employee is expected to personally make such notification by telephone at the beginning of the regularly scheduled workday. All absences, whether planned or unplanned, should be reported on the AutoAudit Time Reporting Form.

13.5   SEVERE WEATHER

Although no employee should take unnecessary risks when conditions make it unsafe to report to work, all employees should make every reasonable effort to report to work as scheduled. Those individual's who make a reasonable effort but are unable to report because of inclement weather will be given the following options for reporting scheduled time missed:

- Vacation
- Floating or Personal Holiday (where available)
- Off With Permission – No Payment

Audit Services personnel who report to work and are released early due to inclement weather should record their nonproductive time as "Company Dismissal-Pay" on the AutoAudit Time Reporting Form.

Should weather conditions prohibit travel to an assigned audit location, Audit Services personnel should proceed to their home office or a regional or district office, if accessible.

13.6   SICK LEAVE

The intent of sick leave is to pay employees for time missed due to illness or medical and dental appointments. Sick leave days are not to be used as "free days off." Any employee found to be abusing this sick leave policy will be subject to disciplinary action. For calculation of sick leave allowance, see the "Sickness and Disability" section of the Dominion Human Resources Employee Policies.

13.7 MEDICAL AND DENTAL APPOINTMENTS

Sick time credit should be used to record time missed due to doctor's appointments. Personnel may be allowed to make up time missed for such appointments with the Audit Manager's permission. Employees must make up the time within the same calendar month as the absence.

13.8 VACATION

The purpose of the Company's vacation program is to allow employees extended time off with pay for relaxation away from work. Full time employees are entitled to vacation based upon their length of employment, and Audit Services management will try to accommodate the vacation wishes of employees. Vacation will be planned to limit interference with department operations.

In an emergency, an employee may be required to work during a period previously scheduled for vacation. In such cases, an effort will be made to reschedule the vacation at some other time during the calendar year. If it is not possible to reschedule the vacation, non-exempt employees required to work will be paid regular vacation pay plus regular pay for hours worked during vacation. Exempt-deductible employees will be allowed to carry over the vacation to the next year, even if they are carrying over the maximum vacation hours allowed. For calculation of vacation allowance, see the Vacation section of the Dominion Human Resources Employee Policies.

13.9 HOLIDAYS / PERSONAL HOLIDAYS / FLOATING HOLIDAYS

Refer to the Holidays section of the Dominion Human Resources Employee Policies for a list of holidays to be observed by each of the Dominion companies and for the procedures for observing these holidays.

Personal holidays and floating holidays are also provided to employees; refer to the appropriate sections of the Dominion Human Resources Employee Policies for more information.

13.10 TIME OFF WITH PERMISSION

Employees may be granted occasional time off with permission-unpaid or time off with permission-paid for personal reasons as individual circumstances warrant and as the needs of the Company permit. This limited time off with pay must be approved by the Audit Manager and will be granted, or not granted, on a

case-by-case basis. Some criteria used for granting such time off are:

- Working unusually long hours.
- Personal emergency or business needing attention during normal work hours.
- Death in family or very close acquaintance.
- Extended and uninterrupted periods of overnight travel involving Company business.

13.11 JURY DUTY

When an employee is summoned for jury duty, the applicable Audit Manager should be notified in advance. Those being excluded from duty for the day should return to the office.

13.12 TIME AND EXPENSE REPORTS ACCOUNT DISTRIBUTION

The time and expense reports account distribution is accomplished automatically through the use of the Time Reporting function in AutoAudit.

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14.1 GENERAL POLICY

The nature of auditing work may require Audit Services employees to travel to company locations or to locations outside the company's service territory. The company will reimburse employees either for actual out-of-pocket expenses incurred or through a per diem allowance for authorized Company travel. Whenever possible, auditors should travel together to minimize the costs.

14.2 EXPENSE REPORTS

Reasonable and necessary expenses for meals, lodging, transportation, and related expenses incurred by personnel in connection with authorized Company business are to be reported on an Expense Report. Expense reports normally cover one week. Approvals and processing should be concluded promptly in order to ensure that travel costs are included in that month's business. Refer to the Employee Expense Policy for further details on reporting expenses.

14.3 CASH ADVANCES

Audit Services employees should use the Corporate Travel & Entertainment (T&E) card to cover expenditures for travel and entertainment resulting from authorized Company business. The Corporate T&E card should also be used to obtain an advance on expenses through Automated Teller Machines. Payment for purchases and all advances obtained by the Corporate T&E card are reconciled on the card provider's monthly statement by the employee. Refer to the Corporate Travel and Expense Card Policy for further details on using the T&E card.

Advances for amounts exceeding $500 may be obtained through the use of a Disbursement Request from the staff assistant.

14.4 ALLOWABLE EXPENSES

Meals

Employees may be reimbursed for a meal of reasonable cost (defined as a meal at or slightly above the median price of the menu in a medium-priced establishment) while on Company business when:

- Purchased in conjunction with overnight travel.
- Attending a civic club or professional association meeting as a Company approved representative.
- Attending a breakfast, lunch, or dinner meeting at the Company's request.
- A meal is bought while the individual is outside of our Company's service area or attending training classes, seminars, or speaking engagements outside of their primary work location.
- An employee is requested to attend a meeting during off duty hours and misses a normal meal arrangement.
- An employee is working overtime and the hours worked are in excess of two hours before or beyond the normal daily schedule.
- Purchased meals for others, when justified by good business judgment. Explanation for such meals is required on the expense report form and should include the individual's name and title or other designation sufficient to establish the business relationship for each meal purchased for another person.

Transportation Expenses

Reimbursement of transportation expenses generally associated with the employee's authorized travel such as tolls, taxis, limousines, buses, etc., should be totaled in the expense report by each authorized trip and itemized at the bottom of the report. Use of personal vehicles for Company business, when approved, is reimbursable and should be reported in a similar manner. Additional instructions involving transportation and use of personal vehicles are included in this section of the manual under travel arrangements.

Personal Telephone Charges

While traveling at Company expense, personal telephone calls home or other essential calls are allowed but should be limited in duration and in number.

Other Expenses

Limited social and personal entertainment expenses will be reimbursed when such expenses are approved by the audit manager. Also, approved reasonable expenses for the entertainment of customers, clients, and others for which some business benefit is expected or obtained and when good judgment dictates incurring such expenses are reimbursable. In cases of extended out-of-town

business trips (in transit or out of town during five consecutive days or more), the actual cost for laundry, dry cleaning, and expenses for sundries, etc., can be reimbursed.

See the Employee Expense Policy for more information on the types of permitted and non-permitted travel expenses.

14.5 COMPLETION OF EXPENSE REPORTS

Audit Services' employee expense reports should be completed in AutoAudit and printed out for signature. Personnel are responsible for attaching receipts for:

- any single expenditure of $25.00 or more, including meals,
- all lodging,
- all transportation costs of $25 or more, and
- transportation purchased by the Company must be reported as an expense and is reported as Company paid transportation.

Care should be taken to ensure that all amounts are correctly totaled and all expenses are listed in the appropriate row and column. Copies of the completed reports should be submitted to the staff assistant and appropriate audit manager for review, approval, and reconciling. The original expense reports and required supporting receipts are submitted to Corporate Disbursements for reimbursement.

Where total expenses reported are less than total cash advances, appropriate arrangements must be made to reimburse the Company for the excess amount of the advance.

14.6 RESERVATIONS

Personnel requiring reservations for lodging, car rental, commercial transportation, etc. in connection with authorized business trips should make arrangements via the Corporate Travel Service. The staff assistant and responsible audit manager should be notified of the travel schedule and accommodations in a timely manner.

14.7   USE OF PERSONAL VEHICLES

Occasionally, it will be necessary for employees to use their personal vehicles for business purposes. Approval will be granted for use of personal vehicles under the following circumstances:

- It is more convenient or economical to use a personal vehicle in making connections with Company provided transportation to complete a business trip. Reimbursement will be for miles actually driven.
- Company provided transportation is not available for use and the employee is required to use a personal vehicle on Company business. Reimbursement will be for miles actually driven.
- Employees are granted permission by the Vice President and General Auditor to use their personal vehicles in connection with Company business in lieu of using commercial transportation. Reimbursement in such cases will not exceed the lowest cost of the commercial transportation normally furnished by the Company.

Mileage will be paid for number of miles driven, less the round trip distance from the employee's home to their primary work location, times the established rate set by the Company. Actual number of miles driven should be calculated from odometer readings, and employees are responsible for the accuracy of such calculations.

14.8   TRAVEL SAFETY AND ACCIDENT PREVENTION

All employees have the responsibility to work safely and to take actions that help prevent accidents, reduce injury and illness, and protect the public. Employees are authorized to take action to correct situations that create unsafe conditions for employees, contractors, or the general public.

Employees should review the important safety information contained in the "Accident Prevention Manual" and should not assume other employees comply with or know the company safety rules and procedures.

15.1 EMPLOYEE IDENTIFICATION

Each member of Audit Services should carry a Company employee photo identification card. When on assignment, the auditor may be required to present proper Company identification during the normal course of assigned duties. Employees are responsible for obtaining the identification cards from the Security Department and are personally responsible for reporting loss of or damage to their I.D. cards to the Security Department so that a new card may be issued. Corporate I.D. cards must be returned upon termination of employment.

15.2 KEYS

The employee's Corporate I.D. card also serves as a card key for entry to various company buildings.

Duplicate keys to desks, files, credenzas, etc., are maintained by the Administrative Assistant or Audit Manager. Keys to desks, etc., will only be released to the individual to whom the desk is assigned, the Audit Manager or the Vice President and General Auditor.

15.3 AUDIT BAGS

Audit bags are maintained by departmental employees. It is each auditor's responsibility to ensure that the audit bag under his/her control is properly secured when unattended. If it becomes necessary to obtain a lock for an audit bag, the cost may be reimbursed through the purchaser's expense report and the lock should remain with the bag. All departmental locks and keys should be returned to the Administrative Assistant in the event of transfer or upon leaving the Company.

15.4 OUT OF OFFICE PROCEDURE

Audit Services provides services to the Company which require staff members to work at locations other than their regularly assigned work areas. To facilitate contacting audit personnel for the purpose of relaying messages, etc., each auditor should update their LOTUS Notes Calendar with the location, telephone number, and contact person in the area where they will be working. Audit personnel who are to be away from the regularly assigned work area for more than a brief period should notify the Administrative Assistant when departing and identify the area of temporary assignment, an extension where they can be reached (if known), and the expected return date or time.

15.5 COMPANY MANUALS

Many Company manuals are available on-line via the Dominion intranet site. Other hard copy manuals are maintained for staff use either in the Audit Services library or by individual audit personnel.

15.6 PERSONAL DATA

Each staff member is responsible for promptly notifying the Administrative Assistant of changes in dependents, home address, telephone number, marital status, and the name and telephone number of someone to be contacted in the event of an emergency. Such information is needed to ensure that employee personnel data remains current and for updating benefits.

15.7 PERSONAL TELEPHONE CALLS

The frequency and duration of personal telephone conversations should be kept to a minimum during business hours. Employees should avoid using the Company telephone network for making personal long distance calls. In the event that such calls must be made, the charges are to be reversed or charged to private telephone numbers or credit cards.

15.8 OFFICE PRACTICES

1.   Confine work and work related material to assigned workstation.

2.   Workstations are expected to be kept in a neat, safe, and organized manner. Work materials and work papers are to be secured each day prior to departure.

3.   The photocopy equipment is for business purposes only, and any personal use should be minimized.

4.   Office supplies are accessible to all auditors and should be kept neat and orderly. If needed supplies or forms are not available or are in short supply, the Administrative Assistant should be notified.

5.   Because of the close proximity of individual workstations, a conference room should be used for extensive conversations or audit related conferences.

6.   Employees are expected to dress in accordance with the standards practiced at each location of assignment. Business casual attire is

expected at business offices. Dress at power stations and construction sites should be suitable for work at that location and should be, at a minimum, compatible with that worn by employees permanently assigned to that site.

7.   When an employee is commuting to a place of assignment outside the home office area and inclement weather prevents extended safe travel, the employee should report to their home office for further assignment.

8.   The Audit Services Recreation Committee has a self-supporting coffee, soft drink, and snack fund (Richmond Office only). A moderate supply of coffee, soft drinks, and snacks is kept in an area set aside for this purpose. The fund has purchased a coffee maker and small refrigerator. Various personnel, on a volunteer basis, make coffee. An individual is assigned each year to perform afternoon clean-up, purchase supplies and monitor the funds.

15.9   OPEN DOOR POLICY

The Company has a formal grievance procedure in the Grievances Section of the Employee Relations Manual, but most problems or misunderstandings that an employee may have can usually be satisfactorily resolved through informal discussions with the Audit Manager or Vice President and General Auditor. Should the employee feel strongly about a principal, or believes a significant problem exists, they may pursue resolution through appropriate channels.

15.10   LIFE EVENT POLICY

Audit Services recognizes the following life events for Audit Services employees:

*   Birth or adoption of children
*   Marriage
*   Retirements
*   Extended hospitalization (more than 3 nights)

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These events will be recognized by a gift appropriate for each occasion, not to exceed $25 in value.

In the event of a death of a parent, spouse, or child, consistent with Dominion's Employee Policies, the department will send flowers to an employee or make a memorial contribution to a designated charity, not to exceed $50 in value. The definition of a family member includes employee's:

- Parent (or a person standing in place of a parent)
- Spouse
- Child
- Brother
- Sister
- Grandparent
- In-laws

These procedures are to provide guidance for the staff In use of the Audit Services personal computers (PCs). These procedures supplement Company guidelines found in the Corporate Policy and Procedures Manual and published by the Information Technology Department.

16.1 ASSIGNMENT AND USE

Each Audit Services employee is assigned a PC and is responsible for their computer and its related software. The assigned PCs are for company use only; no personal software or data is to be stored on the PCs.

16.2 TRAINING

Each individual should review the existing Company guidelines, policies, and procedures relative to the use of personal computers.

Additional training will be provided through outside vendors or in-house sources as needed.

16.3 EQUIPMENT PROTECTION

All laptop PCs and other pilferable equipment; such as, scanners, portable printers, external drives, etc. should be locked up at the end of the workday. When traveling, each auditor should take adequate measures to protect all assigned equipment.

Common sense should be used when handling PC equipment and storage media. Computer hardware may contain fan exhaust grates, which should not be blocked. Diskettes and other storage equipment are fragile and need to be protected from:

- magnets which can erase data
- static electricity
- extreme heat or cold
- folding, spindling or mutilating
- food and drink
- touching of exposed surfaces

16.4 DOCUMENTATION

All data extraction routines; e.g., in-house developed programs, ACL batches, SAP queries, etc. should be documented to comply with Company standards.

16.5   COPYRIGHT RESTRICTIONS

The staff should be familiar with the copyright restrictions for each purchased software package including the requirements and restrictions related to home use of Company owned software.

16.6   PROBLEM RESOLUTION

When PC, mainframe, or application system problems are encountered which cannot be resolved by using available documentation, contact the IT Help Desk.

16.7   BACKUP

The common laptop PC system files are maintained on an "image" copy that can be used to restore a damaged PC. However, each staff member is responsible for adequately backing up the Company data files stored on their assigned PC hard drive. These files include LOTUS Notes desktop and userid files, LOTUS Notes personal address files, files created to support audit work, etc.

16.8   SUPPLIES

It is the responsibility of the Administrative Assistant to order the necessary supplies for the computer systems. All users should notify the Administrative Assistant when additional supplies are needed.

16.9   SOFTWARE PURCHASES

The normal Company requisitioning procedures should be used to order additional software. See the Administrative Assistant for the details and forms.

16.10   HARDWARE AND SOFTWARE INVENTORY

Audit Services PC hardware and software is currently supplied by a single vendor under a leasing agreement. The vendor is responsible for maintaining official inventory records of all hardware and software being leased to Dominion. Accordingly, individual staff members have limited responsibility regarding the PC hardware and software inventory.

Each individual should ensure the assigned PC hardware and software are maintained in a safe and secure manner.   In addition, the hardware and software assigned to each individual should be maintained as a single unit. There should be no swapping or switching of peripherals or software between workstations.

16.11   DATA STORAGE

Multiple network volumes have been designated for data and program storage use by the Audit Services personnel. These include "Shared on Ojgs02", "Users on Ojgs02", and "Vol6 on Ojhr01". Each of these volumes is assigned a drive letter on the PCs. In most case "Shared on Ojgs02" is assigned to letter J; "Users on Ojgs02" " is assigned to letter I, and "Vol6 on Ojhr01" " is assigned to letter F.

Audit Services personnel have full access to "Shared on Ojgs02". This is where departmental files that needed to be available to the entire staff should be stored. The types of files stored here are audit reports, audit plans, audit schedules, administrative memos and documents, etc.

"Users on Ojgs02" contains a personal subdirectory for each auditor, which is only accessible by that auditor. This volume should be used as a storage site for documents that only need to be accessed by the auditor who owns the subdirectory.

"Vol6 on Ojhr01" contains ACL related software and data.

Use of the PC hard drive as a long-term storage for audit work is discouraged. The hard drive is relatively insecure, is not accessible by others, and is not backed up automatically on a routine basis. Short-term storage of AutoAudit and other working papers on the PC hard drive is appropriate when it is anticipated that a network connection will not be available at an audit location.

16.12   DATA NAMING

When preparing data for an audit and the data is stored on the network, it is helpful to others if there is a consistent naming convention used. The naming convention should following the convention used when audits are created in the AutoAudit software. Use of this convention will help locate documents stored on the network and will help identify those documents that are no longer needed. The convention for naming directories that contain audit-related documents has the following syntax:

Year \ Company \ SBU \ Area \ Audit \ Section \ Subsection

Example:

- 2001
    - Dominion
        - Delivery
            - Bulk Power
                - Tree & Brush Control
                    - Planning
                    - A. Audit Plan
                        - A01

16.13   DATA PROTECTION

When documenting audits of a sensitive or confidential nature, use care when selecting a location to store the documents. As a general rule, if the audit requires documentation outside of AutoAudit, all related electronic files should be stored on diskettes and should be securely stored with other supporting materials.

Password protected screen savers should be used to help prevent unauthorized access to your PC when you are away from your desk. The password assigned to the screen saver should be different than the network access password.

All PCs should have the virus software enabled at all times.

16.14   HARD DRIVE MAINTENANCE

Several routines or applications are available in the Windows operating system that help manage storage on a PC. These include:

Disk Defragmenter

Disk Defragmenter is used to optimize file storage on the hard drive by arranging the files and unused space more efficiently. This helps programs run faster and files open more quickly.

ScanDisk

ScanDisk is used to check the hard disk for errors and to fix problems that
are found.
Recycle Bin

The recycle bin is an intermediate storage location for deleted files. It holds
deleted files in a compressed state until the Bin is emptied. This can be a
useful tool for retrieving deleted files when they are deleted in error, or are
found to be needed after deletion. Files in the recycle bin do take up space
on the PC hard drive. The recycle bin should be emptied periodically to
recover hard drive space and to help improve PC performance.

17.1   OVERVIEW

Audit Services strives to reduce potential losses to the Company that may result from undesirable events such as errors, defalcations, misuse of assets, and improper operating procedures. The main objective of the risk assessment process is to prioritize work to provide a focus that delivers the maximum audit coverage and benefit with limited resources. The design of the methodology is to provide Audit Services with a framework which can be used to identify and evaluate the risks facing each business unit and provide a consolidated ranking of those risks for development of the annual audit plan. The risk assessment methodology is designed to be a decision tool and not a decision model that provides definitive answers. Intuitive professional judgments based upon audit knowledge and experience are also an essential element in internal audit planning. The risk assessment process supports the resource allocation rationale and documents the Audit Services decision making process for external parties.

17.2   RISK FACTORS

While there is no mathematical justification to limit the risk factors used, research conducted by The Institute of Internal Auditors indicates that the maximum number of factors for which most decision-makers can make meaningful judgments varies from five to nine criteria. In order to keep the approach as simple and usable as possible, and provide a reliable indicator of the exposures affecting company operations, the evaluation criteria selected were limited to six factors. These factors were subjectively determined to represent the most valid and reliable predictors of risk. They coincide with the risk factors being used by other utility audit departments, as well as other internal audit shops throughout industry. Occasionally, based upon changing company conditions and management emphasis, certain of these risk factors will be weighted to represent heightened awareness and focus on specific criteria. The six risk evaluation criteria selected for the Dominion Audit Services risk assessment process are financial impact, management emphasis, the controls environment, key indicators, audit frequency, and liquidity of assets and fraud potential.

17.3   AUDIT POPULATION

The initial step in the development of the Audit Services risk assessment model involved the establishment of the existing audit universe. Once this universe was established, annual reviews could be scheduled to review the existing population

and make appropriate additions or deletions based upon changing company conditions. The basis for the initial audit population relied heavily upon the prior experience of Audit Services management and staff and interviews with key members of company management. Subsequent updates to the population have evolved from interviews with business unit management, participation on company task teams, reviews of operating information, company communications, and attendance at company meetings. The Dominion audit universe represents a consolidation of the respective audit populations defined for the various business units. Teams are assigned responsibility annually to survey business unit management, review audit results, and evaluate business unit operations to update the existing population to reflect changing priorities. A systematic approach helps to ensure that no areas worthy of examination are overlooked and excluded from consideration in the annual audit plan.

17.4 CONDUCTING RESEARCH

There are a number of sources of information available in the business units that may provide insight into the risk and exposure represented by their respective audit populations. These include, but should not be limited to, strategic plans, department goals, automation plans, budget variance reports, organization charts, procurement performance reports, monthly inventory status reports, staffing reports, and corporate communications. Studying the information contained on these reports can identify potential problem areas and focus audit attention on specific topics. An examination of the available operating data can prove to be an effective tool in identifying the presence of risk indicators.

17.5 MANAGEMENT INPUT

The audit managers will identify key members of senior management and operating management for input concerning their planned activities and perceived risks. Assignments will be made for selected audit staff members to conduct a number of management interviews during this phase of the risk assessment process. Management responses will be consolidated to identify any repetitive concerns. Inquiries should consist of discussions about major initiatives, largest exposures, perceived risk, and areas of concern. The results of these interviews will be documented and shall form the basis for the Management Emphasis scoring assigned to specific audit topics.

17.6   EVALUATING AND SCORING RISK

The evaluation and scoring of risk should be a team effort by Audit Services management and staff. Each team member assigns a score from 1 to 4 for each of the risk factors associated with an audit topic included in their assigned audit population. After all members have completed their scoring of the entire audit population, the audit manager will consolidate the scores and assign a consensus score for each risk factor related to a topic included in the audit population. Because this methodology is a decision making aid, and not a decision making model, the resulting scores are carefully evaluated for reasonableness. Where professional judgment differs from the product of this analysis, the exception should then be subjected to rigorous analysis. This would include scrutiny of the scoring assigned to determine if the overall rating appears inappropriate. The rationale for any adjustments to the scoring, based upon professional judgment, should be fully documented.

17.7   RISK RANKING

When the scores have been assigned and totaled for all the topics evaluated, and scored populations for the respective business units have been consolidated, a comprehensive audit population and risk ranking can be generated. Based upon the estimated audit hours associated with each potential project, a cutoff score will be identified that will determine whether an audit topic qualifies for consideration on the annual audit schedule. Some subjective judgments can be made to move topics above or below the qualification score based upon management priorities and professional judgment, but the logic for such decisions should be fully documented. The final risk scores and ranking are then used as a planning tool to develop the annual audit plan.

18.1 PURPOSE AND GOALS

The Internal Quality Assessment Team (Team) was developed in response to a recommendation made during a Quality Assurance Review (QAR) of the Audit Services Department of Dominion Resources, Inc, in the 4th quarter of 2004. In addition to compliance with the results of the QAR, the primary purpose of the Team is to promote compliance with professional standards as established by the Institute of Internal Auditors. Another purpose of the Team is to offer practical recommendations to Management and Staff to improve the efficiency of the Department on an ongoing basis.

The Team will be comprised of individuals within the department, representative of the Internal Auditing groups (Delivery, Energy, IT/SOX, Exploration and Production, and Services). A department manager/director will serve in the role of team leader. The Team will be comprised of five or six members

18.2 HISTORY

Audit Services participated in a Quality Assurance Review in November 2004. Prior to the review, Audit Services investigated a Peer Review Program sponsored by Edison Electric Institute (EEI), in association with The Institute of Internal Auditors. The program concept involved the use of IIA Quality Assurance staff leading a QAR team composed of qualified EEI member organization volunteers. Dominion Audit Services formally joined the EEI sponsored Peer Review Program in February 2004. The standards for conducting the QAR were established as the Institute of Internal Auditors' Quality Assessment Manual, 4th Edition.
The report for Dominion Audit Services contained an opinion that they "Generally Conform" with the Standards for Professional Practice and the Code of Ethics. The report included nine recommendations provided for specific improvement to the Internal Audit activity. Among the recommendations was that Audit Services implement a formal internal quality assessment program.

18.3 SCOPE

The primary scope of the Team will be review for compliance with IIA Standards for the Professional Practice of Internal Auditing (http://www.theiia.org/?doc_id=1499). To this end, the Team will use the following methods, including but not limited to:

- Document and workpaper review

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- Surveys, internal and external to the Audit Services department
- Analyses

The initial scope of review will include:
- Audit Reporting metrics
- Staff Training/Development
- Workpaper Review
- Workpaper Observation follow-up

The initial scope will evolve as performance measures change and become more efficient/effective, and as additional reporting mechanisms are identified and/or implemented. The Team will meet periodically (ex. quarterly) throughout the year. The Administrative Manual will be updated periodically to reflect any changes in the program.