

VIRGINIA ELECTRIC & POWER CO
Form 10-Q
August 01, 2012
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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 June 30, 2012

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 June 30, 2012, the latest practicable date for determination, Dominion Resources, Inc. had 573,352,279 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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The following abbreviations or acronyms used in this Form 10-Q are defined below:

Abbreviation or Acronym	Definition
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
ARO	Asset retirement obligation
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	A 590 MW combined cycle, natural gas-fired power station in Buckingham County, Virginia
Biennial Review Order	Order issued by the Virginia Commission in November 2011 concluding the 2009 - 2010 biennial review of Virginia Power's base rates, terms and conditions
Brayton Point	Brayton Point power station
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CEO	Chief Executive Officer
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CFO	Chief Financial Officer
CFTC	Commodity Futures Trading Commission
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.
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
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
Dth	Dekatherm
DVP	Dominion Virginia Power operating segment

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East Ohio	The East Ohio Gas Company, doing business as Dominion East Ohio
EPA	Environmental Protection Agency
EPS	Earnings per share
ERM	Enterprise Risk Management
Fairless	Fairless power station
FCM	Futures Commission Merchant
FERC	Federal Energy Regulatory Commission
Fowler Ridge	A wind-turbine facility joint venture between Dominion and BP Alternative Energy, Inc. 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

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Abbreviation or Acronym	Definition
INPO	Institute of Nuclear Power Operations
ISO	Independent system operator
ISO-NE	ISO New England
Kewaunee	Kewaunee nuclear power station
Kincaid	Kincaid power station
kV	Kilovolt
LNG	Liquefied natural gas
Manchester Street	Manchester Street power station
MATS	Utility Mercury and Air Toxics Standard Rule
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MF Global	MF Global Inc.
Millstone	Millstone nuclear power station
MISO	Midwest Independent Transmission System Operators, 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 WindEnergy Inc. 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
O&M	Operations and maintenance
ODEC	Old Dominion Electric Cooperative
Ohio Commission	Public Utilities Commission of Ohio
OPEB	Other Postretirement Employee Benefits
PIPP	Percentage of Income Payment Plan
PJM	PJM Interconnection, LLC
ppb	Parts-per-billion
RCC	Replacement Capital Covenants
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

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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 T	A rate adjustment clause associated with the recovery of certain electric transmission-related expenditures
Rider T1	A rate adjustment clause to recover the difference between revenues produced from current Rider T rates included in base rates, and the new revenue requirement developed for the rate year beginning September 1, 2012
Rider W	A rate adjustment clause associated with the recovery of costs related to Warren County
Riders C1 and C2	Rate adjustment clauses associated with the recovery of costs related to certain DSM programs approved in the 2009 DSM case
Riders C1A and C2A	Rate adjustment clauses associated with the recovery of costs related to certain DSM programs approved in the 2011 DSM case
ROE	Return on equity
RTO	Regional transmission organization
Salem Harbor	Salem Harbor power station

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Abbreviation or Acronym	Definition
SEC	Securities and Exchange Commission
September 2006 hybrids	2006 Series B Enhanced Junior Subordinated Notes due 2066
Skiffes Creek-to-Wheaton line	Virginia Power project to construct a 20-mile 230 kV line from the proposed Skiffes Creek Switching Station to the Wheaton substation
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
Surry	Surry nuclear power station
Surry-to-Skiffes Creek line	Virginia Power project to construct a 7-mile 500 kV line from Surry to the proposed Skiffes Creek Switching Station
U.S.	United States of America
UAO	Unilateral Administrative Order
UEX Rider	Uncollectible Expense Rider
VIE	Variable interest entity
Virginia City Hybrid Energy Center	A 585 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
Warren County	A 1,300 MW, combined-cycle, natural gas-fired power station under construction in Warren County, Virginia

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011⁽¹⁾	2012⁽¹⁾	2011⁽¹⁾
<i>(millions, except per share amounts)</i>				
Operating Revenue	\$ 3,053	\$ 3,288	\$ 6,515	\$ 7,271
Operating Expenses				
Electric fuel and other energy-related purchases	906	957	1,841	1,978
Purchased electric capacity	98	116	211	235
Purchased gas	215	365	627	1,007
Other operations and maintenance	782	739	1,415	1,528
Depreciation, depletion and amortization	289	255	576	515
Other taxes	146	123	315	282
Total operating expenses	2,436	2,555	4,985	5,545
Income from operations	617	733	1,530	1,726
Other income	44	39	118	96
Interest and related charges	224	216	452	442
Income from continuing operations including noncontrolling interests before income tax expense	437	556	1,196	1,380
Income tax expense	154	211	413	527
Income from continuing operations including noncontrolling interests	283	345	783	853
Loss from discontinued operations ⁽²⁾	(18)	(5)	(17)	(30)
Net Income Including Noncontrolling Interests	265	340	766	823
Noncontrolling Interests	7	4	14	8
Net Income Attributable to Dominion	\$ 258	\$ 336	\$ 752	\$ 815
Amounts Attributable to Dominion:				
Income from continuing operations, net of tax	\$ 276	\$ 341	\$ 769	\$ 845
Loss from discontinued operations, net of tax	(18)	(5)	(17)	(30)
Net income attributable to Dominion	\$ 258	\$ 336	\$ 752	\$ 815
Earnings Per Common Share-Basic				
Income from continuing operations	\$ 0.48	\$ 0.60	\$ 1.35	\$ 1.46
Loss from discontinued operations	(0.03)	(0.01)	(0.03)	(0.05)

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Net income attributable to Dominion	\$ 0.45	\$ 0.59	\$ 1.32	\$ 1.41
Earnings Per Common Share-Diluted				
Income from continuing operations	\$ 0.48	\$ 0.59	\$ 1.34	\$ 1.46
Loss from discontinued operations	(0.03)	(0.01)	(0.03)	(0.05)
Net income attributable to Dominion	\$ 0.45	\$ 0.58	\$ 1.31	\$ 1.41
Dividends declared per common share	\$ 0.5275	\$ 0.4925	\$ 1.0550	\$ 0.9850

- (1) Dominion's Consolidated Statements of Income for the six months ended June 30, 2012 and the three and six months ended June 30, 2011 have been recast to reflect Salem Harbor and State Line as discontinued operations, as discussed in Note 3.
- (2) Includes income tax benefit of \$14 million and \$3 million for the three months ended June 30, 2012 and 2011, respectively, and \$13 million and \$9 million for the six months ended June 30, 2012 and 2011, respectively.
- The accompanying notes are an integral part of Dominion's Consolidated Financial Statements.

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DOMINION RESOURCES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income including noncontrolling interests	\$ 265	\$ 340	\$ 766	\$ 823
Other comprehensive income (loss), net of taxes:				
Net deferred gains (losses) on derivatives-hedging activities ⁽¹⁾	2	11	130	(74)
Changes in unrealized net gains (losses) on investment securities ⁽²⁾	(23)	2	61	40
Changes in net unrecognized pension and other postretirement benefit costs ⁽³⁾	1	(2)	2	23
Amounts reclassified to net income:				
Net derivative gains-hedging activities ⁽⁴⁾	(31)	(17)	(47)	(4)
Net realized gains on investment securities ⁽⁵⁾	(5)	(3)	(14)	(6)
Net pension and other postretirement benefit costs ⁽⁶⁾	12	7	23	22
Total other comprehensive income (loss)	(44)	(2)	155	1
Comprehensive income including noncontrolling interests	221	338	921	824
Comprehensive income attributable to noncontrolling interests	7	4	14	8
Comprehensive income attributable to Dominion	\$ 214	\$ 334	\$ 907	\$ 816

- (1) Net of \$(1) million and \$(7) million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$(81) million and \$51 million tax for the six months ended June 30, 2012 and 2011, respectively.
- (2) Net of \$16 million and \$(2) million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$(41) million and \$(27) million tax for the six months ended June 30, 2012 and 2011, respectively.
- (3) Net of \$(1) million and \$1 million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$(1) million and \$(16) million tax for the six months ended June 30, 2012 and 2011, respectively.
- (4) Net of \$11 million and \$10 million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$23 million and \$5 million tax for the six months ended June 30, 2012 and 2011, respectively.
- (5) Net of \$3 million and \$2 million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$10 million and \$4 million tax for the six months ended June 30, 2012 and 2011, respectively.
- (6) Net of \$(8) million and \$(9) million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$(17) million and \$(11) million tax for the six months ended June 30, 2012 and 2011, respectively.

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

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DOMINION RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(millions)	June 30, 2012	December 31, 2011 ⁽¹⁾
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 162	\$ 102
Customer receivables (less allowance for doubtful accounts of \$28 and \$29)	1,494	1,780
Other receivables (less allowance for doubtful accounts of \$5 and \$8)	184	255
Inventories	1,251	1,348
Derivative assets	661	705
Other	960	1,240
Total current assets	4,712	5,430
Investments		
Nuclear decommissioning trust funds	3,186	2,999
Investment in equity method affiliates	537	553
Restricted cash equivalents	70	141
Other	305	292
Total investments	4,098	3,985
Property, Plant and Equipment		
Property, plant and equipment	43,732	42,033
Property, plant and equipment, VIE	957	957
Accumulated depreciation, depletion and amortization	(13,768)	(13,320)
Total property, plant and equipment, net	30,921	29,670
Deferred Charges and Other Assets		
Goodwill	3,141	3,141
Regulatory assets	1,328	1,382
Other	2,216	2,006
Total deferred charges and other assets	6,685	6,529
Total assets	\$ 46,416	\$ 45,614

(1) Dominion's Consolidated Balance Sheet at December 31, 2011 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)**

(millions)	June 30, 2012	December 31, 2011 ⁽¹⁾
LIABILITIES AND EQUITY		
Current Liabilities		
Securities due within one year	\$ 2,141	\$ 1,479
Short-term debt	1,530	1,814
Accounts payable	917	1,250
Derivative liabilities	752	951
Other	1,466	1,468
Total current liabilities	6,806	6,962
Long-Term Debt		
Long-term debt	14,497	14,785
Long-term debt, VIE	875	890
Junior subordinated notes payable to affiliates	268	268
Enhanced junior subordinated notes	1,363	1,451
Total long-term debt	17,003	17,394
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	6,026	5,216
Asset retirement obligations	1,405	1,383
Regulatory liabilities	1,436	1,324
Other	1,530	1,575
Total deferred credits and other liabilities	10,397	9,498
Total liabilities	34,206	33,854
Commitments and Contingencies (see Note 14)		
Subsidiary Preferred Stock Not Subject to Mandatory Redemption	257	257
Equity		
Common stock no par ²	5,351	5,180
Other paid-in capital	153	179
Retained earnings	6,847	6,697
Accumulated other comprehensive loss	(455)	(610)
Total common shareholders' equity	11,896	11,446
Noncontrolling interest	57	57
Total equity	11,953	11,503

Total liabilities and equity	\$ 46,416	\$ 45,614
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- (1) Dominion's Consolidated Balance Sheet at December 31, 2011 has been derived from the audited Consolidated Financial Statements at that date.
- (2) 1 billion shares authorized; 573 million shares and 570 million shares outstanding at June 30, 2012 and December 31, 2011, 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)**

Six Months Ended June 30, (millions)	2012	2011
Operating Activities		
Net income including noncontrolling interests	\$ 766	\$ 823
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation, depletion and amortization (including nuclear fuel)	704	627
Deferred income taxes and investment tax credits	444	454
Rate refunds	(103)	(45)
Other adjustments	(68)	(80)
Changes in:		
Accounts receivable	363	276
Inventories	75	(31)
Deferred fuel and purchased gas costs, net	312	(90)
Accounts payable	(265)	(394)
Accrued interest, payroll and taxes	(76)	(267)
Margin deposit assets and liabilities	177	(142)
Other operating assets and liabilities	69	156
Net cash provided by operating activities	2,398	1,287
Investing Activities		
Plant construction and other property additions (including nuclear fuel)	(1,960)	(1,635)
Proceeds from sales of securities	764	938
Purchases of securities	(763)	(983)
Restricted cash equivalents	71	99
Other	24	46
Net cash used in investing activities	(1,864)	(1,535)
Financing Activities		
Issuance (repayment) of short-term debt, net	(284)	401
Issuance and remarketing of long-term debt	450	1,060
Repayment of long-term debt	(168)	(38)
Issuance of common stock	139	32
Repurchase of common stock		(601)
Common dividend payments	(603)	(568)
Subsidiary preferred dividend payments	(8)	(8)
Other		(12)
Net cash provided by (used in) financing activities	(474)	266
Increase in cash and cash equivalents	60	18
Cash and cash equivalents at beginning of period	102	62
Cash and cash equivalents at end of period	\$ 162	\$ 80
Supplemental Cash Flow Information		
Significant noncash investing activities:		
Accrued capital expenditures	\$ 262	\$ 197

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

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VIRGINIA ELECTRIC AND POWER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Operating Revenue	\$ 1,756	\$ 1,757	\$ 3,510	\$ 3,514
Operating Expenses				
Electric fuel and other energy-related purchases	602	583	1,216	1,176
Purchased electric capacity	97	116	210	234
Other operations and maintenance:				
Affiliated suppliers	82	77	165	150
Other	360	279	583	508
Depreciation and amortization	188	175	376	349
Other taxes	66	56	131	115
Total operating expenses	1,395	1,286	2,681	2,532
Income from operations	361	471	829	982
Other income	17	10	40	39
Interest and related charges	100	84	200	176
Income before income tax expense	278	397	669	845
Income tax expense	106	156	254	326
Net Income	172	241	415	519
Preferred dividends	4	4	8	8
Balance available for common stock	\$ 168	\$ 237	\$ 407	\$ 511

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)

(millions)	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Net income	\$ 172	\$ 241	\$ 415	\$ 519
Other comprehensive income (loss), net of taxes:				
Net deferred losses on derivatives-hedging activities ⁽¹⁾	(2)		(3)	
Changes in unrealized net gains (losses) on nuclear decommissioning trust funds ⁽²⁾	(2)		6	3
Amounts reclassified to net income:				
Net derivative (gains) losses-hedging activities ⁽³⁾	1		2	(1)
Net realized gains on nuclear decommissioning trust funds ⁽⁴⁾	(1)		(1)	
Other comprehensive income (loss)	(4)		4	2
Comprehensive income	\$ 168	\$ 241	\$ 419	\$ 521

- (1) Net of \$2 million and \$ million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$2 million and \$ million tax for the six months ended June 30, 2012 and 2011, respectively.
- (2) Net of \$1 million and \$ million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$(5) million and \$(3) million tax for the six months ended June 30, 2012 and 2011, respectively.
- (3) Net of \$ million and \$1 million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$(1) million and \$1 million tax for the six months ended June 30, 2012 and 2011, respectively.
- (4) Net of \$ million and \$ million tax for the three months ended June 30, 2012 and 2011, respectively, and net of \$1 million and \$ million tax for the six months ended June 30, 2012 and 2011, respectively.

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)**

(millions)	June 30, 2012	December 31, 2011 ⁽¹⁾
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 27	\$ 29
Customer receivables (less allowance for doubtful accounts of \$10 and \$11)	879	892
Other receivables (less allowance for doubtful accounts of \$4 and \$7)	129	145
Inventories (average cost method)	756	797
Prepayments	86	41
Other	270	532
Total current assets	2,147	2,436
Investments		
Nuclear decommissioning trust funds	1,451	1,370
Other	14	36
Total investments	1,465	1,406
Property, Plant and Equipment		
Property, plant and equipment	29,519	28,626
Accumulated depreciation and amortization	(9,872)	(9,615)
Total property, plant and equipment, net	19,647	19,011
Deferred Charges and Other Assets		
Intangible assets	188	183
Regulatory assets	363	399
Other	82	109
Total deferred charges and other assets	633	691
Total assets	\$ 23,892	\$ 23,544

(1) Virginia Power's Consolidated Balance Sheet at December 31, 2011 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)

(millions)	June 30, 2012	December 31, 2011 ⁽¹⁾
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Securities due within one year	\$ 1,017	\$ 616
Short-term debt	465	894
Accounts payable	362	405
Payables to affiliates	80	108
Affiliated current borrowings	187	187
Accrued interest, payroll and taxes	205	226
Other	562	685
Total current liabilities	2,878	3,121
Long-Term Debt	6,285	6,246
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	3,487	3,180
Asset retirement obligations	635	624
Regulatory liabilities	1,204	1,095
Other	252	271
Total deferred credits and other liabilities	5,578	5,170
Total liabilities	14,741	14,537
Commitments and Contingencies (see Note 14)		
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	1,112	1,111
Retained earnings	2,021	1,882
Accumulated other comprehensive income	23	19
Total common shareholder's equity	8,894	8,750
Total liabilities and shareholder's equity	\$ 23,892	\$ 23,544

(1) Virginia Power's Consolidated Balance Sheet at December 31, 2011 has been derived from the audited Consolidated Financial Statements at that date.

(2) 500,000 shares authorized; 274,723 shares outstanding at June 30, 2012 and December 31, 2011. 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)

Six Months Ended June 30, (millions)	2012	2011
Operating Activities		
Net income	\$ 415	\$ 519
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including nuclear fuel)	444	410
Deferred income taxes and investment tax credits	188	328
Rate refunds	(103)	(45)
Other adjustments	(36)	(55)
Changes in:		
Accounts receivable	33	(114)
Affiliated accounts receivable and payable	11	2
Inventories	41	(92)
Deferred fuel expenses	293	(105)
Accounts payable	(11)	(57)
Accrued interest, payroll and taxes	(21)	(15)
Other operating assets and liabilities	97	61
Net cash provided by operating activities	1,351	837
Investing Activities		
Plant construction and other property additions	(956)	(898)
Purchases of nuclear fuel	(125)	(118)
Purchases of securities	(361)	(616)
Proceeds from sales of securities	353	596
Restricted cash equivalents	22	63
Other	(17)	
Net cash used in investing activities	(1,084)	(973)
Financing Activities		
Issuance (repayment) of short-term debt, net	(429)	333
Repayment of affiliated current borrowings, net		(44)
Issuance/remarketing of long-term debt	450	160
Repayment of long-term debt	(9)	(8)
Common dividend payments	(269)	(249)
Preferred dividend payments	(8)	(8)
Other	(4)	
Net cash provided by (used in) financing activities	(269)	184
Increase (decrease) in cash and cash equivalents	(2)	48
Cash and cash equivalents at beginning of period	29	5
Cash and cash equivalents at end of period	\$ 27	\$ 53

Supplemental Cash Flow Information

Significant noncash investing activities:

Accrued capital expenditures	\$ 126	\$ 104
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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, 2011 and their Quarterly Report on Form 10-Q for the quarter ended March 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 June 30, 2012, their results of operations for the three and six months ended June 30, 2012 and 2011 and their cash flows for the six months ended June 30, 2012 and 2011. 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 2011 Consolidated Financial Statements and Notes have been reclassified to conform to the 2012 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

In June 2012, Dominion entered into an agreement to sell Salem Harbor. FERC approval was received in July 2012 and the transaction is expected to close in the third quarter. In the second quarter of 2012, the assets and liabilities to be disposed were classified as held for sale and adjusted to their estimated fair value less cost to sell, resulting in a pre-tax charge of \$27 million (\$16 million after-tax), which is included in loss from discontinued operations in Dominion's Consolidated Statements of Income. This was considered a Level 2 fair value measurement as it was based on the negotiated sales price. As of June 30, 2012, Salem Harbor's assets and liabilities classified as held for sale are included in other current assets and other current liabilities, respectively, in Dominion's Consolidated Balance Sheet.

During the second quarter of 2012, Dominion sold State Line, which ceased operations in March 2012.

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The following table presents selected information regarding the results of operations of Salem Harbor and State Line, which were reclassified to discontinued operations in Dominion's Consolidated Statements of Income for all periods presented:

(millions)	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Operating revenue	\$ 22	\$ 53	\$ 52	\$ 127
Loss before income taxes	(32)	(8)	(30)	(39)

The carrying amounts of the major classes of Salem Harbor's assets and liabilities classified as held for sale and included in other current assets and other current liabilities in Dominion's Consolidated Balance Sheet are as follows:

(millions)	June 30, 2012
ASSETS	
Inventories	\$ 22
Disposal group valuation allowance	(22)
Total assets	
LIABILITIES	
Current liabilities	6
Deferred credits and other liabilities	13
Total liabilities	\$ 19

Note 4. Operating Revenue

The Companies' operating revenue consists of the following:

(millions)	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Dominion				
Electric sales:				
Regulated	\$ 1,725	\$ 1,728	\$ 3,449	\$ 3,458
Nonregulated	675	741	1,383	1,608
Gas sales:				
Regulated	33	44	132	183
Nonregulated	165	337	563	939
Gas transportation and storage	305	322	710	860
Other	150	116	278	223
Total operating revenue	\$ 3,053	\$ 3,288	\$ 6,515	\$ 7,271
Virginia Power				
Regulated electric sales	\$ 1,725	\$ 1,728	\$ 3,449	\$ 3,458
Other	31	29	61	56

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Total operating revenue	\$ 1,756	\$ 1,757	\$ 3,510	\$ 3,514
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Table of Contents**Note 5. Income Taxes*****Continuing Operations***

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:

Six Months Ended June 30,	Dominion		Virginia Power	
	2012	2011	2012	2011
U.S. statutory rate	35.0%	35.0%	35.0%	35.0%
Increases (reductions) resulting from:				
State taxes, net of federal benefit	3.7	3.7	3.9	3.9
Valuation allowances	(1.8)	0.1		
AFUDC equity	(0.7)	(0.5)	(1.1)	(0.6)
Other, net	(1.7)	(0.1)	0.1	0.3
Effective tax rate	34.5%	38.2%	37.9%	38.6%

Dominion's effective tax rate in 2012 reflects a \$22 million reduction of a valuation allowance related to certain state operating loss carryforwards. As disclosed in Note 16 to the Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2011, Dominion expects to purchase Fairless in 2013. Dominion currently operates the facility under a lease and, as a result of a 2012 contract modification, the exercise price of Dominion's option to purchase Fairless is fixed at approximately \$923 million. After considering the results of Fairless operations in recent years and a forecast of future operating results reflecting the planned purchase of the facility, Dominion has concluded that it is more likely than not that the tax benefit of the operating losses will be realized. Significant assumptions include 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 will significantly influence the extent to which Fairless is dispatched by PJM. Realization of these tax benefits ultimately depends on whether or not the expected future operating results are achieved. Dominion will continue to evaluate the likelihood of realizing these tax benefits on a quarterly basis.

As of June 30, 2012, 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 6 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of these unrecognized tax benefits.

Discontinued Operations

Dominion's effective tax rate for the six months ended June 30, 2011 reflects an expectation that State Line's deferred tax assets, including 2011 operating losses, will not be realized in State Line's separately filed state tax returns.

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(millions, except EPS)	2012	2011	2012	2011
Net income attributable to Dominion	\$ 258	\$ 336	\$ 752	\$ 815
Average shares of common stock outstanding Basic	572.0	573.4	571.3	576.6
Net effect of potentially dilutive securities ⁽¹⁾	1.1	1.8	1.2	1.3
Average shares of common stock outstanding Diluted	573.1	575.2	572.5	577.9
Earnings Per Common Share Basic	\$ 0.45	\$ 0.59	\$ 1.32	\$ 1.41
Earnings Per Common Share Diluted	\$ 0.45	\$ 0.58	\$ 1.31	\$ 1.41

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

There were no potentially dilutive securities excluded from the calculation of diluted EPS for the three and six months ended June 30, 2012 and 2011.

Note 7. Fair Value Measurements

Dominion's and Virginia Power's fair value measurements are made in accordance with the policies discussed in Note 7 to the Consolidated Financial Statements in their Annual Report on Form 10-K for the year ended December 31, 2011. See Note 8 in this report for further information about their derivatives and hedge accounting activities.

Dominion's and Virginia Power's commodity derivative valuations are prepared by the ERM department. The ERM department reports directly to the Companies' CFO. The ERM department creates a daily computer-generated file containing mark-to-market valuations for the Companies' derivative transactions. Standard transactions are programmatically calculated using software. The inputs that go into the mark-to-market valuations are transactional information stored in the systems of record and market pricing information that resides in data warehouse databases. The majority of forward prices are automatically uploaded into the data warehouse databases from various third-party sources. Inputs obtained from third-party sources are evaluated for reliability considering the reputation, independence, market presence, and methodology used by the third-party. If forward prices are not available from third-party sources, then the ERM department models the forward prices based on other available market data. A team consisting of risk management and risk quantitative analysts meets each business day to assess the validity of market prices and mark-to-market valuations. During this meeting, the changes in mark-to-market valuations from period to period are examined and qualified against historical expectations. If any discrepancies are identified during this process, the mark-to-market valuations or the market pricing information is evaluated further and adjusted, if necessary.

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, 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. Included are descriptions of the valuation techniques, the significant unobservable inputs, and the range of market price, price correlation and price volatility inputs used in the fair value measurements at June 30, 2012 for each category of transaction and commodity type. 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.

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	Fair Value (millions)	Valuation Techniques	Unobservable Input	Range	Weighted Average ⁽¹⁾
At June 30, 2012					
Assets:					
Physical and Financial					
Forwards and Futures:					
Natural Gas ⁽²⁾	\$ 33	Discounted Cash Flow	Market Price (per Dth) ⁽⁴⁾	(1) - 6	3
Electricity	72	Discounted Cash Flow	Market Price (per MWh) ⁽⁴⁾	32 - 60	43
FTRs	3	Discounted Cash Flow	Market Price (per MWh) ⁽⁴⁾	(5) - 5	0
Capacity	9	Discounted Cash Flow	Market Price (per MWh) ⁽⁴⁾	95 - 115	100
Liquids ⁽³⁾	56	Discounted Cash Flow	Market Price (per Gal) ⁽⁴⁾	0 - 2	1
Physical and Financial Options:					
Natural Gas	5	Option Model	Market Price (per Dth) ⁽⁴⁾	2 - 5	4
			Price Volatility ⁽⁵⁾	22% - 62%	29%
			Price Correlation ⁽⁶⁾	73%	73%
Full Requirements Contracts:					
Electricity	32	Discounted Cash Flow	Market Price (per MWh) ⁽⁴⁾	8 - 464	42
			Load Shaping ⁽⁷⁾	2% - 6%	4%
			Usage Factor ⁽⁸⁾	4% - 14%	9%
Total assets	\$ 210				
Liabilities:					
Physical and Financial					
Forwards and Futures:					
Natural Gas ⁽²⁾	\$ 20	Discounted Cash Flow	Market Price (per Dth) ⁽⁴⁾	(1) - 6	1
Electricity	16	Discounted Cash Flow	Market Price (per MWh) ⁽⁴⁾	23 - 73	42
FTRs	3	Discounted Cash Flow	Market Price (per MWh) ⁽⁴⁾	(2) - 5	1
Liquids ⁽³⁾	1	Discounted Cash Flow	Market Price (per Gal) ⁽⁴⁾	2 - 3	2
Physical and Financial Options:					
Natural Gas ⁽²⁾	15	Option Model	Market Price (per Dth) ⁽⁴⁾	(1) - 5	3
			Price Volatility ⁽⁵⁾	22% - 62%	34%
			Price Correlation ⁽⁶⁾	99%	99%
Total liabilities	\$ 55				

(1) Averages weighted by volume.

(2) Includes basis.

(3) Includes NGLs and oil.

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

(5) Represents volatilities unrepresented in published markets.

(6) Represents intra-price correlations for which markets do not exist.

(7) Converts block monthly loads to 24-hour load shapes.

(8) Represents expected increase (decrease) in sales volumes compared to historical usage.

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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)
Load Factor	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

During March 2011, Dominion determined that it was unlikely that State Line would participate in the May 2011 PJM capacity base residual auction that would commit State Line's capacity from June 2014 through May 2015. This determination reflected an expectation that margins for coal-fired generation will remain compressed in the 2014 and 2015 period in combination with the expectation that State Line may be impacted during the same time period by environmental regulations that would likely require significant capital expenditures. As a result, Dominion evaluated State Line for impairment since it was more likely than not that State Line would be retired before the end of its previously estimated useful life. As a result of this evaluation, Dominion recorded an impairment charge of \$55 million (\$39 million after-tax), which is now reflected in loss from discontinued operations in its Consolidated Statement of Income, to write down State Line's long-lived assets to their estimated fair value of less than \$1 million. As management was not aware of any recent market transactions for comparable assets with sufficient transparency to develop a market approach to fair value, Dominion used the income approach (discounted cash flows) to estimate the fair value of State Line's long-lived assets in the impairment test. This was considered a Level 3 fair value measurement due to the use of significant unobservable inputs including estimates of future power and other commodity prices. State Line was retired in March 2012 and sold in the second quarter of 2012. See Note 3 for further information.

See Note 3 for non-recurring fair value measurement related to Salem Harbor.

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:

(millions)	Level 1	Level 2	Level 3	Total
At June 30, 2012				
Assets:				
Derivatives:				
Commodity	\$ 26	\$ 771	\$ 210	\$ 1,007
Interest rate		104		104
Investments ⁽¹⁾ :				
Equity securities:				
U.S.:				
Large cap	1,865			1,865
Other	55			55
Non-U.S.:				
Large cap	10			10
Fixed income:				
Corporate debt instruments		299		299
U.S. Treasury securities and agency debentures	298	160		458
State and municipal		360		360
Other		19		19
Cash equivalents and other		78		78
Restricted cash equivalents		70		70
Total assets	\$ 2,254	\$ 1,861	\$ 210	\$ 4,325
Liabilities:				
Derivatives:				
Commodity	\$ 10	\$ 555	\$ 55	\$ 620
Interest rate		321		321
Total liabilities	\$ 10	\$ 876	\$ 55	\$ 941
At December 31, 2011				
Assets:				
Derivatives:				
Commodity	\$ 44	\$ 828	\$ 93	\$ 965
Interest rate		105		105
Investments ⁽¹⁾ :				
Equity securities:				
U.S.:				
Large cap	1,718			1,718
Other	51			51
Non-U.S.:				
Large cap	10			10
Fixed income:				
Corporate debt instruments		332		332
U.S. Treasury securities and agency debentures	277	181		458
State and municipal		329		329

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Other		23		23	
Cash equivalents and other		60		60	
Restricted cash equivalents		141		141	
Total assets		\$ 2,100	\$ 1,999	\$ 93	\$ 4,192
Liabilities:					
Derivatives:					
Commodity		\$ 10	\$ 714	\$ 164	\$ 888
Interest rate			269		269
Total liabilities		\$ 10	\$ 983	\$ 164	\$ 1,157

(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:

(millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Beginning balance	\$ (61)	\$ (163)	\$ (71)	\$ (50)
Total realized and unrealized gains (losses):				
Included in earnings	12	(22)	(23)	(8)
Included in other comprehensive income (loss)	166	35	171	(59)
Included in regulatory assets/liabilities	18	(11)	29	(32)
Settlements	21	39	51	23
Transfers out of Level 3	(1)		(2)	4
Ending balance	\$ 155	\$ (122)	\$ 155	\$ (122)
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	\$ 33	\$ 27	\$ 33	\$ 31

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

(millions)	Operating revenue	Electric fuel and other energy- related purchases	Total
Three Months Ended June 30, 2012			
Total gains (losses) included in earnings	\$ 32	\$ (20)	\$ 12
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	33		33
Three Months Ended June 30, 2011			
Total gains (losses) included in earnings	\$ 2	\$ (24)	\$ (22)
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	27		27
Six Months Ended June 30, 2012			
Total gains (losses) included in earnings	\$ 23	\$ (46)	\$ (23)
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	33		33
Six Months Ended June 30, 2011			
Total gains (losses) included in earnings	\$	\$ (8)	\$ (8)
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	31		31

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:

(millions)	Level 1	Level 2	Level 3	Total
At June 30, 2012				
Assets:				
Derivatives:				
Commodity	\$	\$ 1	\$ 4	\$ 5
Investments ⁽¹⁾ :				
Equity securities:				
U.S.:				
Large cap	737			737
Other	24			24
Fixed income:				
Corporate debt instruments		180		180
U.S. Treasury securities and agency debentures	116	71		187
State and municipal		148		148
Other		14		14
Cash equivalents and other		35		35
Restricted cash equivalents		11		11
Total assets	\$ 877	\$ 460	\$ 4	\$ 1,341
Liabilities:				
Derivatives:				
Commodity	\$	\$ 8	\$ 3	\$ 11
Interest rate		105		105
Total liabilities	\$	\$ 113	\$ 3	\$ 116
At December 31, 2011				
Assets:				
Derivatives:				
Commodity	\$	\$	\$ 2	\$ 2
Investments ⁽¹⁾ :				
Equity securities:				
U.S.:				
Large cap	679			679
Other	23			23
Fixed income:				
Corporate debt instruments		214		214
U.S. Treasury securities and agency debentures	107	63		170
State and municipal		125		125
Other		16		16
Cash equivalents and other		40		40
Restricted cash equivalents		32		32
Total assets	\$ 809	\$ 490	\$ 2	\$ 1,301
Liabilities:				
Derivatives:				

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Commodity	\$	\$ 17	\$ 30	\$ 47
Interest rate		100		100
Total liabilities	\$	\$ 117	\$ 30	\$ 147

- (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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
(millions)				
Beginning balance	\$ (17)	\$ (7)	\$ (28)	\$ 14
Total realized and unrealized gains (losses):				
Included in earnings	(19)	(24)	(46)	(8)
Included in regulatory assets/liabilities	18	(11)	29	(32)
Settlements	19	24	46	8
Ending balance	\$ 1	\$ (18)	\$ 1	\$ (18)

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 and six months ended June 30, 2012 and 2011. There were no unrealized gains and losses included in earnings in the Level 3 fair value category relating to assets/liabilities still held at the reporting date for the three and six months ended June 30, 2012 and 2011.

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:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value ⁽¹⁾	Carrying Amount	Estimated Fair Value ⁽¹⁾
(millions)				
Dominion				
Long-term debt, including securities due within one year ⁽²⁾	\$ 16,638	\$ 19,672		