

VIRGINIA ELECTRIC & POWER CO

Form 10-Q

April 25, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File

Exact name of registrants as specified in their charters, address of

I.R.S. Employer

Number

principal executive offices and registrants telephone number

Identification Number

001-08489

DOMINION RESOURCES, INC.

54-1229715

001-02255

VIRGINIA ELECTRIC AND POWER COMPANY

54-0418825

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120 Tredegar Street

Richmond, Virginia 23219

(804) 819-2000

State or other jurisdiction of incorporation or organization of the registrants: Virginia

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Dominion Resources, Inc. Yes ☒ No ☐ Virginia Electric and Power Company Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Dominion Resources, Inc. Yes ☒ No ☐ Virginia Electric and Power Company Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Dominion Resources, Inc.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐
Virginia Electric and Power Company

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company) Smaller reporting company ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Dominion Resources, Inc. Yes ☐ No ☒ Virginia Electric and Power Company Yes ☐ No ☒

At March 31, 2013, the latest practicable date for determination, Dominion Resources, Inc. had 577,676,451 shares of common stock outstanding and Virginia Electric and Power Company had 274,723 shares of common stock outstanding. Dominion Resources, Inc. is the sole holder of Virginia Electric and Power Company's common stock.

This combined Form 10-Q represents separate filings by Dominion Resources, Inc. and Virginia Electric and Power Company. Information contained herein relating to an individual registrant is filed by that registrant on its own behalf. Virginia Electric and Power Company makes no representations as to the information relating to Dominion Resources, Inc.'s other operations.

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GLOSSARY OF TERMS

The following abbreviations or acronyms used in this Form 10-Q are defined below:

Abbreviation or Acronym	Definition
2009 Base Rate Review	Order entered by the Virginia Commission in January 2009, pursuant to the Regulation Act, initiating reviews of the base rates and terms and conditions of all investor-owned utilities in Virginia
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
Appalachian Gateway Project	Dominion Energy project completed in September 2012 to provide approximately 484,000 Dth per day of firm transportation services for new Appalachian gas supplies in West Virginia and southwestern Pennsylvania to an interconnection with Texas Eastern Transmission, LP at Oakford, Pennsylvania.
AROs	Asset retirement obligations
ARP	Acid Rain Program, a market-based initiative for emissions allowance trading, established pursuant to Title IV of the CAA
bcf	Billion cubic feet
Bear Garden	Bear Garden power station, a 590 MW combined cycle, natural gas-fired power station in Buckingham County, Virginia
Blue Racer	Blue Racer Midstream, LLC, a joint venture with Caiman
BOD	Board of Directors
BP	BP Wind Energy North America Inc.
Brayton Point	Brayton Point power station, a 1,528 MW power station in Somerset, Massachusetts, with three coal-fired units and one unit fired by natural gas or oil
CAA	Clean Air Act
Caiman	Caiman Energy II, LLC
CAIR	Clean Air Interstate Rule
Carson-to-Suffolk line	Virginia Power 60-mile 500 kV transmission line in southeastern Virginia
CEO	Chief Executive Officer
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CFO	Chief Financial Officer
CO ₂	Carbon dioxide
COL	Combined Construction Permit and Operating License
Companies	Dominion and Virginia Power, collectively
Cooling degree days	Units measuring the extent to which the average daily temperature is greater than 65 degrees Fahrenheit, calculated as the difference between 65 degrees and the average temperature for that day
Cove Point	Dominion Cove Point LNG, LP
CSAPR	Cross State Air Pollution Rule
CWA	Clean Water Act
DEI	Dominion Energy, Inc.

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DOE	Department of Energy
Dominion	The legal entity, Dominion Resources, Inc., one or more of its consolidated subsidiaries (other than Virginia Power) or operating segments or the entirety of Dominion Resources, Inc. and its consolidated subsidiaries
DRS	Dominion Resources Services, Inc.
DSM	Demand-side management
DTI	Dominion Transmission, Inc.
Dth	Dekatherm
DVP	Dominion Virginia Power operating segment
East Ohio	The East Ohio Gas Company, doing business as Dominion East Ohio
Elwood	Elwood power station, a 1,424 MW power station outside Chicago, Illinois, with nine 158 MW natural gas-fired combustion turbines, in which Dominion owns a 50 percent interest (712 MW)
Energy Capital Partners	A private equity firm with offices in Short Hills, New Jersey and San Diego, California
EPA	Environmental Protection Agency
EPS	Earnings per share
ESBWR	General Electric-Hitachi's Economic Simplified Boiling Water Reactor
Fairless	Fairless power station

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Abbreviation or Acronym	Definition
FERC	Federal Energy Regulatory Commission
Fowler Ridge	A wind-turbine facility joint venture between Dominion and BP in Benton County, Indiana
FTRs	Financial transmission rights
GAAP	U.S. generally accepted accounting principles
Gal	Gallon
GHG	Greenhouse gas
Heating degree days	Units measuring the extent to which the average daily temperature is less than 65 degrees Fahrenheit, calculated as the difference between 65 degrees and the average temperature for that day
INPO	Institute of Nuclear Power Operations
ISO	Independent system operator
ISO-NE	ISO New England
Kewaunee	Kewaunee nuclear power station
Kincaid	Kincaid power station, a 1,158 MW power station in Kincaid, Illinois, with two 579 MW coal-fired units
kV	Kilovolt
kWh	Kilowatt hour
Line TL-404	An approximately 26-mile, 24- and 30- inch interstate gas pipeline that extends from Wetzel County, West Virginia to Monroe County, Ohio
LNG	Liquefied natural gas
Maryland Commission	Maryland Public Service Commission
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Meadow Brook-to-Loudoun line	Virginia Power 65-mile 500 kV transmission line that begins in Warren County, Virginia and terminates in Loudoun County, Virginia
Millstone	Millstone nuclear power station
MISO	Midwest Independent Transmission System Operator, Inc.
Moody's	Moody's Investors Service
MW	Megawatt
MWh	Megawatt hour
NCEMC	North Carolina Electric Membership Corporation
NedPower	A wind-turbine facility joint venture between Dominion and Shell in Grant County, West Virginia
NGLs	Natural gas liquids
North Anna	North Anna nuclear power station
North Carolina Commission	North Carolina Utilities Commission
NO _x	Nitrogen oxide
NPDES	National Pollutant Discharge Elimination System
NRC	Nuclear Regulatory Commission
NSPS	New Source Performance Standards
ODEC	Old Dominion Electric Cooperative

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Ohio Commission	Public Utilities Commission of Ohio
PIPP	Percentage of Income Payment Plan
PIR	Pipeline Infrastructure Replacement program deployed by East Ohio
PJM	PJM Interconnection, L.L.C.
ppb	Parts-per-billion
Regulation Act	Legislation effective July 1, 2007, that amended the Virginia Electric Utility Restructuring Act and fuel factor statute, which legislation is also known as the Virginia Electric Utility Regulation Act
RGGI	Regional Greenhouse Gas Initiative
Rider B	A rate adjustment clause associated with the recovery of costs related to the conversion of three of Virginia Power's coal-fired power stations to biomass
Rider R	A rate adjustment clause associated with the recovery of costs related to Bear Garden
Rider S	A rate adjustment clause associated with the recovery of costs related to the Virginia City Hybrid Energy Center
Rider W	A rate adjustment clause associated with the recovery of costs related to Warren County
Riders C1A and C2A	Rate adjustment clauses associated with the recovery of costs related to certain DSM programs approved in the 2011 DSM case

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Abbreviation or Acronym	Definition
ROE	Return on equity
RTO	Regional transmission organization
Salem Harbor	Salem Harbor power station
SEC	Securities and Exchange Commission
Shell	Shell WindEnergy, Inc.
SO ₂	Sulfur dioxide
Standard & Poor's	Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc.
State Line	State Line power station
TGP	Tennessee Gas Pipeline Company
U.S.	United States of America
UAO	Unilateral Administrative Order
VIE	Variable interest entity
Virginia City Hybrid Energy Center	A 600 MW baseload carbon-capture compatible, clean coal powered electric generation facility in Wise County, Virginia
Virginia Commission	Virginia State Corporation Commission
Virginia Power	The legal entity, Virginia Electric and Power Company, one or more of its consolidated subsidiaries or operating segments or the entirety of Virginia Power and its consolidated subsidiaries
Virginia Settlement Approval Order	Order issued by the Virginia Commission in March 2010 concluding Virginia Power's 2009 Base Rate Review
Warren County	Warren County power station, a 1,329 MW combined-cycle, natural gas-fired power station under construction in Warren County, Virginia

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DOMINION RESOURCES, INC.****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended March 31,	
	2013	2012⁽¹⁾
(millions, except per share amounts)		
Operating Revenue	\$ 3,523	\$ 3,397
Operating Expenses		
Electric fuel and other energy-related purchases	951	912
Purchased electric capacity	88	113
Purchased gas	467	412
Other operations and maintenance	623	607
Depreciation, depletion and amortization	297	273
Other taxes	167	162
Total operating expenses	2,593	2,479
Income from operations	930	918
Other income	87	74
Interest and related charges	228	212
Income from continuing operations including noncontrolling interests before income tax expense	789	780
Income tax expense	288	269
Income from continuing operations including noncontrolling interests	501	511
Income (loss) from discontinued operations⁽²⁾	1	(10)
Net Income Including Noncontrolling Interests	502	501
Noncontrolling Interests	7	7
Net Income Attributable to Dominion	\$ 495	\$ 494
Amounts Attributable to Dominion:		
Income from continuing operations, net of tax	\$ 494	\$ 504
Income (loss) from discontinued operations, net of tax	1	(10)
Net income attributable to Dominion	\$ 495	\$ 494
Earnings Per Common Share-Basic		
Income from continuing operations	\$ 0.86	\$ 0.88
Income (loss) from discontinued operations		(0.02)

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Net income attributable to Dominion	\$ 0.86	\$ 0.86
Earnings Per Common Share-Diluted		
Income from continuing operations	\$ 0.86	\$ 0.88
Income (loss) from discontinued operations		(0.02)
Net income attributable to Dominion	\$ 0.86	\$ 0.86
Dividends declared per common share	\$ 0.5625	\$ 0.5275

(1) Recast to reflect Brayton Point and Kincaid as discontinued operations, as discussed in Note 3.

(2) Includes income tax (expense) benefit of \$() and \$10 million for the three months ended March 31, 2013 and 2012, respectively.

The accompanying notes are an integral part of Dominion's Consolidated Financial Statements.

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Table of Contents**DOMINION RESOURCES, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Three Months Ended March 31,	
	2013	2012
(millions)		
Net income including noncontrolling interests	\$ 502	\$ 501
Other comprehensive income (loss), net of taxes:		
Net deferred gains (losses) on derivatives-hedging activities ⁽¹⁾	(90)	128
Changes in unrealized net gains on investment securities ⁽²⁾	78	85
Amounts reclassified to net income:		
Net derivative (gains) losses-hedging activities ⁽³⁾	76	(16)
Net realized gains on investment securities ⁽⁴⁾	(27)	(10)
Net pension and other postretirement benefit costs ⁽⁵⁾	20	12
Total other comprehensive income	57	199
Comprehensive income including noncontrolling interests	559	700
Comprehensive income attributable to noncontrolling interests	7	7
Comprehensive income attributable to Dominion	\$ 552	\$ 693

(1) Net of \$54 million and \$(80) million tax for the three months ended March 31, 2013 and 2012, respectively.

(2) Net of \$(51) million and \$(56) million tax for the three months ended March 31, 2013 and 2012, respectively.

(3) Net of \$(48) million and \$12 million tax for the three months ended March 31, 2013 and 2012, respectively.

(4) Net of \$18 million and \$6 million tax for the three months ended March 31, 2013 and 2012, respectively.

(5) Net of \$(9) million tax for both the three months ended March 31, 2013 and 2012.

The accompanying notes are an integral part of Dominion's Consolidated Financial Statements.

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DOMINION RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2013	December 31, 2012 ⁽¹⁾
(millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 35	\$ 248
Customer receivables (less allowance for doubtful accounts of \$29 and \$28)	1,758	1,621
Other receivables (less allowance for doubtful accounts of \$4 at both dates)	73	96
Inventories	1,039	1,259
Derivative assets	527	518
Assets held for sale	313	
Other	1,403	1,398
 Total current assets	 5,148	 5,140
Investments		
Nuclear decommissioning trust funds	3,547	3,330
Investment in equity method affiliates	559	558
Other	294	303
 Total investments	 4,400	 4,191
Property, Plant and Equipment		
Property, plant and equipment	43,705	43,364
Property, plant and equipment, VIE	957	957
Accumulated depreciation, depletion and amortization	(13,753)	(13,548)
 Total property, plant and equipment, net	 30,909	 30,773
Deferred Charges and Other Assets		
Goodwill	3,128	3,130
Regulatory assets	1,696	1,717
Other	1,835	1,887
 Total deferred charges and other assets	 6,659	 6,734
 Total assets	 \$ 47,116	 \$ 46,838

(1) Dominion's Consolidated Balance Sheet at December 31, 2012 has been derived from the audited Consolidated Financial Statements at that date.

The accompanying notes are an integral part of Dominion's Consolidated Financial Statements.

Table of Contents**DOMINION RESOURCES, INC.****CONSOLIDATED BALANCE SHEETS (Continued)****(Unaudited)**

	March 31, 2013	December 31, 2012⁽¹⁾
(millions)		
LIABILITIES AND EQUITY		
Current Liabilities		
Securities due within one year	\$ 1,193	\$ 1,363
Securities due within one year, VIE	852	860
Short-term debt	2,003	2,412
Accounts payable	950	1,137
Derivative liabilities	556	510
Liabilities held for sale	48	
Other	1,370	1,481
Total current liabilities	6,972	7,763
Long-Term Debt		
Long-term debt	15,904	15,478
Junior subordinated notes	1,373	1,373
Total long-term debt	17,277	16,851
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	6,070	5,800
Asset retirement obligations	1,611	1,641
Pension and other postretirement benefit liabilities	1,834	1,831
Regulatory liabilities	1,646	1,514
Other	521	556
Total deferred credits and other liabilities	11,682	11,342
Total liabilities	35,931	35,956
Commitments and Contingencies (see Note 15)		
Subsidiary Preferred Stock Not Subject to Mandatory Redemption	257	257
Equity		
Common stock no par ²	5,571	5,493
Other paid-in capital	156	162
Retained earnings	5,961	5,790
Accumulated other comprehensive loss	(820)	(877)
Total common shareholders' equity	10,868	10,568
Noncontrolling interest	60	57
Total equity	10,928	10,625

Total liabilities and equity	\$ 47,116	\$ 46,838
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- (1) Dominion's Consolidated Balance Sheet at December 31, 2012 has been derived from the audited Consolidated Financial Statements at that date.
- (2) 1 billion shares authorized; 578 million shares and 576 million shares outstanding at March 31, 2013 and December 31, 2012, respectively. The accompanying notes are an integral part of Dominion's Consolidated Financial Statements.

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Table of Contents**DOMINION RESOURCES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

Three Months Ended March 31, (millions)	2013	2012
Operating Activities		
Net income including noncontrolling interests	\$ 502	\$ 501
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation, depletion and amortization (including nuclear fuel)	366	353
Deferred income taxes and investment tax credits	266	269
Rate refunds	(5)	(55)
Other adjustments	(52)	(72)
Changes in:		
Accounts receivable	(124)	327
Inventories	133	99
Deferred fuel and purchased gas costs, net	16	162
Prepayments	(17)	37
Accounts payable	(135)	(275)
Accrued interest, payroll and taxes	(33)	89
Margin deposit assets and liabilities	(65)	97
Other operating assets and liabilities	200	91
Net cash provided by operating activities	1,052	1,623
Investing Activities		
Plant construction and other property additions (including nuclear fuel)	(904)	(981)
Proceeds from sales of securities	554	415
Purchases of securities	(574)	(420)
Other	62	40
Net cash used in investing activities	(862)	(946)
Financing Activities		
Repayment of short-term debt, net	(409)	(757)
Issuance of long-term debt	1,250	450
Repayment of long-term debt	(712)	(104)
Repayment of affiliated notes payable	(258)	
Issuance of common stock	73	69
Common dividend payments	(324)	(301)
Subsidiary preferred dividend payments	(4)	(4)
Other	(19)	1
Net cash used in financing activities	(403)	(646)
Increase (decrease) in cash and cash equivalents	(213)	31
Cash and cash equivalents at beginning of period	248	102
Cash and cash equivalents at end of period	\$ 35	\$ 133
Supplemental Cash Flow Information		
Significant noncash investing activities:		
Accrued capital expenditures	\$ 200	\$ 298

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The accompanying notes are an integral part of Dominion's Consolidated Financial Statements.

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Table of Contents**VIRGINIA ELECTRIC AND POWER COMPANY****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended March 31,	
	2013	2012
(millions)		
Operating Revenue	\$ 1,781	\$ 1,754
Operating Expenses		
Electric fuel and other energy-related purchases	570	614
Purchased electric capacity	88	113
Other operations and maintenance:		
Affiliated suppliers	74	83
Other	245	223
Depreciation and amortization	207	188
Other taxes	67	65
Total operating expenses	1,251	1,286
Income from operations	530	468
Other income	25	23
Interest and related charges	93	100
Income before income tax expense	462	391
Income tax expense	175	148
Net Income	287	243
Preferred dividends	4	4
Balance available for common stock	\$ 283	\$ 239

The accompanying notes are an integral part of Virginia Power's Consolidated Financial Statements.

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VIRGINIA ELECTRIC AND POWER COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
(millions)		
Net income	\$ 287	\$ 243
Other comprehensive income (loss), net of taxes:		
Net deferred gains (losses) on derivatives-hedging activities ⁽¹⁾	2	(1)
Changes in unrealized net gains on nuclear decommissioning trust funds ⁽²⁾	8	9
Amounts reclassified to net income:		
Net derivative losses-hedging activities ⁽³⁾		1
Net realized gains on nuclear decommissioning trust funds ⁽⁴⁾	(1)	(1)
Other comprehensive income	9	8
Comprehensive income	\$ 296	\$ 251

(1) Net of \$(1) million and \$ million tax for the three months ended March 31, 2013 and 2012, respectively.

(2) Net of \$(5) million tax for both the three months ended March 31, 2013 and 2012.

(3) Net of \$ million and \$(1) million tax for the three months ended March 31, 2013 and 2012, respectively.

(4) Net of \$1 million tax for both the three months ended March 31, 2013 and 2012.

The accompanying notes are an integral part of Virginia Power's Consolidated Financial Statements.

Table of Contents**VIRGINIA ELECTRIC AND POWER COMPANY****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	March 31, 2013	December 31, 2012⁽¹⁾
(millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3	\$ 28
Customer receivables (less allowance for doubtful accounts of \$10 at both dates)	892	849
Other receivables (less allowance for doubtful accounts of \$3 at both dates)	39	51
Inventories (average cost method)	721	789
Prepayments	37	23
Other	189	241
Total current assets	1,881	1,981
Investments		
Nuclear decommissioning trust funds	1,608	1,515
Other	14	14
Total investments	1,622	1,529
Property, Plant and Equipment		
Property, plant and equipment	31,085	30,631
Accumulated depreciation and amortization	(10,157)	(10,014)
Total property, plant and equipment, net	20,928	20,617
Deferred Charges and Other Assets		
Intangible assets	182	181
Regulatory assets	388	396
Other	117	107
Total deferred charges and other assets	687	684
Total assets	\$ 25,118	\$ 24,811

(1) Virginia Power's Consolidated Balance Sheet at December 31, 2012 has been derived from the audited Consolidated Financial Statements at that date.

The accompanying notes are an integral part of Virginia Power's Consolidated Financial Statements.

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VIRGINIA ELECTRIC AND POWER COMPANY
CONSOLIDATED BALANCE SHEETS (Continued)
(Unaudited)

	March 31, 2013	December 31, 2012 ⁽¹⁾
(millions)		
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Securities due within one year	\$ 18	\$ 418
Short-term debt	661	992
Accounts payable	347	430
Payables to affiliates	61	67
Affiliated current borrowings	57	435
Accrued interest, payroll and taxes	294	204
Other	319	461
Total current liabilities	1,757	3,007
Long-Term Debt	7,445	6,251
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	3,918	3,879
Asset retirement obligations	709	705
Regulatory liabilities	1,414	1,285
Other	241	194
Total deferred credits and other liabilities	6,282	6,063
Total liabilities	15,484	15,321
Commitments and Contingencies (see Note 15)		
Preferred Stock Not Subject to Mandatory Redemption	257	257
Common Shareholder's Equity		
Common stock — no par ⁽²⁾	5,738	5,738
Other paid-in capital	1,113	1,113
Retained earnings	2,492	2,357
Accumulated other comprehensive income	34	25
Total common shareholder's equity	9,377	9,233
Total liabilities and shareholder's equity	\$ 25,118	\$ 24,811

(1) Virginia Power's Consolidated Balance Sheet at December 31, 2012 has been derived from the audited Consolidated Financial Statements at that date.

(2) 500,000 shares authorized; 274,723 shares outstanding at March 31, 2013 and December 31, 2012.
The accompanying notes are an integral part of Virginia Power's Consolidated Financial Statements.

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VIRGINIA ELECTRIC AND POWER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Three Months Ended March 31, (millions)	2013	2012
Operating Activities		
Net income	\$ 287	\$ 243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including nuclear fuel)	250	222
Deferred income taxes and investment tax credits	112	85
Rate refunds	(5)	(55)
Other adjustments	(17)	(20)
Changes in:		
Accounts receivable	(31)	125
Affiliated accounts receivable and payable	(6)	(15)
Inventories	68	20
Deferred fuel expenses	(19)	156
Accounts payable	(65)	(59)
Accrued interest, payroll and taxes	90	137
Other operating assets and liabilities	43	67
Net cash provided by operating activities	707	906
Investing Activities		
Plant construction and other property additions	(592)	(483)
Purchases of nuclear fuel	(47)	(67)
Purchases of securities	(206)	(193)
Proceeds from sales of securities	189	191
Other	1	(6)
Net cash used in investing activities	(655)	(558)
Financing Activities		
Repayment of short-term debt, net	(331)	(639)
Repayment of affiliated current borrowings, net	(378)	
Issuance of long-term debt	1,250	450
Repayment of long-term debt	(451)	(1)
Common dividend payments	(148)	(149)
Preferred dividend payments	(4)	(4)
Other	(15)	(6)
Net cash used in financing activities	(77)	(349)
Decrease in cash and cash equivalents	(25)	(1)
Cash and cash equivalents at beginning of period	28	29
Cash and cash equivalents at end of period	\$ 3	\$ 28
Supplemental Cash Flow Information		
Significant noncash investing activities:		
Accrued capital expenditures	\$ 117	\$ 208

The accompanying notes are an integral part of Virginia Power's Consolidated Financial Statements.

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Nature of Operations

Dominion, headquartered in Richmond, Virginia, is one of the nation's largest producers and transporters of energy. Dominion's operations are conducted through various subsidiaries, including Virginia Power, a regulated public utility that generates, transmits and distributes electricity for sale in Virginia and northeastern North Carolina.

Note 2. Significant Accounting Policies

As permitted by the rules and regulations of the SEC, Dominion's and Virginia Power's accompanying unaudited Consolidated Financial Statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with GAAP. These unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2012.

In Dominion's and Virginia Power's opinion, the accompanying unaudited Consolidated Financial Statements contain all adjustments necessary to present fairly their financial position as of March 31, 2013, and their results of operations and cash flows for the three months ended March 31, 2013 and 2012. Such adjustments are normal and recurring in nature unless otherwise noted.

The Companies make certain estimates and assumptions in preparing their Consolidated Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from those estimates.

Dominion's and Virginia Power's accompanying unaudited Consolidated Financial Statements include, after eliminating intercompany transactions and balances, their accounts and those of their respective majority-owned subsidiaries and those VIEs where Dominion has been determined to be the primary beneficiary.

The results of operations for interim periods are not necessarily indicative of the results expected for the full year. Information for quarterly periods is affected by seasonal variations in sales, rate changes, electric fuel and other energy-related purchases, purchased gas expenses and other factors.

Certain amounts in Dominion's and Virginia Power's 2012 Consolidated Financial Statements and Notes have been reclassified to conform to the 2013 presentation for comparative purposes. The reclassifications did not affect the Companies' net income, total assets, liabilities, equity or cash flows.

Amounts disclosed for Dominion are inclusive of Virginia Power, where applicable.

Note 3. Dispositions

Sale of Brayton Point, Kincaid and Equity Method Investment in Elwood

In March 2013, Dominion entered into an agreement with Energy Capital Partners to sell Brayton Point, Kincaid, and its 50% interest in Elwood, which is an equity method investment.

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The transaction is expected to close in the second quarter of 2013, subject to FERC approval. The sales price is approximately \$472 million, subject to customary closing adjustments. In the first quarter of 2013, Brayton Point's and Kincaid's assets and liabilities to be disposed of were classified as held for sale and adjusted to their estimated fair value less cost to sell, resulting in a pre-tax impairment charge of \$37 million (\$22 million after-tax), which is included in discontinued operations in Dominion's Consolidated Statement of Income. Dominion used the market approach to estimate the fair value of Brayton Point's and Kincaid's long-lived assets. This was considered a Level 2 fair value measurement given it was based on the agreed-upon sales price. The carrying amounts of the major classes of assets and liabilities classified as held for sale in Dominion's Consolidated Balance Sheet are as follows:

At March 31, (millions)	2013
Assets	
Current assets	\$ 109
Property, plant and equipment, net	187
Other assets	17
Total assets	\$ 313
Liabilities	
Current liabilities	\$ 28
Asset retirement obligations	19
Other liabilities	1
Total liabilities	\$ 48

The following table presents selected information regarding the results of operations of Brayton Point and Kincaid, which are reported as discontinued operations in Dominion's Consolidated Statements of Income:

	Three Months Ended March 31,	
(millions)	2013	2012
Operating revenue	\$ 154	\$ 65
Income (loss) before income taxes	1	(22)

Dominion's 50% interest in Elwood is an equity method investment and therefore, in accordance with applicable accounting guidance, the carrying amount of this investment is not classified as held for sale nor are the equity earnings from this investment reported as discontinued operations.

Sale of Salem Harbor and State Line

In August 2012, Dominion completed the sale of Salem Harbor. During the second quarter of 2012, Dominion completed the sale of State Line, which ceased operations in March 2012.

The following table presents selected information regarding the results of operations of Salem Harbor and State Line, which are classified in discontinued operations in Dominion's Consolidated Statement of Income:

Three months ended March 31, (millions)	2012
Operating revenue	\$ 30
Income before income taxes	2

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Note 4. Operating Revenue

The Companies' operating revenue consists of the following:

	Three Months Ended March 31,	
	2013	2012
(millions)		
Dominion		
Electric sales:		
Regulated	\$ 1,761	\$ 1,724
Nonregulated	658	643
Gas sales:		
Regulated	132	99
Nonregulated	345	398
Gas transportation and storage	467	405
Other	160	128
Total operating revenue	\$ 3,523	\$ 3,397
Virginia Power		
Regulated electric sales	\$ 1,761	\$ 1,724
Other	20	30
Total operating revenue	\$ 1,781	\$ 1,754

Note 5. Income Taxes

For continuing operations, including noncontrolling interests, the statutory U.S. federal income tax rate reconciles to Dominion's and Virginia Power's effective income tax rate as follows:

Three Months Ended March 31,	Dominion		Virginia Power	
	2013	2012	2013	2012
U.S. statutory rate	35.0%	35.0%	35.0%	35.0%
Increases (reductions) resulting from:				
State taxes, net of federal benefit	4.0	4.0	3.9	3.9
Investment and production tax credits	(1.5)	(0.5)		
Valuation allowances	0.1	(2.6)		
AFUDC equity	(0.7)	(0.7)	(1.3)	(0.9)
Other, net	(0.4)	(0.7)	0.2	(0.2)
Effective tax rate	36.5%	34.5%	37.8%	37.8%

Dominion's effective tax rate in 2012 reflects a \$20 million reduction of valuation allowance related to state operating loss carryforwards attributable to Fairless. After considering the results of Fairless' operations in recent years and a forecast of future operating results reflecting Dominion's planned purchase of the facility, Dominion concluded that it was more likely than not that the tax benefit of the operating losses would be realized. Significant assumptions included future commodity prices, in particular, those for electric energy produced by Fairless and those for natural gas, as compared to other fuels used for the generation of electricity, which would significantly influence the extent to which Fairless is dispatched by PJM.

As of March 31, 2013, there have been no material changes in Dominion's and Virginia Power's unrecognized tax benefits or possible changes that could reasonably be expected to occur during the next twelve months. See Note 5 to the Consolidated Financial Statements in Dominion's

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and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2012 for a discussion of these unrecognized tax benefits.

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Table of Contents**Note 6. Earnings Per Share**

The following table presents the calculation of Dominion's basic and diluted EPS:

		Three Months Ended	
		March 31,	
		2013	2012
(millions, except EPS)			
Net income attributable to Dominion		\$ 495	\$ 494
Average shares of common stock outstanding	Basic	576.6	570.5
Net effect of potentially dilutive securities ⁽¹⁾		0.9	1.4
Average shares of common stock outstanding	Diluted	577.5	571.9
Earnings Per Common Share	Basic	\$ 0.86	\$ 0.86
Earnings Per Common Share	Diluted	\$ 0.86	\$ 0.86

(1) Potentially dilutive securities consist primarily of goal-based stock and contingently convertible senior notes.

There were no potentially dilutive securities excluded from the calculation of diluted EPS for the three months ended March 31, 2013 and 2012.

Table of Contents**Note 7. Accumulated Other Comprehensive Income**

The following table presents Dominion's changes in AOCI by component, net of tax for the three months ended March 31, 2013:

(millions)	Deferred gains and losses on derivatives-hedging activities	Unrealized gains and losses on investment securities	Unrecognized pension and other postretirement benefit costs	Total
Beginning balance	\$ (122)	\$ 326	\$ (1,081)	\$ (877)
Other comprehensive income (loss) before reclassifications: gains (losses)	(90)	78		(12)
Amounts reclassified from accumulated other comprehensive income (loss) ⁽¹⁾ : (gains) losses	76	(27)	20	69
Net current-period other comprehensive income (loss)	(14)	51	20	57
Ending balance	\$ (136)	\$ 377	\$ (1,061)	\$ (820)

(1) See table below for details about these reclassifications.

The following table presents Dominion's reclassifications out of AOCI by component for the three months ended March 31, 2013:

Details about AOCI components (millions)	Amounts reclassified from AOCI	Affected line item in the Consolidated Statements of Income
Deferred (gains) and losses on derivatives-hedging activities:		
Commodity contracts	\$ 84	Operating revenue
	34	Purchased gas
	3	Electric fuel and other energy-related purchases
Interest rate contracts	3	Interest and related charges
	124	
Tax	(48)	Income tax expense
	\$ 76	
Unrealized (gains) and losses on investment securities:		
Realized (gain) loss on sale of securities	\$ (47)	Other income
Impairment	2	Other income
	(45)	
Tax	18	Income tax expense
	\$ (27)	

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Unrecognized pension and other postretirement benefit costs:		
Actuarial (gains) losses	\$ 29	Other operations and maintenance
	29	
Tax	(9)	Income tax expense
	\$ 20	

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Note 8. Fair Value Measurements

Dominion's and Virginia Power's fair value measurements are made in accordance with the policies discussed in Note 6 to the Consolidated Financial Statements in their Annual Report on Form 10-K for the year ended December 31, 2012. See Note 9 in this report for further information about their derivatives and hedge accounting activities.

Dominion and Virginia Power enter into certain physical and financial forwards and futures, options, and full requirements contracts, which are considered Level 3 as they have one or more inputs that are not observable and are significant to the valuation. The discounted cash flow method is used to value Level 3 physical and financial forwards, futures, and full requirements contracts. An option model is used to value Level 3 physical and financial options. The discounted cash flow model for forwards and futures calculates mark-to-market valuations based on forward market prices, original transaction prices, volumes, risk-free rate of return, and credit spreads. Full requirements contracts add load shaping and usage factors in addition to the discounted cash flow model inputs. The option model calculates mark-to-market valuations using variations of the Black-Scholes option model. The inputs into the models are the forward market prices, implied price volatilities, mean reversion, risk-free rate of return, the option expiration dates, the option strike prices, price correlations, the original sales prices, and volumes. For Level 3 fair value measurements, the forward market prices, the implied price volatilities, price correlations, load shaping, and usage factors are considered unobservable. The unobservable inputs are developed and substantiated using historical information, available market data, third-party data, and statistical analysis. Periodically, inputs to valuation models are reviewed and revised as needed, based on historical information, updated market data, market liquidity and relationships, and changes in third-party pricing sources.

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The following table presents Dominion's quantitative information about Level 3 fair value measurements. The range and weighted average are presented in dollars for market price inputs and percentages for price volatility, price correlations, load shaping, and usage factors.

	Fair Value (millions)	Valuation Techniques	Unobservable Input	Range	Weighted Average ⁽¹⁾
At March 31, 2013					
Assets:					
Physical and Financial Forwards and Futures:					
Natural Gas ⁽²⁾	\$ 11	Discounted Cash Flow	Market Price (per Dth) ⁽³⁾	(1) - 6	3
Electricity	7	Discounted Cash Flow	Market Price (per MWh) ⁽³⁾	34 - 76	49
FTRs	2	Discounted Cash Flow	Market Price (per MWh) ⁽³⁾	(3) - 5	0
Liquids	18	Discounted Cash Flow	Market Price (per Gal) ⁽³⁾	0 - 3	1
Physical and Financial Options:					
Natural Gas	4	Option Model	Market Price (per Dth) ⁽³⁾	3 - 11	4
			Price Volatility ⁽⁴⁾	8% - 546% ⁽⁹⁾	42%
			Price Correlation ⁽⁵⁾	37% - 100%	57%
			Mean Reversion ⁽⁶⁾	0 - 58	11
Full Requirements Contracts:					
Electricity	9	Discounted Cash Flow	Market Price (per MWh) ⁽³⁾	11 - 480 ⁽¹⁰⁾	47
			Load Shaping ⁽⁷⁾	1% - 8%	4%
			Usage Factor ⁽⁸⁾	1% - 7%	5%
Total assets	\$ 51				
Liabilities:					
Physical and Financial Forwards and Futures:					
Natural Gas ⁽²⁾	\$ 18	Discounted Cash Flow	Market Price (per Dth) ⁽³⁾	(1) - 6	2
Electricity	1	Discounted Cash Flow	Market Price (per MWh) ⁽³⁾	23 - 43	33
FTRs	5	Discounted Cash Flow	Market Price (per MWh) ⁽³⁾	(1) - 18	1
Liquids	12	Discounted Cash Flow	Market Price (per Gal) ⁽³⁾	1 - 3	2
Physical and Financial Options:					
Natural Gas	6	Option Model	Market Price (per Dth) ⁽³⁾	3 - 11	5
			Price Volatility ⁽⁴⁾	8% - 546% ⁽⁹⁾	27%
			Price Correlation ⁽⁵⁾	37% - 100%	57%
			Mean Reversion ⁽⁶⁾	0 - 58	11
Total liabilities	\$ 42				

(1) Averages weighted by volume.

(2) Includes basis.

(3) Represents market prices beyond defined terms for Levels 1 & 2.

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- (4) Represents volatilities unrepresented in published markets.
- (5) Represents intra-price correlations for which markets do not exist.
- (6) Represents mean-reverting property in price simulation modeling.
- (7) Converts block monthly loads to 24-hour load shapes.
- (8) Represents expected increase (decrease) in sales volumes compared to historical usage.
- (9) The range in volatilities is the result of large variability in natural gas basis prices.
- (10) The range in market prices is the result of large variability in hourly power prices during peak and off-peak hours.

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Sensitivity of the fair value measurements to changes in the significant unobservable inputs is as follows:

Significant Unobservable Inputs	Position	Change to Input	Impact on Fair Value Measurement
Market Price	Buy	Increase (decrease)	Gain (loss)
Market Price	Sell	Increase (decrease)	Loss (gain)
Price Volatility	Buy	Increase (decrease)	Gain (loss)
Price Volatility	Sell	Increase (decrease)	Loss (gain)
Price Correlation	Buy	Increase (decrease)	Loss (gain)
Price Correlation	Sell	Increase (decrease)	Gain (loss)
Mean Reversion	Buy	Increase (decrease)	Loss (gain)
Mean Reversion	Sell	Increase (decrease)	Gain (loss)
Load Shaping	Sell ⁽¹⁾	Increase (decrease)	Loss (gain)
Usage Factor	Sell ⁽²⁾	Increase (decrease)	Gain (loss)

(1) Assumes the contract is in a gain position and load increases during peak hours.

(2) Assumes the contract is in a gain position.

Non-recurring Fair Value Measurements

See Note 3 for a non-recurring fair value measurement related to Brayton Point and Kincaid.

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Table of Contents**Recurring Fair Value Measurements****Dominion**

The following table presents Dominion's assets and liabilities that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions:

	Level 1	Level 2	Level 3	Total
(millions)				
At March 31, 2013				
Assets:				
Derivatives:				
Commodity	\$ 12	\$ 610	\$ 51	\$ 673
Interest rate		78		78
Investments ⁽¹⁾ :				
Equity securities:				
U.S.:				
Large cap	2,065			2,065
Other	68			68
Non-U.S.:				
Large cap	12			12
Fixed income:				
Corporate debt instruments		364		364
U.S. Treasury securities and agency debentures	454	195		649
State and municipal		299		299
Other		8		8
Cash equivalents and other	1	80		81
Restricted cash equivalents		20		20
Total assets	\$ 2,612	\$ 1,654	\$ 51	\$ 4,317
Liabilities:				
Derivatives:				
Commodity	\$ 13	\$ 556	\$ 42	\$ 611
Interest rate		33		33
Total liabilities	\$ 13	\$ 589	\$ 42	\$ 644
At December 31, 2012				
Assets:				
Derivatives:				
Commodity	\$ 12	\$ 639	\$ 84	\$ 735
Interest rate		93		93
Investments ⁽¹⁾ :				
Equity securities:				
U.S.:				
Large cap	1,973			1,973
Other	59			59
Non-U.S.:				
Large cap	12			12
Fixed income:				
Corporate debt instruments		325		325
U.S. Treasury securities and agency debentures	391	152		543
State and municipal		315		315

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Other		7		7
Cash equivalents and other	13	67		80
Restricted cash equivalents		33		33
Total assets	\$ 2,460	\$ 1,631	\$ 84	\$ 4,175
Liabilities:				
Derivatives:				
Commodity	\$ 8	\$ 528	\$ 59	\$ 595
Interest rate		66		66
Total liabilities	\$ 8	\$ 594	\$ 59	\$ 661

(1) Includes investments held in the nuclear decommissioning and rabbi trusts.

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The following table presents the net change in Dominion's assets and liabilities measured at fair value on a recurring basis and included in the Level 3 fair value category:

	Three Months Ended March 31,	
	2013	2012
(millions)		
Beginning balance	\$ 25	\$ (71)
Total realized and unrealized gains (losses):		
Included in earnings	14	(35)
Included in other comprehensive income (loss)	9	5
Included in regulatory assets/liabilities	(5)	11
Settlements	(26)	30
Transfers out of Level 3	(8)	(1)
Ending balance	\$ 9	\$ (61)
The amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets/liabilities still held at the reporting date	\$ (5)	\$ 1

The following table presents Dominion's classification of gains and losses included in earnings in the Level 3 fair value category:

	Operating revenue	Electric fuel and other energy-related purchases	Total
(millions)			
Three Months Ended March 31, 2013			
Total gains (losses) included in earnings	\$ 12	\$ 2	\$ 14
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets/liabilities still held at the reporting date	(5)		(5)
Three Months Ended March 31, 2012			
Total gains (losses) included in earnings	\$ (9)	\$ (26)	\$ (35)
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets/liabilities still held at the reporting date	1		1

Table of Contents**Virginia Power**

The following table presents Virginia Power's assets and liabilities that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions:

	Level 1	Level 2	Level 3	Total
(millions)				
At March 31, 2013				
Assets:				
Derivatives:				
Commodity	\$	\$ 6	\$ 2	\$ 8
Interest rate		3		3
Investments ⁽¹⁾ :				
Equity securities:				
U.S.:				
Large cap	864			864
Other	30			30
Fixed income:				
Corporate debt instruments		214		214
U.S. Treasury securities and agency debentures	177	75		252
State and municipal		104		104
Other		1		1
Cash equivalents and other		29		29
Restricted cash equivalents		10		10
Total assets	\$ 1,071	\$ 442	\$ 2	\$ 1,515
Liabilities:				
Derivatives:				
Commodity	\$	\$ 2	\$ 5	\$ 7
Total liabilities	\$	\$ 2	\$ 5	\$ 7
At December 31, 2012				
Assets:				
Derivatives:				
Commodity	\$	\$ 1	\$ 5	\$ 6
Investments ⁽¹⁾ :				
Equity securities:				
U.S.:				
Large cap	779			779
Other	27			27
Fixed income:				
Corporate debt instruments		196		196
U.S. Treasury securities and agency debentures	168	66		234
State and municipal		118		118
Other		1		1
Cash equivalents and other	7	31		38
Restricted cash equivalents		10		10
Total assets	\$ 981	\$ 423	\$ 5	\$ 1,409
Liabilities:				
Derivatives:				

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Commodity	\$	\$ 6	\$ 3	\$ 9
Interest rate		25		25
Total liabilities	\$	\$ 31	\$ 3	\$ 34

- (1) Includes investments held in the nuclear decommissioning and rabbi trusts.

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The following table presents the net change in Virginia Power's assets and liabilities measured at fair value on a recurring basis and included in the Level 3 fair value category:

(millions)	Three Months Ended March 31,	
	2013	2012
Beginning balance	\$ 2	\$ (28)
Total realized and unrealized gains (losses):		
Included in earnings	2	(27)
Included in regulatory assets/liabilities	(5)	11
Settlements	(2)	27
Ending balance	\$ (3)	\$ (17)

The gains and losses included in earnings in the Level 3 fair value category were classified in electric fuel and other energy-related purchases in Virginia Power's Consolidated Statements of Income for the three months ended March 31, 2013 and 2012. There were no unrealized gains or losses included in earnings in the Level 3 fair value category relating to assets/liabilities still held at the reporting date for the three months ended March 31, 2013 and 2012.

Fair Value of Financial Instruments

Substantially all of Dominion's and Virginia Power's financial instruments are recorded at fair value, with the exception of the instruments described below that are reported at historical cost. Estimated fair values have been determined using available market information and valuation methodologies considered appropriate by management. The carrying amount of cash and cash equivalents, customer and other receivables, short-term debt and accounts payable are representative of fair value because of the short-term nature of these instruments. For Dominion's and Virginia Power's financial instruments that are not recorded at fair value, the carrying amounts and estimated fair values are as follows:

(millions)	March 31, 2013		December 31, 2012	
	Carrying Amount	Estimated Fair Value ⁽¹⁾	Carrying Amount	Estimated Fair Value ⁽¹⁾
Dominion				
Long-term debt, including securities due within one year ⁽²⁾	\$ 17,097	\$ 19,874	\$ 16,841	\$ 19,898
Securities due within one year, VIE ⁽³⁾	852	855	860	864
Junior subordinated notes	1,373	1,435	1,373	1,430
Subsidiary preferred stock ⁽⁴⁾	257	260	257	255
Virginia Power				
Long-term debt, including securities due within one year ⁽²⁾	\$ 7,463	\$ 8,929	\$ 6,669	\$ 8,270
Preferred stock ⁽⁴⁾	257	260	257	255

- (1) Fair value is estimated using market prices, where available, and interest rates currently available for issuance of debt with similar terms and remaining maturities. All fair value measurements are classified as Level 2. The carrying amount of debt issues with short-term maturities and variable rates refinanced at current market rates is a reasonable estimate of their fair value.
- (2) Includes amounts which represent the unamortized discount and premium. At March 31, 2013 and December 31, 2012, includes the valuation of certain fair value hedges associated with Dominion's fixed rate debt of approximately \$72 million and \$93 million, respectively.
- (3) Includes amounts which represent the unamortized premium.

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(4) Includes deferred issuance expenses of \$2 million at March 31, 2013 and December 31, 2012.

Note 9. Derivatives and Hedge Accounting Activities

Dominion's and Virginia Power's accounting policies and objectives and strategies for using derivative instruments are discussed in Note 2 to the Consolidated Financial Statements in their Annual Report on Form 10-K for the year ended December 31, 2012. See Note 8 in this report for further information about fair value measurements and associated valuation methods for derivatives.

Derivative assets and liabilities are presented gross on Dominion's and Virginia Power's Consolidated Balance Sheets. Dominion's and Virginia Power's derivative contracts include both over-the-counter transactions and those that are executed on

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an exchange or other trading platform (exchange contracts) and centrally cleared. Over-the-counter contracts are bilateral contracts that are transacted directly with a third party. Exchange contracts utilize a financial intermediary, exchange, or clearinghouse to enter, execute, or clear the transactions. Certain over-the-counter and exchange contracts contain contractual rights of setoff through master netting arrangements, derivative clearing agreements, and contract default provisions. In addition, the contracts are subject to conditional rights of setoff through counterparty nonperformance, insolvency, or other conditions.

In general, most over-the-counter transactions and all exchange contracts are subject to collateral requirements. Types of collateral for over-the-counter and exchange contracts include cash, letters of credit, and in some cases other forms of security, none of which are subject to restrictions. Cash collateral is used in the table below to offset derivative assets and liabilities. Certain accounts receivable and accounts payable recognized on Dominion's and Virginia Power's Consolidated Balance Sheets, as well as letters of credit and other forms of security, all of which are not included in the tables below, are subject to offset under master netting agreements or similar agreements and would reduce the net exposure.

Dominion

The tables below present Dominion's derivative asset and liability balances by type of financial instrument, before and after the effects of offsetting, as of March 31, 2013:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
(millions)			
Interest rate contracts:			
Over-the-counter	\$ 78	\$	\$ 78
Commodity contracts:			
Over-the-counter	245		245
Exchange	418		418
Total derivatives, subject to a master netting arrangement or similar arrangement	741		741
Total derivatives, not subject to a master netting arrangement or similar arrangement	10		10
Total ⁽¹⁾	\$ 751	\$	\$ 751

- (1) The total derivative asset balance contains \$534 million of current assets, \$527 million and \$7 million of which is presented in current derivative assets and assets held for sale, respectively, in Dominion's Consolidated Balance Sheet, and \$217 million of noncurrent derivative assets, which is presented in other deferred charges and other assets in Dominion's Consolidated Balance Sheet.

	Gross Amounts Not Offset in the Consolidated Balance Sheet		
Net Amounts of Assets Presented in the Consolidated Balance	Financial Instruments	Cash Collateral Received	Net Amounts

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Sheet

(millions)

Interest rate contracts:				
Over-the-counter	\$	78	\$	15
Commodity contracts:				
Over-the-counter		245		74
Exchange		418		405
			1	
Total	\$	741	\$	494
			1	
	\$		\$	246

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	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet
(millions)			
Interest rate contracts:			
Over-the-counter	\$ 33	\$	\$ 33
Commodity contracts:			
Over-the-counter	145		145
Exchange	462		462
Total derivatives, subject to a master netting arrangement or similar arrangement	640		640
Total derivatives, not subject to a master netting arrangement or similar arrangement	4		4
Total ⁽¹⁾	\$ 644	\$	\$ 644

- (1) The total derivative liability balance contains \$556 million of current liabilities, which is presented in current derivative liabilities in Dominion's Consolidated Balance Sheet, and \$88 million of noncurrent derivative liabilities, which is presented in the other deferred credits and other liabilities in Dominion's Consolidated Balance Sheet.

	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Cash Collateral Paid	Net Amounts
(millions)				
Interest rate contracts:				
Over-the-counter	\$ 33	\$ 15	\$	\$ 18
Commodity contracts:				
Over-the-counter	145	74	13	58
Exchange	462	405	57	
Total	\$ 640	\$ 494	\$ 70	\$ 76

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The tables below present Dominion's derivative asset and liability balances by type of financial instrument, before and after the effects of offsetting, as of December 31, 2012:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
(millions)			
Interest rate contracts:			
Over-the-counter	\$ 93	\$	\$ 93
Commodity contracts:			
Over-the-counter	290		290
Exchange	416		416
Total derivatives, subject to a master netting arrangement or similar arrangement	799		799
Total derivatives, not subject to a master netting arrangement or similar arrangement	29		29
Total ⁽¹⁾	\$ 828	\$	\$ 828

- (1) The total derivative asset balance contains \$518 million of current assets, which is presented in current derivative assets in Dominion's Consolidated Balance Sheet and \$310 million of noncurrent derivative assets, which is presented in other deferred charges and other assets in Dominion's Consolidated Balance Sheet.

	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Cash Collateral Received	Net Amounts
(millions)				
Interest rate contracts:				
Over-the-counter	\$ 93	\$ 19	\$	\$ 74
Commodity contracts:				
Over-the-counter	290	97		193
Exchange	416	350	4	62
Total	\$ 799	\$ 466	\$ 4	\$ 329

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(millions)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet
Interest rate contracts:			
Over-the-counter	\$ 66	\$	\$ 66
Commodity contracts:			
Over-the-counter	191		191
Exchange	393		393
Total derivatives, subject to a master netting arrangement or similar arrangement	650		650
Total derivatives, not subject to a master netting arrangement or similar arrangement	11		11
Total ⁽¹⁾	\$ 661	\$	\$ 661

- (1) The total derivative liability balance contains \$510 million of current liabilities, which is presented in current derivative liabilities in Dominion's Consolidated Balance Sheet and \$151 million of noncurrent derivative liabilities, which is presented in other deferred credits and other liabilities in Dominion's Consolidated Balance Sheet.

(millions)	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet	Cash Collateral Paid	Net Amounts
Interest rate contracts:				
Over-the-counter	\$ 66	\$ 19	\$	\$ 47
Commodity contracts:				
Over-the-counter	191	97	20	74
Exchange	393	350	43	
Total	\$ 650	\$ 466	\$ 63	\$ 121

The following table presents the volume of Dominion's derivative activity as of March 31, 2013. These volumes are based on open derivative positions and represent the combined absolute value of their long and short positions, except in the case of offsetting transactions, for which they represent the absolute value of the net volume of their long and short positions.

	Current	Noncurrent
Natural Gas (bcf):		
Fixed price ⁽¹⁾	292	47
Basis	875	482
Electricity (MWh):		
Fixed price ⁽¹⁾	19,932,885	15,662,175

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FTRs	19,950,674	
Capacity (MW)	200,525	90,744
Liquids (Gal) ⁽²⁾	161,322,000	109,284,000
Interest rate	\$ 1,350,000,000	\$ 1,650,000,000

- (1) Includes options.
- (2) Includes NGLs and oil.

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For the three months ended March 31, 2013 and 2012, gains or losses on hedging instruments determined to be ineffective and amounts excluded from the assessment of effectiveness were not material. Amounts excluded from the assessment of effectiveness include gains or losses attributable to changes in the time value of options and changes in the differences between spot prices and forward prices.

The following table presents selected information related to gains (losses) on cash flow hedges included in AOCI in Dominion's Consolidated Balance Sheet at March 31, 2013:

	AOCI After-Tax	Amounts Expected to be Reclassified to Earnings during the next 12 Months After-Tax	Maximum Term
(millions)			
Commodities:			
Gas	\$ (20)	\$ (14)	31 months
Electricity	31	(12)	33 months
Other	8	4	38 months
Interest rate	(155)	(27)	358 months
Total	\$ (136)	\$ (49)	

The amounts that will be reclassified from AOCI to earnings will generally be offset by the recognition of the hedged transactions (e.g., anticipated sales) in earnings, thereby achieving the realization of prices contemplated by the underlying risk management strategies and will vary from the expected amounts presented above as a result of changes in market prices and interest rates.

Table of Contents**Fair Value and Gains and Losses on Derivative Instruments**

The following table presents the fair values of Dominion's derivatives and where they are presented in its Consolidated Balance Sheets:

	Fair Value Derivatives under Hedge Accounting	Fair Value Derivatives not under Hedge Accounting	Total Fair Value
(millions)			
March 31, 2013			
ASSETS			
Current Assets			
Commodity	\$ 94	\$ 406	\$ 500
Interest rate	34		34
Total current derivative assets ⁽¹⁾	128	406	534
Noncurrent Assets			
Commodity	106	67	173
Interest rate	44		44
Total noncurrent derivative assets ⁽²⁾	150	67	217
Total derivative assets	\$ 278	\$ 473	\$ 751
LIABILITIES			
Current Liabilities			
Commodity	\$ 123	\$ 400	\$ 523
Interest rate	33		33
Total current derivative liabilities	156	400	556
Noncurrent Liabilities			
Commodity	46	42	88
Total noncurrent derivative liabilities ⁽³⁾	46	42	88
Total derivative liabilities	\$ 202	\$ 442	\$ 644
December 31, 2012			
ASSETS			
Current Assets			
Commodity	\$ 103	\$ 379	\$ 482
Interest rate	36		36
Total current derivative assets	139	379	518
Noncurrent Assets			
Commodity	130	123	253
Interest rate	57		57

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Total noncurrent derivative assets ⁽²⁾	187	123	310
Total derivative assets	\$ 326	\$ 502	\$ 828
LIABILITIES			
Current Liabilities			
Commodity	\$ 103	\$ 341	\$ 444
Interest rate	66		66
Total current derivative liabilities	169	341	510
Noncurrent Liabilities			
Commodity	58	93	151
Total noncurrent derivative liabilities ⁽³⁾	58	93	151
Total derivative liabilities	\$ 227	\$ 434	\$ 661

- (1) \$7 million of current derivative assets are classified as assets held for sale in Dominion's Consolidated Balance Sheet. See Note 3 for further information.

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- (2) Noncurrent derivative assets are presented in other deferred charges and other assets in Dominion's Consolidated Balance Sheets.
- (3) Noncurrent derivative liabilities are presented in other deferred credits and other liabilities in Dominion's Consolidated Balance Sheets.
- The following tables present the gains and losses on Dominion's derivatives, as well as where the associated activity is presented in its Consolidated Balance Sheets and Statements of Income:

	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) ⁽¹⁾	Amount of Gain (Loss) Reclassified from AOCI to Income	Increase (Decrease) in Derivatives Subject to Regulatory Treatment ⁽²⁾
Derivatives in cash flow hedging relationships			
(millions)			
Three Months Ended March 31, 2013			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Operating revenue		\$ (84)	
Purchased gas		(34)	
Electric fuel and other energy-related purchases		(3)	
Total commodity	\$ (157)	(121)	\$ 7
Interest rate ⁽³⁾	13	(3)	16
Total	\$ (144)	\$ (124)	\$ 23
Three Months Ended March 31, 2012			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Operating revenue		\$ 64	
Purchased gas		(30)	
Electric fuel and other energy-related purchases		(7)	
Total commodity	\$ 176	27	\$ (1)
Interest rate ⁽³⁾	32	1	27
Total	\$ 208	\$ 28	\$ 26

- (1) Amounts deferred into AOCI have no associated effect in Dominion's Consolidated Statements of Income.
- (2) Represents net derivative activity deferred into and amortized out of regulatory assets/liabilities. Amounts deferred into regulatory assets/liabilities have no associated effect in Dominion's Consolidated Statements of Income.
- (3) Amounts recorded in Dominion's Consolidated Statements of Income are classified in interest and related charges.

Amount of Gain (Loss)
Recognized in Income
on
Derivatives⁽¹⁾
Three Months Ended
March 31,

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Derivatives not designated as hedging instruments (millions)	2013	2012
Derivative Type and Location of Gains (Losses)		
Commodity		
Operating revenue	\$ 3	\$ 69
Purchased gas	18	(10)
Electric fuel and other energy-related purchases	3	(27)
Interest rate ⁽²⁾		(2)
Total	\$ 24	\$ 30

- (1) Includes derivative activity amortized out of regulatory assets/liabilities. Amounts deferred into regulatory assets/liabilities have no associated effect in Dominion's Consolidated Statements of Income.
- (2) Amounts recorded in Dominion's Consolidated Statements of Income are classified in interest and related charges.

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Table of Contents**Virginia Power**

The following table presents the volume of Virginia Power's derivative activity as of March 31, 2013. These volumes are based on open derivative positions and represent the combined absolute value of their long and short positions, except in the case of offsetting transactions, for which they represent the absolute value of the net volume of their long and short positions.

	Current	Noncurrent
Natural Gas (bcf):		
Fixed price	16	
Basis	8	
Electricity (MWh):		
Fixed price	644,000	
FTRs	17,168,056	
Capacity (MW)	152,000	48,800
Interest rate	\$	\$ 250,000,000

Note 10. Investments**Dominion****Equity and Debt Securities*****Rabbi Trust Securities***

Marketable equity and debt securities and cash equivalents held in Dominion's rabbi trusts and classified as trading totaled \$98 million and \$95 million at March 31, 2013 and December 31, 2012, respectively. Cost method investments held in Dominion's rabbi trusts totaled \$13 million and \$14 million at March 31, 2013 and December 31, 2012, respectively.

Table of Contents**Decommissioning Trust Securities**

Dominion holds marketable equity and debt securities (classified as available-for-sale), cash equivalents and cost method investments in nuclear decommissioning trust funds to fund future decommissioning costs for its nuclear plants. Dominion's decommissioning trust funds are summarized below:

	Amortized Cost	Total Unrealized Gains ⁽¹⁾	Total Unrealized Losses (1)	Fair Value
(millions)				
March 31, 2013				
Marketable equity securities:				
U.S.:				
Large Cap	\$ 1,153	\$ 879	\$	\$ 2,032
Other	44	18		62
Marketable debt securities:				
Corporate bonds	336	28		364
U.S. Treasury securities and agency debentures	628	19	(1)	646
State and municipal	236	23		259
Other	8			8
Cost method investments	113			113
Cash equivalents and other ⁽²⁾	63			63
Total	\$ 2,581	\$ 967	\$ (1)⁽³⁾	\$ 3,547
December 31, 2012				
Marketable equity securities:				
U.S.:				
Large Cap	\$ 1,210	\$ 732	\$	\$ 1,942
Other	40	13		53
Marketable debt securities:				
Corporate bonds	295	30		325
U.S. Treasury securities and agency debentures	523	19	(2)	540
State and municipal	248	26		274
Other	6	1		7
Cost method investments	117			117
Cash equivalents and other ⁽²⁾	72			72
Total	\$ 2,511	\$ 821	\$ (2)⁽³⁾	\$ 3,330

(1) Included in AOCI and the decommissioning trust regulatory liability.

(2) Includes pending purchases of securities of \$14 million and \$6 million at March 31, 2013 and December 31, 2012, respectively.

(3) The fair value of securities in an unrealized loss position was \$208 million and \$195 million at March 31, 2013 and December 31, 2012, respectively.

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The fair value of Dominion's marketable debt securities held in nuclear decommissioning trust funds at March 31, 2013 by contractual maturity is as follows:

	Amount
(millions)	
Due in one year or less	\$ 162
Due after one year through five years	333
Due after five years through ten years	367
Due after ten years	415
Total	\$ 1,277

Presented below is selected information regarding Dominion's marketable equity and debt securities held in nuclear decommissioning trust funds.

	Three Months Ended March 31,	
	2013	2012
(millions)		
Proceeds from sales	\$ 554	\$ 415
Realized gains ⁽¹⁾	63	28
Realized losses ⁽¹⁾	6	4

(1) Includes realized gains and losses recorded to the decommissioning trust regulatory liability.

Other-than-temporary impairment losses on investments held in nuclear decommissioning trust funds for Dominion were not material for the three months ended March 31, 2013 and 2012.

Blue Racer

In December 2012, Dominion formed Blue Racer to provide midstream services to natural gas producers operating in the Utica Shale region in Ohio and portions of Pennsylvania. Blue Racer is an equal partnership between Dominion and Caiman, with Dominion contributing midstream assets and Caiman contributing private equity capital. In March 2013, DTI contributed Line TL-404 to Blue Racer and received approximately \$47 million in cash proceeds resulting in an approximately \$25 million (\$14 million after-tax) gain. The Natrium natural gas processing and fractionation facility is expected to be completed in the second quarter of 2013, and is expected to be contributed to Blue Racer upon completion.

Table of Contents**Virginia Power**

Virginia Power holds marketable equity and debt securities (classified as available-for-sale), cash equivalents and cost method investments in nuclear decommissioning trust funds to fund future decommissioning costs for its nuclear plants. Virginia Power's decommissioning trust funds are summarized below:

	Amortized Cost	Total Unrealized Gains ⁽¹⁾	Total Unrealized Losses ⁽¹⁾	Fair Value
(millions)				
March 31, 2013				
Marketable equity securities:				
U.S.:				
Large Cap	\$ 490	\$ 373	\$	\$ 863
Other	21	9		30
Marketable debt securities:				
Corporate bonds	198	16		214
U.S. Treasury securities and agency debentures	248	5	(1)	252
State and municipal	95	9		104
Other	1			1
Cost method investments	113			113
Cash equivalents and other ⁽²⁾	31			31
Total	\$ 1,197	\$ 412	\$ (1)⁽³⁾	\$ 1,608
December 31, 2012				
Marketable equity securities:				
U.S.:				
Large Cap	\$ 481	\$ 298	\$	\$ 779
Other	20	7		27
Marketable debt securities:				
Corporate bonds	179	17		196
U.S. Treasury securities and agency debentures	231	4	(1)	234
State and municipal	106	11		117
Other	1			1
Cost method investments	117			117
Cash equivalents and other ⁽²⁾	44			44
Total	\$ 1,179	\$ 337	\$ (1)⁽³⁾	\$ 1,515

(1) Included in AOCI and the decommissioning trust regulatory liability.

(2) Includes pending sales of securities of \$2 million and \$6 million at March 31, 2013 and December 31, 2012, respectively.

(3) The fair value of securities in an unrealized loss position was \$111 million and \$104 million at March 31, 2013 and December 31, 2012, respectively.

The fair value of Virginia Power's marketable debt securities at March 31, 2013 by contractual maturity is as follows:

	Amount
(millions)	
Due in one year or less	\$ 44
Due after one year through five years	160

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Due after five years through ten years	202
Due after ten years	165
Total	\$ 571

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Presented below is selected information regarding Virginia Power's marketable equity and debt securities.

	Three Months Ended	
	March 31,	
(millions)	2013	2012
Proceeds from sales	\$ 189	\$ 191
Realized gains ⁽¹⁾	16	11
Realized losses ⁽¹⁾	3	2

(1) Includes realized gains and losses recorded to the decommissioning trust regulatory liability.

Other-than-temporary impairment losses on investments held in nuclear decommissioning trust funds for Virginia Power were not material for the three months ended March 31, 2013 and 2012.

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Table of Contents**Note 11. Regulatory Assets and Liabilities**

Regulatory assets and liabilities include the following:

(millions)	March 31, 2013	December 31, 2012
Dominion		
Regulatory assets:		
Deferred rate adjustment clause costs ⁽¹⁾	\$ 59	\$ 55
Unrecovered gas cost ⁽²⁾	27	59
Deferred cost of fuel used in electric generation ⁽³⁾	17	
Other	74	89
Regulatory assets-current ⁽⁴⁾	177	203
Unrecognized pension and other postretirement benefit costs ⁽⁵⁾	1,192	1,210
Deferred rate adjustment clause costs ⁽¹⁾	181	173
Income taxes recoverable through future rates ⁽⁶⁾	149	140
Derivatives ⁽⁷⁾	85	105
Other	89	89
Regulatory assets-non-current	1,696	1,717
Total regulatory assets	\$ 1,873	\$ 1,920
Regulatory liabilities:		
PIPP ⁽⁸⁾	\$ 118	\$ 100
Other	29	36
Regulatory liabilities-current ⁽⁹⁾	147	136
Provision for future cost of removal and AROs ⁽¹⁰⁾	1,005	985
Decommissioning trust ⁽¹¹⁾	575	501
Other	66	28
Regulatory liabilities-non-current	1,646	1,514
Total regulatory liabilities	\$ 1,793	\$ 1,650
Virginia Power		
Regulatory assets:		
Deferred rate adjustment clause costs ⁽¹⁾	\$ 58	\$ 51
Deferred cost of fuel used in electric generation ⁽³⁾	17	
Other	70	68
Regulatory assets-current ⁽⁴⁾	145	119
Deferred rate adjustment clause costs ⁽¹⁾	130	127
Income taxes recoverable through future rates ⁽⁶⁾	118	110
Derivatives ⁽⁷⁾	85	105
Other	55	54
Regulatory assets-non-current	388	396

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Total regulatory assets	\$	533	\$	515
Regulatory liabilities:				
Other	\$	19	\$	32
Regulatory liabilities-current ⁽⁹⁾		19		32
Provision for future cost of removal ⁽¹⁰⁾		780		763
Decommissioning trust ⁽¹¹⁾		575		501
Other		59		21
Regulatory liabilities-non-current		1,414		1,285
Total regulatory liabilities	\$	1,433	\$	1,317

- (1) Reflects deferrals under the electric transmission FERC formula rate and the deferral of costs associated with certain current and prospective rider projects. See Note 12 for more information.

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- (2) Reflects unrecovered gas costs at Dominion's regulated gas operations, which are recovered through quarterly or annual filings with the applicable regulatory authority.
- (3) Primarily reflects deferred fuel expenses for the Virginia jurisdiction of Virginia Power's generation operations.
- (4) Current regulatory assets are presented in other current assets in Dominion's and Virginia Power's Consolidated Balance Sheets.
- (5) Represents unrecognized pension and other postretirement employee benefit costs expected to be recovered through future rates generally over the expected remaining service period of plan participants by certain of Dominion's rate-regulated subsidiaries.
- (6) Amounts to be recovered through future rates to pay income taxes that become payable when rate revenue is provided to recover AFUDC-equity and depreciation of property, plant and equipment for which deferred income taxes were not recognized for ratemaking purposes, including amounts attributable to tax rate changes.
- (7) For jurisdictions subject to cost-based rate regulation, changes in the fair value of derivative instruments result in the recognition of regulatory assets or regulatory liabilities as they are expected to be recovered from or refunded to customers.
- (8) Under PIPP, eligible customers can receive energy assistance based on their ability to pay. The difference between the customer's total bill and the PIPP plan amount is deferred and collected or returned annually under the PIPP rider according to East Ohio tariff provisions.
- (9) Current regulatory liabilities are presented in other current liabilities in Dominion's and Virginia Power's Consolidated Balance Sheets.
- (10) Rates charged to customers by the Companies' regulated businesses include a provision for the cost of future activities to remove assets that are expected to be incurred at the time of retirement.
- (11) Primarily reflects a regulatory liability representing amounts collected from Virginia jurisdictional customers and placed in external trusts (including income, losses and changes in fair value thereon) for the future decommissioning of Virginia Power's utility nuclear generation stations, in excess of the related AROs.

At March 31, 2013, approximately \$128 million of Dominion's and \$84 million of Virginia Power's regulatory assets represented past expenditures on which they do not currently earn a return. These expenditures are expected to be recovered within the next two years.

Note 12. Regulatory Matters

Regulatory Matters Involving Potential Loss Contingencies

As a result of issues generated in the ordinary course of business, Dominion and Virginia Power are involved in various regulatory matters. Certain regulatory matters may ultimately result in a loss; however, as such matters are in an initial procedural phase, involve uncertainty as to the outcome of pending reviews or orders, and/or involve significant factual issues that need to be resolved, it is not possible for the Companies to estimate a range of possible loss. For matters for which the Companies cannot estimate a range of possible loss, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the regulatory process such that the Companies are able to estimate a range of possible loss. For regulatory matters for which the Companies are able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. This estimated range is based on currently available information and involves elements of judgment and significant uncertainties. This estimated range of possible loss may not represent the Companies' maximum possible loss exposure. The circumstances of such regulatory matters will change from time to time and actual results may vary significantly from the current estimate. For current matters not specifically reported below, management does not anticipate that the outcome from such matters would have a material effect on Dominion's or Virginia Power's financial position, liquidity or results of operations.

FERC Electric

Under the Federal Power Act, FERC regulates wholesale sales and transmission of electricity in interstate commerce by public utilities. Virginia Power purchases and sells electricity in the PJM wholesale market and Dominion's merchant generators sell electricity in the PJM, MISO and ISO-NE wholesale markets under Dominion's market-based sales tariffs authorized by FERC. In addition, Virginia Power has FERC approval of a tariff to sell wholesale power at capped rates based on its embedded cost of generation. This cost-based sales tariff could be used to sell to loads within or outside Virginia Power's service territory. Any such sales would be voluntary.

Rates

In April 2008, FERC granted an application for Virginia Power's electric transmission operations to establish a forward-looking formula rate mechanism that updates transmission rates on an annual basis and approved an ROE of 11.4%, effective as of January 1, 2008. The formula rate is designed to recover the expected revenue requirement for each calendar year and is updated based on actual costs. The FERC-approved formula method, which is based on projected costs, allows Virginia Power to earn a current return on its growing investment in electric transmission infrastructure.

In July 2008, Virginia Power filed an application with FERC requesting a revision to its revenue requirement to reflect an additional ROE incentive adder for eleven electric transmission enhancement projects. Under the proposal, the cost of transmission service would increase to

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include an ROE incentive adder for each of the eleven projects, beginning the date each project enters commercial operation (but not before January 1, 2009). Virginia Power proposed an incentive of 1.5% for four of the projects (including the Meadow Brook-to-Loudoun and Carson-to-Suffolk lines, which were completed in 2011) and an incentive of 1.25% for the other seven projects. In August 2008, FERC approved the proposal, effective September 1, 2008, the incentives were included in the PJM Tariff, and billing for the incentives was made accordingly. In 2012, PJM canceled one of

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the eleven projects with an estimated cost of \$7 million. The total cost for the other ten projects included in Virginia Power's formula rate for 2013 is \$852 million and the remaining projects were completed in 2012. Numerous parties sought rehearing of the FERC order in August 2008, and in May 2012 FERC denied rehearing. In July 2012, the North Carolina Commission filed an appeal of the FERC orders granting the incentives with the U.S. Court of Appeals for the Fourth Circuit. Although Virginia Power cannot predict the outcome of the appeal, it is not expected to have a material effect on results of operations.

In March 2010, ODEC and NCEMC filed a complaint with FERC against Virginia Power claiming that approximately \$223 million in transmission costs related to specific projects were unjust, unreasonable and unduly discriminatory or preferential and should be excluded from Virginia Power's transmission formula rate. ODEC and NCEMC requested that FERC establish procedures to determine the amount of costs for each applicable project that should be excluded from Virginia Power's rates. In October 2010, FERC issued an order dismissing the complaint in part and established hearings and settlement procedures on the remaining part of the complaint. In February 2012, Virginia Power submitted to FERC a settlement agreement to resolve all issues set for hearing. All transmission customer parties to the proceeding joined the settlement. The Virginia Commission, North Carolina Commission and Public Staff of the North Carolina Commission, while not parties to the settlement, have agreed to not oppose the settlement. The settlement was accepted by FERC in May 2012 and provides for payment by Virginia Power to the transmission customer parties collectively of \$250,000 per year for ten years and resolves all matters other than allocation of the incremental cost of certain underground transmission facilities, which has been briefed pursuant to FERC's May 2012 order and awaits FERC action. While Virginia Power cannot predict the outcome of the briefing, it is not expected to have a material effect on results of operations.

Other Regulatory Matters

Other than the following matters, there have been no significant developments regarding the pending regulatory matters disclosed in Note 13 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2012.

Virginia Regulation

2013 Biennial Review

Pursuant to the Regulation Act, in March 2013, Virginia Power submitted its base rate filings and accompanying schedules in support of the 2013 biennial review of its rates, terms and conditions, as well as of its earnings for test years 2011 and 2012. In its filing, Virginia Power did not request an increase in base rates for generation and distribution services, and proposed that base rates remain at their existing level as set by the Virginia Settlement Approval Order. Virginia Power's earnings test analysis, as filed, demonstrates it earned an ROE of 10.11% on its generation and distribution services for the combined test period of 2011 and 2012. The Virginia Commission will determine whether Virginia Power's earnings for the 2011 and 2012 test years, considered as a whole, were within 50 basis points above or below the authorized ROE of 10.9% established in the 2011 biennial review. If Virginia Power's earnings for the test years are determined to be more than 50 basis points above the authorized ROE, the Virginia Commission will order a credit to customers of 60% of the earnings that exceeded an ROE of 11.4% for the biennial period. In such a scenario, the Virginia Commission can also order a reduction in Virginia Power's base rates, but only if the resulting rates will provide Virginia Power with the opportunity to fully recover the costs of providing its services and earn not less than a fair combined rate of return on its distribution and generation services. If Virginia Power's earnings for the test years are determined to be more than 50 basis points below the authorized ROE, the Virginia Commission can order an increase to Virginia Power's rates if such an increase is necessary to provide Virginia Power the opportunity to fully recover the costs of providing services and to earn not less than a fair combined rate of return on its generation and distribution services. The Virginia Commission will also authorize an ROE for Virginia Power that will be applied to Riders R, S, W, B, and C1A and C2A, and that will also be utilized to measure base rate earnings as of January 1, 2013. Virginia Power is requesting authorization of an ROE of 11.5% effective January 1, 2014 through December 31, 2014 based on Virginia Power's current cost of equity and performance. Pursuant to the Regulation Act, Virginia Power's authorized ROE can be no lower than the average of the returns reported for the three previous years by not less than a majority of comparable utilities in the Southeastern U.S., with certain limitations as described in the Regulation Act. A final order in the 2013 biennial review for base rates must be issued no later than November 28, 2013.

DSM Riders C1A and C2A

In April 2013, the Virginia Commission approved revenue requirements for Riders C1A and C2A of approximately \$4 million and \$23 million, respectively, for the May 1, 2013 to April 30, 2014 rate year. The Virginia Commission approved a two-year extension of the Residential Low Income Program subject to an approximately \$14 million cost cap, as well as a three-year extension of the Residential Air Conditioner Cycling Program. The Virginia Commission rejected Virginia Power's request for approval of a process whereby the Virginia Commission Staff could administratively approve limited modifications to the designs of previously approved DSM programs. Virginia Power must file any application to continue Riders C1A and C2A by September 1, 2013.

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Generation Rider S

The Virginia Commission previously approved Rider S in conjunction with the Virginia City Hybrid Energy Center. In March 2013, the Virginia Commission approved a revised revenue requirement for Rider S of approximately \$248 million for the rate year beginning April 1, 2013, and stated that Virginia Power should file its next Rider S case by June 30, 2013.

Generation Rider B

In 2012, the Virginia Commission approved the conversion of the Altavista, Hopewell, and Southampton power stations to biomass, and in conjunction approved Rider B. In March 2013, the Virginia Commission approved a revenue requirement for the pre-commercial operations date period and the post-commercial operations date period, resulting in an average recovery amount of approximately \$12 million for the rate year commencing April 1, 2013.

Solar Distributed Generation Demonstration Program

In March 2013, the Virginia Commission approved Rate Schedule SP, under which Virginia Power will purchase 100% of the energy output from up to a combined 3 MW of customer-owned solar distributed generation facilities, including all environmental attributes and associated renewable energy credits, at a fixed price of \$0.15 per kWh for five years. This fixed price has two components: an avoided cost component (including line losses) determined using Virginia Power's Rate Schedule 19 and recovered through Virginia Power's fuel factor, and a voluntary environmental contribution component provided by customers voluntarily participating in Virginia Power's Green Power Program.

Ohio Regulation

In 2008, East Ohio began PIR, aimed at replacing approximately 20% of its pipeline system. In February 2013, East Ohio filed an application with the Ohio Commission to adjust the cost recovery charge for costs associated with PIR investments for the calendar year 2012 and cumulatively. The application includes total gross plant investment for 2012 of \$148 million, cumulative gross plant investment of \$511 million, and a revenue requirement of \$67 million. A stipulation was submitted by East Ohio and the Staff of the Ohio Commission that supports the rates filed by East Ohio. The Ohio Consumers' Counsel neither supports nor opposes the stipulation and has raised no issues regarding the rates filed. The Ohio Commission issued an order approving the stipulation in April 2013.

FERC Gas Regulation

Sabinsville-to-Morrisville Project

In March 2013, FERC approved DTI's Sabinsville-to-Morrisville project and authorized commencement of construction in the second quarter of 2013. The project is expected to have capacity of approximately 92,000 Dths per day, which will be leased by TGP to move additional Marcellus supplies from a TGP pipeline in northeast Pennsylvania to a DTI line in upstate New York. The project is expected to be placed into service in November 2013.

Tioga Area Expansion Project

In March 2013, DTI received FERC approval of the Tioga Area Expansion Project. The project is expected to provide approximately 270,000 Dths per day of firm transportation service from supply interconnects in Tioga and Potter Counties in Pennsylvania to DTI's Crayne interconnect with Transcontinental Gas Pipe Line Company in Clinton County, Pennsylvania. Construction is expected to commence in the second quarter of 2013 with an anticipated in-service date of November 2013.

Note 13. Variable Interest Entities

As discussed in Note 15 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2012, certain variable pricing terms in some of the Companies' long-term power and capacity contracts cause them to be considered variable interests in the counterparties.

Virginia Power has long-term power and capacity contracts with four non-utility generators with an aggregate summer generation capacity of approximately 870 MW. These contracts contain certain variable pricing mechanisms in the form of partial fuel reimbursement that Virginia Power considers to be variable interests. After an evaluation of the information provided by these entities, Virginia Power was unable to

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determine whether they were VIEs. However, the information they provided, as well as Virginia Power's knowledge of generation facilities in Virginia, enabled Virginia Power to conclude that, if they were VIEs, it would not be the primary beneficiary. This conclusion reflects Virginia Power's determination that its variable interests do not convey the power to direct the most significant activities that impact the economic performance of the entities during the remaining terms of Virginia Power's contracts and for the years the entities are expected to operate after its contractual relationships expire. The contracts expire at various dates ranging from 2015 to 2021. Virginia Power is not subject to any risk of loss from these potential VIEs other than its remaining purchase commitments which totaled \$1.0 billion as of March 31, 2013. Virginia Power paid \$55 million for electric capacity and \$20 million and \$19 million for electric energy to these entities in the three months ended March 31, 2013 and 2012, respectively.

Virginia Power purchased shared services from DRS, an affiliated VIE, of approximately \$77 million and \$96 million for the three months ended March 31, 2013 and 2012, respectively. Virginia Power determined that it is not the most closely associated entity with DRS and therefore not the primary beneficiary. DRS provides accounting, legal, finance and certain administrative and technical services to all Dominion subsidiaries, including Virginia Power. Virginia Power has no obligation to absorb more than its allocated share of DRS costs.

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See Note 15 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2012 for additional information about consolidated VIEs.

Note 14. Significant Financing Transactions***Credit Facilities and Short-term Debt***

Dominion and Virginia Power use short-term debt to fund working capital requirements and as a bridge to long-term debt financings. The levels of borrowing may vary significantly during the course of the year, depending upon the timing and amount of cash requirements not satisfied by cash from operations. In addition, Dominion utilizes cash and letters of credit to fund collateral requirements. Collateral requirements are impacted by commodity prices, hedging levels, Dominion's credit ratings and the credit quality of its counterparties.

At March 31, 2013, Dominion's commercial paper and letters of credit outstanding, as well as capacity available under credit facilities, were as follows:

(millions)	Facility Limit	Outstanding Commercial Paper	Outstanding Letters of Credit	Facility Capacity Available
Joint revolving credit facility ⁽¹⁾	\$ 3,000	\$ 2,003	\$	\$ 997
Joint revolving credit facility ⁽²⁾	500		19	481
Total	\$ 3,500	\$ 2,003	\$ 19	\$ 1,478

(1) This credit facility has a maturity date of September 2017, and can be used to support bank borrowings and the issuance of commercial paper, as well as to support up to \$1.5 billion of letters of credit.

(2) The maturity date for \$400 million of the \$500 million in committed capacity of this credit facility is September 2017. The remaining \$100 million has a maturity date of September 2016. This credit facility can be used to support bank borrowings, commercial paper and letter of credit issuances.

Virginia Power's short-term financing is supported by two joint revolving credit facilities with Dominion. These credit facilities are being used for working capital, as support for the combined commercial paper programs of Dominion and Virginia Power and for other general corporate purposes.

At March 31, 2013, Virginia Power's share of commercial paper and letters of credit outstanding, as well as its capacity available under its joint credit facilities with Dominion were as follows:

(millions)	Facility Sub-limit	Outstanding Commercial Paper	Outstanding Letters of Credit	Facility Sub-limit Capacity Available
Joint revolving credit facility ⁽¹⁾	\$ 1,000	\$ 661	\$	\$ 339
Joint revolving credit facility ⁽²⁾	250		2	248
Total	\$ 1,250	\$ 661	\$ 2	\$ 587

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- (1) This credit facility has a maturity date of September 2017, and can be used to support bank borrowings and the issuance of commercial paper, as well as to support up to \$1.5 billion (or the sub-limit, whichever is less) of letters of credit. Virginia Power's current sub-limit under this credit facility can be increased or decreased multiple times per year.
 - (2) The maturity date for \$400 million of the \$500 million in committed capacity of this credit facility is September 2017. The remaining \$100 million has a maturity date of September 2016. This credit facility can be used to support bank borrowings, commercial paper and letter of credit issuances. Virginia Power's current sub-limit under this credit facility can be increased or decreased multiple times per year.
- In addition to the credit facility commitments mentioned above, Virginia Power also has a \$120 million credit facility with a maturity date of September 2017. This facility supports certain tax-exempt financings of Virginia Power.

Long-term Debt

In January 2013, Virginia Power issued \$250 million of 1.2% senior notes and \$500 million of 4.0% senior notes that mature in 2018 and 2043, respectively.

In March 2013, Virginia Power issued \$500 million of 2.75% senior notes that mature in 2023.

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In connection with the expected sale of Kincaid, in April 2013 Kincaid provided notice of redemption for its 7.33% senior secured bonds due June 15, 2020. The bonds are expected to be redeemed in May 2013 for approximately \$186 million, including a make-whole premium and accrued interest. At March 31, 2013, the bonds were included in securities due within one year in Dominion's Consolidated Balance Sheet.

In March 2013, Virginia Power redeemed the \$50 million 2.5% Industrial Development Authority of the Town of Louisa, Virginia Solid Waste and Sewage Disposal Revenue Bonds, Series 2001A, that would have otherwise matured in March 2031.

Convertible Securities

At March 31, 2013, Dominion had \$72 million of outstanding contingent convertible senior notes that are convertible by holders into a combination of cash and shares of Dominion's common stock under certain circumstances. The conversion feature requires that the principal amount of each note be repaid in cash, while amounts payable in excess of the principal amount will be paid in common stock. The conversion rate is subject to adjustment upon certain events such as subdivisions, splits, combinations of common stock or the issuance to all common stock holders of certain common stock rights, warrants or options and certain dividend increases. As of March 31, 2013, the conversion rate had been adjusted, primarily due to individual dividend payments above the level paid at issuance, to 29.5147 shares of common stock per \$1,000 principal amount of senior notes, which represents a conversion price of \$33.88. If the outstanding notes as of March 31, 2013 were all converted, it would result in the issuance of approximately 900 thousand additional shares.

The senior notes are eligible for conversion during any calendar quarter when the closing price of Dominion's common stock was equal to or higher than 120% of the conversion price for at least 20 out of the last 30 consecutive trading days of the preceding quarter. During the three months ended March 31, 2013, the senior notes were eligible for conversion and approximately \$10 million of the notes were converted by holders. The senior notes are eligible for conversion during the second quarter of 2013.

Junior Subordinated Notes Payable to Affiliated Trusts

In January 2013, Dominion repaid its \$258 million 7.83% unsecured junior subordinated debentures and redeemed all 250 thousand units of the \$250 million 7.83% Dominion Resources Capital Trust I capital securities due December 1, 2027. The securities were redeemed at a price of \$1,019.58 per capital security plus accrued and unpaid distributions.

Note 15. Commitments and Contingencies

As a result of issues generated in the ordinary course of business, Dominion and Virginia Power are involved in legal proceedings before various courts and are periodically subject to governmental examinations (including by regulatory authorities), inquiries and investigations. Certain legal proceedings and governmental examinations involve demands for unspecified amounts of damages, are in an initial procedural phase, involve uncertainty as to the outcome of pending appeals or motions, or involve significant factual issues that need to be resolved, such that it is not possible for the Companies to estimate a range of possible loss. For such matters that the Companies cannot estimate, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the litigation or investigative processes such that the Companies are able to estimate a range of possible loss. For legal proceedings and governmental examinations for which the Companies are able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. Estimated ranges of loss are inclusive of legal fees and net of any anticipated insurance recoveries. This estimated range is based on currently available information and involves elements of judgment and significant uncertainties. This estimated range of possible loss may not represent the Companies' maximum possible loss exposure. The circumstances of such legal proceedings and governmental examinations will change from time to time and actual results may vary significantly from the current estimate. For current proceedings not specifically reported below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on Dominion's or Virginia Power's financial position, liquidity or results of operations.

Environmental Matters

Dominion and Virginia Power are subject to costs resulting from a number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. They can result in increased capital, operating and other costs as a result of compliance, remediation, containment and monitoring obligations.

Air

The CAA, as amended, is a comprehensive program utilizing a broad range of regulatory tools to protect and preserve the nation's air quality. At a minimum, states are required to establish regulatory programs to address all requirements of the CAA. However, states may choose to develop

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regulatory programs that are more restrictive. Many of Dominion's and Virginia Power's facilities are subject to the CAA's permitting and other requirements.

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The EPA established CAIR with the intent to require significant reductions in SO₂ and NO_x emissions from electric generating facilities. In July 2008, the U.S. Court of Appeals for the D.C. Circuit issued a ruling vacating CAIR. In December 2008, the Court denied rehearing, but also issued a decision to remand CAIR to the EPA. In July 2011, the EPA issued a replacement rule for CAIR, called CSAPR, that required 28 states to reduce power plant emissions that cross state lines. CSAPR established new SO₂ and NO_x emissions cap and trade programs that were completely independent of the current ARP. Specifically, CSAPR required reductions in SO₂ and NO_x emissions from fossil fuel-fired electric generating units of 25 MW or more through annual NO_x emissions caps, NO_x emissions caps during the ozone season (May 1 through September 30) and annual SO₂ emission caps with differing requirements for two groups of affected states.

Following numerous petitions by industry participants for review and motions for stay, the U.S. Court of Appeals for the D.C. Circuit issued a ruling in December 2011 to stay CSAPR pending judicial review. In February and June 2012, the EPA issued technical revisions to CSAPR that are not material to Dominion. In August 2012, the Court vacated CSAPR in its entirety and ordered the EPA to implement CAIR until a valid replacement rule is issued. In October 2012, the EPA filed a petition requesting a rehearing of the court's decision, which was denied in January 2013. The mandate vacating CSAPR was issued in February 2013. In March 2013, the EPA and several environmental groups filed petitions with the U.S. Supreme Court requesting review of the decision to vacate and remand CSAPR. With respect to Dominion's generation fleet, the cost to comply with CAIR is not expected to be material. Future outcomes of litigation and/or any additional action to issue a revised rule could affect the assessment regarding cost of compliance.

In May 2012, the EPA issued final designations for the 75-ppb ozone air quality standard. Several Dominion electric generating facilities are located in areas impacted by this standard. As part of the standard, states will be required to develop and implement plans to address sources emitting pollutants which contribute to the formation of ozone. Until the states have developed implementation plans, Dominion is unable to predict whether or to what extent the new rules will ultimately require additional controls.

In February 2008, Dominion received a request for information pursuant to Section 114 of the CAA from the EPA. The request concerns historical operating changes and capital improvements undertaken at State Line and Kincaid. In April 2009, Dominion received a second request for information. Dominion provided information in response to both requests. Also in April 2009, Dominion received a Notice and Finding of Violations from the EPA claiming violations of the CAA New Source Review requirements, NSPS, the Title V permit program and the stations respective State Implementation Plans. In May 2010, Dominion received a request for information pursuant to Section 114 of the CAA from the EPA. The request concerns historical operating changes and capital improvements undertaken at Brayton Point.

Dominion believes that it complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. Dominion entered into settlement discussions with the U.S. government and reached an agreement to settle the allegations. In April 2013, the U.S. government lodged a consent decree and complaint with the U.S. District Court for the Central District of Illinois that resolves all alleged violations at State Line, Kincaid and Brayton Point. The settlement mandates the closure of State Line, installation of certain control technology at Kincaid and Brayton Point, the achievement of certain emissions limitations, payment of a civil penalty of \$3 million and funding of \$10 million in environmental mitigation projects. The consent decree will undergo a 30-day public comment period and is expected to be entered by the court thereafter. Dominion previously accrued a liability of \$13 million related to this matter. State Line ceased operations in March 2012 and was sold in June 2012. The installation of pollution control technology is in progress at Kincaid and has been completed at Brayton Point. While Dominion has agreed to sell Kincaid and Brayton Point, under the terms of the sale transaction Dominion will retain the \$13 million liability associated with the settlement agreement.

Water

The CWA, as amended, is a comprehensive program requiring a broad range of regulatory tools including a permit program to authorize and regulate discharges to surface waters with strong enforcement mechanisms. Dominion and Virginia Power must comply with all aspects of the CWA programs at their operating facilities.

In September 2010, Millstone's NPDES permit was reissued under the CWA. The conditions of the permit require an evaluation of control technologies that could result in additional expenditures in the future. The report summarizing the results of the evaluation was submitted in August 2012 and is under review by the Connecticut Department of Energy and Environmental Protection. Dominion cannot currently predict the outcome of this review. In October 2010, the permit issuance was appealed to the state court by a private plaintiff. The permit is expected to remain in effect during the appeal. Dominion is currently unable to make an estimate of the potential financial statement impacts related to this matter.

Solid and Hazardous Waste

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The CERCLA, as amended, provides for immediate response and removal actions coordinated by the EPA in the event of threatened releases of hazardous substances into the environment and authorizes the U.S. government either to clean up sites at which hazardous substances have created actual or potential environmental hazards or to order persons responsible for the

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situation to do so. Under the CERCLA, as amended, generators and transporters of hazardous substances, as well as past and present owners and operators of contaminated sites, can be jointly, severally and strictly liable for the cost of cleanup. These potentially responsible parties can be ordered to perform a cleanup, be sued for costs associated with an EPA-directed cleanup, voluntarily settle with the U.S. government concerning their liability for cleanup costs, or voluntarily begin a site investigation and site remediation under state oversight.

From time to time, Dominion or Virginia Power may be identified as a potentially responsible party to a Superfund site. The EPA (or a state) can either allow such a party to conduct and pay for a remedial investigation, feasibility study and remedial action or conduct the remedial investigation and action itself and then seek reimbursement from the potentially responsible parties. Each party can be held jointly, severally and strictly liable for the cleanup costs. These parties can also bring contribution actions against each other and seek reimbursement from their insurance companies. As a result, Dominion or Virginia Power may be responsible for the costs of remedial investigation and actions under the Superfund law or other laws or regulations regarding the remediation of waste. Except as noted below, the Companies do not believe this will have a material effect on results of operations, financial condition and/or cash flows.

In September 2011, the EPA issued a UAO to Virginia Power and 22 other parties, ordering specific remedial action of certain areas at the Ward Transformer Superfund site located in Raleigh, North Carolina. Virginia Power does not believe it is a liable party under CERCLA based on its alleged connection to the site. In November 2011, Virginia Power and a number of other parties notified the EPA that they are declining to undertake the work set forth in the UAO.

The EPA may seek to enforce a UAO in court pursuant to its enforcement authority under CERCLA, and may seek recovery of its costs in undertaking removal or remedial action. If the court determines that a respondent failed to comply with the UAO without sufficient cause, the EPA may also seek civil penalties of up to \$37,500 per day for the violation and punitive damages of up to three times the costs incurred by the EPA as a result of the party's failure to comply with the UAO. Virginia Power is currently unable to make an estimate of the potential financial statement impacts related to the Ward Transformer matter.

Dominion has determined that it is associated with 17 former manufactured gas plant sites, three of which pertain to Virginia Power. Studies conducted by other utilities at their former manufactured gas plant sites have indicated that those sites contain coal tar and other potentially harmful materials. None of the former sites with which Dominion and Virginia Power are associated is under investigation by any state or federal environmental agency. At one of the former sites, Dominion is conducting a state-approved post closure groundwater monitoring program and an environmental land use restriction has been recorded. Another site has been accepted into a state-based voluntary remediation program. Dominion is currently evaluating the nature and extent of the contamination from this site as well as potential remedial options, but is not yet able to estimate the future remediation costs. Due to the uncertainty surrounding these sites, Dominion is unable to make an estimate of the potential financial statement impacts related to these sites.

Climate Change Legislation and Regulation

Massachusetts, Rhode Island and Connecticut, among other states, have joined RGGI, a multi-state effort to reduce CO₂ emissions in the Northeast implemented through state specific regulations. Under the initiative, aggregate CO₂ emissions from power plants in participating states are required to be stabilized at current levels from 2009 to 2015. Further reductions from current levels would be required to be phased in starting in 2016 such that by 2019 there would be a 10% reduction in participating state power plant CO₂ emissions. During 2012, RGGI underwent a program review, and in February 2013, revisions to the RGGI model rule were issued. Dominion is in the process of evaluating these revisions as to potential impacts on Dominion's fossil fired generation operations in RGGI states. Until this evaluation is completed, Dominion is unable to estimate the potential financial statement impacts related to the program review.

Nuclear Matters

In March 2011, a magnitude 9.0 earthquake and subsequent tsunami caused significant damage at the Fukushima Daiichi nuclear power station in northeast Japan. These events have resulted in significant nuclear safety reviews required by the NRC and industry groups such as INPO. Like other U.S. nuclear operators, Dominion has been gathering supporting data and participating in industry initiatives focused on the ability to respond to and mitigate the consequences of design-basis and beyond-design-basis events at its stations.

In July 2011, an NRC task force provided initial recommendations based on its review of the Fukushima Daiichi accident and in October 2011 the NRC staff prioritized these recommendations into Tiers 1, 2 and 3, with the Tier 1 recommendations consisting of actions which the staff determined should be started without unnecessary delay. In December 2011, the NRC Commissioners approved the agency staff's prioritization and recommendations; and that same month an appropriations act directed the NRC to require reevaluation of external hazards (not limited to seismic and flooding hazards) as soon as possible.

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Based on the prioritized recommendations, in March 2012, the NRC issued orders and information requests requiring specific reviews and actions to all operating reactors, construction permit holders and combined license holders based on the lessons

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learned from the Fukushima Daiichi event. The orders applicable to Dominion require implementation of safety enhancements related to mitigation strategies to respond to extreme natural events resulting in the loss of power at plants, and enhancing spent fuel pool instrumentation. The orders require prompt implementation of the safety enhancements and completion of implementation within two refueling outages or by December 31, 2016, whichever comes first. The information requests issued by the NRC request each reactor to reevaluate the seismic and flooding hazards at their site using present-day methods and information, conduct walkdowns of their facilities to ensure protection against the hazards in their current design basis, and to reevaluate their emergency communications systems and staffing levels. Dominion and Virginia Power do not currently expect that compliance with the NRC's March 2012 orders and information requests will materially impact their financial position, results of operations or cash flows during the approximately four-year implementation period. The NRC staff is evaluating the implementation of the longer term Tier 2 and Tier 3 recommendations. Dominion and Virginia Power are currently unable to estimate the potential financial impacts related to compliance with Tier 2 and Tier 3 recommendations.

Guarantees**Dominion**

At March 31, 2013, Dominion had issued \$89 million of guarantees, primarily to support equity method investees. No significant amounts related to these guarantees have been recorded. As of March 31, 2013, Dominion's exposure under these guarantees was \$59 million, primarily related to certain reserve requirements associated with non-recourse financing.

In addition to the above guarantees, Dominion and its partners, Shell and BP, may be required to make additional periodic equity contributions to NedPower and Fowler Ridge in connection with certain funding requirements associated with their respective non-recourse financings. As of March 31, 2013, Dominion's maximum remaining cumulative exposure under these equity funding agreements is \$98 million through 2019 and its maximum annual future contributions could range from approximately \$4 million to \$19 million.

Dominion also enters into guarantee arrangements on behalf of its consolidated subsidiaries, primarily to facilitate their commercial transactions with third parties. To the extent that a liability subject to a guarantee has been incurred by one of Dominion's consolidated subsidiaries, that liability is included in the Consolidated Financial Statements. Dominion is not required to recognize liabilities for guarantees issued on behalf of its subsidiaries unless it becomes probable that it will have to perform under the guarantees. Terms of the guarantees typically end once obligations have been paid. Dominion currently believes it is unlikely that it would be required to perform or otherwise incur any losses associated with guarantees of its subsidiaries' obligations.

At March 31, 2013, Dominion had issued the following subsidiary guarantees:

	Stated Limit	Value ⁽¹⁾
(millions)		
Subsidiary debt ⁽²⁾	\$ 363	\$ 363
Commodity transactions ⁽³⁾	3,019	341
Nuclear obligations ⁽⁴⁾	232	51
Other ⁽⁵⁾	638	108
Total	\$ 4,252	\$ 863

- (1) Represents the estimated portion of the guarantee's stated limit that is utilized as of March 31, 2013 based upon prevailing economic conditions and fact patterns specific to each guarantee arrangement. For those guarantees related to obligations that are recorded as liabilities by Dominion's subsidiaries, the value includes the recorded amount.
- (2) Guarantees of debt of certain DEI subsidiaries. In the event of default by the subsidiaries, Dominion would be obligated to repay such amounts.
- (3) Guarantees related to energy trading and marketing activities and other commodity commitments of certain subsidiaries, including subsidiaries of Virginia Power and DEI. These guarantees were provided to counterparties in order to facilitate physical and financial transactions in gas, oil, electricity, pipeline capacity, transportation and related commodities and services. If any of these subsidiaries fail to perform or pay under the contracts and the counterparties seek performance or payment, Dominion would be

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obligated to satisfy such obligation. Dominion and its subsidiaries receive similar guarantees as collateral for credit extended to others. The value provided includes certain guarantees that do not have stated limits.

- (4) Guarantees related to certain DEI subsidiaries' potential retrospective premiums that could be assessed if there is a nuclear incident under Dominion's nuclear insurance programs and guarantees for a DEI subsidiary's and Virginia Power's commitment to buy nuclear fuel. Excludes Dominion's agreement to provide up to \$150 million and \$60 million to two DEI subsidiaries to pay the operating expenses of Millstone and Kewaunee, respectively, in the event of a prolonged outage, as part of satisfying certain NRC requirements concerned with ensuring adequate funding for the operations of nuclear power stations. The agreement for Kewaunee also provides for funds through the completion of decommissioning.
- (5) Guarantees related to other miscellaneous contractual obligations such as leases, environmental obligations and construction projects. Also includes guarantees related to certain DEI subsidiaries' obligations for equity capital contributions and energy generation associated with Fowler Ridge and NedPower.

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In April 2013, Dominion entered into guarantee arrangements on behalf of Cove Point to facilitate the liquefaction project. These agreements include guarantees supporting the terminal services and transportation agreements as well as the engineering, procurement and construction contract for the new liquefaction facilities. Two of the guarantees have no stated limit, one guarantee has a \$150 million limit, and one guarantee has a \$1.75 billion aggregate limit with an annual draw limit of \$175 million.

Surety Bonds and Letters of Credit

As of March 31, 2013, Dominion had purchased \$150 million of surety bonds, including \$56 million at Virginia Power, and authorized the issuance of letters of credit by financial institutions of \$19 million, including \$2 million at Virginia Power, to facilitate commercial transactions by its subsidiaries with third parties. Under the terms of surety bonds, the Companies are obligated to indemnify the respective surety bond company for any amounts paid.

Note 16. Credit Risk

Dominion's and Virginia Power's accounting policies for credit risk are discussed in Note 23 to the Consolidated Financial Statements in their Annual Report on Form 10-K for the year ended December 31, 2012.

At March 31, 2013, Dominion's gross credit exposure totaled \$552 million. After the application of collateral, credit exposure was reduced to \$551 million. Of this amount, investment grade counterparties, including those internally rated, represented 80%. One counterparty exposure represented 10% of Dominion's total exposure and is a utility holding company rated investment grade. At March 31, 2013, Virginia Power's exposure to potential concentrations of credit risk was not material.

Credit-Related Contingent Provisions

The majority of Dominion's derivative instruments contain credit-related contingent provisions. These provisions require Dominion to provide collateral upon the occurrence of specific events, primarily a credit rating downgrade. If the credit-related contingent features underlying these instruments that are in a liability position and not fully collateralized with cash were fully triggered as of March 31, 2013 and December 31, 2012, Dominion would have been required to post an additional \$58 million and \$110 million, respectively, of collateral to its counterparties. The collateral that would be required to be posted includes the impacts of any offsetting asset positions and any amounts already posted for derivatives, non-derivative contracts and derivatives elected under the normal purchases and normal sales exception, per contractual terms. Dominion had posted \$9 million in collateral at March 31, 2013 and \$4 million in collateral at December 31, 2012, related to derivatives with credit-related contingent provisions that are in a liability position and not fully collateralized with cash. The collateral posted includes any amounts paid related to non-derivative contracts and derivatives elected under the normal purchases and normal sales exception, per contractual terms. The aggregate fair value of all derivative instruments with credit-related contingent provisions that are in a liability position and not fully collateralized with cash as of March 31, 2013 and December 31, 2012 was \$108 million and \$163 million, respectively, which does not include the impact of any offsetting asset positions. Credit-related contingent provisions for Virginia Power were not material as of March 31, 2013 and December 31, 2012. See Note 9 for further information about derivative instruments.

Note 17. Related Party Transactions

Virginia Power engages in related-party transactions primarily with other Dominion subsidiaries (affiliates). Virginia Power's receivable and payable balances with affiliates are settled based on contractual terms or on a monthly basis, depending on the nature of the underlying transactions. Virginia Power is included in Dominion's consolidated federal income tax return and participates in certain Dominion benefit plans. A discussion of significant related party transactions follows.

Transactions with Affiliates

Virginia Power transacts with affiliates for certain quantities of natural gas and other commodities in the ordinary course of business. Virginia Power also enters into certain commodity derivative contracts with affiliates. Virginia Power uses these contracts, which are principally comprised of commodity swaps, to manage commodity price risk associated with purchases of natural gas. As of March 31, 2013 and December 31, 2012, Virginia Power's derivative liabilities with affiliates were not material.

DRS and other affiliates provide accounting, legal, finance and certain administrative and technical services to Virginia Power.

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Presented below are significant transactions with DRS and other affiliates:

(millions)	Three Months Ended March 31,	
	2013	2012
Commodity purchases from affiliates	\$ 85	\$ 78
Services provided by affiliates	96	96

Virginia Power has borrowed funds from Dominion under short-term borrowing arrangements. There were \$57 million and \$243 million in short-term demand note borrowings from Dominion as of March 31, 2013 and December 31, 2012, respectively. Virginia Power's outstanding borrowings, net of repayments, under the Dominion money pool for its nonregulated subsidiaries totaled \$192 million as of December 31, 2012. There were no borrowings as of March 31, 2013. Interest charges related to Virginia Power's borrowings from Dominion were not material for the three months ended March 31, 2013 and 2012.

Note 18. Employee Benefit Plans

The components of Dominion's provision for net periodic benefit cost were as follows:

(millions)	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Three Months Ended March 31,				
Service cost	\$ 35	\$ 29	\$ 12	\$ 11
Interest cost	66	67	19	20
Expected return on plan assets	(114)	(108)	(22)	(21)
Amortization of prior service cost (credit)	1	1	(3)	(3)
Amortization of net loss	46	33	2	2
Net periodic benefit cost	\$ 34	\$ 22	\$ 8	\$ 9

Employer Contributions

During the three months ended March 31, 2013, Dominion made no contributions to its defined benefit pension plans or other postretirement benefit plans. Dominion expects to contribute approximately \$12 million to its other postretirement benefit plans through Voluntary Employees Beneficiary Associations during the remainder of 2013.

Note 19. Operating Segments

Dominion and Virginia Power are organized primarily on the basis of products and services sold in the U.S. A description of the operations included in the Companies' primary operating segments is as follows:

Primary Operating Segment	Description of Operations	Dominion	Virginia Power
DVP	Regulated electric distribution	X	X
	Regulated electric transmission	X	X
	Nonregulated retail energy marketing (electric and gas)	X	
Dominion Generation	Regulated electric fleet	X	X
	Merchant electric fleet	X	
Dominion Energy	Gas transmission and storage	X	

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Gas distribution and storage	X
LNG import and storage	X
Producer services	X

In addition to the operating segments above, the Companies also report a Corporate and Other segment.

The Corporate and Other Segment of Dominion includes its corporate, service company and other functions (including unallocated debt) and the net impact of operations that are expected to be or are currently discontinued. In addition, Corporate and Other includes specific items attributable to Dominion's operating segments that are not included in profit measures evaluated by executive management in assessing the segments' performance or allocating resources among the segments.

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In the three months ended March 31, 2013, Dominion reported an after-tax net benefit of \$19 million for specific items in the Corporate and Other segment, with \$17 million of these net benefits attributable to its operating segments. In the three months ended March 31, 2012, Dominion reported after-tax net expense of \$3 million for specific items in the Corporate and Other segment, all of which was attributable to its operating segments.

The net benefit for specific items in 2013 primarily related to the impact of the following items:

A \$44 million (\$26 million after-tax) net gain on investments held in nuclear decommissioning trust funds, attributable to Dominion Generation; and

A \$1 million net benefit related to Brayton Point and Kincaid, including a \$38 million (\$23 million after-tax) benefit from the discontinued operations of these merchant power stations partially offset by impairments of \$37 million (\$22 million after-tax) related to these stations, attributable to Dominion Generation.

The net expense for specific items in 2012 primarily related to the impact of the following items:

A \$22 million (\$11 million after-tax) loss from the discontinued operations of Brayton Point and Kincaid, attributable to Dominion Generation; partially offset by

A \$15 million (\$9 million after-tax) net gain on investments held in nuclear decommissioning trust funds, attributable to Dominion Generation.

The Corporate and Other Segment of Virginia Power primarily includes specific items attributable to its operating segments that are not included in profit measures evaluated by executive management in assessing the segments' performance or allocating resources among the segments.

There were no material net benefit or expense items in the Corporate and Other segment in the three months ended March 31, 2013 or 2012.

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The following table presents segment information pertaining to Dominion's operations:

(millions)	DVP	Dominion Generation ⁽¹⁾	Dominion Energy	Corporate and Other ⁽¹⁾	Adjustments/ Eliminations	Consolidated Total
Three Months Ended March 31,						
2013						
Total revenue from external customers	\$ 907	\$ 1,651	\$ 611	\$ 47	\$ 307	\$ 3,523
Intersegment revenue	42	36	265	142	(485)	
Total operating revenue	949	1,687	876	189	(178)	3,523
Income from discontinued operations				1		1
Net income (loss) attributable to Dominion	142	227	179	(53)		495
2012						
Total revenue from external customers	\$ 930	\$ 1,580	\$ 616	\$ 39	\$ 232	\$ 3,397
Intersegment revenue	63	76	200	149	(488)	
Total operating revenue	993	1,656	816	188	(256)	3,397
Loss from discontinued operations				(10)		(10)
Net income (loss) attributable to Dominion	166					

Date:

March 6, 2008

By: /s/ Kaprel Oszolak
(Kaprel Oszolak)
Chief Financial Officer of
Western Asset Intermediate Muni Fund Inc.

Date: March 6, 2008