

DOMINION RESOURCES INC /VA/
Form 10-K
February 27, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

I.R.S. Employer

Commission File Number
001-08489
000-55337
000-55338

Exact name of registrants as specified in their charters
DOMINION RESOURCES, INC.
VIRGINIA ELECTRIC AND POWER COMPANY
DOMINION GAS HOLDINGS, LLC
VIRGINIA

Identification Number
54-1229715
54-0418825
46-3639580

(State or other jurisdiction of incorporation or organization)
120 TREDEGAR STREET

RICHMOND, VIRGINIA

23219

(Address of principal executive offices)
(804) 819-2000

(Zip Code)

(Registrants telephone number)

Securities registered pursuant to Section 12(b) of the Act:

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| Title of Each Class | Name of Each Exchange |
|--------------------------------------|-------------------------|
| DOMINION RESOURCES, INC. | |
| Common Stock, no par value | New York Stock Exchange |
| 2013 Series A 6.125% Corporate Units | New York Stock Exchange |
| 2013 Series B 6% Corporate Units | New York Stock Exchange |
| 2014 Series A 6.375% Corporate Units | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

VIRGINIA ELECTRIC AND POWER COMPANY

Common Stock, no par value

DOMINION GAS HOLDINGS, LLC

Limited Liability Company Membership Interests

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Dominion Resources, Inc. Yes No Virginia Electric and Power Company Yes No Dominion Gas Holdings, LLC Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Dominion Resources, Inc. Yes No Virginia Electric and Power Company Yes No Dominion Gas Holdings, LLC Yes No

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 Dominion Gas Holdings, LLC 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 Dominion Gas Holdings, LLC Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Dominion Resources, Inc. Virginia Electric and Power Company Dominion Gas Holdings, LLC

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 Smaller reporting company
Virginia Electric and Power Company

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Dominion Gas Holdings, LLC

Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act).

Dominion Resources, Inc. Yes No Virginia Electric and Power Company Yes No Dominion Gas Holdings, LLC Yes No

The aggregate market value of Dominion Resources, Inc. common stock held by non-affiliates of Dominion was approximately \$41.1 billion based on the closing price of Dominion's common stock as reported on the New York Stock Exchange as of the last day of Dominion's most recently completed second fiscal quarter. Dominion is the sole holder of Virginia Electric and Power Company common stock. As of January 31, 2015, Dominion had 588,138,107 shares of common stock outstanding and Virginia Power had 274,723 shares of common stock outstanding. Dominion Resources, Inc. holds all of the membership interests of Dominion Gas Holdings, LLC.

DOCUMENT INCORPORATED BY REFERENCE.

Portions of Dominion's 2015 Proxy Statement are incorporated by reference in Part III.

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

VIRGINIA ELECTRIC AND POWER COMPANY AND DOMINION GAS HOLDINGS, LLC MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND ARE FILING THIS FORM 10-K UNDER THE REDUCED DISCLOSURE FORMAT.

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Dominion Resources, Inc., Virginia Electric and
Power Company and Dominion Gas Holdings, LLC

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

| Abbreviation or Acronym | Definition |
|---------------------------------|--|
| 2013 Biennial Review Order | Order issued by the Virginia Commission in November 2013 concluding the 2011-2012 biennial review of Virginia Power's base rates, terms and conditions |
| 2013 Equity Units | Dominion's 2013 Series A Equity Units and 2013 Series B Equity Units issued in June 2013 |
| 2014 Equity Units | Dominion's 2014 Series A Equity Units issued in July 2014 |
| 2015 Proxy Statement | Dominion 2015 Proxy Statement, File No. 001-08489 |
| ABO | Accumulated benefit obligation |
| AES | Alternative Energy Solutions |
| AFUDC | Allowance for funds used during construction |
| AIP | Annual Incentive Plan |
| Altavista | Altavista power station |
| AMI | Advanced Metering Infrastructure |
| AMR | Automated meter reading program deployed by East Ohio |
| AOCI | Accumulated other comprehensive income (loss) |
| AROs | Asset retirement obligations |
| ARP | Acid Rain Program, a market-based initiative for emissions allowance trading, established pursuant to Title IV of the CAA |
| Atlantic Coast Pipeline | Atlantic Coast Pipeline, LLC, a limited liability company owned by Dominion, Duke Energy Corporation, Piedmont Natural Gas Company, Inc. and AGL Resources Inc. |
| Atlantic Coast Pipeline project | The approximately 550-mile natural gas pipeline running from West Virginia through Virginia to North Carolina which will be owned by Dominion, Duke Energy Corporation, Piedmont Natural Gas Company, Inc. and AGL Resources and constructed and operated by DTI |
| BACT | Best available control technology |
| bcf | Billion cubic feet |
| Bear Garden | 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 |
| BOEM | Bureau of Ocean Energy Management |
| BP | BP Wind Energy North America Inc. |
| Brayton Point | Brayton Point power station |
| BREDL | Blue Ridge Environmental Defense League |
| Bremo | Bremo power station |
| BRP | Dominion Retirement Benefit Restoration Plan |
| Brunswick County | A 1,358 MW combined cycle, natural gas-fired power station under construction in Brunswick County, Virginia |
| CAA | Clean Air Act |
| Caiman | Caiman Energy II, LLC |
| CAIR | Clean Air Interstate Rule |
| CAO | Chief Accounting Officer |
| CAP | IRS Compliance Assurance Process |
| CCR | Coal combustion residual |
| CD&A | Compensation Discussion and Analysis |
| CEA | Commodity Exchange Act |
| CEO | Chief Executive Officer |
| CERCLA | Comprehensive Environmental Response, Compensation and Liability Act of 1980 |
| CFO | Chief Financial Officer |
| CFTC | Commodity Futures Trading Commission |
| CGN Committee | Compensation, Governance and Nominating Committee of Dominion's Board of Directors |
| CGT | Carolina Gas Transmission Corporation |
| Chesapeake | Chesapeake power station |
| Clean Power Plan | |

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| | Guidelines proposed by the EPA in June 2014 for states to follow in developing plans to reduce CO ₂ emissions from existing fossil fuel-fired electric generating units |
| CNG | Consolidated Natural Gas Company |
| CNO | Chief Nuclear Officer |
| CO ₂ | Carbon dioxide |
| COL | Combined Construction Permit and Operating License |
| Companies | Dominion, Virginia Power and Dominion Gas, collectively |
| CONSOL | CONSOL Energy, Inc. |
| COO | Chief Operating Officer |
| 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 |
| Corporate Unit | A stock purchase contract and 1/20 interest in a RSN issued by Dominion |
| Cove Point | Dominion Cove Point LNG, LP |

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| Abbreviation or Acronym | Definition |
|-----------------------------------|---|
| Cove Point Holdings | Cove Point GP Holding Company, LLC |
| CPCN | Certificate of Public Convenience and Necessity |
| Crayne interconnect | DTI's interconnect with Texas Eastern Transmission, LP in Greene County, Pennsylvania |
| CSAPR | Cross State Air Pollution Rule |
| CWA | Clean Water Act |
| DEI | Dominion Energy, Inc. |
| D.C. | District of Columbia |
| 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 Dominion Resources, Inc.'s consolidated subsidiaries (other than Virginia Power or Dominion Gas) or operating segments or the entirety of Dominion Resources, Inc. and its consolidated subsidiaries |
| Dominion Direct® | A dividend reinvestment and open enrollment direct stock purchase plan |
| Dominion Gas | The legal entity, Dominion Gas Holdings, LLC (a single member limited liability company), one or more of its consolidated subsidiaries or operating segment, or the entirety of Dominion Gas Holdings, LLC and its consolidated subsidiaries |
| Dominion Gas 2013 Senior Notes | The \$400 million 2013 Series A 1.05% Senior Notes due 2016, \$400 million 2013 Series B 3.55% Senior Notes due 2023 and \$400 million 2013 Series C 4.80% Senior Notes due 2043 |
| Dominion Iroquois | Dominion Iroquois, Inc. |
| Dominion Midstream | The legal entity, Dominion Midstream Partners, LP, its consolidated subsidiary Cove Point Holdings, or the entirety of Dominion Midstream Partners, LP, and its consolidated subsidiary |
| Dominion NGL Pipelines, LLC | The initial owner of the 58-mile G-150 pipeline project, which is designed to transport approximately 27,000 barrels per day of NGLs from Natrium to an interconnect with the Appalachia to Texas Express ethane line of Enterprise Product Partners, L.P. near Follansbee, West Virginia |
| DRS | Dominion Resources Services, Inc. |
| DSM | Demand-side management |
| Dth | Dekatherm |
| DTI | Dominion Transmission, Inc. |
| DVP | Dominion Virginia Power operating segment |
| E&P | Exploration & production |
| EA | Environmental assessment |
| East Ohio | The East Ohio Gas Company, doing business as Dominion East Ohio |
| EGWP | Employer Group Waiver Plan |
| Elwood | Elwood power station |
| EPA | Environmental Protection Agency |
| EPACT | Energy Policy Act of 2005 |
| EPC | Engineering, procurement and construction |
| EPCRA | Emergency Planning and Community Right-to-Know Act |
| EPS | Earnings per share |
| ERISA | The Employee Retirement Income Security Act of 1974 |
| ERM | Enterprise Risk Management |
| ERO | Electric Reliability Organization |
| ESBWR | General Electric-Hitachi's Economic Simplified Boiling Water Reactor |
| ESRP | Dominion Executive Supplemental Retirement Plan |
| Excess Tax Benefits | Benefits of tax deductions in excess of the compensation cost recognized for stock-based compensation |
| Fairless | Fairless power station |
| FASB | Financial Accounting Standards Board |
| FCM | Futures Commission Merchant |
| FERC | Federal Energy Regulatory Commission |
| Fitch | Fitch Ratings Ltd. |
| Fowler Ridge | First phase of a wind-turbine facility joint venture with BP in Benton County, Indiana |
| Frozen Deferred Compensation Plan | Dominion Resources, Inc. Executives' Deferred Compensation Plan |

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|---------------------|--|
| Frozen DSOP | Dominion Resources, Inc. Security Option Plan |
| FTRs | Financial transmission rights |
| GAAP | U.S. generally accepted accounting principles |
| Gal | Gallon |
| GHG | Greenhouse gas |
| Green Mountain | Green Mountain Power Corporation |
| Hastings | A natural gas processing and fractionation facility located near Pine Grove, West Virginia |
| HATFA of 2014 | Highway and Transportation Funding Act of 2014 |
| 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 |
| Hope | Hope Gas, Inc., doing business as Dominion Hope |
| House Bill 95 | Ohio utility reform legislation effective September 2011 |

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| Abbreviation or Acronym | Definition |
|--------------------------------|---|
| Illinois Gas Contracts | A Dominion Retail, Inc. natural gas book of business consisting of residential and commercial customers in Illinois |
| INPO | Institute of Nuclear Power Operations |
| IRCA | Intercompany revolving credit agreement |
| Iroquois | Iroquois Gas Transmission System L.P. |
| IRS | Internal Revenue Service |
| ISO | Independent system operator |
| ISO-NE | ISO New England |
| JD Power | J.D. Power and Associates |
| Joint Committee | U.S. Congressional Joint Committee on Taxation |
| June 2006 hybrids | 2006 Series A Enhanced Junior Subordinated Notes due 2066 |
| June 2009 hybrids | 2009 Series A Enhanced Junior Subordinated Notes due 2064, subject to extensions no later than 2079 |
| Juniper | Juniper Capital L.P. |
| Kewaunee | Kewaunee nuclear power station |
| Kincaid | Kincaid power station |
| kV | Kilovolt |
| Liability Management Exercise | Dominion exercise in 2014 to redeem certain debt and preferred securities |
| LIBOR | London Interbank Offered Rate |
| LIFO | Last-in-first-out inventory method |
| Line TPL-2A | An approximately 11-mile, 30-inch gathering pipeline extending from Tuscarawas County, Ohio to Harrison County, Ohio |
| Line TL-388 | A 37-mile, 24-inch gathering pipeline extending from Texas Eastern, LP in Noble County, Ohio to its terminus at Dominion's Gilmore Station in Tuscarawas County, Ohio |
| Line TL-404 | An approximately 26-mile, 24- and 30- inch gas gathering pipeline that extends from Wetzel County, West Virginia to Monroe County, Ohio |
| Liquefaction Project | A natural gas export/liquefaction facility currently under construction by Cove Point |
| LNG | Liquefied natural gas |
| LTIP | Long-term incentive program |
| MAP 21 Act | Moving Ahead for Progress in the 21st Century Act |
| Maryland Commission | Maryland Public Service Commission |
| Massachusetts Municipal | Massachusetts Municipal Wholesale Electric Company |
| MATS | Utility Mercury and Air Toxics Standard Rule |
| mcf | thousand cubic feet |
| MD&A | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| Medicare Act | The Medicare Prescription Drug, Improvement and Modernization Act of 2003 |
| Medicare Part D | Prescription drug benefit introduced in the Medicare Act |
| mgd | Million gallons a day |
| Millstone | Millstone nuclear power station |
| MISO | Midwest Independent Transmission System Operators, Inc. |
| MLP | Master limited partnership, also known as publicly traded partnership |
| Moody's | Moody's Investors Service |
| MW | Megawatt |
| MWh | Megawatt hour |
| NAAQS | National Ambient Air Quality Standards |
| Natrium | A natural gas and fractionation facility located in Natrium, West Virginia, owned by Blue Racer |
| NAV | Net asset value |
| NCEMC | North Carolina Electric Membership Corporation |
| NedPower | A wind-turbine facility joint venture with Shell in Grant County, West Virginia |
| NEIL | Nuclear Electric Insurance Limited |
| NEOs | Named executive officers |
| NERC | North American Electric Reliability Corporation |
| NGLs | Natural gas liquids |

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|-----------------------------|---|
| NO ₂ | Nitrogen dioxide |
| Non-Employee Directors Plan | Non-Employee Directors Compensation Plan |
| North Anna | North Anna nuclear power station |
| North Carolina Commission | North Carolina Utilities Commission |
| Northern System | Collection of approximately 131 miles of various diameter natural gas pipelines in Ohio |
| NO _x | Nitrogen oxide |
| NPDES | National Pollutant Discharge Elimination System |
| NRC | Nuclear Regulatory Commission |
| NSPS | New Source Performance Standards |
| NYMEX | New York Mercantile Exchange |
| NYSE | New York Stock Exchange |

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| Abbreviation or Acronym | Definition |
|--------------------------------|---|
| October 2014 hybrids | 2014 Series A Enhanced Junior Subordinated Notes due 2054 |
| ODEC | Old Dominion Electric Cooperative |
| Ohio Commission | Public Utilities Commission of Ohio |
| Order 1000 | Order issued by FERC adopting new requirements for electric transmission planning, cost allocation and development |
| OSHA | Occupational Safety and Health Administration |
| PBGC | Pension Benefit Guaranty Corporation |
| Peoples | The Peoples Natural Gas Company |
| Philadelphia Utility Index | Philadelphia Stock Exchange Utility Index |
| Pipeline Safety Act | The Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 |
| PIPP | Percentage of Income Payment Plan deployed by East Ohio |
| PIR | Pipeline Infrastructure Replacement program deployed by East Ohio |
| PJM | PJM Interconnection, L.L.C. |
| PM&P | Pearl Meyer & Partners |
| PNG Companies LLC | An indirect subsidiary of Steel River Infrastructure Fund North America |
| ppb | Parts-per-billion |
| PSD | Prevention of significant deterioration |
| RCCs | Replacement Capital Covenants |
| RCRA | Resource Conservation and Recovery Act |
| 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, as amended in 2015 |
| REIT | Real estate investment trust |
| 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 BW | A rate adjustment clause associated with the recovery of costs related to Brunswick County |
| 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 T1 | A rate adjustment clause to recover the difference between revenues produced from transmission rates included in base rates, and the new total revenue requirement developed annually for the rate years effective September 1 |
| Rider U | A rate adjustment clause associated with the recovery of costs of new underground distribution facilities |
| Rider US-1 | A rate adjustment clause associated with the recovery of costs related to Remington Solar Facility |
| 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 DSM cases |
| ROE | Return on equity |
| ROIC | Return on invested capital |
| RPS | Renewable Portfolio Standard |
| RSN | Remarketable subordinated note |
| RTEP | Regional transmission expansion plan |
| RTO | Regional transmission organization |
| SAFSTOR | A method of nuclear decommissioning, as defined by the NRC, in which a nuclear facility is placed and maintained in a condition that allows the facility to be safely stored and subsequently decontaminated to levels that permit release for unrestricted use |
| SAIDI | System Average Interruption Duration Index, metric used to measure electric service reliability |
| Salem Harbor | Salem Harbor power station |
| SEC | Securities and Exchange Commission |
| SELC | Southern Environmental Law Center |
| September 2006 hybrids | 2006 Series B Enhanced Junior Subordinated Notes due 2066 |
| 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 |

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|-----------|---|
| Surry | Surry nuclear power station |
| TSR | Total shareholder return |
| U.S. | United States of America |
| UAO | Unilateral Administrative Order |
| UEX Rider | Uncollectible Expense Rider deployed by East Ohio |
| VDEQ | Virginia Department of Environmental Quality |

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| Abbreviation or Acronym | Definition |
|------------------------------------|---|
| VEBA | Voluntary Employees Beneficiary Association |
| 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 |
| VOWTAP | Virginia Offshore Wind Technology Advancement Project |
| Warren County | A 1,342 MW combined-cycle, natural gas-fired power station in Warren County, Virginia |
| West Virginia Commission | Public Service Commission of West Virginia |
| Western System | Collection of approximately 212 miles of various diameter natural gas pipelines and three compressor stations in Ohio |
| Yorktown | Yorktown power station |

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Part I

Item 1. Business

GENERAL

Dominion, headquartered in Richmond, Virginia and incorporated in Virginia in 1983, is one of the nation's largest producers and transporters of energy. *Dominion's* strategy is to be a leading provider of electricity, natural gas and related services to customers primarily in the eastern region of the U.S. As of December 31, 2014, *Dominion's* portfolio of assets includes approximately 24,600 MW of generating capacity, 6,400 miles of electric transmission lines, 57,100 miles of electric distribution lines, 10,900 miles of natural gas transmission, gathering and storage pipeline and 21,900 miles of gas distribution pipeline, exclusive of service lines. As of December 31, 2014, *Dominion* serves over 5 million utility and retail energy customers in 10 states and operates one of the nation's largest underground natural gas storage systems, with approximately 947 bcf of storage capacity.

In September 2013, *Dominion* announced its plans to form an MLP in 2014 by contributing certain of its midstream natural gas assets to the MLP initially and over time. In October 2014, *Dominion Midstream* launched its initial public offering and issued 20,125,000 common units representing limited partner interests, which included a 2,625,000 common unit over-allotment option that was exercised in full by the underwriters. *Dominion* owns the general partner and 68.5% of the limited partner interests in *Dominion Midstream*, which owns a preferred equity interest and the general partner interest in *Cove Point*. *Dominion Midstream* is consolidated by *Dominion*, and is an SEC registrant. However, its Form 10-K is filed separately and is not combined herein.

Dominion is focused on expanding its investment in regulated electric generation, transmission and distribution and regulated natural gas transmission and distribution infrastructure within and around its existing footprint. With this investment, *Dominion* expects 80% to 90% of future earnings from its primary operating segments to come from regulated and long-term contracted businesses.

Dominion continues to expand and improve its regulated and long-term contracted electric and natural gas businesses, in accordance with its six-year capital investment program. A major impetus for this program is to meet the anticipated increase in demand in its electric utility service territory. Other drivers for the capital investment program include the construction of infrastructure to handle the increase in natural gas production from the Marcellus and Utica Shale formations, to upgrade *Dominion's* gas and electric transmission and distribution networks, and to meet environmental requirements and standards set by various regulatory bodies. Investments in utility solar generation are expected to be a focus in meeting such environmental requirements, particularly in Virginia. Investments to gather and process natural gas production from the Utica Shale formation, in eastern Ohio and western Pennsylvania, are being made by the *Blue Racer* joint venture. In September 2014, *Dominion* announced the formation of *Atlantic Coast Pipeline*. *Atlantic Coast Pipeline* is focused on constructing an approximately 550-mile natural gas pipeline running from West Virginia through Virginia to North Carolina, to increase natural gas supplies in the region.

Dominion has transitioned to a more regulated, less volatile earnings mix as evidenced by its capital investments in regulated infrastructure and infrastructure whose output is sold under long-term purchase agreements, as well as dispositions of certain merchant generation facilities during 2013 and the sale of the electric retail energy marketing business in March 2014. *Dominion's* nonregulated operations include merchant generation, energy marketing and price risk management activities and natural gas retail energy marketing operations. *Dominion's* operations are conducted through various subsidiaries, including *Virginia Power* and *Dominion Gas*.

Virginia Power, headquartered in Richmond, Virginia and incorporated in Virginia in 1909 as a Virginia public service corporation, is a wholly-owned subsidiary of *Dominion* and a regulated public utility that generates, transmits and distributes electricity for sale in Virginia and North Carolina. In Virginia, *Virginia Power* conducts business under the name *Dominion Virginia Power* and primarily serves retail customers. In North Carolina, it conducts business under the name *Dominion North Carolina Power* and serves retail customers located in the northeastern region of the state, excluding certain municipalities. In addition, *Virginia Power* sells electricity at wholesale prices to rural electric cooperatives, municipalities and into wholesale electricity markets. All of *Virginia Power's* stock is owned by *Dominion*.

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Dominion Gas, a limited liability company formed in September 2013, is a wholly-owned subsidiary of Dominion and a holding company. It serves as the intermediate parent company for the majority of Dominion's regulated natural gas operating subsidiaries, which conduct business activities through a regulated interstate natural gas transmission pipeline and underground storage system in the Northeast, mid-Atlantic and Midwest states, regulated gas transportation and distribution operations in Ohio, and gas gathering and processing activities primarily in West Virginia, Ohio and Pennsylvania. Dominion Gas's wholly-owned subsidiaries are DTI, East Ohio and Dominion Iroquois. DTI is an interstate natural gas transmission pipeline company serving a broad mix of customers such as local gas distribution companies, marketers, interstate and intrastate pipelines, electric power generators and natural gas producers. The DTI system links to other major pipelines and markets in the mid-Atlantic, Northeast, and Midwest including Dominion's Cove Point pipeline. DTI also operates one of the largest underground natural gas storage systems in the U.S. and is a producer and supplier of NGLs. East Ohio is a regulated natural gas distribution operation serving residential, commercial and industrial gas sales and transportation customers. Its service territory includes Cleveland, Akron, Canton, Youngstown and other eastern and western Ohio communities. Dominion Iroquois holds a 24.72% general partnership interest in a 416-mile FERC regulated interstate natural gas pipeline extending from the U.S.-Canadian border at Waddington, New York through the state of Connecticut to South Commack, New York and Hunts Point, Bronx, New York. All of Dominion Gas's membership interests are owned by Dominion.

Amounts and information disclosed for Dominion are inclusive of Virginia Power and/or Dominion Gas, where applicable.

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EMPLOYEES

As of December 31, 2014, Dominion had approximately 14,400 full-time employees, of which approximately 5,300 employees are subject to collective bargaining agreements. As of December 31, 2014, Virginia Power had approximately 6,800 full-time employees, of which approximately 3,100 employees are subject to collective bargaining agreements. As of December 31, 2014, Dominion Gas had approximately 2,800 full-time employees, of which approximately 2,000 employees are subject to collective bargaining agreements.

WHERE YOU CAN FIND MORE INFORMATION ABOUT THE COMPANIES

The Companies file their annual, quarterly and current reports, proxy statements and other information with the SEC. Their SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document they file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

The Companies make their SEC filings available, free of charge, including the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, through Dominion's internet website, <http://www.dom.com>, as soon as reasonably practicable after filing or furnishing the material to the SEC. Information contained on Dominion's website is not incorporated by reference in this report.

ACQUISITIONS AND DISPOSITIONS

Following are significant acquisitions and divestitures by the Companies during the last five years.

ACQUISITION OF SOLAR DEVELOPMENT PROJECTS

Throughout 2014, Dominion completed the acquisitions of 100% of the equity interests in various solar development projects in California for approximately \$200 million. The projects are expected to cost approximately \$599 million to construct, including the initial acquisition cost, and are expected to generate approximately 179 MW. See Note 3 to the Consolidated Financial Statements for additional information on solar acquisitions.

SALE OF ELECTRIC RETAIL ENERGY MARKETING BUSINESS

In March 2014, Dominion completed the sale of its electric retail energy marketing business. The proceeds were approximately \$187 million, net of transaction costs. The sale of the electric retail energy marketing business did not qualify for discontinued operations classification. See Note 3 to the Consolidated Financial Statements for additional information.

SALE OF PIPELINES AND PIPELINE SYSTEMS

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In March 2014, Dominion Gas sold the Northern System to an affiliate that subsequently sold the Northern System to Blue Racer

for consideration of approximately \$84 million. Dominion Gas' consideration consisted of \$17 million in cash proceeds and the extinguishment of affiliated current borrowings of \$67 million and Dominion's consideration consisted of cash proceeds of approximately \$84 million.

In September 2013, DTI sold Line TL-388 to Blue Racer for approximately \$75 million in cash proceeds.

In December 2012, East Ohio sold two pipeline systems to an affiliate for consideration of approximately \$248 million. East Ohio's consideration consisted of \$61 million in cash proceeds and the extinguishment of affiliated long-term debt of \$187 million and Dominion's consideration consisted of a 50% interest in Blue Racer and cash proceeds of approximately \$115 million.

See Note 9 to the Consolidated Financial Statements for additional information on sales of pipelines and pipeline systems.

ASSIGNMENTS OF MARCELLUS SHALE ACREAGE

In November 2014, DTI closed an agreement with a natural gas producer to convey over time approximately 24,000 acres of Marcellus Shale development rights underneath one of its natural gas storage fields. The agreement provides for payments to DTI, subject to customary adjustments, of approximately \$120 million over a period of four years, and an overriding royalty interest in gas produced from the acreage.

In December 2013, DTI closed on agreements with two natural gas producers to convey over time approximately 100,000 acres of Marcellus Shale development rights underneath several natural gas storage fields. The agreements provide for payments to DTI, subject to customary adjustments, of approximately \$200 million over a period of nine years, and overriding royalty interest in gas produced from that acreage.

See Note 10 to the Consolidated Financial Statements for additional information on these sales of Marcellus acreage.

SALE OF BRAYTON POINT, KINCAID AND EQUITY METHOD INVESTMENT IN ELWOOD

In August 2013, Dominion completed the sale of Brayton Point, Kincaid and its equity method investment in Elwood to Energy Capital Partners and received proceeds of approximately \$465 million, net of transaction costs. The historical results of Brayton Point's and Kincaid's operations are included in the Corporate and Other segment and presented in discontinued operations. See Note 3 to the Consolidated Financial Statements for additional information.

SALE OF E&P PROPERTIES

In April 2010, Dominion completed the sale of substantially all of its Appalachian E&P operations, including its rights to associated Marcellus acreage, to a subsidiary of CONSOL for approximately \$3.5 billion.

SALE OF PEOPLES

In February 2010, Dominion completed the sale of Peoples to PNG Companies LLC and netted after-tax proceeds of approximately \$542 million.

Table of Contents**OPERATING SEGMENTS**

Dominion manages its daily operations through three primary operating segments: DVP, Dominion Generation and Dominion Energy. Dominion also reports a Corporate and Other segment, which includes its corporate, service company and other functions (including unallocated debt) and the net impact of operations that are discontinued, which is discussed in Note 3 to the Consolidated Financial Statements. In addition, Corporate and Other includes specific items attributable to Dominion's other operating segments that are not included in profit measures evaluated by executive management in assessing the segments' performance or allocating resources among the segments.

Virginia Power manages its daily operations through two primary operating segments: DVP and Dominion Generation. It also reports a Corporate and Other segment that 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.

Dominion Gas manages its daily operations through its primary operating segment: Dominion Energy. It also reports a Corporate and Other segment that primarily includes specific items attributable to its operating segment that are not included in profit measures evaluated by executive management in assessing the segment's performance.

While daily operations are managed through the operating segments previously discussed, assets remain wholly-owned by the Companies and their respective legal subsidiaries.

A description of the operations included in the Companies' primary operating segments is as follows:

| Primary Operating Segment | Description of Operations | Dominion | Virginia Power | Dominion Gas |
|---------------------------|--------------------------------------|------------------|----------------|--------------|
| DVP | Regulated electric distribution | X | X | |
| | Regulated electric transmission | X | X | |
| Dominion Generation | Regulated electric fleet | X | X | |
| | Merchant electric fleet | X | | |
| | Nonregulated retail energy marketing | X | | |
| Dominion Energy | Gas transmission and storage | X ⁽¹⁾ | | X |
| | Gas distribution and storage | X | | X |
| | Gas gathering and processing | X | | X |
| | LNG import and storage | X | | |

(1) Includes remaining producer services activities.

For additional financial information on operating segments, including revenues from external customers, see Note 25 to the Consolidated Financial Statements. For additional information on operating revenue related to the Companies' principal products and services, see Notes 2 and 4 to the Consolidated Financial Statements, which information is incorporated herein by reference.

DVP

The DVP Operating Segment of Dominion and Virginia Power includes Virginia Power's regulated electric transmission and dis-

tribution (including customer service) operations, which serve approximately 2.5 million residential, commercial, industrial and governmental customers in Virginia and North Carolina.

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DVP announced its six-year investment plan, which includes spending approximately \$8.9 billion from 2015 through 2020 to upgrade or add new transmission and distribution lines, substations and other facilities to meet growing electricity demand within its service territory and maintain reliability. The proposed electric delivery infrastructure projects are intended to address both continued customer growth and increases in electricity consumption by the typical consumer. In addition, data centers continue to contribute to anticipated demand growth.

Revenue provided by electric distribution operations is based primarily on rates established by state regulatory authorities and state law. Variability in earnings is driven primarily by changes in rates, weather, customer growth and other factors impacting consumption such as the economy and energy conservation, in addition to operating and maintenance expenditures. Operationally, electric distribution continues to focus on improving service levels while striving to reduce costs and link investments to operational results. As a result, electric service reliability and customer service have improved. Virginia Power continues to see improvement as SAIDI performance results, excluding major events, were 113 minutes at the end of 2014, down from the three-year average of 120 minutes. Virginia Power's overall customer satisfaction improved year over year when compared to its 2013 score in the South Large segment of JD Power's rankings. In the future, safety, electric service reliability and customer service will remain key focus areas for electric distribution.

Revenue provided by Virginia Power's electric transmission operations is based primarily on rates approved by FERC. The profitability of this business is dependent on its ability, through the rates it is permitted to charge, to recover costs and earn a reasonable return on its capital investments. Variability in earnings primarily results from changes in rates and the timing of property additions, retirements and depreciation.

Virginia Power is a member of PJM, an RTO, and its electric transmission facilities are integrated into PJM wholesale electricity markets. Consistent with the increased authority given to NERC by EPACT, Virginia Power's electric transmission operations are committed to meeting NERC standards, modernizing its infrastructure and maintaining superior system reliability. Virginia Power's electric transmission operations will continue to focus on safety, operational performance, NERC compliance and execution of PJM's RTEP.

COMPETITION

DVP Operating Segment Dominion and Virginia Power

There is no competition for electric distribution service within Virginia Power's service territory in Virginia and North Carolina and no such competition is currently permitted. Historically, since its electric transmission facilities are integrated into PJM and electric transmission services are administered by PJM, there was no competition in relation to transmission service provided to customers within the PJM region. However, competition from non-incumbent PJM transmission owners for development, construction and ownership of certain transmission facilities in Virginia Power's service territory is now permitted pursuant to FERC Order 1000, subject to state and local siting and permit-

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ting approvals. This could result in additional competition to build transmission lines in Virginia Power's service area in the future and could allow Dominion to seek opportunities to build facilities in other service territories.

REGULATION

DVP Operating Segment Dominion and Virginia Power

Virginia Power's electric retail service, including the rates it may charge to jurisdictional customers, is subject to regulation by the Virginia and North Carolina Commissions. Virginia Power's wholesale electric transmission rates, tariffs and terms of service are subject to regulation by FERC. Electric transmission siting authority remains the jurisdiction of the Virginia and North Carolina Commissions. However, EPACT provides FERC with certain backstop authority for transmission siting. See *State Regulations and Federal Regulations in Regulation* and Note 13 to the Consolidated Financial Statements for additional information, including a discussion of the 2013 Biennial Review Order.

PROPERTIES

DVP Operating Segment Dominion and Virginia Power

Virginia Power has approximately 6,400 miles of electric transmission lines of 69 kV or more located in the states of North Carolina, Virginia and West Virginia. Portions of Virginia Power's electric transmission lines cross national parks and forests under permits entitling the federal government to use, at specified charges, any surplus capacity that may exist in these lines. While Virginia Power owns and maintains its electric transmission facilities, they are a part of PJM, which coordinates the planning, operation, emergency assistance and exchange of capacity and energy for such facilities.

As a part of PJM's RTEP process, PJM authorized the following material reliability projects (including estimated cost):

- Mt. Storm-to-Doubs line (\$336 million);
- Surry-to-Skiffes Creek-to-Wheaton lines (\$150 million);
- Dooms-to-Lexington line (\$112 million);
- Cunningham-to-Dooms (\$100 million); and
- Landstown voltage regulation project (\$70 million).

The following material reliability projects (including estimated cost) are awaiting PJM authorization:

- Warrenton project (including Remington CT-to-Warrenton, Vint Hill-to-Wheeler, Wheeler-to-Loudoun and Vint Hill and Wheeler switching stations) (\$109 million); and
- Cunningham-to-Elmont line (\$106 million).

Over the next 5 years, Virginia Power plans to increase transmission substation physical security and to invest in a new system operations center. Virginia Power expects to invest \$300 million \$500 million during that time to strengthen its electrical system to better protect critical equipment, enhance its spare equipment process, and create multiple levels of security.

In addition, Virginia Power's electric distribution network includes approximately 57,100 miles of distribution lines, exclusive of service level lines, in Virginia and North Carolina. The grants for most of its electric lines contain rights-of-way that have been obtained from the apparent owners of real estate, but underlying titles have not been examined. Where rights-of-way have not been obtained, they could be acquired from private

owners by condemnation, if necessary. Many electric lines are on publicly-owned property, where permission to operate can be revoked.

Virginia legislation in 2014 provides for the recovery of costs, subject to approval by the Virginia Commission, for Virginia Power to move approximately 4,000 miles of electric distribution lines underground. The program, designed to reduce restoration outage time, has an annual investment cap of approximately \$175 million, and is expected to be implemented over the next decade.

SOURCES OF ENERGY SUPPLY

DVP Operating Segment Dominion and Virginia Power

DVP's supply of electricity to serve Virginia Power customers is produced or procured by Dominion Generation. See *Dominion Generation* for additional information.

SEASONALITY

DVP Operating Segment Dominion and Virginia Power

DVP's earnings vary seasonally as a result of the impact of changes in temperature, the impact of storms and other catastrophic weather events, and the availability of alternative sources for heating on demand by residential and commercial customers. Generally, the demand for electricity peaks during the summer and winter months to meet cooling and heating needs. An increase in heating degree days for DVP's electric utility-related operations does not produce the same increase in revenue as an increase in cooling degree days, due to seasonal pricing differentials and because alternative heating sources are more readily available.

Dominion Generation

The Dominion Generation Operating Segment of Virginia Power includes the generation operations of the Virginia Power regulated electric utility and its related energy supply operations. Virginia Power's utility generation operations primarily serve the supply requirements for the DVP segment's utility customers. *The Dominion Generation Operating Segment of Dominion* includes Virginia Power's generation facilities and its related energy supply operations as well as the generation operations of Dominion's merchant fleet and energy marketing and price risk management activities for these assets and Dominion's nonregulated natural gas retail energy marketing operations.

Dominion Generation's six-year electric utility investment plan includes spending approximately \$9.7 billion from 2015 through 2020 to construct new generation capacity to meet growing electricity demand within its utility service territory. The most significant project currently under construction is Brunswick County, which is estimated to cost approximately \$1.2 billion, excluding financing costs. See *Properties* for additional information on this and other utility projects.

In addition, Dominion's merchant fleet has acquired and developed numerous renewable generation projects, which began operations in 2013 and 2014. The total cost of the projects is approximately \$856 million, excluding financing costs, and includes a fuel cell generation facility in Connecticut and solar generation facilities in California, Indiana, Georgia, Tennessee and Connecticut. The output of these facilities is sold under long-term power purchase agreements with terms ranging from 15 to

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25 years. See Note 3 to the Consolidated Financial Statements for additional information regarding certain solar acquisitions.

Earnings for the *Dominion Generation Operating Segment of Virginia Power* primarily result from the sale of electricity generated by its utility fleet. Revenue is based primarily on rates established by state regulatory authorities and state law. Approximately 80% of revenue comes from serving Virginia jurisdictional customers. Base rates for the Virginia jurisdiction are set using a modified cost-of-service rate model, and are generally designed to allow an opportunity to recover the cost of providing utility service and earn a reasonable return on investments used to provide that service. Earnings variability may arise when revenues are impacted by factors not reflected in current rates, such as the impact of weather on customers' demand for services. Likewise, earnings may reflect variations in the timing or nature of expenses as compared to those contemplated in current rates, such as labor and benefit costs, capacity expenses, and the timing, duration and costs of scheduled and unscheduled outages. The cost of fuel and purchased power is generally collected through fuel cost-recovery mechanisms established by regulators and does not materially impact net income. The cost of new generation facilities is generally recovered through rate adjustment clauses in Virginia. Variability in earnings from rate adjustment clauses reflects changes in the authorized ROE and the carrying amount of these facilities, which are largely driven by the timing and amount of capital investments, as well as depreciation. See *Electric Regulation in Virginia* under *Regulation* and Note 13 to the Consolidated Financial Statements for additional information.

The Dominion Generation Operating Segment of Dominion derives its earnings primarily from the sale of electricity generated by Virginia Power's utility and Dominion's merchant generation assets, as well as from associated capacity and ancillary services. Variability in earnings provided by Dominion's nonrenewable merchant fleet relates to changes in market-based prices received for electricity and capacity. Market-based prices for electricity are largely dependent on commodity prices, primarily natural gas, and the demand for electricity, which is primarily dependent upon weather. Capacity prices are dependent upon resource requirements in relation to the supply available (both existing and new) in the forward capacity auctions, which are held approximately three years in advance of the associated delivery year. Dominion manages the electric price volatility of its merchant fleet by hedging a substantial portion of its expected near-term energy sales with derivative instruments. Variability also results from changes in the cost of fuel consumed, labor and benefits and the timing, duration and costs of scheduled and unscheduled outages. In 2012 and 2013, Dominion sold or began decommissioning several of its merchant generation facilities, including Brayton Point, Kincaid, State Line, Salem Harbor and Kewaunee.

Dominion's retail energy marketing operations compete in nonregulated energy markets. In March 2014, Dominion completed the sale of its electric retail energy marketing business; however, it still participates in the retail natural gas and energy-related products and services businesses. The remaining customer base includes approximately 1.3 million customer accounts. Dominion has a heavy concentration of natural gas customers in markets where utilities have a long-standing commitment to customer choice.

COMPETITION

Dominion Generation Operating Segment Dominion and Virginia Power

Virginia Power's generation operations are not subject to significant competition as only a limited number of its Virginia jurisdictional electric utility customers have retail choice. See *Regulation-State Regulations-Electric* for more information. Currently, North Carolina does not offer retail choice to electric customers.

Dominion Generation Operating Segment Dominion

Unlike Dominion Generation's regulated generation fleet, its nonrenewable merchant generation fleet is dependent on its ability to operate in a competitive environment and does not have a predetermined rate structure that provides for a rate of return on its capital investments. Dominion Generation's recently acquired and developed renewable generation projects are not subject to significant competition as the output from these facilities is primarily sold under long-term power purchase agreements lasting between 15 and 25 years. Competition for the nonrenewable merchant fleet is impacted by electricity and fuel prices, new market entrants, construction by others of generating assets and transmission capacity, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. These competitive factors may negatively impact the merchant fleet's ability to profit from the sale of electricity and related products and services.

Dominion Generation's nonrenewable merchant assets operate within functioning RTOs and primarily compete on the basis of price. Competitors include other generating assets bidding to operate within the RTOs. These RTOs have clearly identified market rules that ensure the competitive wholesale market is functioning properly. Dominion Generation's nonrenewable merchant units compete in the spot market with other generators

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to sell a variety of products including energy, capacity and ancillary services. It is difficult to compare various types of generation given the wide range of fuels, fuel procurement strategies, efficiencies and operating characteristics of the fleet within any given RTO. However, Dominion applies its expertise in operations, dispatch and risk management to maximize the degree to which its nonrenewable merchant fleet is competitive compared to similar assets within the region.

Dominion's retail energy marketing operations compete against incumbent utilities and other energy marketers in nonregulated energy markets for natural gas. Customers in these markets have the right to select a retail marketer and typically do so based upon price savings or price stability; however, incumbent utilities have the advantage of long-standing relationships with their customers and greater name recognition in their markets.

REGULATION

Dominion Generation Operating Segment Dominion and Virginia Power

Virginia Power's utility generation fleet and Dominion's merchant generation fleet are subject to regulation by FERC, the NRC, the EPA, the DOE, the Army Corps of Engineers and other federal, state and local authorities. Virginia Power's utility generation fleet is also subject to regulation by the Virginia

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Commission and the North Carolina Commission. See *State Regulations* and *Federal Regulations in Regulation* and Note 13 to the Consolidated Financial Statements for more information.

PROPERTIES

For a listing of Dominion's and Virginia Power's existing generation facilities, see Item 2. Properties.

Dominion Generation Operating Segment Dominion and Virginia Power

The generation capacity of Virginia Power's electric utility fleet totals approximately 20,400 MW. The generation mix is diversified and includes coal, nuclear, gas, oil, hydro, renewables, and power purchase agreements. Virginia Power's generation facilities are located in Virginia, West Virginia and North Carolina and serve load in Virginia and northeastern North Carolina.

Virginia Power is developing, financing, and constructing new generation capacity to meet growing electricity demand within its service territory. Significant projects under construction or development are set forth below:

In August 2013, the Virginia Commission authorized the construction of Brunswick County, which is estimated to cost approximately \$1.2 billion. Construction of the facility commenced in the third quarter of 2013 with commercial operations expected to begin in mid-2016. Brunswick County is expected to offset the expected reduction in capacity caused by the retirement of coal-fired units at Chesapeake in December 2014 and at Yorktown as early as 2016, primarily due to the cost of compliance with MATS.

In January 2015, Virginia Power filed a CPCN with the Virginia Commission to build the state's first utility-scale solar facility. The 20 MW project would be built near Virginia Power's Remington Power Station in Fauquier County. The estimated in-service date for the facility, subject to regulatory approvals, is the fourth quarter of 2016.

Virginia Power is considering the construction of a third nuclear unit at a site located at North Anna. See Note 13 to the Consolidated Financial Statements for more information on this project.

The BOEM auctioned approximately 113,000 acres of federal land off the Virginia coast as a single lease for construction of offshore wind turbines. Virginia Power was awarded the lease, effective November 1, 2013. BOEM has several lease milestones with which Virginia Power must comply as conditions to being awarded the lease.

Virginia Power is also considering the development of a commercial offshore wind generation project through a federal land lease off the Virginia coast. Virginia Power and several partners are collaborating to develop a 12 MW offshore wind demonstration project, which is proposed to be located approximately 24 miles off the coast of Virginia. In May 2014, the DOE selected the VOWTAP as one of three projects to receive up to \$47 million of follow-on funding. This project may be operational as early as the end of 2017, pending regulatory approvals.

Dominion Generation Operating Segment Dominion

The generation capacity of Dominion's merchant fleet totals approximately 4,200 MW. The generation mix is diversified and

includes nuclear, natural gas, and renewables. Merchant nonrenewable generation facilities are located in Connecticut, Pennsylvania and Rhode Island, with a majority of that capacity concentrated in New England. Dominion's merchant renewable generation facilities include a fuel cell generation facility in Connecticut, solar generation facilities in Indiana, Georgia, California, Tennessee and Connecticut, and wind generation facilities in Indiana and West Virginia. Additional solar projects under construction are as set forth below:

In September 2014, Dominion entered into agreements to acquire 100% of the equity interests in two solar projects in California from EDF Renewable Development, Inc. for approximately \$175 million. The acquisitions are expected to close in the first half of 2015 prior to the projects commencing operations. The projects are expected to cost approximately \$185 million once constructed, including the initial acquisition cost. Upon completion, the facilities are expected to generate approximately 42 MW.

In October 2014, Dominion acquired 100% of the equity interests of a solar project in Utah from juwi solar Inc. The project is expected to cost approximately \$120 million once constructed, including the initial acquisition cost. The facility is expected to begin commercial operations in the second half of 2015 and generate approximately 50 MW.

SOURCES OF ENERGY SUPPLY

Dominion Generation Operating Segment Dominion and Virginia Power

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Dominion Generation uses a variety of fuels to power its electric generation and purchases power for utility system load requirements and to satisfy physical forward sale requirements, as described below. Some of these agreements have fixed commitments and are included as contractual obligations in *Future Cash Payments for Contractual Obligations and Planned Capital Expenditures* in Item 7. MD&A.

Nuclear Fuel Dominion Generation primarily utilizes long-term contracts to support its nuclear fuel requirements. Worldwide market conditions are continuously evaluated to ensure a range of supply options at reasonable prices which are dependent on the market environment. Current agreements, inventories and spot market availability are expected to support current and planned fuel supply needs. Additional fuel is purchased as required to ensure optimal cost and inventory levels.

Fossil Fuel Dominion Generation primarily utilizes coal and natural gas in its fossil fuel plants.

Dominion Generation's coal supply is obtained through long-term contracts and short-term spot agreements from domestic suppliers.

Dominion Generation's natural gas and oil supply is obtained from various sources including purchases from major and independent producers in the Mid-Continent and Gulf Coast regions, purchases from local producers in the Appalachian area and Marcellus and Utica regions, purchases from gas marketers and withdrawals from underground storage fields owned by Dominion or third parties. Dominion Generation manages a portfolio of natural gas transportation contracts (capacity) that provides for reliable natural gas deliveries to its gas turbine fleet, while minimizing costs.

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Biomass Dominion Generation's biomass supply is obtained through long-term contracts and short-term spot agreements from local suppliers.

Purchased Power Dominion Generation purchases electricity from the PJM spot market and through power purchase agreements with other suppliers to provide for utility system load requirements.

Dominion Generation also occasionally purchases electricity from the PJM and ISO-NE spot markets to satisfy physical forward sale requirements as part of its merchant generation operations.

Dominion Generation Operating Segment Virginia Power

Presented below is a summary of Virginia Power's actual system output by energy source:

| Source | 2014 | 2013 | 2012 |
|------------------------|------|------|------|
| Nuclear ⁽¹⁾ | 33% | 33% | 33% |
| Purchased power, net | 19 | 21 | 27 |
| Coal ⁽²⁾ | 30 | 29 | 22 |
| Natural gas | 15 | 16 | 17 |
| Other ⁽³⁾ | 3 | 1 | 1 |
| Total | 100% | 100% | 100% |

(1) Excludes ODEC's 11.6% ownership interest in North Anna.

(2) Excludes ODEC's 50.0% ownership interest in the Clover power station. The average cost of coal for 2014 Virginia in-system generation was \$35.30 per MWh.

(3) Includes oil, hydro and biomass.

Dominion Generation Operating Segment-Dominion

The supply of gas to serve Dominion's retail energy marketing customers is procured through market wholesalers or by Dominion Energy. See *Dominion Energy* for additional information.

SEASONALITY*Dominion Generation Operating Segment Dominion and Virginia Power*

Sales of electricity for Dominion Generation typically vary seasonally as a result of the impact of changes in temperature and the availability of alternative sources for heating on demand by residential and commercial customers. See *DVP Seasonality* above for additional considerations that also apply to Dominion Generation.

Dominion Generation Operating Segment Dominion

The earnings of Dominion's retail energy marketing operations also vary seasonally. Generally, the demand for gas peaks during the winter months to meet heating needs.

NUCLEAR DECOMMISSIONING*Dominion Generation Operating Segment Dominion and Virginia Power*

Virginia Power has a total of four licensed, operating nuclear reactors at Surry and North Anna in Virginia.

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Decommissioning involves the decontamination and removal of radioactive contaminants from a nuclear power station once operations have ceased, in accordance with standards established by the NRC. Amounts collected from ratepayers are placed into trusts and are invested to fund the expected future costs of decommissioning the Surry and North Anna units.

Virginia Power believes that the decommissioning funds and their expected earnings for the Surry and North Anna units will be sufficient to cover expected decommissioning costs, particularly when combined with future ratepayer collections and contributions to these decommissioning trusts, if such future collections and contributions are required. This reflects the long-term investment horizon, since the units will not be decommissioned for decades, and a positive long-term outlook for trust fund investment returns. Virginia Power will continue to monitor these trusts to ensure they meet the NRC minimum financial assurance requirements, which may include, if needed, the use of parent company guarantees, surety bonding or other financial instruments recognized by the NRC.

The estimated cost to decommission Virginia Power's four nuclear units is reflected in the table below and is primarily based upon site-specific studies completed in 2014. These cost studies are generally completed every four to five years. The current cost estimates assume decommissioning activities will begin shortly after cessation of operations, which will occur when the operating licenses expire. Virginia Power expects to decommission the Surry and North Anna units during the period 2032 to 2078.

Dominion Generation Operating Segment Dominion

In addition to the four nuclear units discussed above, Dominion has two licensed, operating nuclear reactors at Millstone in Connecticut. A third Millstone unit ceased operations before Dominion acquired the power station. In May 2013, Dominion ceased operations at its single unit Kewaunee nuclear power station in Wisconsin and commenced decommissioning activities using the SAFSTOR methodology. The planned decommissioning completion date is 2073, which is within the NRC allowed 60 year window.

As part of Dominion's acquisition of both Millstone and Kewaunee, it acquired decommissioning funds for the related units. Any funds remaining in Kewaunee's trust after decommissioning is completed are required to be refunded to Wisconsin ratepayers. Dominion believes that the amounts currently available in the decommissioning trusts and their expected earnings will be sufficient to cover expected decommissioning costs for the Millstone and Kewaunee units. Dominion will continue to monitor these trusts to ensure they meet the NRC minimum financial assurance requirements, which may include, if needed, the use of parent company guarantees, surety bonding or other financial instruments recognized by the NRC. The estimated cost to decommission Dominion's eight units is reflected in the table below and is primarily based upon site-specific studies completed for Surry, North Anna and Millstone in 2014 and for Kewaunee in 2013.

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The estimated decommissioning costs and license expiration dates for the nuclear units owned by Dominion and Virginia Power are shown in the following table:

| | NRC license expiration year | Most recent cost estimate (2014 dollars) ⁽¹⁾ | Funds in trusts at December 31, 2014 | 2014 contributions to trusts |
|------------------------|--------------------------------------|--|---|------------------------------------|
| (dollars in millions) | | | | |
| Surry | | | | |
| Unit 1 | 2032 | \$ 576 | \$ 547 | \$ 0.6 |
| Unit 2 | 2033 | 596 | 539 | 0.6 |
| North Anna | | | | |
| Unit 1 ⁽²⁾ | 2038 | 493 | 435 | 0.4 |
| Unit 2 ⁽²⁾ | 2040 | 504 | 409 | 0.3 |
| Total (Virginia Power) | | 2,169 | 1,930 | 1.9 |
| Millstone | | | | |
| Unit 1 ⁽³⁾ | n/a | 367 | 450 | |
| Unit 2 | 2035 | 540 | 569 | |
| Unit 3 ⁽⁴⁾ | 2045 | 656 | 559 | |
| Kewaunee | | | | |
| Unit 1 ⁽⁵⁾ | n/a | 520 | 688 | |
| Total (Dominion) | | \$ 4,252 | \$ 4,196 | \$ 1.9 |

(1) The cost estimates shown above reflect reductions for the expected future recovery of certain spent fuel costs based on Dominion's and Virginia Power's contracts with the DOE for disposal of spent nuclear fuel consistent with the reductions reflected in Dominion's and Virginia Power's nuclear decommissioning AROs.

(2) North Anna is jointly owned by Virginia Power (88.4%) and ODEC (11.6%). However, Virginia Power is responsible for 89.26% of the decommissioning obligation. Amounts reflect 89.26% of the decommissioning cost for both of North Anna's units.

(3) Unit 1 permanently ceased operations in 1998, before Dominion's acquisition of Millstone.

(4) Millstone Unit 3 is jointly owned by Dominion Nuclear Connecticut, with a 6.53% undivided interest in Unit 3 owned by Massachusetts Municipal and Green Mountain. Decommissioning cost is shown at Dominion's ownership percentage. At December 31, 2014, the minority owners held approximately \$35 million of trust funds related to Millstone Unit 3 that are not reflected in the table above.

(5) Permanently ceased operations in 2013.

Also see Note 14 and Note 22 to the Consolidated Financial Statements for further information about AROs and nuclear decommissioning, respectively, and Note 9 for information about nuclear decommissioning trust investments.

Dominion Energy

The Dominion Energy Operating Segment of Dominion Gas includes the majority of Dominion's regulated natural gas operations. DTI, the gas transmission pipeline and storage business, serves gas distribution businesses and other customers in the Northeast, mid-Atlantic and Midwest. Included in the transmission pipeline and storage business is gas gathering and processing activity, which sells extracted products at market rates. East Ohio, the primary gas distribution business of Dominion, serves residential, commercial and industrial gas sales, transportation and gathering service customers. Dominion Iroquois holds a 24.72% general partnership interest in Iroquois, which provides service to local gas distribution companies, electric utilities and electric power generators, as well as marketers and other end users, through interconnecting pipelines and exchanges primarily in New York.

Earnings for the *Dominion Energy Operating Segment of Dominion Gas* primarily result from rates established by FERC and the Ohio Commission. The profitability of these businesses is dependent on Dominion Gas ability, through the rates it is permitted to charge, to recover costs and earn a reasonable return on its capital investments. Variability in earnings results from changes in operating and maintenance expenditures, as well as changes in rates and the demand for services, which are dependent on weather, changes in commodity prices and the economy.

Revenue from processing and fractionation operations largely results from the sale of commodities at market prices. For DTI's processing plants, Dominion Gas purchases the wet gas product from producers and retains some or all of the extracted NGLs as compensation for its services. This exposes Dominion Gas to commodity price risk for the value of the spread between the NGL products and natural gas. In addition, Dominion Gas has volumetric risk since gas deliveries to DTI's facilities are not under long-term contracts.

East Ohio utilizes a straight-fixed-variable rate design for a majority of its customers. Under this rate design, East Ohio recovers a larger portion of its fixed operating costs through a flat monthly charge accompanied by a reduced volumetric base delivery rate. Accordingly, East Ohio's revenue is less impacted by weather-related fluctuations in natural gas consumption than under the traditional rate design.

In addition to the operations of Dominion Gas, *the Dominion Energy Operating Segment of Dominion* also includes LNG operations and Hope's gas distribution operations in West Virginia, as well as Dominion's investments in the Blue Racer joint venture, Atlantic Coast Pipeline and Dominion Midstream. See *Properties and Investments* below for additional information regarding the Atlantic Coast Pipeline investment. Dominion's LNG operations involve the import and storage of LNG at Cove Point and the transportation of regasified LNG to the interstate pipeline grid and mid-Atlantic and Northeast markets. Dominion has received DOE and FERC approval to export LNG from Cove Point and has begun construction on a bi-directional facility, which will be able to import LNG, and vaporize it as natural gas, and liquefy natural gas and export it as LNG. See Note 22 to the Consolidated Financial Statements for more information.

In 2014, Dominion formed Dominion Midstream, an MLP initially consisting of a preferred equity interest in Cove Point. See *General* above for more information. Also see Note 3 to the Consolidated Financial Statements for a description of Dominion's acquisition of CGT, which Dominion expects to contribute to Dominion Midstream in the first half of 2015.

The Blue Racer joint venture concentrates on building new gathering, processing, fractionation and NGL transportation assets as the development of the Utica Shale formation increases. Dominion has contributed or sold various assets to the joint venture. See Note 9 to the Consolidated Financial Statements for more information.

Dominion Energy's six-year investment plan includes spending approximately \$8.9 billion from 2015 through 2020 to upgrade existing infrastructure or add new pipelines to meet growing energy needs within its service territory and maintain reliability. This plan includes spending for the Atlantic Coast Pipeline project and approximately \$2.6 billion, exclusive of financing costs, for the Liquefaction Project.

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Earnings for the *Dominion Energy Operating Segment of Dominion* primarily result from rates established by FERC and the West Virginia Commission. Additionally, Dominion Energy receives revenue from firm fee-based contractual arrangements, including negotiated rates, for certain LNG storage and regasification services. Hope's gas distribution operations in West Virginia serve residential, commercial and industrial gas sales, transportation and gathering service customers. Revenue provided by Hope's operations is based primarily on rates established by the West Virginia Commission. The profitability of these businesses is dependent on their ability, through the rates they are permitted to charge, to recover costs and earn a reasonable return on their capital investments. Variability in earnings results from changes in operating and maintenance expenditures, as well as changes in rates and the demand for services, which are dependent on weather, changes in commodity prices and the economy. However, the processing and fractionation operations within Dominion Energy's Blue Racer joint venture are primarily managed under long-term fee-based contracts, which minimizes commodity risk.

COMPETITION

Dominion Energy Operating Segment Dominion and Dominion Gas

Dominion Gas' natural gas transmission operations compete with domestic and Canadian pipeline companies. Dominion Gas also competes with gas marketers seeking to provide or arrange transportation, storage and other services. Alternative energy sources, such as oil or coal, provide another level of competition. Although competition is based primarily on price, the array of services that can be provided to customers is also an important factor. The combination of capacity rights held on certain long-line pipelines, a large storage capability and the availability of numerous receipt and delivery points along its own pipeline system enable Dominion to tailor its services to meet the needs of individual customers.

DTI's processing and fractionation operations face competition in obtaining natural gas supplies for its processing and related services. Numerous factors impact any given customer's choice of processing services provider, including the location of the facilities, efficiency and reliability of operations, and the pricing arrangements offered.

In Ohio, there has been no legislation enacted to require supplier choice for natural gas distribution consumers. However, East Ohio has offered an Energy Choice program to residential and commercial customers since October 2000. East Ohio has since taken various steps approved by the Ohio Commission toward exiting the merchant function, including restructuring its commodity service and placing Energy Choice-eligible customers in a direct retail relationship with participating suppliers. Further, in April 2013, East Ohio fully exited the merchant function for its nonresidential customers, which are now required to choose a retail supplier or be assigned to one at a monthly variable rate set by the supplier. At December 31, 2014, approximately 1 million of East Ohio's 1.2 million Ohio customers were participating in the Energy Choice program.

Dominion Energy Operating Segment Dominion

For Hope, West Virginia does not allow customers to choose their provider in its retail natural gas markets at this time. See

Regulation-State Regulations-Gas for additional information.

Cove Point's LNG operations are not subject to significant competition due to the long-term nature of their contracts.

REGULATION

Dominion Energy Operating Segment Dominion and Dominion Gas

Dominion Gas' natural gas transmission, storage, processing and gathering operations are regulated primarily by FERC. East Ohio's gas distribution operations, including the rates that it may charge to customers, are regulated by the Ohio Commission. See *State Regulations* and *Federal Regulations in Regulation* for more information.

Dominion Energy Operating Segment Dominion

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Dominion's LNG operations are regulated primarily by FERC. Hope's gas distribution operations, including the rates that it may charge customers, are regulated by the West Virginia Commission. See *State Regulations* and *Federal Regulations in Regulation* for more information.

PROPERTIES AND INVESTMENTS

Dominion Energy Operating Segment Dominion and Dominion Gas

East Ohio's gas distribution network is located in Ohio. This network involves approximately 18,800 miles of pipe, exclusive of service lines. The rights-of-way grants for many natural gas pipelines have been obtained from the actual owners of real estate, as underlying titles have been examined. Where rights-of-way have not been obtained, they could be acquired from private owners by condemnation, if necessary. Many natural gas pipelines are on publicly-owned property, where company rights and actions are determined on a case-by-case basis, with results that range from reimbursed relocation to revocation of permission to operate.

Dominion Gas has approximately 7,700 miles of gas transmission, gathering and storage pipelines located in the states of Maryland, New York, Ohio, Pennsylvania, Virginia and West Virginia. Dominion Gas owns gas processing and fractionation facilities in West Virginia with a total processing capacity of 270,000 mcf per day and fractionation capacity of 580,000 Gals per day. Dominion Gas also operates 20 underground gas storage fields located in New York, Ohio, Pennsylvania and West Virginia, with approximately 2,000 storage wells and approximately 399,000 acres of operated leaseholds.

The total designed capacity of the underground storage fields operated by Dominion Gas is approximately 947 bcf. Certain storage fields are jointly-owned and operated by Dominion Gas. The capacity of those fields owned by Dominion Gas partners totals about 242 bcf.

In December 2013, DTI closed on agreements with two natural gas producers to convey approximately 100,000 acres of Marcellus Shale development rights underneath several of its natural gas storage fields. In September 2014, DTI closed on an agreement with a natural gas producer to convey approximately 24,000 acres of Marcellus Shale development rights underneath one of its natural gas storage fields. In November 2014, DTI closed on an agreement with a natural gas producer to convey approximately 11,000 acres of Marcellus Shale development rights underneath

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one of its Pennsylvania natural gas storage fields. See Note 10 to the Consolidated Financial Statements for further information.

In July 2013, East Ohio signed long-term precedent agreements with two customers to move 320,000 Dths per day of processed gas from the outlet of new gas processing facilities in Ohio to interconnections with multiple interstate pipelines. The first phase of the Western Access Project provides system enhancements to facilitate the movement of processed gas over East Ohio's system. The initial phase of the project was completed in the fourth quarter of 2014 and cost approximately \$85 million. During the second and third quarters of 2014, East Ohio executed long-term precedent agreements with customers for 450,000 Dths per day of service to new interconnects with interstate pipelines. This second phase of the Western Access Project will expand the number of interstate pipelines to which East Ohio will deliver processed gas to four. The project is expected to be completed in the fourth quarter of 2015 and cost approximately \$130 million.

In September 2014, DTI announced its intent to construct and operate the Supply Header Project which is expected to cost approximately \$500 million and provide 1,500,000 Dths per day of firm transportation service to various customers. In October 2014, DTI requested authorization to use the FERC's pre-filing process. The application to request FERC authorization to construct and operate the project facilities is expected to be filed in the third quarter of 2015, with the facilities expected to be in service in the fourth quarter of 2018. In December 2014, DTI entered into a precedent agreement with Atlantic Coast Pipeline for the Supply Header Project.

In June 2014, DTI executed binding precedent agreements with two power generators for the Leidy South Project. In November 2014, one of the power generators assigned a portion of its capacity to an affiliate, bringing the total number of project customers to three. The project is expected to cost approximately \$210 million and provide 155,000 Dths per day of firm transportation service from Clinton County, Pennsylvania to Loudoun County, Virginia. Because the project facilities would be installed at existing DTI compressor stations rather than greenfield sites, DTI will submit a standard certificate application rather than utilize the FERC pre-filing process. The application to request FERC authorization to construct and operate the project facilities is expected to be filed in the second quarter of 2015. Service under the 20-year contracts is expected to commence in the fourth quarter of 2017.

During the second quarter of 2014, DTI executed a binding precedent agreement with a customer for the Monroe-to-Cornwell Project. The project is expected to cost approximately \$70 million and provide 205,000 Dths per day of firm transportation service from Monroe County, Ohio to an interconnect near Cornwell, West Virginia. In October 2014, DTI filed an application to request FERC authorization to construct and operate the project facilities, which are expected to be in service in the fourth quarter of 2016.

In the first quarter of 2014, DTI executed a binding precedent agreement for the Lebanon West II Project. The project is expected to cost approximately \$112 million and provide 130,000 Dths per day of firm transportation service from Butler County, Pennsylvania to an interconnect with Texas Gas Pipeline in Lebanon, Ohio. In September 2014, DTI filed an application to request

FERC authorization to construct and operate the project facilities, which are expected to be in service in the fourth quarter of 2016.

In November 2014, DTI placed into service its \$42 million Natrium-to-Market project. The project is designed to provide 185,000 Dths per day of firm transportation from an interconnect between DTI and the Natrium facility to the Crayne interconnect. Four customers have entered into binding precedent agreements for the full project capacity under 8-year and 13-year terms.

In September 2013, DTI executed binding precedent agreements with several local distribution company customers for the New Market Project. The project is expected to cost approximately \$159 million and provide 112,000 Dths per day of firm transportation service from Leidy, Pennsylvania to interconnects with Iroquois and Niagara Mohawk Power Corporation's distribution system in the Albany, New York market. In June 2014, DTI filed an application to request FERC authorization to construct and operate the project facilities, which are expected to be in service in the fourth quarter of 2016.

In October 2013, DTI executed a binding precedent agreement with CNX Gas Company LLC for the Clarington Project. The project is expected to cost approximately \$78 million and provide 250,000 Dths per day of firm transportation service from central West Virginia to Clarington, Ohio. In June 2014, DTI filed an application to request FERC authorization to construct and operate the project facilities, which are expected to be in service in the fourth quarter of 2016.

In November 2014, DTI placed into service its \$112 million Allegheny Storage Project, which provides approximately 7.5 bcf of incremental storage service and 125,000 Dths per day of associated year-round firm transportation service to three local distribution companies under

15-year contracts.

In 2008, East Ohio began PIR, aimed at replacing approximately 4,100 miles of its pipeline system at a cost of \$2.7 billion. In 2011, approval was obtained to include an additional 1,450 miles and to increase annual capital investment to meet the program goal. The program will replace approximately 25% of the pipeline system and is anticipated to take place over a total of 25 years.

Dominion Energy Operating Segment Dominion

In addition to the assets held by Dominion Gas detailed above, see Item 1. Business, *General* for further information regarding pipeline and storage capacity owned by Dominion. Dominion also has about 15 bcf of above-ground storage capacity at Cove Point. Dominion has 142 compressor stations with approximately 869,000 installed compressor horsepower.

Cove Point Dominion is pursuing the Liquefaction Project, which would enable Cove Point to liquefy domestically-produced natural gas for export as LNG. The DOE previously authorized Dominion to export LNG to countries with free trade agreements. In September 2013, the DOE authorized Dominion to export LNG from Cove Point to non-free trade agreement countries.

In May 2014, the FERC staff issued its EA for the Liquefaction Project. In the EA, the FERC staff addressed a variety of topics related to the proposed construction and development of the Liquefaction Project and its potential impact to the environment, and determined that with the implementation of appropriate mitigation measures, the Liquefaction Project can be built

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and operated safely with no significant impact to the environment. In September 2014, Cove Point received the FERC order authorizing the Liquefaction Project with certain conditions. The conditions regarding the Liquefaction Project set forth in the FERC order largely incorporate the mitigation measures proposed in the EA. In October 2014, Cove Point commenced construction of the Liquefaction Project, with an in-service date anticipated in late 2017. The Cove Point facility is authorized to export at a rate of 770 million cubic feet of natural gas per day for a period of 20 years.

In April 2013, Dominion announced it had fully subscribed the capacity of the project with 20-year terminal service agreements. ST Cove Point, LLC, a joint venture of Sumitomo Corporation, a Japanese corporation that is one of the world's leading trading companies, and Tokyo Gas Co., Ltd., a Japanese corporation that is the largest natural gas utility in Japan, and GAIL Global (USA) LNG LLC, a wholly-owned indirect U.S. subsidiary of GAIL (India) Ltd., have each contracted for half of the capacity. Following completion of the front-end engineering and design work, Dominion also announced it had awarded its EPC contract for new liquefaction facilities to IHI/Kiewit Cove Point, a joint venture between IHI E&C International Corporation and Kiewit Energy Company.

Cove Point has historically operated as an LNG import facility under various long-term import contracts. Since 2010, Dominion has renegotiated certain existing LNG import contracts in a manner that will result in a significant reduction in pipeline and storage capacity utilization and associated anticipated revenues during the period from 2017 through 2028. Such amendments created the opportunity for Dominion to explore the Liquefaction Project, which, assuming it becomes operational, will extend the economic life of Cove Point and contribute to Dominion's overall growth plan. In total, these renegotiations reduced Cove Point's expected annual revenues from the import-related contracts by approximately \$150 million from 2017 through 2028, partially offset by approximately \$50 million of additional revenues in the years 2013 through 2017.

In December 2014, Cove Point filed an application to request FERC authorization to construct and operate facilities that will provide firm transportation service for a new power generating facility located in Maryland. The \$31 million St. Charles Transportation Project will provide 132,000 Dths per day of firm transportation service from Cove Point's interconnect with Transcontinental Gas Pipe Line in Fairfax County, Virginia to CPV Maryland, LLC's facility in Charles County, Maryland. Service under a 20-year contract is expected to commence in June 2016.

In December 2014, Cove Point filed an application to request FERC authorization to construct and operate facilities that will provide firm transportation service for a new power generating facility located in Maryland. The \$37 million Keys Energy Project will provide 107,000 Dths per day of firm transportation service from Cove Point's interconnect with Transcontinental Gas Pipe Line in Fairfax County, Virginia to Keys Energy Center, LLC's facility in Prince George's County, Maryland. Service under a 20-year contract is expected to commence in March 2017.

See Item 2. Properties for more information about the Cove Point facility.

Dominion Energy Equity Method Investments In September 2014, Dominion, along with Duke Energy Corporation, Piedmont Natural Gas Company, Inc. and AGL Resources Inc., announced the formation of Atlantic Coast Pipeline. The members, which are subsidiaries of the above-referenced parent companies, hold the following membership interests: Dominion, 45%; Duke Energy Corporation, 40%; Piedmont Natural Gas Company, Inc., 10%; and AGL Resources Inc., 5%. Atlantic Coast Pipeline is focused on constructing an approximately 550-mile natural gas pipeline running from West Virginia through Virginia to North Carolina, which has a total expected cost of \$4.5 billion to \$5.0 billion, excluding financing costs. In October 2014, Atlantic Coast Pipeline requested approval from FERC to utilize the pre-filing process under which environmental review for the natural gas pipeline project will commence. It expects to file its FERC application in the third quarter of 2015, receive the FERC certificate in the summer of 2016, and begin construction shortly thereafter. The project is subject to FERC, state and other federal approvals. See Note 9 to the Consolidated Financial Statements for further information about Dominion's equity method investment in Atlantic Coast Pipeline.

In December 2012, Dominion formed Blue Racer with Caiman 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. Midstream services offered by Blue Racer include gathering, processing, fractionation, and natural gas liquids transportation and marketing. Blue Racer is expected to leverage Dominion's existing presence in the Utica region with significant additional new capacity designed to meet producer needs as the development of the Utica Shale formation increases. See Note 9 to the Consolidated Financial Statements for further information about Dominion's equity method investment in Blue Racer.

SOURCES OF ENERGY SUPPLY

Dominion Energy Operating Segment Dominion and Dominion Gas

Dominion's and Dominion Gas' natural gas supply is obtained from various sources including purchases from major and independent producers in the Mid-Continent and Gulf Coast regions, local producers in the Appalachian area and gas marketers. Dominion's and Dominion Gas' large underground natural gas storage network and the location of their pipeline systems are a significant link between the country's major interstate gas pipelines and large markets in the Northeast and mid-Atlantic regions. Dominion's and Dominion Gas' pipelines are part of an interconnected gas transmission system, which provides access to supplies nationwide for local distribution companies, marketers, power generators and industrial and commercial customers.

Dominion's and Dominion Gas' underground storage facilities play an important part in balancing gas supply with consumer demand and are essential to serving the Northeast, mid-Atlantic and Midwest regions. In addition, storage capacity is an important element in the effective management of both gas supply and pipeline transmission capacity.

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SEASONALITY

Dominion Energy Operating Segment Dominion and Dominion Gas

Dominion Energy's natural gas distribution business earnings vary seasonally, as a result of the impact of changes in temperature on demand by residential and commercial customers for gas to meet heating needs. Historically, the majority of these earnings have been generated during the heating season, which is generally from November to March; however, implementation of the straight-fixed-variable rate design at East Ohio has reduced the earnings impact of weather-related fluctuations. Demand for services at Dominion's pipeline and storage business can also be weather sensitive. Earnings are also impacted by changes in commodity prices driven by seasonal weather changes, the effects of unusual weather events on operations and the economy.

Corporate and Other

Corporate and Other Segment Virginia Power and Dominion Gas

Virginia Power's and Dominion Gas' Corporate and Other segments primarily include certain specific items attributable to their operating segments that are not included in profit measures evaluated by executive management in assessing the segments' performance or allocating resources among the segments.

Corporate and Other Segment Dominion

Dominion's Corporate and Other segment includes its corporate, service company and other functions (including unallocated debt) and the net impact of operations that are discontinued, which is discussed in Note 3 and Note 25 to the Consolidated Financial Statements. 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.

ENVIRONMENTAL STRATEGY

The Companies are committed to being good environmental stewards. Their ongoing objective is to provide reliable, affordable energy for their customers while being environmentally responsible. The integrated strategy to meet this objective consists of four major elements:

- Compliance with applicable environmental laws, regulations and rules;
- Conservation and load management;
- Renewable generation development; and
- Improvements in other energy infrastructure, including natural gas operations.

This strategy incorporates the Companies' efforts to voluntarily reduce GHG emissions, which are described below. See *Dominion Generation-Properties* and *Dominion Energy-Properties* for more information on certain of the projects described below. In addition to the environmental strategy described above, Dominion formed the AES department in April 2009 to conduct research in the renewable and alternative energy technologies sector and to support strategic investments to advance Dominion's degree of understanding of such technologies.

Environmental Compliance

The Companies remain committed to compliance with applicable environmental laws, regulations and rules related to their operations. As part of their commitment to compliance with such laws, Dominion and Virginia Power have sold or closed a number of coal-fired generation units over the past several years, and have plans to close additional units in the future. Additional information related to these and other of the Companies' environmental compliance matters can be found in Item 1. *Operating Segments* and *Future Issues and Other Matters* in Item 7. MD&A and in Notes 3, 6 and 22 to the Consolidated Financial Statements.

Conservation and Load Management

Conservation and load management play a significant role in meeting the growing demand for electricity. The Regulation Act provides incentives for energy conservation and sets a voluntary goal for Virginia to reduce electricity consumption by retail customers in 2022 by 10% of the electric energy consumed in 2006 through the implementation of conservation programs. Additional legislation in 2009 added definitions of peak-shaving and energy efficiency programs, and allowed for a margin on operating expenses and recovery of revenue reductions related to energy efficiency programs.

Virginia Power's DSM programs, implemented with Virginia Commission approval, provide important incremental steps toward achieving the voluntary 10% energy conservation goal through activities such as energy audits and incentives for customers to upgrade or install certain energy efficient measures and/or systems. The DSM programs began in Virginia in 2010 and in North Carolina in 2011. Currently, there are 22 total DSM programs active in the two states. Virginia Power continues to evaluate opportunities to redesign current DSM programs and develop new DSM initiatives in Virginia and North Carolina.

In Ohio, East Ohio offers three DSM programs, approved by the Ohio Commission, designed to help customers reduce their energy consumption.

Virginia Power continues to upgrade meters to AMI, also referred to as smart meters, in portions of Virginia. The AMI meter upgrades are part of an ongoing project that will help Virginia Power further evaluate the effectiveness of AMI meters in achieving voltage conservation, remotely turning off and on electric service, power outage and restoration detection and reporting, remote daily meter readings and offering dynamic rates.

Renewable Generation

Renewable energy is also an important component of a diverse and reliable energy mix. Both Virginia and North Carolina have passed legislation setting targets for renewable power. Virginia Power is committed to meeting Virginia's goals of 12% of base year electric energy sales from renewable power sources by 2022, and 15% by 2025, and North Carolina's RPS of 12.5% by 2021.

See Item 1. Business, *Operating Segments* and Item 2. Properties for additional information, including Dominion's merchant solar properties.

Improvements in Other Energy Infrastructure

Virginia Power's six-year investment plan includes significant capital expenditures to upgrade or add new transmission and distribution lines, substations and other facilities to meet growing

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electricity demand within its service territory, maintain reliability, and to address environmental requirements. These enhancements are primarily aimed at meeting Virginia Power's continued goal of providing reliable service, and are intended to address both continued population growth and increases in electricity consumption by the typical consumer. An additional benefit will be added capacity to efficiently deliver electricity from the renewable projects now being developed or to be developed in the future. See *Properties* in Item 1., *Operating Segments*, *DVP* for additional information.

Dominion and Dominion Gas, in connection with their six-year investment plan, are also pursuing the construction or upgrade of regulated infrastructure in their natural gas businesses. See *Properties and Investments* in Item 1., *Operating Segments*, *Dominion Energy* for additional information, including natural gas infrastructure projects.

The Companies' Strategy for Voluntarily Reducing GHG Emissions

The Companies have not established a standalone GHG emissions reduction target or timetable, but they are actively engaged in voluntary reduction efforts. The Companies have an integrated voluntary strategy for reducing GHG emission intensity with diversification as its cornerstone. The six principal components of the strategy include initiatives that address electric energy management, electric energy production, electric energy delivery and natural gas storage, transmission and delivery, as follows:

- Enhance conservation and energy efficiency programs to help customers use energy wisely and reduce environmental impacts;
- Expand the Companies' renewable energy portfolio, principally wind power, solar, fuel cells and biomass, to help diversify the Companies' fleet, meet state renewable energy targets and lower the carbon footprint;
- Build other new generating capacity, including low-emissions natural-gas fired and emissions-free nuclear units to meet customers' future electricity needs;
- Construct new electric transmission infrastructure to modernize the grid, promote economic security and help deliver more green energy to population centers where it is needed most;
- Construct new natural gas infrastructure to expand availability of this cleaner fuel, to reduce emissions, and to promote energy and economic security both in the U.S. and abroad; and
- Implement and enhance voluntary methane mitigation measures through the EPA's Natural Gas Star Program.

Since 2000, Dominion and Virginia Power have tracked the emissions of their electric generation fleet, which employs a mix of fuel and renewable energy sources. Comparing annual year 2000 to annual year 2013, the entire electric generating fleet (based on ownership percentage) reduced its average CO₂ emissions rate per MWh of energy produced from electric generation by about 39%. Comparing annual year 2000 to annual year 2013, the regulated electric generating fleet (based on ownership percentage) reduced its average CO₂ emissions rate per MWh of energy produced from electric generation by about 19%. Dominion and Virginia Power do not yet have final 2014 emissions data.

Dominion also developed a comprehensive GHG inventory for calendar year 2013. For Dominion Generation, Dominion's and Virginia Power's direct CO₂ equivalent emissions, based on equity share (ownership), were approximately 33.9 million metric tons and 30.2 million metric tons, respectively, in 2013, compared to 36.2 million metric tons and 24.4 million metric tons, respectively, in 2012. The overall decrease in emissions from the Dominion fleet from 2012 to 2013 is largely due to Dominion's divestiture of three power stations (Brayton Point in Massachusetts, and Elwood and Kincaid in Illinois), whereas the increase in emissions for the Virginia Power fleet was due to an increase in power generation after mild weather in 2012, which includes increased usage of coal, natural gas and oil. For the DVP operating segment's electric transmission and distribution operations, direct CO₂ equivalent emissions for 2013 were 46,446 metric tons, representing a slight decrease from 2012. For 2013, DTI's (including Cove Point) direct CO₂ equivalent emissions were approximately 1.0 million metric tons, and Hope's and East Ohio's direct CO₂ equivalent emissions were approximately 1.0 million metric tons, both similar to 2012. Dominion's GHG inventory follows all methodologies specified in the EPA Mandatory Greenhouse Gas Reporting Rule, 40 CFR Part 98 for calculating emissions.

Alternative Energy Initiatives

AES conducts research in the renewable and alternative energy technologies sector and supports strategic investments to advance Dominion's degree of understanding of such technologies. AES participates in federal and state policy development on alternative energy and identifies potential alternative energy resource and technology opportunities for Dominion's business units. AES has also conducted a number of studies to evaluate potential transmission solutions for delivering offshore wind resources to its customers. In addition, AES has developed EDGE®, a conservation voltage management solution enabling utilities to deploy incremental grid-side energy management, and that requires no behavioral changes or purchases by end customers.

REGULATION

The Companies are subject to regulation by various federal, state and local authorities, including the Virginia Commission, North Carolina Commission, Ohio Commission, West Virginia Commission, SEC, FERC, EPA, DOE, NRC, Army Corps of Engineers, and the Department of Transportation.

State Regulations

ELECTRIC

Virginia Power's electric utility retail service is subject to regulation by the Virginia Commission and the North Carolina Commission.

Virginia Power holds CPCNs which authorize it to maintain and operate its electric facilities now in operation and to sell electricity to customers. However, Virginia Power may not construct generating facilities or large capacity transmission lines without the prior approval of various state and federal government agencies. In addition, the Virginia Commission and the North Carolina Commission regulate Virginia Power's transactions with affiliates, transfers of certain facilities and the issuance of certain securities.

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Electric Regulation in Virginia

Under the Regulation Act enacted in 2007, Virginia Power's base rates are set by a process that allows the recovery of operating costs and an ROIC. The Virginia Commission reviews and has the ability to adjust Virginia Power's base rates, terms and conditions for generation and distribution services on a biennial basis in a proceeding that involves the determination of Virginia Power's actual earned ROE during a combined two-year historic test period, and the determination of Virginia Power's authorized ROE prospectively. Under certain circumstances described in the Regulation Act, the Virginia Commission may also order a base rate increase or reduction during the biennial review. Circumstances where the Virginia Commission may order a base rate decrease include determination by the Virginia Commission that Virginia Power has exceeded its authorized level of earnings for two consecutive biennial review periods. Virginia Power's authorized ROE can be set no lower than the average, for a three-year historic period, of the actual returns reported to the SEC by not less than a majority of comparable utilities within the Southeastern U.S., with certain limitations as described in the Regulation Act.

In February 2015, the Virginia Governor signed legislation into law which will keep Virginia Power's base rates unchanged until at least December 1, 2022. The legislation limits the 2015 biennial review to solely a determination of Virginia Power's actual earned ROE during the combined 2013-2014 test period and whether any refunds are due to customers. In addition, no biennial reviews will be conducted by the Virginia Commission for the five successive 12-month test periods beginning January 1, 2015, and ending December 31, 2019. During this suspension period, Virginia Power bears the risk of any severe weather events and natural disasters, as well as the risk of asset impairments related to the early retirement of any generation facilities due to the implementation of the Clean Power Plan regulations, and Virginia Power may not recover its associated costs through increases to base rates. The legislation requires the Virginia Commission to conduct proceedings in 2017 and 2019 to determine the utility's ROE for use in connection with rate adjustment clauses.

The Regulation Act authorizes stand-alone rate adjustment clauses for recovery of costs for new generation projects, FERC-approved transmission costs, environmental compliance, conservation and energy efficiency programs and renewable energy programs; and it provides for enhanced returns on capital expenditures on specific new generation projects. The Regulation Act also contains statutory provisions directing Virginia Power to file annual fuel cost recovery cases with the Virginia Commission.

Legislation enacted in February 2013 amended the Regulation Act prospectively, including elimination of the 50 basis points RPS ROE incentive. In addition, ROE incentives for newly proposed generation projects were eliminated, except for nuclear and offshore wind projects, which were reduced from the previous 200 basis points ROE incentive to 100 basis points. In addition, through the 2013 amendments, the Virginia Commission has the discretion to increase or decrease a utility's authorized ROE based on the utility's performance consistent with Virginia Commission precedent that existed prior to 2007. The legislation included changes to the earnings test parameters defined by the Regulation Act to allow for a wider band of 70 basis points above and below

the authorized ROE in determining whether a utility's earned ROE is either insufficient or excessive beginning with the biennial review for 2013-2014 to be filed in 2015. Additionally, if a utility is deemed to have over-earned, the customer refund share of excess earnings increases to 70% from the previous 60% level beginning with the biennial review for 2013-2014 to be filed in 2015.

If the Virginia Commission's future rate decisions, including actions relating to Virginia Power's rate adjustment clause filings, differ materially from Virginia Power's expectations, such decisions may adversely affect Virginia Power's results of operations, financial condition and cash flows.

See Note 13 to the Consolidated Financial Statements for additional information.

Electric Regulation in North Carolina

Virginia Power's retail electric base rates in North Carolina are regulated on a cost-of-service/rate-of-return basis subject to North Carolina statutes and the rules and procedures of the North Carolina Commission. North Carolina base rates are set by a process that allows Virginia Power to recover its operating costs and an ROIC. If retail electric earnings exceed the authorized ROE established by the North Carolina Commission, retail electric rates may be subject to review and possible reduction by the North Carolina Commission, which may decrease Virginia Power's future earnings. Additionally, if the North Carolina Commission does not allow recovery of costs incurred in providing service on a timely basis, Virginia Power's future earnings could be negatively impacted. Fuel rates are subject to revision under annual fuel cost adjustment proceedings.

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Virginia Power's transmission service rates in North Carolina are regulated by the North Carolina Commission as part of Virginia Power's bundled retail service to North Carolina customers. In March 2012, Virginia Power filed an application with the North Carolina Commission to increase base non-fuel revenues with January 1, 2013 as the proposed effective date for the permanent rate revision. In December 2012, the North Carolina Commission approved a \$36 million increase in Virginia Power's annual non-fuel base revenues based on an authorized ROE of 10.2%, and a \$14 million decrease in annual base fuel revenues for a combined total base revenue increase of \$22 million. These rate changes became effective on January 1, 2013 and were appealed to the North Carolina Supreme Court by multiple parties. In June 2014, the North Carolina Supreme Court issued an opinion reversing the portion of the North Carolina Commission's December 2012 order from Virginia Power's 2012 base rate case approving a 10.2% ROE for Virginia Power, and remanding the case to the North Carolina Commission for additional findings of fact in light of a 2013 opinion issued after the North Carolina Commission's order. This case is pending.

Gas

East Ohio's natural gas distribution services, including the rates it may charge its customers, are regulated by the Ohio Commission. Hope's natural gas distribution services are regulated by the West Virginia Commission.

Gas Regulation in Ohio

East Ohio is subject to regulation of rates and other aspects of its business by the Ohio Commission. When necessary, East Ohio

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seeks general base rate increases to recover increased operating costs and a fair return on rate base investments. Base rates are set based on the cost of service by rate class. A straight-fixed-variable rate design, in which the majority of operating costs are recovered through a monthly charge rather than a volumetric charge, is utilized to establish rates for a majority of East Ohio's customers pursuant to a 2008 rate case settlement which included an authorized return on equity of 10.38%.

In addition to general base rate increases, East Ohio makes routine filings with the Ohio Commission to reflect changes in the costs of gas purchased for operational balancing on its system. These purchased gas costs are subject to rate recovery through a mechanism that ensures dollar for dollar recovery of prudently incurred costs. Costs that are expected to be recovered in future rates are deferred as regulatory assets. The rider filings cover unrecovered gas costs plus prospective annual demand costs. Increases or decreases in gas cost rider rates result in increases or decreases in revenues with corresponding increases or decreases in net purchased gas cost expenses.

The Ohio Commission has also approved several stand-alone cost recovery mechanisms to recover specified costs and a return for infrastructure projects and certain other costs that vary widely over time; such costs are excluded from general base rates. See Note 13 to the Consolidated Financial Statements for additional information.

Gas Regulation in West Virginia

Dominion's gas distribution subsidiary is subject to regulation of rates and other aspects of its business by the West Virginia Commission. When necessary, Hope seeks general base rate increases to recover increased operating costs and a fair return on rate base investments. Base rates are set based on the cost of service by rate class. Base rates for Hope are designed primarily based on rate design methodology in which the majority of operating costs are recovered through volumetric charges.

In addition to general rate increases, Hope makes routine separate filings with the West Virginia Commission to reflect changes in the costs of purchased gas. The majority of these purchased gas costs are subject to rate recovery through a mechanism that ensures dollar for dollar recovery of prudently incurred costs. Costs that are expected to be recovered in future rates are deferred as regulatory assets. The purchased gas cost recovery filings generally cover a prospective twelve-month period. Approved increases or decreases in gas cost recovery rates result in increases or decreases in revenues with corresponding increases or decreases in net purchased gas cost expenses.

Status of Competitive Retail Gas Services

Both of the states in which Dominion and Dominion Gas have gas distribution operations have considered legislation regarding a competitive deregulation of natural gas sales at the retail level.

Ohio Since October 2000, East Ohio has offered the Energy Choice program, under which residential and commercial customers are encouraged to purchase gas directly from retail suppliers or through a community aggregation program. In October 2006, East Ohio restructured its commodity service by entering into gas purchase contracts with selected suppliers at a fixed price above the NYMEX month-end settlement and passing that gas cost to customers under the Standard Service Offer pro-

gram. Starting in April 2009, East Ohio buys natural gas under the Standard Service Offer program only for customers not eligible to participate in the Energy Choice program and places Energy Choice-eligible customers in a direct retail relationship with selected suppliers, which is designated on the customers' bills.

In January 2013, the Ohio Commission granted East Ohio's motion to fully exit the merchant function for its nonresidential customers, beginning in April 2013, which requires those customers to choose a retail supplier or be assigned to one at a monthly variable rate set by the supplier. At December 31, 2014, approximately 1.0 million of Dominion Gas' 1.2 million Ohio customers were participating in the Energy Choice program. Subject to the Ohio Commission's approval, East Ohio may eventually exit the gas merchant function in Ohio entirely and have all customers select an alternate gas supplier. East Ohio continues to be the provider of last resort in the event of default by a supplier. Large industrial customers in Ohio also source their own natural gas supplies.

West Virginia At this time, West Virginia has not enacted legislation allowing customers to choose in the retail natural gas markets served by Hope. However, the West Virginia Commission has issued regulations to govern pooling services, one of the tools that natural gas suppliers may utilize to provide retail customers a choice in the future and has issued rules requiring competitive gas service providers to be licensed in West

Virginia.

Federal Regulations

FEDERAL ENERGY REGULATORY COMMISSION

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.

Dominion and Virginia Power are subject to FERC's Standards of Conduct that govern conduct between transmission function employees of interstate gas and electricity transmission providers and the marketing function employees of their affiliates. The rule defines the scope of transmission and marketing-related functions that are covered by the standards and is designed to prevent transmission providers from giving their affiliates undue preferences.

Dominion and Virginia Power are also subject to FERC's affiliate restrictions that (1) prohibit power sales between Virginia Power and Dominion's merchant plants without first receiving FERC authorization, (2) require the merchant plants and Virginia Power to conduct their wholesale power sales operations separately, and (3) prohibit Virginia Power from sharing market information with merchant plant operating personnel. The rules are designed to prohibit Virginia Power from giving the merchant plants a competitive advantage.

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EPACT included provisions to create an ERO. The ERO is required to promulgate mandatory reliability standards governing the operation of the bulk power system in the U.S. FERC has certified NERC as the ERO and also issued an initial order approving many reliability standards that went into effect in 2007. Entities that violate standards will be subject to fines of between \$1 thousand and \$1 million per day, and can also be assessed non-monetary penalties, depending upon the nature and severity of the violation.

Dominion and Virginia Power plan and operate their facilities in compliance with approved NERC reliability requirements. Dominion and Virginia Power employees participate on various NERC committees, track the development and implementation of standards, and maintain proper compliance registration with NERC's regional organizations. Dominion and Virginia Power anticipate incurring additional compliance expenditures over the next several years as a result of the implementation of new cybersecurity programs as well as efforts to ensure appropriate facility ratings for Virginia Power's transmission lines. In October 2010, NERC issued an industry alert identifying possible discrepancies between the design and actual field conditions of transmission facilities as a potential reliability issue. The alert recommends that entities review their current facilities rating methodology to verify that the methodology is based on actual field conditions, rather than solely on design documents, and to take corrective action if necessary. Virginia Power has evaluated its transmission facilities for any discrepancies between design and actual field conditions and has taken necessary corrective actions. In addition, NERC has redefined critical assets which expanded the number of assets subject to NERC reliability standards, including cybersecurity assets. While Dominion and Virginia Power expect to incur additional compliance costs in connection with the above NERC requirements and initiatives, such expenses are not expected to significantly affect results of operations.

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.

Gas

FERC regulates the transportation and sale for resale of natural gas in interstate commerce under the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978, as amended. Under the Natural Gas Act, FERC has authority over rates, terms and conditions of services performed by DTI, Iroquois, and certain services performed by Cove Point. The design, construction and operation of the Cove Point LNG facility, including associated natural gas pipelines, the Liquefaction Project and the import and export of LNG are also regulated by the FERC.

Dominion Gas' interstate gas transmission and storage activities are conducted on an open access basis, in accordance with certificates, tariffs and service agreements on file with FERC and FERC regulations.

Dominion Gas operates in compliance with FERC standards of conduct, which prohibit the sharing of certain non-public transmission information or customer specific data by its interstate gas transmission and storage companies with non-transmission function employees. Pursuant to these standards of conduct, Dominion Gas also makes certain informational postings available on Dominion's website.

See Note 13 to the Consolidated Financial Statements for additional information.

Safety Regulations

Dominion Gas is also subject to the Pipeline Safety Acts of 2002 and 2011, which mandate inspections of interstate and intrastate natural gas transmission and storage pipelines, particularly those located in areas of high-density population. Dominion Gas has evaluated its natural gas transmission and storage properties, as required by the Department of Transportation regulations under these Acts, and has implemented a program of identification, testing and potential remediation activities. These activities are ongoing.

The Companies are subject to a number of federal and state laws and regulations, including OSHA, and comparable state statutes, whose purpose is to protect the health and safety of workers. The Companies have an internal safety, health and security program designed to monitor and enforce compliance with worker safety requirements, which is routinely reviewed and considered for improvement. The Companies believe that they are in material compliance with all applicable laws and regulations related to worker health and safety. Notwithstanding these preventive measures, incidents may occur that are outside of the Companies' control.

Environmental Regulations

Each of the Companies' operating segments faces substantial laws, regulations and compliance costs with respect to environmental matters. In addition to imposing continuing compliance obligations, these laws and regulations authorize the imposition of substantial penalties for noncompliance, including fines, injunctive relief and other sanctions. The cost of complying with applicable environmental laws, regulations and rules is expected to be material to the Companies. If expenditures for pollution control technologies and associated operating costs are not recoverable from customers through regulated rates (in regulated businesses) or market prices (in unregulated businesses), those costs could adversely affect future results of operations and cash flows. The Companies have applied for or obtained the necessary environmental permits for the operation of their facilities. Many of these permits are subject to reissuance and continuing review. For a discussion of significant aspects of these matters, including current and planned capital expenditures relating to environmental compliance required to be discussed in this Item, see *Environmental Matters in Future Issues and Other Matters* in Item 7. MD&A, which information is incorporated herein by reference. Additional information can also be found in Item 3. Legal Proceedings and Note 22 to the Consolidated Financial Statements, which information is incorporated herein by reference.

GLOBAL CLIMATE CHANGE

The national and international attention in recent years on GHG emissions and their relationship to climate change has resulted in

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federal, regional and state legislative and regulatory action in this area. The Companies support national climate change legislation that would provide a consistent, economy-wide approach to addressing this issue and are currently taking action to protect the environment and address climate change while meeting the future needs of their growing service territory. Dominion's CEO and operating segment CEOs are responsible for compliance with the laws and regulations governing environmental matters, including climate change, and Dominion's Board of Directors receives periodic updates on these matters. See *Environmental Strategy* above, *Environmental Matters* in *Future Issues and Other Matters* in Item 7. MD&A and Note 22 to the Consolidated Financial Statements for information on climate change legislation and regulation, which information is incorporated herein by reference.

Nuclear Regulatory Commission

All aspects of the operation and maintenance of Dominion's and Virginia Power's nuclear power stations are regulated by the NRC. Operating licenses issued by the NRC are subject to revocation, suspension or modification, and the operation of a nuclear unit may be suspended if the NRC determines that the public interest, health or safety so requires.

From time to time, the NRC adopts new requirements for the operation and maintenance of nuclear facilities. In many cases, these new regulations require changes in the design, operation and maintenance of existing nuclear facilities. If the NRC adopts such requirements in the future, it could result in substantial increases in the cost of operating and maintaining Dominion's and Virginia Power's nuclear generating units. See Note 22 to the Consolidated Financial Statements for further information.

The NRC also requires Dominion and Virginia Power to decontaminate their nuclear facilities once operations cease. This process is referred to as decommissioning, and Dominion and Virginia Power are required by the NRC to be financially prepared. For information on decommissioning trusts, see *Dominion Generation-Nuclear Decommissioning* above and Note 9 to the Consolidated Financial Statements. See Note 22 to the Consolidated Financial Statements for information on spent nuclear fuel.

CYBERSECURITY

In an effort to reduce the likelihood and severity of cyber intrusions, the Companies have a comprehensive cybersecurity program designed to protect and preserve the confidentiality, integrity and availability of data and systems. In addition, the Companies are subject to mandatory cybersecurity regulatory requirements, interface regularly with a wide range of external organizations, and participate in classified briefings to maintain an awareness of current cybersecurity threats and vulnerabilities. The Companies' current security posture and regulatory compliance efforts are intended to address the evolving and changing cyber threats. See Item 1A. Risk Factors for additional information.

Item 1A. Risk Factors

The Companies' businesses are influenced by many factors that are difficult to predict, involve uncertainties that may materially affect actual results and are often beyond their control. A number

of these factors have been identified below. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement or projection contained in this report, see *Forward-Looking Statements* in Item 7. MD&A.

The Companies' results of operations can be affected by changes in the weather. Fluctuations in weather can affect demand for the Companies' services. For example, milder than normal weather can reduce demand for electricity and gas transmission and distribution services. In addition, severe weather, including hurricanes, winter storms, earthquakes, floods and other natural disasters can disrupt operation of the Companies' facilities and cause service outages, production delays and property damage that require incurring additional expenses. Changes in weather conditions can result in reduced water levels or changes in water temperatures that could adversely affect operations at some of the Companies' power stations. Furthermore, the Companies' operations could be adversely affected and their physical plant placed at greater risk of damage should changes in global climate produce, among other possible conditions, unusual variations in temperature and weather patterns, resulting in more intense, frequent and extreme weather events, abnormal levels of precipitation and, for operations located on or near coastlines, a change in sea level or sea temperatures.

The rates of Dominion's and Dominion Gas' gas transmission and distribution operations and Virginia Power's electric transmission, distribution and generation operations are subject to regulatory review. Revenue provided by Virginia Power's electric transmission, distribution and generation operations and Dominion's and Dominion Gas' gas transmission and distribution operations is based primarily on rates approved by state and federal regulatory agencies. The profitability of these businesses is dependent on their ability, through the rates that they are permitted to charge, to recover costs and earn a reasonable rate of return on their capital investment.

Virginia Power's wholesale rates for electric transmission service are adjusted on an annual basis through operation of a FERC-approved formula rate mechanism. Through this mechanism, Virginia Power's wholesale electric transmission cost of service is estimated and thereafter adjusted to reflect Virginia Power's actual electric transmission costs incurred. These wholesale rates are subject to FERC review and prospective adjustment in the event that customers and/or interested state commissions file a complaint with FERC and are able to demonstrate that Virginia Power's wholesale revenue requirement is no longer just and reasonable.

Similarly, various rates and charges assessed by Dominion's and Dominion Gas' gas transmission businesses are subject to review by FERC. Pursuant to FERC's February 2014 approval of DTI's uncontested settlement offer, DTI's base rates for storage and transportation services are subject to a moratorium through the end of 2016. In addition, the rates of Dominion's and Dominion Gas' gas distribution businesses are subject to state regulatory review in the jurisdictions in which they operate. A failure by us to support these rates could result in rate decreases from current rate levels, which could adversely affect our results of operations, cash flows and financial condition.

Virginia Power's base rates, terms and conditions for generation and distribution services to customers in Virginia are reviewed by the Virginia Commission on a biennial basis in a

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proceeding that involves the determination of Virginia Power's actual earned ROE during a combined two-year historic test period, and the determination of Virginia Power's authorized ROE prospectively. Under certain circumstances described in the Regulation Act, Virginia Power may be required to share a portion of its earnings with customers through a refund process.

Legislation signed by the Virginia Governor in February 2015 suspends biennial reviews for the five successive 12-month test periods beginning January 1, 2015 and ending December 31, 2019, and no changes will be made to Virginia Power's existing base rates until at least December 1, 2022. During this period, Virginia Power bears the risk of any severe weather events and natural disasters, as well as the risk of asset impairments related to the early retirement of any generation facilities due to the implementation of the Clean Power Plan regulations, and Virginia Power may not recover its associated costs through increases to base rates. If Virginia Power incurs any such significant unusual expenses during this period, Virginia Power may not be able to recover its costs and/or earn a reasonable return on capital investment, which could negatively affect Virginia Power's future earnings.

Virginia Power's retail electric base rates for bundled generation, transmission, and distribution services to customers in North Carolina are regulated on a cost-of-service/rate-of-return basis subject to North Carolina statutes, and the rules and procedures of the North Carolina Commission. If retail electric earnings exceed the returns established by the North Carolina Commission, retail electric rates may be subject to review and possible reduction by the North Carolina Commission, which may decrease Virginia Power's future earnings. Additionally, if the North Carolina Commission does not allow recovery through base rates, on a timely basis, of costs incurred in providing service, Virginia Power's future earnings could be negatively impacted.

The Companies are subject to complex governmental regulation, including tax regulation, that could adversely affect their results of operations and subject the Companies to monetary penalties. The Companies' operations are subject to extensive federal, state and local regulation and require numerous permits, approvals and certificates from various governmental agencies. Such laws and regulations govern the terms and conditions of the services we offer, our relationships with affiliates, protection of our critical electric infrastructure assets and pipeline safety, among other matters. These operations are also subject to legislation governing taxation at the federal, state and local level. They must also comply with environmental legislation and associated regulations. Management believes that the necessary approvals have been obtained for existing operations and that the business is conducted in accordance with applicable laws. The Companies' businesses are subject to regulatory regimes which could result in substantial monetary penalties if any of the Companies is found not to be in compliance, including mandatory reliability standards and interaction in the wholesale markets. New laws or regulations, the revision or reinterpretation of existing laws or regulations, changes in enforcement practices of regulators, or penalties imposed for non-compliance with existing laws or regulations may result in substantial additional expense.

Dominion's and Virginia Power's generation business may be negatively affected by possible FERC actions that could change market design in the wholesale markets or affect pricing rules or revenue calculations in the RTO markets. Dominion's and Virginia Power's generation stations operating in RTO markets sell capacity, energy and ancillary services into wholesale electricity markets regulated by FERC. The wholesale markets allow these generation stations to take advantage of market price opportunities, but also expose them to market risk. Properly functioning competitive wholesale markets depend upon FERC's continuation of clearly identified market rules. From time to time FERC may investigate and authorize RTOs to make changes in market design. FERC also periodically reviews Dominion's authority to sell at market-based rates. Material changes by FERC to the design of the wholesale markets or its interpretation of market rules, Dominion's or Virginia Power's authority to sell power at market-based rates, or changes to pricing rules or rules involving revenue calculations, could adversely impact the future results of Dominion's or Virginia Power's generation business. In addition, there have been changes to the interpretation and application of FERC's market manipulation rules. A failure to comply with these rules could lead to civil and criminal penalties.

The Companies' infrastructure build and expansion plans often require regulatory approval before construction can commence. The Companies may not complete facility construction, pipeline, conversion or other infrastructure projects that they commence, or they may complete projects on materially different terms or timing than initially anticipated, and they may not be able to achieve the intended benefits of any such project, if completed. Several facility construction, pipeline, electric transmission line, expansion, conversion and other infrastructure projects have been announced and additional projects may be considered in the future. Dominion Gas competes for projects with companies of varying size and financial capabilities, including some that may have advantages competing for natural gas and liquid gas supplies. Commencing construction on announced and future projects may require approvals from applicable state and federal agencies. Projects may not be able to be completed on time as a result of weather conditions, delays in obtaining or failure to obtain regulatory approvals, delays in obtaining key materials, labor difficulties, difficulties with partners or potential partners, a decline in the credit strength of counterparties or vendors, or other factors beyond the Companies' control. Even if facility construction, pipeline, expansion, electric transmission

line, conversion and other infrastructure projects are completed, the total costs of the projects may be higher than anticipated and the performance of the business of the Companies following completion of the projects may not meet expectations. Start-up and operational issues can arise in connection with the commencement of commercial operations at our facilities, including but not limited to commencement of commercial operations at our power generation facilities following expansions and fuel type conversions to natural gas and biomass. Such issues may include failure to meet specific operating parameters, which may require adjustments to meet or amend these operating parameters. Additionally, the Companies may not be able to timely and effectively integrate the projects into their operations and such integration may result in unforeseen operating difficulties or unanticipated costs. Further, regulators may

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disallow recovery of some of the costs of a project if they are deemed not to be prudently incurred. Any of these or other factors could adversely affect the Companies' ability to realize the anticipated benefits from the facility construction, pipeline, electric transmission line, expansion, conversion and other infrastructure projects.

The development and construction of several large-scale infrastructure projects simultaneously involves significant execution risk. The Companies are currently simultaneously developing or constructing several major projects, including the Liquefaction Project, the Atlantic Coast Pipeline project, the strategic undergrounding project, Brunswick County, and multiple DTI producer outlet projects, which together help contribute to the over \$16 billion in capital expenditures planned by the Companies through 2017. Several of the Companies' key projects are increasingly large-scale, complex and being constructed in constrained geographic areas (for example, the Liquefaction Project) or in difficult terrain (for example, the Atlantic Coast Pipeline project). The advancement of the Companies' ventures is also affected by the activities of stakeholder and advocacy groups, some of which oppose natural gas-related and energy infrastructure projects. Given that these projects provide the foundation for the Companies' strategic growth plan, if the Companies are unable to obtain the required approvals, develop the necessary technical expertise, allocate and coordinate sufficient resources, adhere to budgets and timelines, effectively handle public outreach efforts, or otherwise fail to successfully execute the projects, there could be an adverse impact to the Companies' financial position, results of operations and cash flows. Further, an inability to obtain financing or otherwise provide liquidity for the projects on acceptable terms could negatively affect the Companies' financial condition, cash flows, the projects' anticipated financial results and/or impair the Companies' ability to execute the business plan for the projects as scheduled.

Given their significant anticipated capital expenditures and unique attributes, the Liquefaction Project and the Atlantic Coast Pipeline project in particular are subject to significant execution risk.

Cove Point Liquefaction Project The Liquefaction Project, which is expected to cost approximately \$2.6 billion to complete, exclusive of financing costs, involves regulatory, construction, customer and other risks. Dominion has received the required approvals to commence construction of the Liquefaction Project from the DOE, FERC and the Maryland Commission, which are subject to compliance with the applicable permit conditions. However, all DOE export licenses are subject to review and possible withdrawal should the DOE conclude that such export authorization is no longer in the public interest. The issuance of the FERC and Maryland approval orders has been appealed by third parties. Dominion does not know whether any existing or potential interventions or other actions by third parties will interfere with its ability to maintain such approvals, but loss of any material approval could have a material adverse effect on the construction or operation of the facility. In addition, the Liquefaction Project has been the subject of litigation in the past and could be the subject of litigation in the future. Failure to comply with regulatory approval conditions or an adverse ruling in any future litigation could adversely affect Dominion's ability to execute its business plan.

Dominion is dependent on its contractors for the successful and timely completion of the Liquefaction Project. There is limited recent industry experience in the U.S. regarding the construction or operation of large liquefaction projects. The construction is expected to take several years, will be confined within a limited geographic area and could be subject to delays, cost overruns, labor disputes and other factors that could cause the total cost of the project to exceed the anticipated amount and adversely affect Dominion's financial performance and/or impair Dominion's ability to execute the business plan for the project as scheduled.

The terminal service agreements are subject to certain conditions precedent, including maintenance of certain regulatory approvals. Because the project will have only two customers, the financial performance of the project is highly dependent on those two counterparties, whose ability to perform their obligations under the contracts is subject to factors outside Dominion's control. Dominion will also be exposed to counterparty credit risk. While the counterparties' obligations are supported by parental guarantees and letters of credit, there is no assurance that such credit support would be sufficient to satisfy the obligations in the event of a counterparty default. In addition, if a controversy arises under either agreement resulting in a judgment in Dominion's favor, Dominion may need to seek to enforce a final U.S. court judgment in a foreign tribunal, which could involve a lengthy process.

Atlantic Coast Pipeline Project The Atlantic Coast Pipeline project, which will be constructed by DTI, is expected to have a total cost of approximately \$4.5 to \$5 billion, excluding financing costs, and will involve significant permitting and construction risks. The project requires the approval of FERC and other federal and state agencies, which could be delayed or withheld. Dominion expects opposition from certain landowners and stakeholder groups, which could impede the acquisition of rights-of-way and other land rights on a timely basis or on acceptable terms.

The large diameter of the pipeline and difficult terrain of certain portions of the proposed pipeline route aggravate the typical construction risks with which DTI is familiar. In-service delays could lead to cost overruns and potential customer termination rights.

Dominion owns a 45% membership interest in Atlantic Coast Pipeline. Dominion's lack of a controlling interest means that it has limited influence over this business. If another member were unable or otherwise failed to perform its obligations to provide capital and credit support for this business, it could have an adverse effect on Dominion's financial results.

If additional federal and/or state requirements are imposed on energy companies mandating limitations on GHG emissions or requiring efficiency improvements, such requirements may result in compliance costs that alone or in combination could make some of the Companies' electric generation units or natural gas facilities uneconomical to maintain or operate. The EPA, environmental advocacy groups, other organizations and some state and other federal agencies are focusing considerable attention on GHG emissions from power generation facilities and their potential role in climate change. Dominion and Virginia Power expect that additional EPA regulations, and possibly additional state legislation and/or regulations, may be issued resulting in the imposition of additional limitations on GHG emissions or requir-

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ing efficiency improvements from fossil fuel-fired electric generating units.

Compliance with GHG emission reduction requirements may require increasing the energy efficiency of equipment at facilities, committing significant capital toward carbon controls and/or reduction programs, purchase of allowances and/or offsets, fuel switching, and/or retirement of high-emitting generation facilities and potential replacement with lower emitting generation facilities. The Clean Power Plan uses a set of measures for reducing emissions from existing sources that includes efficiency improvements at coal plants, displacing coal-fired generation with increased utilization of natural gas combined cycle units, expanding renewable resources and increasing customer energy efficiency. Compliance with the Clean Power Plan's anticipated implementing regulations may require Virginia Power to prematurely retire certain generating facilities, with the potential lack or delay of cost recovery and substantially higher electric rates, which could affect consumer demand. The cost of compliance with GHG emission legislation and/or regulation is subject to significant uncertainties due to the outcome of several interrelated assumptions and variables, including timing of the implementation of rules, required levels of reductions, allocation requirements of the new rules, the maturation and commercialization of carbon controls and/or reduction programs, and the selected compliance alternatives. Dominion and Virginia Power cannot estimate the aggregate effect of such requirements on their results of operations, financial condition or their customers. However, such expenditures, if material, could make Dominion's and Virginia Power's generation facilities uneconomical to operate, result in the impairment of assets, or otherwise adversely affect Dominion's or Virginia Power's results of operations, financial performance or liquidity.

There are also potential impacts on Dominion's and Dominion Gas' natural gas businesses as federal or state GHG legislation or regulations may require GHG emission reductions from the natural gas sector and could affect demand for natural gas. Several regions of the U.S. have moved forward with GHG emission regulations including regions where Dominion has operations. For example, Rhode Island has implemented regulations requiring reductions in CO₂ emissions through RGGI, a cap and trade program covering CO₂ emissions from power plants in the Northeast. Additionally, GHG requirements could result in increased demand for energy conservation and renewable products.

The Companies' operations are subject to a number of environmental laws and regulations which impose significant compliance costs to the Companies. The Companies' operations are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources, and health and safety. Compliance with these legal requirements requires the Companies to commit significant capital toward permitting, emission fees, environmental monitoring, installation and operation of environmental control equipment and purchase of allowances and/or offsets. Additionally, the Companies could be responsible for expenses relating to remediation and containment obligations, including at sites where they have been identified by a regulatory agency as a potentially responsible party. Expenditures relating to environmental compliance have been significant in the past, and the Companies expect that they will remain significant in the

future. Certain facilities have become uneconomical to operate and have been shut down, converted to new fuel types or sold. These types of events could occur again in the future.

Existing environmental laws and regulations may be revised and/or new laws may be adopted or become applicable to the Companies. Risks relating to expected regulation of GHG emissions from existing fossil fuel-fired electric generating units are discussed below. In addition, further regulation of air quality and GHG emissions under the CAA may be imposed on the natural gas sector, including rules to limit methane leakage. The Companies are also subject to recently finalized federal water and waste regulations, including regulations concerning cooling water intake structures, coal combustion by-product handling and disposal practices, and the potential further regulation of polychlorinated biphenyls.

Compliance costs cannot be estimated with certainty due to the inability to predict the requirements and timing of implementation of any new environmental rules or regulations. Other factors which affect the ability to predict future environmental expenditures with certainty include the difficulty in estimating clean-up costs and quantifying liabilities under environmental laws that impose joint and several liability on all responsible parties. However, such expenditures, if material, could make the Companies' facilities uneconomical to operate, result in the impairment of assets, or otherwise adversely affect the Companies' results of operations, financial performance or liquidity.

Virginia Power is subject to risks associated with the disposal and storage of coal ash. Virginia Power historically produced and continues to produce coal ash as a by-product of its coal-fired generation operations. The ash is stored and managed in impoundments (ash ponds) and landfills located at eight different facilities.

Virginia Power may face litigation regarding alleged CWA violations at Possum Point and Chesapeake and could incur settlement expenses and other costs, depending on the outcome of any such litigation, including costs associated with closing, corrective action and ongoing monitoring of certain ash ponds. In addition, the federal government recently signed final regulations concerning the management and storage of CCRs and Virginia and West Virginia may impose additional regulations which would apply to the facilities identified above. Such regulations could require Virginia Power to make additional capital expenditures, increase its operating and maintenance expenses or even cause it to close certain facilities.

Further, while Virginia Power operates its ash ponds and landfills in compliance with applicable state safety regulations, a release of coal ash with a significant environmental impact, such as the Dan River ash basin release by a neighboring utility, could result in remediation costs, civil and/or criminal penalties, claims, litigation, increased regulation and compliance costs, and reputational damage, and could impact the financial condition of Virginia Power.

The Companies' operations are subject to operational hazards, equipment failures, supply chain disruptions and personnel issues which could negatively affect the Companies. Operation of the Companies' facilities involves risk, including the risk of potential breakdown or failure of equipment or processes due to aging infrastructure, fuel supply, pipeline integrity or transportation disruptions, accidents, labor disputes or work stoppages

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by employees, acts of terrorism or sabotage, construction delays or cost overruns, shortages of or delays in obtaining equipment, material and labor, operational restrictions resulting from environmental limitations and governmental interventions, and performance below expected levels. The Companies' businesses are dependent upon sophisticated information technology systems and network infrastructure, the failure of which could prevent them from accomplishing critical business functions. Because the Companies' transmission facilities, pipelines and other facilities are interconnected with those of third parties, the operation of their facilities and pipelines could be adversely affected by unexpected or uncontrollable events occurring on the systems of such third parties.

Operation of the Companies' facilities below expected capacity levels could result in lost revenues and increased expenses, including higher maintenance costs. Unplanned outages of the Companies' facilities and extensions of scheduled outages due to mechanical failures or other problems occur from time to time and are an inherent risk of the Companies' business. Unplanned outages typically increase the Companies' operation and maintenance expenses and may reduce their revenues as a result of selling less output or may require the Companies to incur significant costs as a result of operating higher cost units or obtaining replacement output from third parties in the open market to satisfy forward energy and capacity or other contractual obligations. Moreover, if the Companies are unable to perform their contractual obligations, penalties or liability for damages could result.

In addition, there are many risks associated with the Companies' operations and the transportation, storage and processing of natural gas and NGLs, including nuclear accidents, fires, explosions, uncontrolled release of natural gas and other environmental hazards, pole strikes, electric contact cases, the collision of third party equipment with pipelines and avian and other wildlife impacts. Such incidents could result in loss of human life or injuries among employees, customers or the public in general, environmental pollution, damage or destruction of facilities or business interruptions and associated public or employee safety impacts, loss of revenues, increased liabilities, heightened regulatory scrutiny and reputational risk. Further, the location of pipelines and storage facilities, or generation, transmission, substations and distribution facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks.

Dominion and Virginia Power have substantial ownership interests in and operate nuclear generating units; as a result, each may incur substantial costs and liabilities. Dominion's and Virginia Power's nuclear facilities are subject to operational, environmental, health and financial risks such as the on-site storage of spent nuclear fuel, the ability to dispose of such spent nuclear fuel, the ability to maintain adequate reserves for decommissioning, limitations on the amounts and types of insurance available, potential operational liabilities and extended outages, the costs of replacement power, the costs of maintenance and the costs of securing the facilities against possible terrorist attacks. Dominion and Virginia Power maintain decommissioning trusts and external insurance coverage to minimize the financial exposure to these risks; however, it is possible that future decommissioning costs could exceed amounts in the decommissioning trusts and/or damages could exceed the amount of insurance coverage. If

Dominion's and Virginia Power's decommissioning trust funds are insufficient, and they are not allowed to recover the additional costs incurred through insurance, or in the case of Virginia Power through regulatory mechanisms, their results of operations could be negatively impacted.

Dominion's and Virginia Power's nuclear facilities are also subject to complex government regulation which could negatively impact their results of operations. The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generating facilities. In the event of noncompliance, the NRC has the authority to impose fines, set license conditions, shut down a nuclear unit, or take some combination of these actions, depending on its assessment of the severity of the situation, until compliance is achieved. Revised safety requirements promulgated by the NRC could require Dominion and Virginia Power to make substantial expenditures at their nuclear plants. In addition, although the Companies have no reason to anticipate a serious nuclear incident at their plants, if an incident did occur, it could materially and adversely affect their results of operations and/or financial condition. A major incident at a nuclear facility anywhere in the world, such as the nuclear events in Japan in 2011, could cause the NRC to adopt increased safety regulations or otherwise limit or restrict the operation or licensing of domestic nuclear units.

Dominion and Dominion Gas depend on third parties to produce the natural gas they gather and process, and to provide NGLs they separate into marketable products. A reduction in these quantities could reduce Dominion's and Dominion Gas' revenues. Dominion and Dominion Gas obtain their supply of natural gas and NGLs from numerous third-party producers. Most producers are under no obligation to deliver a specific quantity of natural gas or NGLs to Dominion's and Dominion Gas' facilities. A number of factors could reduce the volumes of natural gas and NGLs available to Dominion's and Dominion Gas' pipelines and other assets. Increased regulation of energy extraction activities or a decrease in natural gas prices or the availability of drilling equipment could result in reductions in drilling for new natural gas wells, which could decrease the volumes of natural gas supplied to Dominion and Dominion Gas. Producers could shift their production activities to regions

outside Dominion's and Dominion Gas' footprint. In addition, the extent of natural gas reserves and the rate of production from such reserves may be less than anticipated. If producers were to decrease the supply of natural gas or NGLs to Dominion's and Dominion Gas' systems and facilities for any reason, Dominion and Dominion Gas could experience lower revenues to the extent they are unable to replace the lost volumes on similar terms.

Dominion's merchant power business operates in a challenging market, which could adversely affect its results of operations and future growth. The success of Dominion's merchant power business depends upon favorable market conditions including the ability to sell power at prices sufficient to cover its operating costs. Dominion operates in active wholesale markets that expose it to price volatility for electricity and fuel as well as the credit risk of counterparties. Dominion attempts to manage its price risk by entering into hedging transactions, including short-term and long-term fixed price sales and purchase contracts.

In these wholesale markets, the spot market price of electricity for each hour is generally determined by the cost of supplying the next unit of electricity to the market during that hour. In many

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cases, the next unit of electricity supplied would be provided by generating stations that consume fossil fuels, primarily natural gas. Consequently, the open market wholesale price for electricity generally reflects the cost of natural gas plus the cost to convert the fuel to electricity. Therefore, changes in the price of natural gas generally affect the open market wholesale price of electricity. To the extent Dominion does not enter into long-term power purchase agreements or otherwise effectively hedge its output, these changes in market prices could adversely affect its financial results.

Dominion purchases fuel under a variety of terms, including long-term and short-term contracts and spot market purchases. Dominion is exposed to fuel cost volatility for the portion of its fuel obtained through short-term contracts or on the spot market, including as a result of market supply shortages. Fuel prices can be volatile and the price that can be obtained for power produced from such fuel may not change at the same rate as fuel costs, thus adversely impacting Dominion's financial results.

In addition, in the event that any of the merchant generation facilities experience a forced outage, Dominion may not receive the level of revenue it anticipated.

The Companies' financial results can be adversely affected by various factors driving demand for electricity and gas and related services.

Technological advances required by federal laws mandate new levels of energy efficiency in end-use devices, including lighting, furnaces and electric heat pumps and could lead to declines in per capita energy consumption. Additionally, certain regulatory and legislative bodies have introduced or are considering requirements and/or incentives to reduce energy consumption by a fixed date. Further, Virginia Power's business model is premised upon the cost efficiency of the production, transmission and distribution of large-scale centralized utility generation. However, advances in distributed generation technologies, such as solar cells, gas microturbines and fuel cells, may make these alternative generation methods competitive with large-scale utility generation, and change how customers acquire or use our services.

Reduced energy demand or significantly slowed growth in demand due to customer adoption of energy efficient technology, conservation, distributed generation or regional economic conditions, unless substantially offset through regulatory cost allocations, could adversely impact the value of the Companies' business activities.

Dominion Gas has experienced a decline in demand for certain of its processing services due to competing facilities operating in nearby areas.

Dominion Gas may not be able to maintain, renew or replace its existing portfolio of customer contracts successfully, or on favorable terms. Upon contract expiration, customers may not elect to re-contract with Dominion Gas as a result of a variety of factors, including the amount of competition in the industry, changes in the price of natural gas, their level of satisfaction with Dominion Gas' services, the extent to which Dominion Gas is able to successfully execute its business plans and the effect of the regulatory framework on customer demand. The failure to replace any such customer contracts on similar terms could result in a loss of revenue for Dominion Gas.

Exposure to counterparty performance may adversely affect the Companies' financial results of operations. The Companies are exposed to credit risks of their counterparties and the risk that

one or more counterparties may fail or delay the performance of their contractual obligations, including but not limited to payment for services. Counterparties could fail or delay the performance of their contractual obligations for a number of reasons, including the effect of regulations on their operations. Defaults by customers, suppliers, joint venture partners or other third parties may adversely affect the Companies' financial results.

In addition, in an economic downturn, individual customers of East Ohio may have increased amounts of bad debt. While rate riders have been obtained so that those losses will, for the most part, be recovered by future rates, such recovery will be over a period of time, while the cost is incurred earlier by East Ohio.

Market performance and other changes may decrease the value of Dominion's decommissioning trust funds and Dominion's and Dominion Gas' benefit plan assets or increase Dominion's and Dominion Gas' liabilities, which could then require significant additional funding. The performance of the capital markets affects the value of the assets that are held in trusts to satisfy future obligations to decommission Dominion's nuclear plants and under Dominion's and Dominion Gas' pension and other postretirement benefit plans. Dominion and Dominion Gas have significant obligations in these areas and holds significant assets in these trusts. These assets are subject to market fluctuation and will yield uncertain returns, which may fall below expected return rates.

With respect to decommissioning trust funds, a decline in the market value of these assets may increase the funding requirements of the obligations to decommission Dominion's nuclear plants or require additional NRC-approved funding assurance.

A decline in the market value of the assets held in trusts to satisfy future obligations under Dominion's and Dominion Gas' pension and other postretirement benefit plans may increase the funding requirements under such plans. Additionally, changes in interest rates will affect the liabilities under Dominion's and Dominion Gas' pension and other postretirement benefit plans; as interest rates decrease, the liabilities increase, potentially requiring additional funding. Further, changes in demographics, including increased numbers of retirements or changes in mortality assumptions, may also increase the funding requirements of the obligations related to the pension and other postretirement benefit plans.

If the decommissioning trust funds and benefit plan assets are negatively impacted by market fluctuations or other factors, Dominion's and Dominion Gas' results of operations, financial condition and/or cash flows could be negatively affected.

The use of derivative instruments could result in financial losses and liquidity constraints. The Companies use derivative instruments, including futures, swaps, forwards, options and FTRs, to manage commodity and financial market risks. In addition, Dominion and Dominion Gas purchase and sell commodity-based contracts for hedging purposes.

The Dodd-Frank Act was enacted into law in July 2010 in an effort to improve regulation of financial markets. The Dodd-Frank Act includes provisions that will require certain over-the-counter derivatives, or swaps, to be centrally cleared and executed through an exchange or other approved trading platform. Non-financial entities that use swaps to hedge or mitigate commercial risk, often referred to as end users, can choose to exempt their hedging transactions from these clearing and exchange trading

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requirements. Final rules for the over-the-counter derivative-related provisions of the Dodd-Frank Act will continue to be established through the ongoing rulemaking process of the applicable regulators, including rules regarding margin requirements for non-cleared swaps. If, as a result of the rulemaking process, the Companies' derivative activities are not exempted from the clearing, exchange trading or margin requirements, the Companies could be subject to higher costs, including from higher margin requirements, for their derivative activities. In addition, implementation of, and compliance with, the swaps provisions of the Dodd-Frank Act by the Companies' counterparties could result in increased costs related to the Companies' derivative activities.

Changing rating agency requirements could negatively affect the Companies' growth and business strategy. In order to maintain appropriate credit ratings to obtain needed credit at a reasonable cost in light of existing or future rating agency requirements, the Companies may find it necessary to take steps or change their business plans in ways that may adversely affect their growth and earnings. A reduction in the Companies' credit ratings could result in an increase in borrowing costs, loss of access to certain markets, or both, thus adversely affecting operating results and could require the Companies to post additional collateral in connection with some of its price risk management activities.

Dominion Gas depends, in part, on an intercompany credit agreement with Dominion and certain bank syndicated credit facilities available to Dominion and Dominion Gas for short-term borrowings to meet working capital needs. If Dominion's short-term funding resources, which include the commercial paper market and its syndicated bank credit facilities, become unavailable to Dominion, Dominion Gas' access to short-term funding could also be in jeopardy. Dominion Gas relies, in part, on an IRCA with Dominion to provide Dominion Gas, and its subsidiaries, with short-term borrowings to meet working capital and other cash needs. Dominion relies, in part, on the issuance of commercial paper in the short-term money markets to fund advances it makes to Dominion Gas under the IRCA. The issuance of commercial paper by Dominion is supported by its access to two bank syndicated revolving credit facilities. In addition, these facilities could be drawn upon either by Dominion Gas directly or by Dominion to fund Dominion Gas borrowing requests under the IRCA.

In the event of a default under the bank syndicated credit facilities by any of the Companies, Dominion could lose access to these facilities. In such an event, Dominion may not be able to rely on either the commercial paper market or the bank facility for its own short-term funding, and thus may not be able to fund a request by Dominion Gas under the IRCA.

An inability to access financial markets could adversely affect the execution of the Companies' business plans. The Companies rely on access to short-term money markets and longer-term capital markets as significant sources of funding and liquidity for business plans with increasing capital expenditure needs, normal working capital and collateral requirements related to hedges of future sales and purchases of energy-related commodities. Deterioration in the Companies' creditworthiness, as evaluated by credit rating agencies or otherwise, or declines in market reputation either for the Companies or their industry in general, or general financial market disruptions outside of the Companies

control could increase their cost of borrowing or restrict their ability to access one or more financial markets. Further market disruptions could stem from delays in the current economic recovery, the bankruptcy of an unrelated company, general market disruption due to general credit market or political events, or the failure of financial institutions on which the Companies rely. Increased costs and restrictions on the Companies' ability to access financial markets may be severe enough to affect their ability to execute their business plans as scheduled.

Potential changes in accounting practices may adversely affect the Companies' financial results. The Companies cannot predict the impact that future changes in accounting standards or practices may have on public companies in general, the energy industry or their operations specifically. New accounting standards could be issued that could change the way they record revenues, expenses, assets and liabilities. These changes in accounting standards could adversely affect earnings or could increase liabilities.

War, acts and threats of terrorism, natural disasters and other significant events could adversely affect the Companies' operations. The Companies cannot predict the impact that any future terrorist attacks may have on the energy industry in general, or on the Companies' business in particular. Any retaliatory military strikes or sustained military campaign may affect the Companies' operations in unpredictable ways, such as changes in insurance markets and disruptions of fuel supplies and markets. In addition, the Companies' infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror. For example, a physical attack on a critical substation in California resulted in serious impacts to the power grid. Furthermore, the physical compromise of the Companies' facilities could adversely affect the Companies' ability to manage these facilities effectively. Instability in financial markets as a result of terrorism, war, natural disasters, pandemic, credit crises, recession or other factors could result in a significant decline in the U.S. economy and increase the cost of insurance coverage. This could negatively impact the Companies' results of operations and financial condition.

Hostile cyber intrusions could severely impair the Companies' operations, lead to the disclosure of confidential information, damage the reputation of the Companies and otherwise have an adverse effect on the Companies' business. The Companies own assets deemed as critical infrastructure, the operation of which is dependent on information technology systems. Further, the computer systems that run the Companies' facilities are not completely isolated from external networks. There appears to be an increasing level of activity, sophistication and maturity of threat actors, in particular nation state actors, that wish to disrupt the U.S. bulk power system and the U.S. gas transmission or distribution system. Such parties could view the Companies' computer systems, software or networks as attractive targets for cyber attack. For example, malware has been designed to target software that runs the nation's critical infrastructure such as power transmission grids and gas pipelines. In addition, the Companies' businesses require that they and their vendors collect and maintain sensitive customer data, as well as confidential employee and shareholder information, which is subject to electronic theft or loss.

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A successful cyber attack on the systems that control the Companies' electric generation, electric or gas transmission or distribution assets could severely disrupt business operations, preventing the Companies from serving customers or collecting revenues. The breach of certain business systems could affect the Companies' ability to correctly record, process and report financial information. A major cyber incident could result in significant expenses to investigate and repair security breaches or system damage and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to the Companies' reputation. In addition, the misappropriation, corruption or loss of personally identifiable information and other confidential data could lead to significant breach notification expenses and mitigation expenses such as credit monitoring. The Companies maintain property and casualty insurance that may cover certain damage caused by potential cyber incidents; however, other damage and claims arising from such incidents may not be covered or may exceed the amount of any insurance available. For these reasons, a significant cyber incident could materially and adversely affect the Companies' business, financial condition and results of operations.

Failure to retain and attract key executive officers and other skilled professional and technical employees could have an adverse effect on the Companies' operations. The Companies' business strategy is dependent on their ability to recruit, retain and motivate employees. The Companies' key executive officers are the CEO, CFO and presidents and those responsible for financial, operational, legal, regulatory and accounting functions. Competition for skilled management employees in these areas of the Companies' business operations is high. In addition, demand for skilled professional and technical employees in gas transmission, storage, gathering, processing and distribution and in design and construction is high in light of growth in demand for natural gas, increased supply of natural gas as a result of developments in gas production, increased infrastructure projects, increased risk in certain areas of the business, such as cybersecurity, and increased regulation of these activities. The Companies' inability to retain and attract these employees could adversely affect their business and future operating results. An aging workforce in the energy industry also necessitates recruiting, retaining and developing the next generation of leadership.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2014, Dominion owned its principal executive office and three other corporate offices, all located in Richmond, Virginia. Dominion also leases corporate offices in other cities in which its subsidiaries operate. Virginia Power and Dominion Gas share Dominion's principal office in Richmond, Virginia, which is owned by Dominion. In addition, Virginia Power's DVP and Generation segments share certain leased buildings and equipment. See Item 1. Business for additional information about each segment's principal properties, which information is incorporated herein by reference.

Dominion's assets consist primarily of its investments in its subsidiaries, the principal properties of which are described here and in Item 1. Business.

Substantially all of Virginia Power's property is subject to the lien of the Indenture of Mortgage securing its First and Refunding Mortgage Bonds. There were no bonds outstanding as of December 31, 2014; however, by leaving the indenture open, Virginia Power expects to retain the flexibility to issue mortgage bonds in the future. Certain of Dominion's merchant generation facilities are also subject to liens.

DOMINION ENERGY

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Dominion Energy's Cove Point LNG facility has an operational peak regasification daily send-out capacity of approximately 1.8 bcf and an aggregate LNG storage capacity of approximately 14.6 bcf. In addition, Cove Point has a liquefier that has the potential to create approximately 0.01 bcf of LNG per day.

The Cove Point Pipeline is a 36-inch diameter underground, interstate natural gas pipeline that extends approximately 88 miles from Cove Point to interconnections with Transcontinental Gas Pipe Line Company, LLC in Fairfax County, Virginia, and with Columbia Gas Transmission LLC and DTI in Loudoun County, Virginia. In 2009, the original pipeline was expanded to include a 36-inch diameter expansion that extends approximately 48 miles, roughly 75% of which is parallel to the original pipeline.

Dominion Gas also owns NGL processing plants capable of processing over 270,000 mcf per day of natural gas. Hastings is the largest plant and is capable of processing over 180,000 mcf per day of natural gas. Hastings can also fractionate over 580,000 Gals per day of NGLs into marketable products, including propane, isobutane, butane, and natural gasoline. NGL operations have storage capacity of 1,226,500 Gals of propane, 109,000 Gals of isobutane, 442,000 Gals of butane, 2,000,000 Gals of natural gasoline, and 1,012,500 Gals of mixed NGLs.

See Item 1. Business, *General* and Item 1. Dominion Energy, *Properties and Investments* for details regarding Dominion Energy's pipeline and storage capacity.

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DVP

See Item 1. Business, *General* for details regarding DVP's principal properties, which primarily include transmission and distribution lines.

DOMINION GENERATION

Dominion and Virginia Power generate electricity for sale on a wholesale and a retail level. Dominion and Virginia Power supply electricity demand either from their generation facilities or through purchased power contracts. As of December 31, 2014, Dominion Generation's total utility and merchant generating capacity was approximately 24,600 MW.

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The following tables list Dominion Generation's utility and merchant generating units and capability, as of December 31, 2014:

VIRGINIA POWER UTILITY GENERATION

| Plant | Location | Net Summer Capability (MW) | Percentage |
|------------------------------------|-----------------------|-------------------------------|--------------------------|
| | | | Net Summer Capability |
| Gas | | | |
| Warren County (CC) | Warren County, VA | 1,342 | |
| Ladysmith (CT) | Ladysmith, VA | 783 | |
| Remington (CT) | Remington, VA | 608 | |
| Bear Garden (CC) | Buckingham County, VA | 590 | |
| Possum Point (CC) | Dumfries, VA | 559 | |
| Chesterfield (CC) | Chester, VA | 397 | |
| Elizabeth River (CT) | Chesapeake, VA | 348 | |
| Possum Point | Dumfries, VA | 316 | |
| Bellemeade (CC) | Richmond, VA | 267 | |
| Bremo ⁽¹⁾ | Bremo Bluff, VA | 227 | |
| Gordonsville Energy (CC) | Gordonsville, VA | 218 | |
| Gravel Neck (CT) | Surry, VA | 170 | |
| Darbytown (CT) | Richmond, VA | 168 | |
| Rosemary (CC) | Roanoke Rapids, NC | 165 | |
| Total Gas | | 6,158 | 30% |
| Coal | | | |
| Mt. Storm | Mt. Storm, WV | 1,629 | |
| Chesterfield | Chester, VA | 1,267 | |
| Virginia City Hybrid Energy Center | Wise County, VA | 610 | |
| Clover | Clover, VA | 439 ⁽³⁾ | |
| Yorktown ⁽²⁾ | Yorktown, VA | 323 | |
| Mecklenburg | Clarksville, VA | 138 | |
| Total Coal | | 4,406 | 22 |
| Nuclear | | | |
| Surry | Surry, VA | 1,676 | |
| North Anna | Mineral, VA | 1,672 ⁽⁴⁾ | |
| Total Nuclear | | 3,348 | 16 |
| Oil | | | |
| Yorktown | Yorktown, VA | 790 | |
| Possum Point | Dumfries, VA | 786 | |
| Gravel Neck (CT) | Surry, VA | 198 | |
| Darbytown (CT) | Richmond, VA | 168 | |
| Possum Point (CT) | Dumfries, VA | 72 | |
| Chesapeake (CT) | Chesapeake, VA | 51 | |
| Low Moor (CT) | Covington, VA | 48 | |
| Northern Neck (CT) | Lively, VA | 47 | |
| Total Oil | | 2,160 | 11 |
| Hydro | | | |
| Bath County | Warm Springs, VA | 1,802 ⁽⁵⁾ | |
| Gaston | Roanoke Rapids, NC | 220 | |

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| | | | |
|---------------------------|--------------------|--------|------|
| Roanoke Rapids | Roanoke Rapids, NC | 95 | |
| Other | Various | 3 | |
| Total Hydro | | 2,120 | 10 |
| Biomass | | | |
| Pittsylvania | Hurt, VA | 83 | |
| Altavista | Altavista, VA | 51 | |
| Polyester | Hopewell, VA | 51 | |
| Southampton | Southampton, VA | 51 | |
| Total Biomass | | 236 | 1 |
| Various | | | |
| Mt. Storm (CT) | Mt. Storm, WV | 11 | |
| | | 18,439 | |
| Power Purchase Agreements | | 1,978 | 10 |
| Total Utility Generation | | 20,417 | 100% |

Note: (CT) denotes combustion turbine and (CC) denotes combined cycle.

(1) Converted from coal to gas in 2014.

(2) Coal-fired units are expected to be retired at Yorktown as early as 2016 as a result of the issuance of the MATS rule.

(3) Excludes 50% undivided interest owned by ODEC.

(4) Excludes 11.6% undivided interest owned by ODEC.

(5) Excludes 40% undivided interest owned by Allegheny Generating Company, a subsidiary of Allegheny Energy, Inc.

Table of Contents**DOMINION MERCHANT GENERATION**

| Plant | Location | Net Summer Capability (MW) | Percentage |
|-----------------------------------|--------------------|-------------------------------|--------------------------|
| | | | Net Summer Capability |
| Nuclear | | | |
| Millstone | Waterford, CT | 2,001 ⁽¹⁾ | |
| Total Nuclear | | 2,001 | 48% |
| Gas | | | |
| Fairless (CC) | Fairless Hills, PA | 1,196 | |
| Manchester (CC) | Providence, RI | 461 | |
| Total Gas | | 1,657 | 39 |
| Wind | | | |
| Fowler Ridge ⁽²⁾ | Benton County, IN | 150 ⁽³⁾ | |
| NedPower Mt. Storm ⁽²⁾ | Grant County, WV | 132 ⁽⁴⁾ | |
| Total Wind | | 282 | 7 |
| Solar⁽⁵⁾ | | | |
| Camelot Solar | Mojave, CA | 45 | |
| Indy Solar | Indianapolis, IN | 29 | |
| CID Solar | Corcoran, CA | 20 | |
| Kansas Solar | Lenmore, CA | 20 | |
| Kent South Solar | Lenmore, CA | 20 | |
| Old River One Solar | Bakersfield, CA | 20 | |
| West Antelope Solar | Lancaster, CA | 20 | |
| Adams East Solar | Tranquility, CA | 19 | |
| Mulberry Solar | Selmer, TN | 16 | |
| Selmer Solar | Selmer, TN | 16 | |
| Columbia 2 Solar | Mojave, CA | 15 | |
| Azalea Solar | Davisboro, GA | 8 | |
| Somers Solar | Somers, CT | 5 | |
| Total Solar | | 253 | 6 |
| Fuel Cell | | | |
| Bridgeport Fuel Cell | Bridgeport, CT | 15 | |
| Total Fuel Cell | | 15 | |
| Total Merchant Generation | | 4,208 | 100% |

Note: (CC) denotes combined cycle.

(1) Excludes 6.53% undivided interest in Unit 3 owned by Massachusetts Municipal and Green Mountain.

(2) Subject to a lien securing the facility's debt.

(3) Excludes 50% membership interest owned by BP.

(4) Excludes 50% membership interest owned by Shell.

(5) All solar facilities are alternating current.

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Item 3. Legal Proceedings

From time to time, the Companies are alleged to be in violation or in default under orders, statutes, rules or regulations relating to the environment, compliance plans imposed upon or agreed to by the Companies, or permits issued by various local, state and/or federal agencies for the construction or operation of facilities. Administrative proceedings may also be pending on these matters. In addition, in the ordinary course of business, the Companies and their subsidiaries are involved in various legal proceedings.

In August 2014, Cove Point received a Request to Show Cause from the EPA alleging violations of certain release reporting requirements under CERCLA and EPCRA. In February 2013, Cove Point first reported to the EPA a continuous release of ammonia emissions from the NOx control systems attached to its electric generating turbines as a part of normal operations. While these emissions are not subject to permit limits, Cove Point verified and submitted to the EPA that the ammonia emissions periodically exceeded the reporting threshold between December 2012 and February 2013. Cove Point further submitted to the EPA the required written follow-up reports. In December 2014, Cove Point and the EPA finalized a Consent Agreement and Final Order resolving this matter, which included a civil penalty of \$365,000. Cove Point paid the penalty in December 2014.

In October 2014, Virginia Power received a draft consent order from the VDEQ in connection with excess carbon monoxide emissions reported in February 2014 for Altavista. The draft consent order included a proposed penalty of approximately \$135,000. In January 2015, Virginia Power and VDEQ finalized a consent order resolving this matter, which included a final penalty of approximately \$95,000. Virginia Power has also submitted to VDEQ a request to modify Altavista's Title V air permit to address the underlying operational issues.

In January 2015, Virginia Power received a draft consent order from the VDEQ in connection with excess particulate matter emissions reported in August and September 2014 for Yorktown. Virginia Power submitted evidence in late September 2014 that the excess emissions have been corrected. In January 2015, Virginia Power and VDEQ finalized a consent order resolving this matter, which included a penalty of approximately \$107,000.

Also in January 2015, DTI received a draft consent agreement from the EPA in connection with alleged violations of certain CAA monitoring and permitting requirements at the Hastings facility. The draft consent agreement includes a proposed penalty of approximately \$160,000. DTI is working with the EPA to resolve this matter. The ultimate resolution of the consent agreement is not expected to have a material effect on Dominion Gas.

See Notes 13 and 22 to the Consolidated Financial Statements and *Future Issues and Other Matters* in Item 7. MD&A, which information is incorporated herein by reference, for discussion of various environmental and other regulatory proceedings to which the Companies are a party.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**Executive Officers of Dominion**

Information concerning the executive officers of Dominion, each of whom is elected annually, is as follows:

| Name and Age | Business Experience Past Five Years ⁽¹⁾ |
|---------------------------|---|
| Thomas F. Farrell II (60) | Chairman of the Board of Directors of Dominion from April 2007 to date; President and CEO of Dominion from January 2006 to date. Chairman and CEO of Dominion Midstream GP, LLC (the general partner of Dominion Midstream) from March 2014 to date and President from February 2015 to date; CEO of Dominion Gas from September 2013 to date and Chairman from March 2014 to date; Chairman and CEO of Virginia Power from February 2006 to date. |
| Mark F. McGettrick (57) | Executive Vice President and CFO of Dominion from June 2009 to date, Dominion Midstream GP, LLC from March 2014 to date, Virginia Power from June 2009 to date and Dominion Gas from September 2013 to date. |
| David A. Christian (60) | Executive Vice President and CEO Dominion Generation Group of Dominion from February 2013 to date; Executive Vice President of Dominion from May 2011 to February 2013; President and COO of Virginia Power from June 2009 to date. |
| Paul D. Koonce (55) | Executive Vice President and CEO Energy Infrastructure Group of Dominion from February 2013 to date; Executive Vice President of Dominion from April 2006 to February 2013; Executive Vice President of Dominion Midstream GP, LLC from March 2014 to date; President and COO of Virginia Power from June 2009 to date; President of Dominion Gas from September 2013 to date. |
| David A. Heacock (57) | President and CNO of Virginia Power from June 2009 to date. |
| Robert M. Blue (47) | President of Virginia Power from January 2014 to date; Senior Vice President-Law, Public Policy and Environment of Dominion from January 2011 to December 2013; Senior Vice President-Public Policy and Environment of Dominion from February 2010 to December 2010. |
| Michele L. Cardiff (47) | Vice President, Controller and CAO of Dominion from April 2014 to date; Vice President-Accounting of DRS from January 2014 to March 2014; Vice President, Controller and CAO of Virginia Power from April 2014 to date, Dominion Gas from March 2014 to date, and Dominion Midstream GP, LLC from March 2014 to date and General Auditor of DRS from September 2012 to December 2013; Controller of Virginia Power from June 2009 to August 2012. |
| Diane Leopold (48) | President of DTI, East Ohio and Dominion Cove Point, Inc. from January 2014 to date; Senior Vice President of DTI from April 2012 to December 2013; Senior Vice President Business Development & Generation Construction of Virginia Power from April 2009 to March 2012. |
| Mark O. Webb (50) | Vice President, General Counsel and Chief Risk Officer of Dominion, Virginia Power and Dominion Gas from January 2014 to date; Vice President and General Counsel of Dominion Midstream GP, LLC from March 2014 to date; Vice President and General Counsel of Dominion from January 2013 to December 2013; Deputy General Counsel of DRS from July 2011 to December 2012; Director-Policy & Business Evaluation AES of DRS from May 2009 to June 2011. |

(1) Any service listed for Virginia Power, Dominion Midstream GP, LLC, Dominion Gas, DTI, East Ohio, Dominion Cove Point, Inc. and DRS reflects service at a subsidiary of Dominion.

Table of Contents**Part II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Dominion**

Dominion's common stock is listed on the NYSE. At January 31, 2015, there were approximately 132,000 record holders of Dominion's common stock. The number of record holders is comprised of individual shareholder accounts maintained on Dominion's transfer agent records and includes accounts with shares held in (1) certificate form, (2) book-entry in the Direct Registration System and (3) book-entry under Dominion Direct. Discussions of expected dividend payments and restrictions on Dominion's payment of dividends required by this Item are contained in *Liquidity and Capital Resources* in Item 7. MD&A and Notes 17 and 20 to the Consolidated Financial Statements. Cash dividends were paid quarterly in 2014 and 2013. Quarterly information concerning stock prices and dividends is disclosed in Note 26 to the Consolidated Financial Statements, which information is incorporated herein by reference.

The following table presents certain information with respect to Dominion's common stock repurchases during the fourth quarter of 2014:

DOMINION PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares (or Units) | Average Price Paid per Share | Total Number | Maximum Number (or |
|--------------------|--|---------------------------------------|---|--|
| | | | of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs ⁽³⁾ |
| 10/1/2014-10/31/14 | 405 | \$ 69.26 | N/A | 19,629,059 shares/\$ 1.18 billion |
| 11/1/2014-11/30/14 | 444 | \$ 71.30 | N/A | 19,629,059 shares/\$ 1.18 billion |
| 12/1/2014-12/31/14 | | \$ | N/A | 19,629,059 shares/\$ 1.18 billion |
| Total | 849 | \$ 70.33 | N/A | 19,629,059 shares/\$ 1.18 billion |

(1) 405 and 444 shares were tendered by employees to satisfy tax withholding obligations on vested restricted stock in October and November 2014, respectively.

(2) Represents the weighted-average price paid per share.

(3) The remaining repurchase authorization is pursuant to repurchase authority granted by the Dominion Board of Directors in February 2005, as modified in June 2007. The aggregate authorization granted by the Dominion Board of Directors was 86 million shares (as adjusted to reflect a two-for-one stock split distributed in November 2007) not to exceed \$4 billion.

Virginia Power

There is no established public trading market for Virginia Power's common stock, all of which is owned by Dominion. Restrictions on Virginia Power's payment of dividends are discussed in Note 20 to the Consolidated Financial Statements. Virginia Power paid quarterly cash dividends

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on its common stock as follows:

| | First | Second | Third | Fourth | Full |
|-------------|---------------|---------------|---------------|---------------|---------------|
| | Quarter | Quarter | Quarter | Quarter | Year |
| (millions) | | | | | |
| 2014 | \$ 148 | \$ 121 | \$ 196 | \$ 125 | \$ 590 |
| 2013 | 148 | 120 | 195 | 116 | 579 |

As discussed in Note 18 to the Consolidated Financial Statements in this report, during 2014, Virginia Power redeemed all shares of each outstanding series of its preferred stock. Effective October 30, 2014, the Virginia Power Board of Directors approved amendments to Virginia Power's Articles of Incorporation to delete references to the redeemed series of preferred stock.

The text of the foregoing amendment to Virginia Power's Articles of Incorporation is included in the Amended and Restated Articles of Incorporation filed with Virginia Power's quarterly report on Form 10-Q for the nine months ended September 30, 2014.

Dominion Gas

All of Dominion Gas membership interests are owned by Dominion. Restrictions on Dominion Gas payment of distributions are discussed in Note 20 to the Consolidated Financial Statements. Dominion Gas paid quarterly distributions as follows:

| | First | Second | Third | Fourth | Full |
|-------------|--------------|--------------|--------------|---------------|---------------|
| | Quarter | Quarter | Quarter | Quarter | Year |
| (millions) | | | | | |
| 2014 | \$ 78 | \$ 67 | \$ 61 | \$ 140 | \$ 346 |
| 2013 | | | 80 | 318 | 398 |

Table of Contents**Item 6. Selected Financial Data****DOMINION**

| Year Ended December 31, (millions, except per share amounts) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|------------------|-----------|-----------|-----------|-----------|
| Operating revenue | \$ 12,436 | \$ 13,120 | \$ 12,835 | \$ 13,765 | \$ 14,392 |
| Income from continuing operations, net of tax ⁽¹⁾ | 1,310 | 1,789 | 1,427 | 1,466 | 3,056 |
| Loss from discontinued operations, net of tax ⁽¹⁾ | | (92) | (1,125) | (58) | (248) |
| Net income attributable to Dominion | 1,310 | 1,697 | 302 | 1,408 | 2,808 |
| Income from continuing operations before loss from discontinued operations per common share-basic | 2.25 | 3.09 | 2.49 | 2.56 | 5.19 |
| Net income attributable to Dominion per common share-basic | 2.25 | 2.93 | 0.53 | 2.46 | 4.77 |
| Income from continuing operations before loss from discontinued operations per common share-diluted | 2.24 | 3.09 | 2.49 | 2.55 | 5.18 |
| Net income attributable to Dominion per common share-diluted | 2.24 | 2.93 | 0.53 | 2.45 | 4.76 |
| Dividends declared per common share | 2.40 | 2.25 | 2.11 | 1.97 | 1.83 |
| Total assets | 54,327 | 50,096 | 46,838 | 45,614 | 42,817 |
| Long-term debt | 21,805 | 19,330 | 16,851 | 17,394 | 15,758 |

(1) Amounts attributable to Dominion's common shareholders.

2014 results include \$248 million of after-tax charges associated with Virginia legislation enacted in April 2014 relating to the development of a third nuclear unit located at North Anna and offshore wind facilities, a \$193 million after-tax charge related to Dominion's restructuring of its producer services business and a \$174 million after-tax charge associated with the Liability Management Exercise.

2013 results include a \$109 million after-tax charge related to Dominion's restructuring of its producer services business (\$76 million) and an impairment of certain natural gas infrastructure assets (\$33 million). Also in 2013, Dominion recorded a \$92 million after-tax net loss from the discontinued operations of Brayton Point and Kincaid.

2012 results include a \$1.1 billion after-tax loss from discontinued operations, including impairment charges, of Brayton Point and Kincaid and a \$303 million after-tax charge primarily resulting from management's decision to cease operations and begin decommissioning Kewaunee in 2013.

2011 results include a \$139 million after-tax charge reflecting generation plant balances that are not expected to be recovered in future periods due to the anticipated retirement of certain utility coal-fired generating units and a \$59 million after-tax charge reflecting restoration costs associated with damage caused by Hurricane Irene.

2010 results include a \$1.4 billion after-tax net income benefit from the sale of substantially all of Dominion's Appalachian E&P operations, net of charges related to the divestiture and a \$202 million after-tax charge primarily reflecting severance pay and other benefits related to a workforce reduction program. The loss from discontinued operations in 2010 includes \$127 million of after-tax impairment charges at certain merchant generation facilities and a \$140 million after-tax loss on the sale of Peoples.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

MD&A discusses Dominion's results of operations and general financial condition and Virginia Power's and Dominion Gas' results of operations. MD&A should be read in conjunction with Item 1. Business and the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data. Virginia Power and Dominion Gas meet the conditions to file under the reduced disclosure format, and therefore have omitted certain sections of MD&A.

CONTENTS OF MD&A

MD&A consists of the following information:

- Forward-Looking Statements
- Accounting Matters Dominion
- Dominion
 - Results of Operations
 - Segment Results of Operations
- Virginia Power
 - Results of Operations
- Dominion Gas
 - Results of Operations
- Liquidity and Capital Resources Dominion
- Future Issues and Other Matters Dominion

FORWARD-LOOKING STATEMENTS

This report contains statements concerning the Companies' expectations, plans, objectives, future financial performance and other statements that are not historical facts. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In most cases, the reader can identify these forward-looking statements by such words as anticipate, estimate, forecast, expect, believe, should, could, plan, may, continue, target or other similar words.

The Companies make forward-looking statements with full knowledge that risks and uncertainties exist that may cause actual results to differ materially from predicted results. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additionally, other factors may cause actual results to differ materially from those indicated in any forward-looking statement. These factors include but are not limited to:

- Unusual weather conditions and their effect on energy sales to customers and energy commodity prices;
- Extreme weather events and other natural disasters, including hurricanes, high winds, severe storms, earthquakes, flooding and changes in water temperatures and availability that can cause outages and property damage to facilities;
- Federal, state and local legislative and regulatory developments, including changes in federal and state tax laws and regulations;

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Changes to federal, state and local environmental laws and regulations, including those related to climate change, the tightening of emission or discharge limits for GHGs and other emissions, more extensive permitting requirements and the regulation of additional substances;

Cost of environmental compliance, including those costs related to climate change;

Changes in enforcement practices of regulators relating to environmental standards and litigation exposure for remedial activities;

Changes in regulator implementation of environmental standards and litigation exposure for remedial activities;

Difficult to anticipate mitigation requirements associated with environmental approvals;

Risks associated with the operation of nuclear facilities, including costs associated with the disposal of spent nuclear fuel, decommissioning, plant maintenance and changes in existing regulations governing such facilities;

Unplanned outages at facilities in which the Companies have an ownership interest;

Fluctuations in energy-related commodity prices and the effect these could have on Dominion's and Dominion Gas' earnings and the Companies' liquidity position and the underlying value of their assets;

Counterparty credit and performance risk;

Capital market conditions, including the availability of credit and the ability to obtain financing on reasonable terms;

Risks associated with Virginia Power's membership and participation in PJM, including risks related to obligations created by the default of other participants;

Fluctuations in the value of investments held in nuclear decommissioning trusts by Dominion and Virginia Power and in benefit plan trusts by Dominion and Dominion Gas;

Fluctuations in interest rates;

Changes in rating agency requirements or credit ratings and their effect on availability and cost of capital;

Changes in financial or regulatory accounting principles or policies imposed by governing bodies;

Employee workforce factors including collective bargaining agreements and labor negotiations with union employees;

Risks of operating businesses in regulated industries that are subject to changing regulatory structures;

Impacts of acquisitions, divestitures, transfers of assets to joint ventures or Dominion Midstream, and retirements of assets based on asset portfolio reviews;

Receipt of approvals for, and timing of, closing dates for acquisitions and divestitures;

The timing and execution of Dominion Midstream's growth strategy;

Changes in rules for RTOs and ISOs in which Dominion and Virginia Power participate, including changes in rate designs, changes in FERC's interpretation of market rules and new and evolving capacity models;

Political and economic conditions, including inflation and deflation;

Domestic terrorism and other threats to the Companies' physical and intangible assets, as well as threats to cybersecurity;

Changes in demand for the Companies' services, including industrial, commercial and residential growth or decline in the Companies' service areas, changes in supplies of natural gas delivered to Dominion Gas' pipeline and processing systems, failure to maintain or replace customer contracts on favorable terms, changes in customer growth or usage patterns, including as a result of energy conservation programs, the availability of energy efficient devices and the use of distributed generation methods;

Additional competition in industries in which the Companies operate, including in electric markets in which Dominion's merchant generation facilities operate, and competition in the development, construction and ownership of certain electric transmission facilities in Virginia Power's service territory in connection with FERC Order 1000;

Changes in technology, particularly with respect to new, developing or alternative sources of generation and smart grid technologies;

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Changes to regulated electric rates collected by Virginia Power and regulated gas distribution, transportation and storage rates, including LNG storage, collected by Dominion;

Changes in operating, maintenance and construction costs;

Timing and receipt of regulatory approvals necessary for planned construction or expansion projects and compliance with conditions associated with such regulatory approvals;

The inability to complete planned construction, conversion or expansion projects at all, or with the outcomes or within the terms and time frames initially anticipated;

Adverse outcomes in litigation matters or regulatory proceedings; and

The impact of operational hazards including adverse developments with respect to pipeline safety or integrity, and other catastrophic events. Additionally, other risks that could cause actual results to differ from predicted results are set forth in Item 1A. Risk Factors.

The Companies' forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. The Companies caution the reader not to place undue reliance on their forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. The Companies undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

ACCOUNTING MATTERS

Critical Accounting Policies and Estimates

Dominion has identified the following accounting policies, including certain inherent estimates, that as a result of the judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operations involved, could result in material changes to its financial condition or results of operations under different conditions or using different assumptions. Dominion has discussed the development, selection and disclosure of each of these policies with the Audit Committee of its Board of Directors.

ACCOUNTING FOR REGULATED OPERATIONS

The accounting for Dominion's regulated electric and gas operations differs from the accounting for nonregulated operations in that Dominion is required to reflect the effect of rate regulation in its Consolidated Financial Statements. For regulated businesses subject to federal or state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, these costs are deferred as regulatory assets that otherwise would be expensed by nonregulated companies. Likewise, regulatory liabilities are recognized when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have yet to be incurred. Generally, regulatory assets and liabilities are amortized into income over the period authorized by the regulator.

Dominion evaluates whether or not recovery of its regulatory assets through future rates is probable and makes various assumptions in its analysis. The expectations of future recovery are generally based on orders issued by regulatory commissions,

legislation or historical experience, as well as discussions with applicable regulatory authorities and legal counsel. If recovery of a regulatory asset is determined to be less than probable, it will be written off in the period such assessment is made. See Notes 12 and 13 to the Consolidated Financial Statements for additional information.

ASSET RETIREMENT OBLIGATIONS

Dominion recognizes liabilities for the expected cost of retiring tangible long-lived assets for which a legal obligation exists and the ARO can be reasonably estimated. These AROs are recognized at fair value as incurred and are capitalized as part of the cost of the related long-lived assets. In the absence of quoted market prices, Dominion estimates the fair value of its AROs using present value techniques, in which it makes various assumptions including estimates of the amounts and timing of future cash flows associated with retirement activities, credit-adjusted risk free rates and cost escalation rates. The impact on measurements of new AROs or remeasurements of existing AROs, using different cost escalation rates in the future, may be significant. When Dominion revises any assumptions used to calculate the fair value of existing AROs, it adjusts the carrying amount of both the ARO liability and the related long-lived asset for assets that are in service; for assets that have ceased operations, Dominion adjusts the carrying amount of the ARO liability with such changes recognized in income. Dominion accretes the ARO liability to reflect the passage of time.

In 2014, 2013 and 2012, Dominion recognized \$81 million, \$86 million and \$77 million, respectively, of accretion, and expects to recognize \$86 million in 2015. Dominion records accretion and depreciation associated with utility nuclear decommissioning AROs as an adjustment to the regulatory liability related to its nuclear decommissioning trust.

A significant portion of Dominion's AROs relates to the future decommissioning of its merchant and utility nuclear facilities. These nuclear decommissioning AROs are reported in the Dominion Generation segment. At December 31, 2014, Dominion's nuclear decommissioning AROs totaled \$1.4 billion, representing approximately 84% of its total AROs. Based on their significance, the following discussion of critical assumptions inherent in determining the fair value of AROs relates to those associated with Dominion's nuclear decommissioning obligations.

Dominion obtains from third-party specialists periodic site-specific base year cost studies in order to estimate the nature, cost and timing of planned decommissioning activities for its nuclear plants. These cost studies are based on relevant information available at the time they are performed; however, estimates of future cash flows for extended periods of time are by nature highly uncertain and may vary significantly from actual results. In addition, Dominion's cost estimates include cost escalation rates that are applied to the base year costs. Dominion determines cost escalation rates, which represent projected cost increases over time due to both general inflation and increases in the cost of specific decommissioning activities, for each nuclear facility. The selection of these cost escalation rates is dependent on subjective factors which are considered to be critical assumptions.

Primarily as a result of a shift of the delayed planned date on which the DOE is expected to begin accepting spent nuclear fuel, in 2014 Dominion recorded an increase of \$95 million to the nuclear decommissioning AROs.

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In December 2013, Dominion recorded a reduction of \$129 million (\$47 million of which was credited to income) in the nuclear decommissioning AROs for its units due to a reduction in estimated costs.

INCOME TAXES

Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. The interpretation of tax laws involves uncertainty, since tax authorities may interpret the laws differently. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

Given the uncertainty and judgment involved in the determination and filing of income taxes, there are standards for recognition and measurement in financial statements of positions taken or expected to be taken by an entity in its income tax returns. Positions taken by an entity in its income tax returns that are recognized in the financial statements must satisfy a more-likely-than-not recognition threshold, assuming that the position will be examined by tax authorities with full knowledge of all relevant information. At December 31, 2014, Dominion had \$145 million of unrecognized tax benefits. Changes in these unrecognized tax benefits may result from remeasurement of amounts expected to be realized, settlements with tax authorities and expiration of statutes of limitations.

Deferred income tax assets and liabilities are recorded representing future effects on income taxes for temporary differences between the bases of assets and liabilities for financial reporting and tax purposes. Dominion evaluates quarterly the probability of realizing deferred tax assets by considering current and historical financial results, expectations for future taxable income and the availability of tax planning strategies that can be implemented, if necessary, to realize deferred tax assets. Failure to achieve forecasted taxable income or successfully implement tax planning strategies may affect the realization of deferred tax assets. Dominion establishes a valuation allowance when it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized. At December 31, 2014, Dominion had established \$87 million of valuation allowances.

ACCOUNTING FOR DERIVATIVE CONTRACTS AND OTHER INSTRUMENTS AT FAIR VALUE

Dominion uses derivative contracts such as futures, swaps, forwards, options and FTRs to manage commodity, currency exchange and financial market risks of its business operations. Derivative contracts, with certain exceptions, are reported in the Consolidated Balance Sheets at fair value. Accounting requirements for derivatives and related hedging activities are complex and may be subject to further clarification by standard-setting bodies. The majority of investments held in Dominion's nuclear decommissioning and rabbi and benefit plan trust funds are also subject to fair value accounting. See Notes 6 and 21 to the Consolidated Financial Statements for further information on these fair value measurements.

Fair value is based on actively-quoted market prices, if available. In the absence of actively-quoted market prices, management seeks indicative price information from external sources, including broker quotes and industry publications. When evaluat-

ing pricing information provided by brokers and other pricing services, Dominion considers whether the broker is willing and able to trade at the quoted price, if the broker quotes are based on an active market or an inactive market and the extent to which brokers are utilizing a particular model if pricing is not readily available. If pricing information from external sources is not available, or if Dominion believes that observable pricing information is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases, Dominion must estimate prices based on available historical and near-term future price information and use of statistical methods, including regression analysis, that reflect its market assumptions.

Dominion maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

USE OF ESTIMATES IN GOODWILL IMPAIRMENT TESTING

As of December 31, 2014, Dominion reported \$3.0 billion of goodwill in its Consolidated Balance Sheet. A significant portion resulted from the acquisition of the former CNG in 2000.

In April of each year, Dominion tests its goodwill for potential impairment, and performs additional tests more frequently if an event occurs or circumstances change in the interim that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. The 2014, 2013 and 2012 annual tests and any interim tests did not result in the recognition of any goodwill impairment.

In general, Dominion estimates the fair value of its reporting units by using a combination of discounted cash flows and other valuation techniques that use multiples of earnings for peer group companies and analyses of recent business combinations involving peer group companies. Fair value estimates are dependent on subjective factors such as Dominion's estimate of future cash flows, the selection of appropriate discount and growth rates, and the selection of peer group companies and recent transactions. These underlying assumptions and estimates are made as of a point in time; subsequent modifications, particularly changes in discount rates or growth rates inherent in Dominion's estimates of future cash flows, could result in a future impairment of goodwill. Although Dominion has consistently applied the same methods in developing the assumptions and estimates that underlie the fair value calculations, such as estimates of future cash flows, and based those estimates on relevant information available at the time, such cash flow estimates are highly uncertain by nature and may vary significantly from actual results. If the estimates of future cash flows used in the most recent tests had been 10% lower, the resulting fair values would have still been greater than the carrying values of each of those reporting units tested, indicating that no impairment was present. See Note 11 to the Consolidated Financial Statements for additional information.

USE OF ESTIMATES IN LONG-LIVED ASSET IMPAIRMENT TESTING

Impairment testing for an individual or group of long-lived assets or for intangible assets with definite lives is required when circumstances indicate those assets may be impaired. When an asset's carrying amount exceeds the undiscounted estimated future cash flows associated with the asset, the asset is considered impaired to the extent that the asset's fair value is less than its carrying amount. Performing an impairment test on long-lived

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

assets involves judgment in areas such as identifying if circumstances indicate an impairment may exist, identifying and grouping affected assets, and developing the undiscounted and discounted estimated future cash flows (used to estimate fair value in the absence of market-based value) associated with the asset, including probability weighting such cash flows to reflect expectations about possible variations in their amounts or timing, expectations about operating the long-lived assets and the selection of an appropriate discount rate. When determining whether an asset or asset group has been impaired, management groups assets at the lowest level that has identifiable cash flows. Although cash flow estimates are based on relevant information available at the time the estimates are made, estimates of future cash flows are, by nature, highly uncertain and may vary significantly from actual results. For example, estimates of future cash flows would contemplate factors which may change over time, such as the expected use of the asset, including future production and sales levels, expected fluctuations of prices of commodities sold and consumed and expected proceeds from dispositions. See Note 6 to the Consolidated Financial Statements for a discussion of impairments related to certain long-lived assets.

EMPLOYEE BENEFIT PLANS

Dominion sponsors noncontributory defined benefit pension plans and other postretirement benefit plans for eligible active employees, retirees and qualifying dependents. The projected costs of providing benefits under these plans are dependent, in part, on historical information such as employee demographics, the level of contributions made to the plans and earnings on plan assets. Assumptions about the future, including the expected long-term rate of return on plan assets, discount rates applied to benefit obligations, mortality rates and the anticipated rate of increase in healthcare costs and participant compensation, also have a significant impact on employee benefit costs. The impact of changes in these factors, as well as differences between Dominion's assumptions and actual experience, is generally recognized in the Consolidated Statements of Income over the remaining average service period of plan participants, rather than immediately.

The expected long-term rates of return on plan assets, discount rates, healthcare cost trend rates and mortality rates are critical assumptions. Dominion determines the expected long-term rates of return on plan assets for pension plans and other postretirement benefit plans by using a combination of:

- Expected inflation and risk-free interest rate assumptions;
- Historical return analysis to determine long term historic returns as well as historic risk premiums for various asset classes;
- Expected future risk premiums, asset volatilities and correlations;
- Forecasts of an independent investment advisor;
- Forward-looking return expectations derived from the yield on long-term bonds and the expected long-term returns of major stock market indices; and
- Investment allocation of plan assets. The strategic target asset allocation for Dominion's pension funds is 28% U.S. equity, 18% non-U.S. equity, 33% fixed income, 3% real estate and 18% other alternative investments, such as private equity investments.

Strategic investment policies are established for Dominion's prefunded benefit plans based upon periodic asset/liability studies. Factors considered in setting the investment policy include those mentioned above such as employee demographics, liability growth rates, future discount rates, the funded status of the plans and the expected long-term rate of return on plan assets. Deviations from the plans' strategic allocation are a function of Dominion's assessments regarding short-term risk and reward opportunities in the capital markets and/or short-term market movements which result in the plans' actual asset allocations varying from the strategic target asset allocations. Through periodic rebalancing, actual allocations are brought back in line with the target. Future asset/liability studies will focus on strategies to further reduce pension and other postretirement plan risk, while still achieving attractive levels of returns.

Dominion develops assumptions, which are then compared to the forecasts of an independent investment advisor to ensure reasonableness. An internal committee selects the final assumptions. Dominion calculated its pension cost using an expected long-term rate of return on plan assets assumption of 8.75% for 2014 and 8.50% for 2013 and 2012. For 2015, the expected long-term rate of return for pension cost assumption is 8.75%. Dominion calculated its other postretirement benefit cost using an expected long-term rate of return on plan assets assumption of 8.50% for 2014 and 7.75% for 2013 and 2012. For 2015, the expected long-term rate of return for other postretirement benefit cost assumption is 8.50%. The rate used in calculating other postretirement benefit cost is lower than the rate used in calculating pension cost because of differences in the relative amounts of various types of investments held as plan assets.

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Dominion determines discount rates from analyses of AA/Aa rated bonds with cash flows matching the expected payments to be made under its plans. The discount rates used to calculate pension cost and other postretirement benefit cost ranged from 5.20% to 5.30% for pension plans and 5.00% to 5.10% for other postretirement benefit plans in 2014, ranged from 4.40% to 4.80% in 2013 and were 5.50% in 2012. Dominion selected a discount rate of 4.40% for determining both its December 31, 2014 projected pension and other postretirement benefit obligations.

Dominion establishes the healthcare cost trend rate assumption based on analyses of various factors including the specific provisions of its medical plans, actual cost trends experienced and projected, and demographics of plan participants. Dominion's healthcare cost trend rate assumption as of December 31, 2014 was 7.00% and is expected to gradually decrease to 5.00% by 2018 and continue at that rate for years thereafter.

Dominion develops its mortality assumption using plan-specific studies and projects mortality improvement using scales developed by the Society of Actuaries.

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The following table illustrates the effect on cost of changing the critical actuarial assumptions previously discussed, while holding all other assumptions constant:

| | Change in Actuarial Assumption | Increase in Net Periodic Cost Other | |
|---|--------------------------------------|--|----------------|
| | | Pension | Postretirement |
| | | Benefits | Benefits |
| (millions, except percentages) | | | |
| Discount rate | (0.25)% | \$ 17 | \$ 1 |
| Long-term rate of return on plan assets | (0.25)% | 15 | 3 |
| Healthcare cost trend rate | 1% | N/A | 26 |

In addition to the effects on cost, at December 31, 2014, a 0.25% decrease in the discount rate would increase Dominion's projected pension benefit obligation by \$236 million and its accumulated postretirement benefit obligation by \$47 million, while a 1.00% increase in the healthcare cost trend rate would increase its accumulated postretirement benefit obligation by \$186 million.

See Note 21 to the Consolidated Financial Statements for additional information on Dominion's employee benefit plans.

DOMINION**RESULTS OF OPERATIONS**

Presented below is a summary of Dominion's consolidated results:

| Year Ended December 31, (millions, except EPS) | 2014 | \$ Change | 2013 | \$ Change | 2012 |
|--|----------|-----------|----------|-----------|--------|
| Net Income attributable to Dominion | \$ 1,310 | \$ (387) | \$ 1,697 | \$ 1,395 | \$ 302 |
| Diluted EPS | 2.24 | (0.69) | 2.93 | 2.40 | 0.53 |

Overview**2014 vs. 2013**

Net income attributable to Dominion decreased by 23% primarily due to charges associated with Virginia legislation enacted in April 2014 relating to the development of a third nuclear unit located at North Anna and offshore wind facilities, charges associated with Dominion's Liability Management Exercise, and the repositioning of Dominion's producer services business, which was completed in the first quarter of 2014. See Note 13 for more information on legislation related to North Anna and offshore wind facilities. See Liquidity and Capital Resources for more information on the Liability Management Exercise. These decreases were partially offset by an increase in investment tax credits received, primarily from new solar projects.

2013 vs. 2012

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Net income attributable to Dominion increased by \$1.4 billion primarily due to the absence of impairment and other charges recorded in 2012 related to the discontinued operations of Brayton Point and Kincaid and management's decision to cease operations and begin decommissioning Kewaunee in 2013.

Analysis of Consolidated Operations

Presented below are selected amounts related to Dominion's results of operations:

| Year Ended December 31, (millions) | 2014 | \$ Change | 2013 | \$ Change | 2012 |
|--|-----------|-----------|-----------|-----------|-----------|
| Operating Revenue | \$ 12,436 | \$ (684) | \$ 13,120 | \$ 285 | \$ 12,835 |
| Electric fuel and other energy-related purchases | 3,400 | (485) | 3,885 | 240 | 3,645 |
| Purchased electric capacity | 361 | 3 | 358 | (29) | 387 |
| Purchased gas | 1,355 | 24 | 1,331 | 154 | 1,177 |
| Net Revenue | 7,320 | (226) | 7,546 | (80) | 7,626 |
| Other operations and maintenance | 2,765 | 306 | 2,459 | (632) | 3,091 |
| Depreciation, depletion and amortization | 1,292 | 84 | 1,208 | 81 | 1,127 |
| Other taxes | 542 | (21) | 563 | 13 | 550 |
| Other income | 250 | (15) | 265 | 42 | 223 |
| Interest and related charges | 1,193 | 316 | 877 | 61 | 816 |
| Income tax expense | 452 | (440) | 892 | 81 | 811 |
| Loss from discontinued operations | | 92 | (92) | 1,033 | (1,125) |

An analysis of Dominion's results of operations follows:

2014 vs. 2013

Net revenue decreased 3%, primarily reflecting:

- A \$263 million decrease from retail energy marketing operations, primarily due to the sale of the retail electric business in March 2014; and
- A \$195 million decrease primarily related to the repositioning of Dominion's producer services business which was completed in the first quarter of 2014, reflecting the termination of natural gas trading and certain energy marketing activities.

These decreases were partially offset by:

A \$171 million increase from electric utility operations, primarily reflecting:

An increase from rate adjustment clauses at electric utility operations (\$132 million); and

An increase in sales from electric utility operations primarily due to an increase in heating degree days (\$34 million);

A \$46 million increase in gas transportation and storage activities and other revenues, largely due to various expansion projects being placed into service; and

A \$35 million increase in merchant generation margins, primarily due to higher realized prices (\$120 million), partially offset by lower generation output due to the decommissioning of Kewaunee beginning in May 2013 (\$95 million).

Other operations and maintenance increased 12%, primarily reflecting:

\$370 million in charges associated with Virginia legislation enacted in April 2014 relating to the development of a third nuclear unit located at North Anna and offshore wind facilities;

A \$135 million increase in planned outage costs at certain merchant generation facilities and at certain non-nuclear utility facilities; and

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

A \$121 million charge related to a settlement offer to incur future ash pond closure costs at certain utility generation facilities. These increases were partially offset by:

A gain on the sale of Dominion's electric retail energy marketing business in March 2014 (\$100 million), net of a \$31 million write-off of goodwill;

A \$67 million decrease primarily due to the deferral of utility nuclear outage costs beginning in the second quarter of 2014, pursuant to the Virginia legislation enacted in April 2014;

The absence of a \$65 million charge primarily reflecting impairment charges recorded in 2013 for certain natural gas infrastructure assets; and

A decrease in bad debt expense at regulated natural gas distribution operations primarily related to low-income assistance programs (\$53 million). These bad debt expenses are recovered through rates and do not impact net income.

Interest and related charges increased 36%, primarily due to charges associated with Dominion's Liability Management Exercise in 2014 (\$284 million) and higher long-term debt interest expense resulting from debt issuances in 2014 (\$44 million).

Income tax expense decreased 49%, primarily reflecting lower pre-tax income (\$350 million) and the impact of federal renewable energy investment tax credits (\$105 million).

Loss from discontinued operations reflects the sale of Brayton Point and Kincaid in 2013.

2013 vs. 2012

Net Revenue decreased 1%, primarily reflecting:

A \$162 million decrease in producer services primarily related to unfavorable price changes on economic hedging positions, partially offset by higher physical margins, all associated with natural gas aggregation, marketing and trading activities;

A \$111 million decrease in retail energy marketing activities primarily due to the impact of lower margins on electric sales due to higher purchased power costs; and

A \$98 million decrease from merchant generation operations, primarily due to lower generation output (\$133 million) largely due to the May 2013 closure of Kewaunee, partially offset by higher realized prices (\$35 million).

These decreases were partially offset by:

A \$161 million increase from electric utility operations, primarily reflecting:

An increase in sales to retail customers, primarily due to an increase in heating degree days (\$112 million); and

An increase from rate adjustment clauses (\$92 million); partially offset by

A decrease in ancillary revenues received from PJM (\$12 million) primarily due to a decrease in net operating reserve credits; and

A \$144 million increase from regulated natural gas transmission operations primarily related to the Appalachian Gateway Project that was placed into service in September 2012 (\$44 million), an increase in gathering and storage services (\$38 million), NGL activities primarily related to an increase in processing and fractionation volumes (\$19 million) and the Northeast Expansion Project that was placed into service in November 2012 (\$16 million).

Other operations and maintenance decreased 20%, primarily reflecting:

A \$589 million decrease related to Kewaunee largely due to the absence of charges recorded in 2012 following management's decision to cease operations and begin decommissioning in 2013;

A \$123 million decrease in certain electric transmission-related expenditures. These expenses are recovered through FERC rates;

A \$54 million decrease in storm damage and service restoration costs primarily due to the absence of damage caused by late June summer storms in 2012;

A \$42 million decrease in bad debt expense at regulated natural gas distribution operations primarily related to low income assistance programs. These expenses are recovered through rates and do not impact net income; and

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Increased gains from the sales of assets to Blue Racer (\$32 million).

These decreases were partially offset by:

A \$65 million increase primarily related to impairment charges for certain natural gas infrastructure assets;

A \$46 million increase resulting from impacts of the 2013 Biennial Review Order;

A \$35 million increase due to the absence of adjustments recorded in 2012 in connection with the 2012 North Carolina rate case;

A \$34 million increase in PJM operating reserves and reactive service charges; and

A \$26 million charge related to the expected shutdown of certain coal-fired generating units.

Other Income increased 19%, primarily due to higher realized gains (including investment income) on nuclear decommissioning trust funds (\$40 million) and a gain on the sale of Dominion's 50% equity method investment in Elwood (\$35 million), partially offset by a decrease in the equity component of AFUDC (\$15 million) and a decrease in earnings from equity method investments (\$11 million).

Income tax expense increased 10%, primarily reflecting higher pre-tax income in 2013 (\$169 million), partially offset by an increase in renewable energy investment tax credits (\$46 million) and a lower effective rate for state income taxes (\$45 million).

Loss from discontinued operations reflects the sale of Brayton Point and Kincaid in 2013.

Outlook

Dominion's strategy is to continue focusing on its regulated businesses while maintaining upside potential in well-positioned nonregulated businesses. The goals of this strategy are to provide earnings per share growth, a growing dividend and to maintain a stable credit profile. Dominion expects 80% to 90% of future earnings from its primary operating segments to come from regulated and long-term contracted businesses.

In 2015, Dominion is expected to experience an increase in net income on a per share basis as compared to 2014. Dominion's anticipated 2015 results reflect the following significant factors:

A return to normal weather in its electric utility operations;

Growth in weather-normalized electric utility sales of approximately 1%, comparable to 2014 growth;

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Construction and operation of growth projects in electric utility operations and associated rate adjustment clause revenue;
The absence of certain charges incurred in 2014, including charges associated with Virginia legislation enacted in April 2014 relating to the development of a third nuclear unit located at North Anna and offshore wind facilities, charges associated with Dominion's Liability Management Exercise, charges related to the repositioning of Dominion's producer services business, which was completed in the first quarter of 2014, and charges related to a settlement offer to incur future ash pond closure costs at certain utility generation facilities;
Construction and operation of growth projects in gas transmission and distribution; partially offset by
An increase in depreciation, depletion, and amortization;
Higher operating and maintenance expenses; and
A higher effective tax rate, driven primarily by higher state income tax expense and lower investment tax credits.
Additionally, in 2015, Dominion expects to focus on meeting new and developing environmental requirements, including by making significant investments in utility solar generation, particularly in Virginia.

SEGMENT RESULTS OF OPERATIONS

Segment results include the impact of intersegment revenues and expenses, which may result in intersegment profit or loss. Presented below is a summary of contributions by Dominion's operating segments to net income attributable to Dominion:

| Year Ended December 31, | 2014 | | 2013 | | 2012 | |
|----------------------------|-----------------|----------------|----------|---------|----------|---------|
| | Net | | Net | | Net | |
| | Income | | Income | | Income | |
| | attribu- | | attribu- | | attribu- | |
| | table | | table | | table | |
| | | Diluted | | Diluted | | Diluted |
| | to | EPS | to | EPS | to | EPS |
| | Dominion | | Dominion | | Dominion | |
| (millions, except EPS) | | | | | | |
| DVP | \$ 502 | \$ 0.86 | \$ 475 | \$ 0.82 | \$ 439 | \$ 0.77 |
| Dominion Generation | 1,101 | 1.88 | 1,031 | 1.78 | 1,021 | 1.78 |
| Dominion Energy | 677 | 1.16 | 643 | 1.11 | 551 | 0.96 |
| Primary operating segments | 2,280 | 3.90 | 2,149 | 3.71 | 2,011 | 3.51 |
| Corporate and Other | (970) | (1.66) | (452) | (0.78) | (1,709) | (2.98) |
| Consolidated | \$ 1,310 | \$ 2.24 | \$ 1,697 | \$ 2.93 | \$ 302 | \$ 0.53 |

DVP

Presented below are operating statistics related to DVP's operations:

| Year Ended December 31, | 2014 % Change | | 2013 % Change | | 2012 |
|-------------------------------------|----------------------|----|---------------|-----|-------|
| Electricity delivered (million MWh) | 83.5 | 1% | 82.4 | 2% | 80.8 |
| Degree days: | | | | | |
| Cooling | 1,638 | | 1,645 | (8) | 1,787 |
| Heating | 3,793 | 4 | 3,651 | 24 | 2,955 |

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| | | | | | |
|--|-------|---|-------|---|-------|
| Average electric distribution customer accounts (thousands) ⁽¹⁾ | 2,500 | 1 | 2,475 | 1 | 2,455 |
|--|-------|---|-------|---|-------|

(1) Period average.

Presented below, on an after-tax basis, are the key factors impacting DVP's net income contribution:

2014 vs. 2013

| (millions, except EPS) | Increase (Decrease) | |
|--------------------------------------|---------------------|---------|
| | Amount | EPS |
| Regulated electric sales: | | |
| Weather | \$ 8 | \$ 0.01 |
| Other | (1) | |
| FERC transmission equity return | 27 | 0.04 |
| Storm damage and service restoration | 13 | 0.02 |
| Depreciation | (8) | (0.01) |
| Other | (12) | (0.02) |
| Change in net income contribution | \$ 27 | \$ 0.04 |

2013 vs. 2012

| (millions, except EPS) | Increase (Decrease) | |
|---|---------------------|---------|
| | Amount | EPS |
| Regulated electric sales: | | |
| Weather | \$ 24 | \$ 0.04 |
| Other | (2) | |
| FERC transmission equity return | 30 | 0.05 |
| Storm damage and service restoration ⁽¹⁾ | (20) | (0.03) |
| Depreciation | (7) | (0.01) |
| Other operations and maintenance expense | 7 | 0.01 |
| Other | 4 | 0.01 |
| Share dilution | | (0.02) |
| Change in net income contribution | \$ 36 | \$ 0.05 |

(1) Excludes restoration costs associated with damage caused by severe storms in 2012, which are reflected in the Corporate and Other segment.

Dominion Generation

Presented below are operating statistics related to Dominion Generation's operations:

| Year Ended December 31, | 2014 | % Change | 2013 | % Change | 2012 |
|--|----------------------|----------|-------|----------|-------|
| Electricity supplied (million MWh): | | | | | |
| Utility | 83.9 | 1% | 82.8 | 2% | 80.9 |
| Merchant ⁽¹⁾ | 25.0 | (6) | 26.6 | (5) | 28.0 |
| Degree days (electric utility service area): | | | | | |
| Cooling | 1,638 | | 1,645 | (8) | 1,787 |
| Heating | 3,793 | 4 | 3,651 | 24 | 2,955 |
| Average retail energy marketing customer accounts (thousands) ⁽²⁾ | 1,283 ⁽³⁾ | (39) | 2,119 | | 2,129 |

(1) Excludes 7.6 million and 12.8 million MWh for 2013 and 2012, respectively, related to Kewaunee, Brayton Point, Kincaid, State Line, Salem and Dominion's equity method investment in Elwood. There are no exclusions related to these stations in 2014.

(2) *Period average.*

(3) *Excludes 511 thousand average retail electric energy marketing customer accounts due to the sale of this business in March 2014.*

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Presented below, on an after-tax basis, are the key factors impacting Dominion Generation's net income contribution:

2014 vs. 2013

| (millions, except EPS) | Increase (Decrease) | |
|---|---------------------|---------|
| | Amount | EPS |
| Merchant generation margin | \$ 64 | \$ 0.11 |
| Regulated electric sales: | | |
| Weather | 13 | 0.02 |
| Other | (7) | (0.01) |
| Retail energy marketing operations ⁽¹⁾ | (20) | (0.04) |
| Rate adjustment clause equity return | (8) | (0.01) |
| PJM ancillary services | 24 | 0.04 |
| Renewable energy investment tax credits | 97 | 0.17 |
| Outage costs | (40) | (0.07) |
| AFUDC equity return | (17) | (0.04) |
| Salaries and benefits | (11) | (0.03) |
| Other | (25) | (0.04) |
| Change in net income contribution | \$ 70 | \$ 0.10 |

(1) Excludes earnings from Retail electric energy marketing, which was sold in March 2014.

2013 vs. 2012

| (millions, except EPS) | Increase (Decrease) | |
|---|---------------------|-----------|
| | Amount | EPS |
| Merchant generation margin | \$ (14) | \$ (0.02) |
| Regulated electric sales: | | |
| Weather | 44 | 0.08 |
| Other | (4) | (0.01) |
| Retail energy marketing operations | (54) | (0.09) |
| Rate adjustment clause equity return | 35 | 0.06 |
| PJM ancillary services | (26) | (0.05) |
| Renewable energy investment tax credits | 40 | 0.07 |
| Outage costs | 10 | 0.02 |
| Other | (21) | (0.04) |
| Share dilution | | (0.02) |
| Change in net income contribution | \$ 10 | \$ |

Dominion Energy

Presented below are selected operating statistics related to Dominion Energy's operations.

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| Year Ended December 31, | 2014 | % Change | 2013 | % Change | 2012 |
|---|-------|----------|-------|----------|-------|
| Gas distribution throughput (bcf): | | | | | |
| Sales | 32 | 10% | 29 | 12% | 26 |
| Transportation | 353 | 26 | 281 | 8 | 259 |
| Heating degree days | 6,330 | 8 | 5,875 | 18 | 4,986 |
| Average gas distribution customer accounts (thousands) ⁽¹⁾ : | | | | | |
| Sales | 244 | (1) | 246 | (2) | 251 |
| Transportation | 1,052 | | 1,049 | | 1,044 |

(1) Period average.

Presented below, on an after-tax basis, are the key factors impacting Dominion Energy's net income contribution:

2014 vs. 2013

| (millions, except EPS) | Increase (Decrease) | |
|-----------------------------------|---------------------|---------|
| | Amount | EPS |
| Gas distribution margin: | | |
| Weather | \$ 4 | \$ 0.01 |
| Rate adjustment clauses | 15 | 0.02 |
| Other | 5 | 0.01 |
| Assignments of Marcellus acreage | 31 | 0.05 |
| Depreciation | (8) | (0.01) |
| Blue Racer ⁽¹⁾ | (1) | |
| Other | (12) | (0.03) |
| Change in net income contribution | \$ 34 | \$ 0.05 |

(1) Includes a \$24 million decrease in gains from the sale of assets.

2013 vs. 2012

| (millions, except EPS) | Increase (Decrease) | |
|---|---------------------|---------|
| | Amount | EPS |
| Weather | \$ 8 | \$ 0.01 |
| Producer services margin ⁽¹⁾ | (37) | (0.06) |
| Gas transmission margin ⁽²⁾ | 88 | 0.15 |
| Blue Racer ⁽³⁾ | 17 | 0.03 |
| Assignment of Marcellus acreage | 12 | 0.02 |
| Other | 4 | 0.01 |
| Share dilution | | (0.01) |
| Change in net income contribution | \$ 92 | \$ 0.15 |

(1) Excludes charges incurred in 2013 associated with the ongoing exit of natural gas trading and certain energy marketing activities which are reflected in the Corporate and Other segment.

(2) Primarily reflects a full year of the Appalachian Gateway Project in service.

(3) Includes a \$15 million increase in gains from the sale of assets.

Corporate and Other

Presented below are the Corporate and Other segment's after-tax results:

| Year Ended December 31, (millions, except EPS amounts) | 2014 | 2013 | 2012 |
|---|------|------|------|
|---|------|------|------|

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| | | | |
|--|-----------|-----------|------------|
| Specific items attributable to operating segments | \$ (544) | \$ (184) | \$ (1,467) |
| Specific items attributable to Corporate and Other segment | (149) | | (5) |
| Total specific items | (693) | (184) | (1,472) |
| Other corporate operations | (277) | (268) | (237) |
| Total net expense | \$ (970) | \$ (452) | \$ (1,709) |
| EPS impact | \$ (1.66) | \$ (0.78) | \$ (2.98) |
| TOTAL SPECIFIC ITEMS | | | |

Corporate and Other includes specific items attributable to Dominion's primary operating segments that are not included in profit measures evaluated by executive management in assessing those segments' performance or allocating resources among the segments. See Note 25 to the Consolidated Financial Statements for discussion of these items in more detail. Corporate and other also includes specific items attributable to the Corporate and Other segment. In 2014, this primarily includes \$174 million in after-tax charges associated with Dominion's Liability Management Exercise.

Table of Contents**VIRGINIA POWER****RESULTS OF OPERATIONS**

Presented below is a summary of Virginia Power's consolidated results:

| Year Ended December 31, (millions) | 2014 | \$ Change | 2013 | \$ Change | 2012 |
|---------------------------------------|--------|-----------|----------|-----------|----------|
| Net Income | \$ 858 | \$ (280) | \$ 1,138 | \$ 88 | \$ 1,050 |

Overview**2014 vs. 2013**

Net income decreased by 25% primarily due to charges associated with Virginia legislation enacted in April 2014 relating to the development of a third nuclear unit located at North Anna and offshore wind facilities.

2013 vs. 2012

Net income increased by 8% primarily due to an increase in rate adjustment clause revenue, the impact of more favorable weather on utility operations, and the absence of restoration costs associated with damage caused by late June 2012 summer storms.

Analysis of Consolidated Operations

Presented below are selected amounts related to Virginia Power's results of operations:

| Year Ended December 31, (millions) | 2014 | \$ Change | 2013 | \$ Change | 2012 |
|--|----------|-----------|----------|-----------|----------|
| Operating Revenue | \$ 7,579 | \$ 284 | \$ 7,295 | \$ 69 | \$ 7,226 |
| Electric fuel and other energy-related purchases | 2,406 | 102 | 2,304 | (64) | 2,368 |
| Purchased electric capacity | 360 | 2 | 358 | (28) | 386 |
| Net Revenue | 4,813 | 180 | 4,633 | 161 | 4,472 |
| Other operations and maintenance | 1,916 | 465 | 1,451 | (15) | 1,466 |
| Depreciation and amortization | 915 | 62 | 853 | 71 | 782 |
| Other taxes | 258 | 9 | 249 | 17 | 232 |
| Other income | 93 | 7 | 86 | (10) | 96 |
| Interest and related charges | 411 | 42 | 369 | (16) | 385 |
| Income tax expense | 548 | (111) | 659 | 6 | 653 |

An analysis of Virginia Power's results of operations follows:

2014 vs. 2013

Other operations and maintenance increased 32%, primarily reflecting:

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\$370 million in charges associated with Virginia legislation enacted in April 2014 relating to the development of a third nuclear unit located at North Anna and offshore wind facilities; and

A \$121 million charge related to a settlement offer to incur future ash pond closure costs at certain generation facilities.

Interest and related charges increased 11%, primarily due to higher long-term debt interest expense resulting from debt issuances in August 2013 and February 2014.

Income tax expense decreased 17%, primarily reflecting lower pre-tax income.

2013 vs. 2012

Net Revenue increased 4%, primarily reflecting:

An increase in sales to retail customers, primarily due to an increase in heating degree days (\$112 million); and

An increase from rate adjustment clauses (\$92 million); partially offset by

A decrease in ancillary revenues received from PJM (\$12 million) primarily due to a decrease in net operating reserve credits.

Other operations and maintenance decreased 1%, primarily reflecting:

A \$123 million decrease in certain electric transmission-related expenditures. These expenses are recovered through FERC rates; and

A \$54 million decrease in storm damage and service restoration costs primarily due to the absence of damage caused by late June summer storms in 2012.

These decreases were partially offset by:

A \$46 million increase resulting from impacts of the 2013 Biennial Review Order;

A \$35 million increase due to the absence of adjustments recorded in 2012 in connection with the 2012 North Carolina rate case;

A \$34 million increase in PJM operating reserves and reactive service charges;

A \$26 million charge related to the expected shutdown of certain coal-fired generating units; and

A \$22 million increase in salaries, wages and benefits.

DOMINION GAS

RESULTS OF OPERATIONS

Presented below is a summary of Dominion Gas consolidated results:

| Year Ended December 31, (millions) | 2014 | \$ Change | 2013 | \$ Change | 2012 |
|---------------------------------------|--------|-----------|--------|-----------|--------|
| Net Income | \$ 512 | \$ 51 | \$ 461 | \$ 2 | \$ 459 |

Overview

2014 vs. 2013

Net income increased by 11% primarily due to the absence of impairment charges for certain natural gas infrastructure assets and increased gains due to assignments of Marcellus acreage, partially offset by decreased gains on sales of assets to related parties.

2013 vs. 2012

Net income increased \$2 million due to increased revenue from operations, primarily reflecting the Appalachian Gateway Project and the Northeast Expansion Project being placed into service, partially offset by decreased gains on sales of assets and impairment charges related to certain natural gas infrastructure assets.

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Analysis of Consolidated Operations

Presented below are selected amounts related to Dominion Gas results of operations:

| Year Ended December 31, (millions) | 2014 | \$ Change | 2013 | \$ Change | 2012 |
|---------------------------------------|----------|-----------|----------|-----------|----------|
| Operating Revenue | \$ 1,898 | \$ (39) | \$ 1,937 | \$ 260 | \$ 1,677 |
| Purchased gas | 315 | (8) | 323 | 88 | 235 |
| Other energy-related purchases | 40 | (53) | 93 | 52 | 41 |
| Net Revenue | 1,543 | 22 | 1,521 | 120 | 1,401 |
| Other operations and maintenance | 338 | (85) | 423 | 88 | 335 |
| Depreciation and amortization | 197 | 9 | 188 | 12 | 176 |
| Other taxes | 157 | 9 | 148 | 8 | 140 |
| Other income | 22 | (6) | 28 | (9) | 37 |
| Interest and related charges | 27 | (1) | 28 | (12) | 40 |
| Income tax expense | 334 | 33 | 301 | 13 | 288 |

An analysis of Dominion Gas results of operations follows:

2014 vs. 2013**Other operations and maintenance** decreased 20%, primarily reflecting:

The absence of impairment charges related to certain natural gas infrastructure assets (\$55 million);

A decrease in bad debt expense at regulated natural gas distribution operations primarily related to low income assistance programs (\$53 million). These bad debt expenses are recovered through rates and do not impact net income; and

An increase in gains associated with assignments of Marcellus acreage (\$42 million); partially offset by

Decreased gains on the sale of assets to related parties (\$43 million).

Income tax expense increased 11% primarily reflecting higher pre-tax income.**2013 VS. 2012****Net Revenue** increased 9%, primarily reflecting:

An increase in gas transmission transportation revenue primarily due to the Appalachian Gateway Project being placed into service in September 2012 (\$64 million) and the Northeast Expansion Project that was placed into service in November 2012 (\$16 million);

An increase in gathering and storage services (\$32 million);

An increase in sales to gas distribution customers primarily due to an increase in heating degree days and other revenues (\$18 million); and an increase in AMR and PIR program revenues (\$16 million).

These increases were partially offset by:

A decrease in rider revenue primarily related to bad debt expense (\$42 million) related to low income assistance programs.

Other operations and maintenance increased 26%, primarily reflecting:

Decreased gains on the sales of pipeline systems (\$72 million); and

Impairment charges related to certain natural gas infrastructure assets (\$55 million).

These decreases were partially offset by:

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A \$42 million decrease in bad debt expense at regulated natural gas distribution operations primarily related to low income assistance programs. These bad debt expenses are recovered through rates and not impact net income; and

An \$18 million gain from agreements to convey Marcellus Shale development rights underneath several natural gas storage fields.

Other income decreased 24%, primarily due to a decrease in the equity component of AFUDC due to significant projects being placed into service in the second half of 2012.

Interest and related charges decreased 30%, primarily due to lower interest on affiliated long-term debt resulting from lower outstanding debt due to the extinguishment of intercompany borrowings through the sale of two pipelines to an affiliate in December 2012 and the acquisition of intercompany borrowings from debt issued to third parties in October 2013 (\$18 million), partially offset by a decrease in the debt component of AFUDC (\$7 million) due to significant projects being placed into service in the second half of 2012.

LIQUIDITY AND CAPITAL RESOURCES

Dominion depends on both internal and external sources of liquidity to provide working capital and as a bridge to long-term debt financings.

Short-term cash requirements not met by cash provided by operations are generally satisfied with proceeds from short-term borrowings.

Long-term cash needs are met through issuances of debt and/or equity securities.

At December 31, 2014, Dominion had \$1.7 billion of unused capacity under its credit facilities. See additional discussion below under *Credit Facilities and Short-Term Debt*.

A summary of Dominion's cash flows is presented below:

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|--|---------|---------|---------|
| Cash and cash equivalents at beginning of year | \$ 316 | \$ 248 | \$ 102 |
| Cash flows provided by (used in): | | | |
| Operating activities | 3,439 | 3,433 | 4,137 |
| Investing activities | (5,181) | (3,458) | (3,840) |
| Financing activities | 1,744 | 93 | (151) |
| Net increase in cash and cash equivalents | 2 | 68 | 146 |
| Cash and cash equivalents at end of year | \$ 318 | \$ 316 | \$ 248 |

Table of Contents**Operating Cash Flows**

Net cash provided by Dominion's operating activities did not change significantly for 2014.

Dominion believes that its operations provide a stable source of cash flow to contribute to planned levels of capital expenditures and maintain or grow the dividend on common shares. In 2015, Dominion's Board of Directors updated the dividend policy it set in December 2012 to a target payout ratio of 70-75%, and established an annual dividend rate for 2015 of \$2.59 per share of common stock, an 8% increase over the 2014 rate. In January 2015, Dominion's Board of Directors declared dividends payable March 20, 2015 of 64.75 cents per share of common stock. Declarations of dividends are subject to further Board of Directors approval.

Dominion's operations are subject to risks and uncertainties that may negatively impact the timing or amounts of operating cash flows, and which are discussed in Item 1A. Risk Factors.

CREDIT RISK

Dominion's exposure to potential concentrations of credit risk results primarily from its energy marketing and price risk management activities. Presented below is a summary of Dominion's credit exposure as of December 31, 2014 for these activities. Gross credit exposure for each counterparty is calculated as outstanding receivables plus any unrealized on- or off-balance sheet exposure, taking into account contractual netting rights.

| (millions) | Gross Credit Exposure | Credit Collateral | Net Credit Exposure |
|--|-----------------------------|----------------------|---------------------------|
| Investment grade ⁽¹⁾ | \$ 189 | \$ 114 | \$ 75 |
| Non-investment grade ⁽²⁾ | 1 | | 1 |
| No external ratings: | | | |
| Internally rated-investment grade ⁽³⁾ | 7 | | 7 |
| Internally rated-non-investment grade ⁽⁴⁾ | 31 | | 31 |
| Total | \$ 228 | \$ 114 | \$ 114 |

(1) Designations as investment grade are based upon minimum credit ratings assigned by Moody's and Standard & Poor's. The five largest counterparty exposures, combined, for this category represented approximately 47% of the total net credit exposure.

(2) The five largest counterparty exposures, combined, for this category represented approximately 1% of the total net credit exposure.

(3) The five largest counterparty exposures, combined, for this category represented approximately 6% of the total net credit exposure.

(4) The five largest counterparty exposures, combined, for this category represented approximately 20% of the total net credit exposure.

Investing Cash Flows

In 2014, net cash used in Dominion's investing activities increased by \$1.7 billion, primarily due to higher capital expenditures and lower proceeds from sales of assets and businesses.

Financing Cash Flows and Liquidity

Dominion relies on capital markets as significant sources of funding for capital requirements not satisfied by cash provided by its operations. As discussed in *Credit Ratings*, Dominion's ability to borrow funds or issue securities and the return demanded by investors are affected by credit ratings. In addition, the raising of external capital is subject to certain regulatory requirements, including registration with the SEC for certain issuances.

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Dominion currently meets the definition of a well-known seasoned issuer under SEC rules governing the registration, communications and offering processes under the Securities Act of 1933. The rules provide for a streamlined shelf registration process to provide registrants with timely access to capital. This allows Dominion to use automatic shelf registration statements to register any offering of securities, other than those for exchange offers or business combination transactions.

In 2014, net cash provided by Dominion's financing activities increased by \$1.7 billion, primarily reflecting higher net debt issuances, proceeds from Dominion Midstream's initial public offering and the absence of the acquisition of the Juniper non-controlling interest recorded in 2013 related to Fairless.

LIABILITY MANAGEMENT

During 2014, Dominion elected to redeem certain debt and preferred securities prior to their stated maturities. Proceeds from the issuance of lower-cost senior and enhanced junior subordinated notes were used to fund the redemption payments. See Note 17 to the Consolidated Financial Statements for descriptions of these redemptions.

From time to time, Dominion may reduce its outstanding debt and level of interest expense through redemption of debt securities prior to maturity and repurchases in the open market, in privately negotiated transactions, through tender offers or otherwise.

CREDIT FACILITIES AND SHORT-TERM DEBT

Dominion uses 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.

In connection with commodity hedging activities, Dominion is required to provide collateral to counterparties under some circumstances. Under certain collateral arrangements, Dominion may satisfy these requirements by electing to either deposit cash, post letters of credit or, in some cases, utilize other forms of security. From time to time, Dominion may vary the form of collateral provided to counterparties after weighing the costs and benefits of various factors associated with the different forms of collateral. These factors include short-term borrowing and short-term investment rates, the spread over these short-term rates at which Dominion can issue commercial paper, balance sheet impacts, the costs and fees of alternative collateral postings with these and other counterparties and overall liquidity management objectives.

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

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

| | Facility | Outstanding Commercial Paper | Outstanding Letters of Credit | Facility Capacity |
|--|----------|------------------------------------|-------------------------------------|----------------------|
| December 31, 2014 (millions) | Limit | | | Available |
| Joint revolving credit facility ⁽¹⁾ | \$ 4,000 | \$ 2,664 | \$ | \$ 1,336 |
| Joint revolving credit facility ⁽²⁾ | 500 | 111 | 48 | 341 |
| Total | \$ 4,500 | \$ 2,775 ⁽³⁾ | \$ 48 | \$ 1,677 |

(1) In May 2014, this credit facility was amended and restated. The facility limit was increased from \$3 billion to \$4 billion and the maturity date was extended from September 2018 to April 2019. This credit facility 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) In May 2014, this credit facility was amended and restated and the maturity date was extended from September 2018 to April 2019. This credit facility can be used to support bank borrowings, commercial paper and letter of credit issuances.

(3) The weighted-average interest rates of the outstanding commercial paper supported by Dominion's credit facilities were 0.38% and 0.33% at December 31, 2014 and 2013, respectively.

SHORT-TERM NOTES

In November 2013, Dominion issued \$400 million of private placement short-term notes that matured and were repaid in November 2014 and bore interest at a variable rate. The proceeds were used for general corporate purposes.

In November 2014, Dominion issued \$400 million of private placement short-term notes that mature in November 2015 and bear interest at a variable rate. The proceeds were used for general corporate purposes.

LONG-TERM DEBT

During 2014, Dominion issued the following long-term debt:

| Type | Principal (millions) | Rate | Maturity |
|------------------------------------|-------------------------|-------|----------|
| Senior notes | \$ 400 | 1.25% | 2017 |
| Senior notes | 700 | 2.50% | 2019 |
| Senior notes | 450 | 2.50% | 2019 |
| Senior notes | 350 | 3.45% | 2024 |
| Senior notes | 450 | 3.60% | 2024 |
| Senior notes | 500 | 3.63% | 2024 |
| Senior notes | 600 | 4.45% | 2044 |
| Senior notes | 500 | 4.60% | 2044 |
| Senior notes | 450 | 4.70% | 2044 |
| Enhanced junior subordinated notes | 685 | 5.75% | 2054 |
| Remarketable subordinated notes | 1,000 | 1.50% | 2020 |

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Total notes issued \$ 6,085

During 2014, Dominion repaid and repurchased \$4 billion of long-term debt, including redemption premiums.

ISSUANCE OF COMMON STOCK AND OTHER EQUITY SECURITIES

Dominion maintains Dominion Direct® and a number of employee savings plans through which contributions may be invested in Dominion's common stock. These shares may either be newly issued or purchased on the open market with proceeds contributed to these plans. In January 2014, Dominion began purchasing its common stock on the open market for these plans. In April 2014, Dominion began issuing new common shares for these direct stock purchase plans.

During 2014, Dominion issued approximately 3.8 million shares of common stock totaling \$273 million through employee savings plans, direct stock purchase and dividend reinvestment plans, converted securities and other employee and director benefit plans. Dominion received cash proceeds of \$205 million from the issuance of 2.9 million of such shares through Dominion Direct and employee savings plans.

In December 2014, Dominion filed an SEC shelf registration for the sale of debt and equity securities including the ability to sell common stock through an at-the-market program. See Note 19 to the Consolidated Financial Statements for a description of the at-the-market program.

In June 2013 and July 2014, Dominion issued equity units, initially in the form of Corporate Units. Each Corporate Unit consists of a stock purchase contract and 1/20 interest in a RSN issued by Dominion. The stock purchase contracts obligate the holders to purchase shares of Dominion common stock at a future settlement date. See Note 17 to the Consolidated Financial Statements for a description of common stock to be issued by Dominion.

REPURCHASE OF COMMON STOCK

Dominion did not repurchase any shares in 2014 and does not plan to repurchase shares during 2015, except for shares tendered by employees to satisfy tax withholding obligations on vested restricted stock, which does not count against its stock repurchase authorization.

Credit Ratings

Credit ratings are intended to provide banks and capital market participants with a framework for comparing the credit quality of securities and are not a recommendation to buy, sell or hold securities. Dominion believes that its current credit ratings provide sufficient access to the capital markets. However, disruptions in the banking and capital markets not specifically related to Dominion may affect its ability to access these funding sources or cause an increase in the return required by investors. Dominion's credit ratings affect its liquidity, cost of borrowing under credit facilities and collateral posting requirements under commodity contracts, as well as the rates at which it is able to offer its debt securities.

Both quantitative (financial strength) and qualitative (business or operating characteristics) factors are considered by the credit rating agencies in establishing an individual company's credit rating. Credit ratings should be evaluated independently and are subject to revision or withdrawal at any time by the assigning rating organization. The credit ratings for Dominion are affected by its financial profile, mix of regulated and nonregulated businesses and respective cash flows, changes in methodologies used by the rating agencies and event risk, if applicable, such as major acquisitions or dispositions.

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In November 2014, Standard & Poor's changed Dominion's rating outlook to negative from stable. Dominion cannot predict the potential impact the negative outlook at Standard & Poor's could have on its cost of borrowing. Credit ratings as of February 23, 2015 follow:

| | Fitch | Moody's | Standard & Poor's |
|-------------------------------------|-------------|-------------|-------------------|
| Senior unsecured debt securities | BBB+ | Baa2 | BBB+ |
| Junior subordinated debt securities | BBB- | Baa3 | BBB |
| Enhanced junior subordinated notes | BBB- | Baa3 | BBB |
| Commercial paper | F2 | P-2 | A-2 |

As of February 23, 2015, Fitch and Moody's maintained a stable outlook for their respective ratings of Dominion and Standard & Poor's maintained a negative outlook for its respective ratings of Dominion.

A downgrade in an individual company's credit rating would not necessarily restrict its ability to raise short-term and long-term financing as long as its credit rating remains investment grade, but it could result in an increase in the cost of borrowing. Dominion works closely with Fitch, Moody's and Standard & Poor's with the objective of achieving its targeted credit ratings. Dominion may find it necessary to modify its business plan to maintain or achieve appropriate credit ratings and such changes may adversely affect growth and EPS.

Debt Covenants

As part of borrowing funds and issuing debt (both short-term and long-term) or preferred securities, Dominion must enter into enabling agreements. These agreements contain covenants that, in the event of default, could result in the acceleration of principal and interest payments; restrictions on distributions related to capital stock, including dividends, redemptions, repurchases, liquidation payments or guarantee payments; and in some cases, the termination of credit commitments unless a waiver of such requirements is agreed to by the lenders/security holders. These provisions are customary, with each agreement specifying which covenants apply. These provisions are not necessarily unique to Dominion.

Some of the typical covenants include:

- The timely payment of principal and interest;
- Information requirements, including submitting financial reports filed with the SEC and information about changes in Dominion's credit ratings to lenders;
- Performance obligations, audits/inspections, continuation of the basic nature of business, restrictions on certain matters related to merger or consolidation, and restrictions on disposition of all or substantially all assets;
- Compliance with collateral minimums or requirements related to mortgage bonds; and
- Limitations on liens.

Dominion is required to pay annual commitment fees to maintain its credit facilities. In addition, Dominion's credit agreements contain various terms and conditions that could affect its ability to borrow under these facilities. They include maximum debt to total capital ratios and cross-default provisions.

As of December 31, 2014, the calculated total debt to total capital ratio, pursuant to the terms of the agreements, was as follows:

| Company | Maximum Allowed Ratio | Actual Ratio ⁽¹⁾ |
|----------|-----------------------|-----------------------------|
| Dominion | 65% | 59% |

(1) Indebtedness as defined by the bank agreements excludes junior subordinated and remarketable subordinated notes reflected as long-term debt as well as AOCI reflected as equity in the Consolidated Balance Sheets.

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If Dominion or any of its material subsidiaries fails to make payment on various debt obligations in excess of \$100 million, the lenders could require that company to accelerate its repayment of any outstanding borrowings under the credit facilities and the lenders could terminate their commitment to lend funds to that company. Accordingly, any default by Virginia Power or Dominion Gas under the joint credit facilities with Dominion would affect the lender's commitment to Dominion.

Dominion executed RCCs in connection with its issuance of the following hybrid securities:

June 2006 hybrids;
September 2006 hybrids; and
June 2009 hybrids.

In October 2014, Dominion redeemed all of the June 2009 hybrids. The redemption was conducted in compliance with the RCC. See Note 17 to the Consolidated Financial Statements for additional information, including terms of the RCCs.

At December 31, 2014, the termination dates and covered debt under the RCCs associated with Dominion's hybrids were as follows:

| | RCC | |
|------------------------|------------------|-------------------------------|
| | Termination | Designated Covered Debt |
| Hybrid | Date | Under RCC |
| June 2006 hybrids | 6/30/2036 | September 2006 hybrids |
| September 2006 hybrids | 9/30/2036 | June 2006 hybrids |

Dominion monitors these debt covenants on a regular basis in order to ensure that events of default will not occur. As of December 31, 2014, there have been no events of default under or changes to Dominion's debt covenants.

Dividend Restrictions

Certain agreements associated with Dominion's credit facilities contain restrictions on the ratio of debt to total capitalization. These limitations did not restrict Dominion's ability to pay dividends or receive dividends from its subsidiaries at December 31, 2014.

See Note 17 to the Consolidated Financial Statements for a description of potential restrictions on dividend payments by Dominion in connection with the deferral of interest payments on junior subordinated notes and equity units, initially in the form of corporate units, which information is incorporated herein by reference.

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Future Cash Payments for Contractual Obligations and Planned Capital Expenditures

CONTRACTUAL OBLIGATIONS

Dominion is party to numerous contracts and arrangements obligating it to make cash payments in future years. These contracts include financing arrangements such as debt agreements and leases, as well as contracts for the purchase of goods and services and financial derivatives. Presented below is a table summarizing cash payments that may result from contracts to which Dominion is a party as of December 31, 2014. For purchase obligations and other liabilities, amounts are based upon contract terms, including fixed and minimum quantities to be purchased at fixed or market-based prices. Actual cash payments will be based upon actual quantities purchased and prices paid and will likely differ from amounts presented below. The table excludes all amounts classified as current liabilities in the Consolidated Balance Sheets, other than current maturities of long-term debt, interest payable and certain derivative instruments. The majority of Dominion's current liabilities will be paid in cash in 2015.

| | 2015 | 2016- 2017 | 2018- 2019 | 2020 and thereafter | Total |
|--|----------|---------------|---------------|------------------------|-----------|
| (millions) | | | | | |
| Long-term debt ⁽¹⁾ | \$ 861 | \$ 2,756 | \$ 3,900 | \$ 15,683 | \$ 23,200 |
| Interest payments ⁽²⁾ | 1,081 | 1,914 | 1,603 | 13,147 | 17,745 |
| Leases ⁽³⁾ | 63 | 106 | 79 | 79 | 327 |
| Purchase obligations ⁽⁴⁾ : | | | | | |
| Purchased electric capacity for utility operations | 313 | 408 | 169 | 99 | 989 |
| Fuel commitments for utility operations | 769 | 825 | 488 | 2,052 | 4,134 |
| Fuel commitments for nonregulated operations | 148 | 105 | 105 | 117 | 475 |
| Pipeline transportation and storage | 176 | 278 | 244 | 750 | 1,448 |
| Energy commodity purchases for resale ⁽⁵⁾ | 24 | 2 | | | 26 |
| Other ⁽⁶⁾ | 1,021 | 79 | 24 | 13 | 1,137 |
| Other long-term liabilities ⁽⁷⁾ : | | | | | |
| Financial derivative-commodities ⁽⁵⁾ | 18 | 14 | | | 32 |
| Other contractual obligations ⁽⁸⁾ | 98 | 201 | 109 | 19 | 427 |
| Total cash payments | \$ 4,572 | \$ 6,688 | \$ 6,721 | \$ 31,959 | \$ 49,940 |

(1) Based on stated maturity dates rather than the earlier redemption dates that could be elected by instrument holders. At the option of holders, \$510 million of Dominion's 5.25% senior notes due 2033 are subject to redemption at 100% of the principal amount plus accrued interest in August 2015. As a result, at December 31, 2014, the notes were included in Securities due within one year in the Consolidated Balance Sheets.

(2) Includes interest payments over the terms of the debt and payments on related stock purchase contracts. Interest is calculated using the applicable interest rate or forward interest rate curve at December 31, 2014 and outstanding principal for each instrument with the terms ending at each instrument's stated maturity. See Note 17 to the Consolidated Financial Statements. Does not reflect Dominion's ability to defer interest and stock purchase contract payments on junior subordinated notes or RSNs and equity units, initially in the form of Corporate Units.

(3) Primarily consists of operating leases.

(4) Amounts exclude open purchase orders for services that are provided on demand, the timing of which cannot be determined.

(5) Represents the summation of net losses, by contracts, due from Dominion if all physical or financial transactions among its counterparties and Dominion were liquidated and terminated.

(6) Includes capital, operations, and maintenance commitments.

(7) Excludes regulatory liabilities, AROs and employee benefit plan obligations, which are not contractually fixed as to timing and amount. See Notes 12, 14 and 21 to the Consolidated Financial Statements. Due to uncertainty about the timing and amounts that will ultimately be paid, \$79 million of income taxes payable associated with unrecognized tax benefits are excluded. Deferred income taxes are also excluded since cash payments are based primarily on taxable income for each discrete fiscal year. See Note 5 to the Consolidated Financial Statements.

(8) Includes interest rate swap agreements.

PLANNED CAPITAL EXPENDITURES

Dominion's planned capital expenditures are expected to total approximately \$5.8 billion, \$5.6 billion and \$4.6 billion in 2015, 2016 and 2017, respectively. Dominion's expenditures are expected to include construction and expansion of electric generation and natural gas transmission and storage facilities, construction improvements and expansion of electric transmission and distribution assets, purchases of nuclear fuel and the construction of the Liquefaction Project and Dominion's portion of the Atlantic Coast Pipeline project.

Dominion expects to fund its capital expenditures with cash from operations and a combination of securities issuances and short-term borrowings. Planned capital expenditures include capital projects that are subject to approval by regulators and the Board of Directors.

See *DVP, Dominion Generation and Dominion Energy-Properties* in Item 1. Business for a discussion of Dominion's expansion plans.

These estimates are based on a capital expenditures plan reviewed and endorsed by Dominion's Board of Directors in late 2014 and are subject to continuing review and adjustment and actual capital expenditures may vary from these estimates. Dominion may also choose to postpone or cancel certain planned capital expenditures in order to mitigate the need for future debt financings and equity issuances.

Use of Off-Balance Sheet Arrangements

GUARANTEES

Dominion primarily enters into guarantee arrangements on behalf of its consolidated subsidiaries. These arrangements are not subject to the provisions of FASB guidance that dictate a guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. See Note 22 to the Consolidated Financial Statements for additional information, which information is incorporated herein by reference.

FUTURE ISSUES AND OTHER MATTERS

See Item 1. Business and Notes 13 and 22 to the Consolidated Financial Statements for additional information on various environmental, regulatory, legal and other matters that may impact future results of operations, financial condition, and/or cash flows.

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Environmental Matters

Dominion is 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.

ENVIRONMENTAL PROTECTION AND MONITORING EXPENDITURES

Dominion incurred approximately \$192 million, \$182 million and \$189 million of expenses (including depreciation) during 2014, 2013, and 2012 respectively, in connection with environmental protection and monitoring activities and expects these expenses to be approximately \$193 million and \$188 million in 2015 and 2016, respectively. In addition, capital expenditures related to environmental controls were \$101 million, \$64 million, and \$213 million for 2014, 2013 and 2012, respectively. These expenditures are expected to be approximately \$97 million and \$60 million for 2015 and 2016, respectively.

FUTURE ENVIRONMENTAL REGULATIONS

Air

The CAA is a comprehensive program utilizing a broad range of regulatory tools to protect and preserve the nation's air quality. At a minimum, delegated states are required to establish regulatory programs to address all requirements of the CAA. However, states may choose to develop regulatory programs that are more restrictive. Many of the Companies' facilities are subject to the CAA's permitting and other requirements.

In December 2012, the EPA issued a final rule that set a more stringent annual air quality standard for fine particulate matter. The EPA issued final attainment/nonattainment designations in January 2015. Until states develop their implementation plans, Dominion cannot determine whether or how facilities located in areas designated nonattainment for the standard will be impacted, but does not expect such impacts to be material.

The EPA has finalized rules establishing a new 1-hour NAAQS for NO₂ and a new 1-hour NAAQS for SO₂, which could require additional NO_x and SO₂ controls in certain areas where Dominion operates. Until the states have developed implementation plans for these standards, the impact on Dominion's facilities that emit NO_x and SO₂ is uncertain. Additionally, the impact of permit limits for implementing NAAQS on Dominion's facilities is uncertain at this time.

In January 2010, the EPA also proposed a new, more stringent NAAQS for ozone and had planned to finalize the rule in 2011. In September 2011, the EPA announced a delay from 2011 to 2014 of the rulemaking. In November 2014, the EPA issued a new proposal to tighten the ozone standard and expects to finalize the rule in October 2015. The EPA is not expected to complete attainment designations for a new standard until 2017 and states will have until 2020 to develop plans to address the new standard. 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. However, if significant expenditures are required to implement additional controls, it could adversely affect Dominion's results of operations and cash flows.

In June 2005, the EPA finalized amendments to the Regional Haze Rule, also known as the Clean Air Visibility Rule. The rule requires the states to implement best available retrofit technology requirements for sources to address impacts to visual air quality through regional haze state implementation plans, but allows other alternative options. Dominion anticipates that the emission reductions achieved through compliance with other CAA-required programs will generally address this rule.

The Clear Power Plan uses a set of measures for reducing emissions from existing sources that includes efficiency improvements at coal plants, displacing coal-fired generation with increased utilization of natural gas combined cycle units, expanding renewable resources and increasing customer energy efficiency. The proposal would require states to meet state-by-state emission rate or intensity-based CO₂ binding goals or limits. The EPA is expected to finalize the guidelines by summer 2015. States will then be required to submit plans to the EPA by summer 2016 identifying how they will comply with the rule, with possible one- or two-year extensions. Dominion's most recent integrated resources plan filed in August 2014 included an alternative scenario benchmarked on the proposed EPA rule, as a plausible compliance strategy, that includes additional coal unit retirements and additional low or zero-carbon resources. However, until the state plans are developed and the EPA approves

the plans, Dominion cannot predict the potential financial statement impacts but believes the potential expenditures to comply could be material.

In June 2014, the EPA published proposed performance standards to address CO₂ emissions from modified and reconstructed electric generating units. The proposed standards would only apply to coal- and natural-gas fired boilers and natural gas-fired combined cycle units, constructed for the purpose of supplying more than one-third of their potential output to the grid and which are designed to sell approximately 25 MW, that meet certain, specific conditions described in the CAA for being modified or reconstructed. Modifications undertaken for the primary purpose of installing pollution control technology will not be subject to the proposed standards. Dominion currently cannot predict with certainty the direct or indirect financial impact on operations from these rule revisions, but believes the expenditures to comply with any new requirements could be material.

In January 2015, the EPA announced plans to reduce methane emissions from natural gas processing and transmission sources as part of its Climate Action Plan. The plan would impose regulations to reduce methane from new sources, including compressor stations and is expected to be proposed in summer 2015 and finalized in 2016. The EPA will develop control technology guidelines to reduce emissions of volatile organic compounds from existing sources in ozone nonattainment areas in the northeast Ozone Transport Region. Until these regulations and guidelines are finalized, Dominion is unable to predict future requirements or estimate compliance costs.

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Water

The CWA 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 must comply with applicable aspects of the CWA programs at its operating facilities.

In June 2013, the EPA issued a proposed rule to revise the Effluent Limitations Guidelines for the Steam Electric Power Generating Category. The proposed rule establishes updated standards for wastewater discharges at coal, oil, gas, and nuclear steam generating stations. Affected facilities could be required to convert from wet to dry coal ash management, improve existing wastewater treatment systems and/or install new wastewater treatment technologies in order to meet the new discharge limits. The EPA is subject to a consent decree requiring that it take final action on the proposed rule by September 30, 2015. Dominion currently cannot predict with certainty the direct or indirect financial impact on operations from these rule revisions, but believes the expenditures to comply with any new requirements could be material.

Climate Change Legislation and Regulation

Some regions and states in which Dominion operates have already adopted or may adopt GHG emission reduction programs. Any of these new or contemplated regulations may affect capital costs, or create significant permitting delays, for new or modified facilities that emit GHGs.

Dodd-Frank Act

The Dodd-Frank Act was enacted into law in July 2010 in an effort to improve regulation of financial markets. The CEA, as amended by Title VII of the Dodd-Frank Act, requires certain over-the-counter derivatives, or swaps, to be cleared through a derivatives clearing organization and, if the swap is subject to a clearing requirement, to be executed on a designated contract market or swap execution facility. Non-financial entities that use swaps to hedge or mitigate commercial risk, often referred to as end users, may elect the end-user exception to the CEA's clearing requirements. Dominion has elected to exempt its swaps from the CEA's clearing requirements. The CFTC may continue to adopt final rules and implement provisions of the Dodd-Frank Act through its ongoing rulemaking process, including rules regarding margin requirements for non-cleared swaps. If, as a result of the rulemaking process, Dominion's derivative activities are not exempted from clearing, exchange trading or margin requirements, it could be subject to higher costs due to decreased market liquidity or increased margin payments. In addition, Dominion's swap dealer counterparties may attempt to pass-through additional trading costs in connection with the implementation of, and compliance with, Title VII of the Dodd-Frank Act. Due to the ongoing rulemaking process, Dominion is currently unable to assess the potential impact of the Dodd-Frank Act's derivative-related provisions on its financial condition, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The matters discussed in this Item may contain forward-looking statements as described in the introductory paragraphs of Item 7. MD&A. The reader's attention is directed to those paragraphs

and Item 1A. Risk Factors for discussion of various risks and uncertainties that may impact the Companies.

MARKET RISK SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

The Companies' financial instruments, commodity contracts and related financial derivative instruments are exposed to potential losses due to adverse changes in commodity prices, interest rates and equity security prices as described below. Commodity price risk is present in Dominion's and Virginia Power's electric operations and Dominion's and Dominion Gas' natural gas procurement and marketing operations due to the exposure to market shifts in prices received and paid for electricity, natural gas and other commodities. The Companies use commodity derivative contracts to manage price risk exposures for these operations. Interest rate risk is generally related to their outstanding debt and future issuances of debt. In addition, the Companies are exposed to investment price risk through various portfolios of equity and debt securities.

The following sensitivity analysis estimates the potential loss of future earnings or fair value from market risk sensitive instruments over a selected time period due to a 10% unfavorable change in commodity prices or interest rates.

Commodity Price Risk

To manage price risk, Dominion and Virginia Power primarily hold commodity-based financial derivative instruments held for non-trading purposes associated with purchases and sales of electricity, natural gas and other energy-related products and Dominion Gas primarily holds commodity-based financial derivative instruments held for non-trading purposes associated with purchases and sales of natural gas and other energy-related products.

The repositioning of Dominion's producer services business was completed in the first quarter of 2014. This, combined with Dominion's sale of its electric retail energy marketing business, has reduced Dominion's commodity price risk exposure.

The derivatives used to manage commodity price risk are executed within established policies and procedures and may include instruments such as futures, forwards, swaps, options and FTRs that are sensitive to changes in the related commodity prices. For sensitivity analysis purposes, the hypothetical change in market prices of commodity-based financial derivative instruments is determined based on models that consider the market prices of commodities in future periods, the volatility of the market prices in each period, as well as the time value factors of the derivative instruments. Prices and volatility are principally determined based on observable market prices.

A hypothetical 10% unfavorable change in commodity prices of Dominion's commodity-based financial derivative instruments would have resulted in an increase in fair value of approximately \$101 million and \$171 million as of December 31, 2014 and 2013, respectively. The decline in sensitivity is largely due to decreased commodity derivative activity and lower commodity prices.

A hypothetical 10% unfavorable change in commodity prices would not have resulted in a material change in the fair value of Virginia Power's commodity-based financial derivatives as of December 31, 2014 or 2013.

A hypothetical 10% unfavorable change in commodity prices of Dominion Gas' commodity-based financial derivative instru-

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ments would have resulted in an increase in fair value of approximately \$2 million and a decrease in fair value of \$14 million as of December 31, 2014 and 2013, respectively. The decline in sensitivity is largely due to decreased commodity derivative activity.

The impact of a change in energy commodity prices on the Companies' commodity-based financial derivative instruments at a point in time is not necessarily representative of the results that will be realized when the contracts are ultimately settled. Net losses from commodity derivative instruments used for hedging purposes, to the extent realized, will generally be offset by recognition of the hedged transaction, such as revenue from physical sales of the commodity.

Interest Rate Risk

The Companies manage their interest rate risk exposure predominantly by maintaining a balance of fixed and variable rate debt. They also enter into interest rate sensitive derivatives, including interest rate swaps and interest rate lock agreements. For variable rate debt and interest rate swaps designated under fair value hedging and outstanding for the Companies, a hypothetical 10% increase in market interest rates would not have resulted in a material change in annual earnings at December 31, 2014 or 2013.

The Companies may also use forward-starting interest rate swaps and interest rate lock agreements as anticipatory hedges. As of December 31, 2014, Dominion, Virginia Power and Dominion Gas had \$4.1 billion, \$1.5 billion and \$250 million, respectively, in aggregate notional amounts of these interest rate derivatives outstanding. A hypothetical 10% decrease in market interest rates would have resulted in a decrease of approximately \$46 million, \$25 million and \$2 million, respectively, in the fair value of Dominion's, Virginia Power's and Dominion Gas' interest rate derivatives at December 31, 2014. As of December 31, 2013, Dominion, Virginia Power and Dominion Gas had \$1.1 billion, \$600 million and \$450 million, respectively, in aggregate notional amounts of these interest rate derivatives outstanding. A hypothetical 10% decrease in market interest rates would have resulted in a decrease of approximately \$20 million, \$13 million and \$8 million, respectively, in the fair value of Dominion's, Virginia Power's and Dominion Gas' interest rate derivatives at December 31, 2013.

The impact of a change in interest rates on the Companies' interest rate-based financial derivative instruments at a point in time is not necessarily representative of the results that will be realized when the contracts are ultimately settled. Net gains and/or losses from interest rate derivative instruments used for hedging purposes, to the extent realized, will generally be offset by recognition of the hedged transaction.

Investment Price Risk

Dominion and Virginia Power are subject to investment price risk due to securities held as investments in nuclear decommissioning and rabbi trust funds that are managed by third-party investment managers. These trust funds primarily hold marketable securities that are reported in the Consolidated Balance Sheets at fair value.

Dominion recognized net realized gains (including investment income) on nuclear decommissioning and rabbi trust investments of \$176 million and \$163 million in 2014 and 2013, respectively. Net realized gains and losses include gains and losses from the sale of investments as well as any other-than-temporary declines in fair value. In 2014 and 2013, Dominion recorded, in AOCI and

regulatory liabilities, a net increase in unrealized gains on these investments of \$172 million and \$417 million, respectively.

Virginia Power recognized net realized gains (including investment income) on nuclear decommissioning trust investments of \$77 million and \$52 million in 2014 and 2013, respectively. Net realized gains and losses include gains and losses from the sale of investments as well as any other-than-temporary declines in fair value. In 2014 and 2013, Virginia Power recorded, in AOCI and regulatory liabilities, a net increase in unrealized gains on these investments of \$87 million and \$193 million, respectively.

Dominion sponsors pension and other postretirement employee benefit plans that hold investments in trusts to fund employee benefit payments. Virginia Power and Dominion Gas employees participate in these plans. Aggregate actual returns for Dominion's pension and other postretirement plan assets were \$706 million in 2014 and \$959 million in 2013, versus expected returns of \$610 million and \$554 million, respectively. Aggregate actual returns for pension and other postretirement benefit plan assets for Dominion Gas employees represented by collective bargaining units were \$157 million in 2014 and \$214 million in 2013, versus expected returns of \$138 million and \$125 million, respectively. Differences between actual and expected returns on plan assets are accumulated and amortized during future periods. As such, any

investment-related declines in these trusts will result in future increases in the net periodic cost recognized for employee benefit plans and will be included in the determination of the amount of cash to be contributed to the employee benefit plans. A hypothetical 0.25% decrease in the assumed long-term rates of return on Dominion's plan assets would result in an increase in net periodic cost of approximately \$15 million and \$14 million as of December 31, 2014 and 2013, respectively, for pension benefits and \$3 million as of December 31, 2014 and 2013, for other postretirement benefits. A hypothetical 0.25% decrease in the assumed long-term rates of return on Dominion Gas' plan assets, for employees represented by collective bargaining units, would result in an increase in net periodic cost of approximately \$4 million and \$3 million as of December 31, 2014 and 2013, respectively, for pension benefits and \$1 million as of both December 31, 2014 and 2013, for other postretirement benefits.

Risk Management Policies

The Companies have established operating procedures with corporate management to ensure that proper internal controls are maintained. In addition, Dominion has established an independent function at the corporate level to monitor compliance with the credit and commodity risk management policies of all subsidiaries, including Virginia Power and Dominion Gas. Dominion maintains credit policies that include the evaluation of a prospective counterparty's financial condition, collateral requirements where deemed necessary and the use of standardized agreements that facilitate the netting of cash flows associated with a single counterparty. In addition, Dominion also monitors the financial condition of existing counterparties on an ongoing basis. Based on these credit policies and the Companies' December 31, 2014 provision for credit losses, management believes that it is unlikely that a material adverse effect on the Companies' financial position, results of operations or cash flows would occur as a result of counterparty nonperformance.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Dominion Resources, Inc.

Richmond, Virginia

We have audited the accompanying consolidated balance sheets of Dominion Resources, Inc. and subsidiaries (Dominion) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of Dominion's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Dominion Resources, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dominion's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2015 expressed an unqualified opinion on Dominion's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Richmond, Virginia

February 27, 2015

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Dominion Resources, Inc.

Consolidated Statements of Income

| Year Ended December 31, (millions, except per share amounts) | 2014 | 2013 | 2012 |
|--|------------------|-----------|-----------|
| Operating Revenue | \$ 12,436 | \$ 13,120 | \$ 12,835 |
| Operating Expenses | | | |
| Electric fuel and other energy-related purchases | 3,400 | 3,885 | 3,645 |
| Purchased electric capacity | 361 | 358 | 387 |
| Purchased gas | 1,355 | 1,331 | 1,177 |
| Other operations and maintenance | 2,765 | 2,459 | 3,091 |
| Depreciation, depletion and amortization | 1,292 | 1,208 | 1,127 |
| Other taxes | 542 | 563 | 550 |
| Total operating expenses | 9,715 | 9,804 | 9,977 |
| Income from operations | 2,721 | 3,316 | 2,858 |
| Other income | 250 | 265 | 223 |
| Interest and related charges | 1,193 | 877 | 816 |
| Income from continuing operations including noncontrolling interests before income taxes | 1,778 | 2,704 | 2,265 |
| Income tax expense | 452 | 892 | 811 |
| Income from continuing operations including noncontrolling interests | 1,326 | 1,812 | 1,454 |
| Loss from discontinued operations ⁽¹⁾ | | (92) | (1,125) |
| Net income including noncontrolling interests | 1,326 | 1,720 | 329 |
| Noncontrolling interests | 16 | 23 | 27 |
| Net income attributable to Dominion | 1,310 | 1,697 | 302 |
| Amounts attributable to Dominion: | | | |
| Income from continuing operations, net of tax | 1,310 | 1,789 | 1,427 |
| Loss from discontinued operations, net of tax | | (92) | (1,125) |
| Net income attributable to Dominion | 1,310 | 1,697 | 302 |
| Earnings Per Common Share-Basic: | | | |
| Income from continuing operations | \$ 2.25 | \$ 3.09 | \$ 2.49 |
| Loss from discontinued operations | | (0.16) | (1.96) |
| Net income attributable to Dominion | \$ 2.25 | \$ 2.93 | \$ 0.53 |
| Earnings Per Common Share-Diluted: | | | |
| Income from continuing operations | \$ 2.24 | \$ 3.09 | \$ 2.49 |
| Loss from discontinued operations | | (0.16) | (1.96) |
| Net income attributable to Dominion | \$ 2.24 | \$ 2.93 | \$ 0.53 |
| Dividends declared per common share | \$ 2.40 | \$ 2.25 | \$ 2.11 |

(1) Includes income tax benefit of \$43 million and \$692 million in 2013 and 2012, respectively. For 2012, includes impairment charges of \$1.6 billion related to Brayton Point and Kincaid. See Note 6 for additional information.

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

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|---|----------|----------|--------|
| Net income including noncontrolling interests | \$ 1,326 | \$ 1,720 | \$ 329 |
| Other comprehensive income (loss), net of taxes: | | | |
| Net deferred gains (losses) on derivatives-hedging activities, net of \$(20), \$161 and \$5 tax | 17 | (243) | (8) |
| Changes in unrealized net gains on investment securities, net of \$(59), \$(136) and \$(68) tax | 128 | 203 | 108 |
| Changes in net unrecognized pension and other postretirement benefit costs, net of \$189, \$(341) and \$209 tax | (305) | 516 | (330) |
| Amounts reclassified to net income: | | | |
| Net derivative (gains) losses-hedging activities, net of \$(59), \$(53) and \$34 tax | 93 | 77 | (60) |
| Net realized gains on investment securities, net of \$33, \$35 and \$16 tax | (54) | (55) | (25) |
| Net pension and other postretirement benefit costs, net of \$(24), \$(39) and \$(32) tax | 33 | 55 | 48 |
| Changes in other comprehensive income (loss) from equity method investees, net of \$3, \$ and \$ tax | (4) | | |
| Total other comprehensive income (loss) | (92) | 553 | (267) |
| Comprehensive income including noncontrolling interests | 1,234 | 2,273 | 62 |
| Comprehensive income attributable to noncontrolling interests | 16 | 23 | 27 |
| Comprehensive income attributable to Dominion | \$ 1,218 | \$ 2,250 | \$ 35 |

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

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Dominion Resources, Inc.

Consolidated Balance Sheets

| At December 31, (millions) | 2014 | 2013 |
|--|-----------|-----------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 318 | \$ 316 |
| Customer receivables (less allowance for doubtful accounts of \$34 and \$25) | 1,514 | 1,695 |
| Other receivables (less allowance for doubtful accounts of \$3 and \$4) | 119 | 141 |
| Inventories: | | |
| Materials and supplies | 923 | 689 |
| Fossil fuel | 413 | 393 |
| Gas stored | 74 | 94 |
| Derivative assets | 536 | 687 |
| Margin deposit assets | 287 | 620 |
| Prepayments | 167 | 192 |
| Deferred income taxes | 800 | 778 |
| Regulatory assets | 347 | 217 |
| Other | 117 | 118 |
| Total current assets | 5,615 | 5,940 |
| Investments | | |
| Nuclear decommissioning trust funds | 4,196 | 3,903 |
| Investment in equity method affiliates | 1,081 | 916 |
| Other | 284 | 283 |
| Total investments | 5,561 | 5,102 |
| Property, Plant and Equipment | | |
| Property, plant and equipment | 51,406 | 46,969 |
| Accumulated depreciation, depletion and amortization | (15,136) | (14,341) |
| Total property, plant and equipment, net | 36,270 | 32,628 |
| Deferred Charges and Other Assets | | |
| Goodwill | 3,044 | 3,086 |
| Pension and other postretirement benefit assets | 956 | 942 |
| Intangible assets, net | 570 | 560 |
| Regulatory assets | 1,642 | 1,228 |
| Other | 669 | 610 |
| Total deferred charges and other assets | 6,881 | 6,426 |
| Total assets | \$ 54,327 | \$ 50,096 |

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| At December 31, (millions) | 2014 | 2013 |
|---|-----------|-----------|
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Securities due within one year | \$ 1,375 | \$ 1,519 |
| Short-term debt | 2,775 | 1,927 |
| Accounts payable | 952 | 1,168 |
| Accrued interest, payroll and taxes | 566 | 609 |
| Derivative liabilities | 591 | 828 |
| Other | 939 | 943 |
| Total current liabilities | 7,198 | 6,994 |
| Long-Term Debt | | |
| Long-term debt | 18,348 | 16,877 |
| Junior subordinated notes | 1,374 | 1,373 |
| Remarketable subordinated notes | 2,083 | 1,080 |
| Total long-term debt | 21,805 | 19,330 |
| Deferred Credits and Other Liabilities | | |
| Deferred income taxes and investment tax credits | 7,444 | 7,114 |
| Asset retirement obligations | 1,633 | 1,484 |
| Pension and other postretirement benefit liabilities | 1,296 | 481 |
| Regulatory liabilities | 1,991 | 2,001 |
| Other | 1,003 | 793 |
| Total deferred credits and other liabilities | 13,367 | 11,873 |
| Total liabilities | 42,370 | 38,197 |
| Commitments and Contingencies (see Note 22) | | |
| Subsidiary Preferred Stock Not Subject To Mandatory Redemption | | 257 |
| Equity | | |
| Common stock-no par ⁽¹⁾ | 5,876 | 5,783 |
| Retained earnings | 6,095 | 6,183 |
| Accumulated other comprehensive loss | (416) | (324) |
| Total common shareholders' equity | 11,555 | 11,642 |
| Noncontrolling interests | 402 | |
| Total equity | 11,957 | 11,642 |
| Total liabilities and equity | \$ 54,327 | \$ 50,096 |

(1) 1 billion shares authorized; 585 million shares and 581 million shares outstanding at December 31, 2014 and 2013, respectively. The accompanying notes are an integral part of Dominion's Consolidated Financial Statements.

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Dominion Resources, Inc.

Consolidated Statements of Equity

| (millions) | Common Stock | | Other Paid-In Capital | Dominion Shareholders Accumulated | | Total Common Shareholders Equity | Noncontrolling Interests | Total Equity |
|---|--------------|----------|-----------------------------|--------------------------------------|---|--|-----------------------------|-----------------|
| | Shares | Amount | | Retained Earnings | Other Comprehensive Income (Loss) | | | |
| December 31, 2011 | 570 | \$ 5,180 | \$ 179 | \$ 6,697 | \$ (610) | \$ 11,446 | \$ 57 | \$ 11,503 |
| Net income including noncontrolling interests | | | | 318 | | 318 | 11 | 329 |
| Issuance of stock-employee and direct stock purchase plans | 4 | 246 | | | | 246 | | 246 |
| Stock awards and stock options exercised (net of change in unearned compensation) | 1 | 26 | | | | 26 | | 26 |
| Other stock issuances ⁽¹⁾ | 1 | 41 | (27) | | | 14 | | 14 |
| Tax benefit from stock awards and stock options exercised | | | 10 | | | 10 | | 10 |
| Dividends | | | | (1,225) ⁽²⁾ | | (1,225) | (11) | (1,236) |
| Other comprehensive loss, net of tax | | | | | (267) | (267) | | (267) |
| December 31, 2012 | 576 | 5,493 | 162 | 5,790 | (877) | 10,568 | 57 | 10,625 |
| Net income including noncontrolling interests | | | | 1,714 | | 1,714 | 6 | 1,720 |
| Issuance of stock-employee and direct stock purchase plans | 4 | 278 | | | | 278 | | 278 |
| Stock awards (net of change in unearned compensation) | | 12 | | | | 12 | | 12 |
| Other stock issuances ⁽³⁾ | 1 | 15 | (8) | | | 7 | | 7 |
| Present value of stock purchase contract payments related to RSNs ⁽⁴⁾ | | | (154) | (2) | | (156) | | (156) |
| Fairless lease buyout ⁽⁵⁾ | | (15) | | | | (15) | (57) | (72) |
| Dividends | | | | (1,319) ⁽²⁾ | | (1,319) | (6) | (1,325) |
| Other comprehensive income, net of tax | | | | | 553 | 553 | | 553 |
| December 31, 2013 | 581 | 5,783 | | 6,183 | (324) | 11,642 | | 11,642 |
| Net income including noncontrolling interests | | | | 1,323 | | 1,323 | 3 | 1,326 |
| Issuance of Dominion Midstream common units, net of offering costs | | | | | | | 392 | 392 |
| Issuance of stock-employee and direct stock purchase plans | 3 | 205 | | | | 205 | | 205 |
| Stock awards (net of change in unearned compensation) | | 14 | | | | 14 | | 14 |
| Other stock issuances ⁽¹⁾ | 1 | 14 | | | | 14 | | 14 |
| Present value of stock purchase contract payments related to RSNs ⁽⁴⁾ | | (143) | | | | (143) | | (143) |

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| | | | | | | | | |
|--|-----|----------|----|------------------------|----------|-----------|--------|-----------|
| Dividends | | | | (1,411) ⁽²⁾ | | (1,411) | | (1,411) |
| Other comprehensive income, net of tax | | | | | (92) | (92) | | (92) |
| Other | | 3 | | | | 3 | 7 | 10 |
| December 31, 2014 | 585 | \$ 5,876 | \$ | \$ 6,095 | \$ (416) | \$ 11,555 | \$ 402 | \$ 11,957 |

(1) Contains shares issued in excess of principal amounts related to converted securities. See Note 17 for further information on convertible securities.

(2) Includes subsidiary preferred dividends related to noncontrolling interests of \$13 million, \$17 million and \$16 million in 2014 and 2013 and 2012, respectively.

(3) Primarily includes \$28 million in shares issued in excess of principal amounts related to converted securities, net of reclassification from other paid-in capital. See Note 17 for further information on convertible securities.

(4) See Note 17 for further information.

(5) See Note 15 for further information.

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

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Dominion Resources, Inc.

Consolidated Statements of Cash Flows

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|--|----------|----------|---------|
| Operating Activities | | | |
| Net income including noncontrolling interests | \$ 1,326 | \$ 1,720 | \$ 329 |
| Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities: | | | |
| Impairment of generation assets | | 48 | 2,089 |
| Net payments related to rate refunds | | (5) | (151) |
| Depreciation, depletion and amortization (including nuclear fuel) | 1,560 | 1,390 | 1,443 |
| Deferred income taxes and investment tax credits | 449 | 737 | 246 |
| Gains on the sale of assets and businesses | (220) | (122) | (81) |
| Charges associated with North Anna and offshore wind legislation | 374 | | |
| Charges associated with Liability Management Exercise | 284 | | |
| Charges associated with proposed settlement for ash pond closure costs | 121 | | |
| Other adjustments | (113) | (129) | (164) |
| Changes in: | | | |
| Accounts receivable | 131 | (98) | 292 |
| Inventories | (43) | (29) | 33 |
| Deferred fuel and purchased gas costs, net | (180) | 102 | 368 |
| Prepayments | 24 | 123 | (85) |
| Accounts payable | (202) | 50 | (61) |
| Accrued interest, payroll and taxes | (41) | (27) | (12) |
| Margin deposit assets and liabilities | 361 | (414) | 45 |
| Other operating assets and liabilities | (392) | 87 | (154) |
| Net cash provided by operating activities | 3,439 | 3,433 | 4,137 |
| Investing Activities | | | |
| Plant construction and other property additions (including nuclear fuel) | (5,345) | (4,065) | (4,145) |
| Acquisition of solar development projects | (206) | (39) | |
| Proceeds from sales of securities | 1,235 | 1,476 | 1,356 |
| Purchases of securities | (1,241) | (1,493) | (1,392) |
| Proceeds from the sale of Brayton Point, Kincaid and equity method investment in Elwood | | 465 | |
| Proceeds from the sale of electric retail energy marketing business | 187 | | |
| Proceeds from Blue Racer | 85 | 160 | 115 |
| Proceeds from assignments of Marcellus acreage | 60 | 18 | |
| Restricted cash equivalents | 8 | 25 | 108 |
| Other | 36 | (5) | 118 |
| Net cash used in investing activities | (5,181) | (3,458) | (3,840) |
| Financing Activities | | | |
| Issuance (repayment) of short-term debt, net | 848 | (485) | 598 |
| Issuance of short-term notes | 400 | 400 | 400 |
| Repayment of short-term notes | (400) | (400) | |
| Issuance of long-term debt | 6,085 | 4,135 | 1,500 |
| Repayment and repurchase of long-term debt, including redemption premiums | (3,993) | (1,245) | (1,675) |
| Repayment of junior subordinated notes | | (258) | |
| Acquisition of Juniper noncontrolling interest in Fairless | | (923) | |
| Net proceeds from issuance of Dominion Midstream common units | 392 | | |
| Subsidiary preferred stock redemption | (259) | | |
| Issuance of common stock | 205 | 278 | 265 |
| Common dividend payments | (1,398) | (1,302) | (1,209) |
| Subsidiary preferred dividend payments | (11) | (17) | (16) |
| Other | (125) | (90) | (14) |
| Net cash provided by (used in) financing activities | 1,744 | 93 | (151) |

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| | | | |
|---|--------|--------|--------|
| Increase in cash and cash equivalents | 2 | 68 | 146 |
| Cash and cash equivalents at beginning of year | 316 | 248 | 102 |
| Cash and cash equivalents at end of year | \$ 318 | \$ 316 | \$ 248 |
| Supplemental Cash Flow Information | | | |
| Cash paid (received) during the year for: | | | |
| Interest and related charges, excluding capitalized amounts | \$ 889 | \$ 852 | \$ 913 |
| Income taxes | 72 | 56 | (58) |
| Significant noncash investing activities: | | | |
| Accrued capital expenditures | 315 | 375 | 388 |

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of

Virginia Electric and Power Company

Richmond, Virginia

We have audited the accompanying consolidated balance sheets of Virginia Electric and Power Company (a wholly-owned subsidiary of Dominion Resources, Inc.) and subsidiaries (Virginia Power) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, common shareholder s equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of Virginia Power s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Virginia Power is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Virginia Power s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Virginia Electric and Power Company and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Richmond, Virginia

February 27, 2015

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Virginia Electric and Power Company

Consolidated Statements of Income

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|---|-----------------|-----------------|-----------------|
| Operating Revenue⁽¹⁾ | \$ 7,579 | \$ 7,295 | \$ 7,226 |
| Operating Expenses | | | |
| Electric fuel and other energy-related purchases ⁽¹⁾ | 2,406 | 2,304 | 2,368 |
| Purchased electric capacity | 360 | 358 | 386 |
| Other operations and maintenance: | | | |
| Affiliated suppliers | 286 | 290 | 305 |
| Other | 1,630 | 1,161 | 1,161 |
| Depreciation and amortization | 915 | 853 | 782 |
| Other taxes | 258 | 249 | 232 |
| Total operating expenses | 5,855 | 5,215 | 5,234 |
| Income from operations | 1,724 | 2,080 | 1,992 |
| Other income | 93 | 86 | 96 |
| Interest and related charges | 411 | 369 | 385 |
| Income from operations before income tax expense | 1,406 | 1,797 | 1,703 |
| Income tax expense | 548 | 659 | 653 |
| Net Income | 858 | 1,138 | 1,050 |
| Preferred dividends ⁽²⁾ | 13 | 17 | 16 |
| Balance available for common stock | \$ 845 | \$ 1,121 | \$ 1,034 |

(1) See Note 24 for amounts attributable to affiliates.

(2) Includes \$2 million associated with the write-off of issuance expenses related to the redemption of Virginia Power's preferred stock in 2014. See Note 18 for additional information.

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

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|--|---------------|----------|----------|
| Net income | \$ 858 | \$ 1,138 | \$ 1,050 |
| Other comprehensive income (loss), net of taxes: | | | |
| Net deferred gains (losses) on derivatives-hedging activities, net of \$2, \$(3) and \$3 tax | (4) | 6 | (5) |
| Changes in unrealized net gains on nuclear decommissioning trust funds, net of \$(9), \$(13) and \$(7) tax | 15 | 20 | 13 |
| Amounts reclassified to net income: | | | |
| Net derivative (gains) losses-hedging activities, net of \$2, \$ and \$(2) tax | (3) | | 2 |
| Net realized gains on nuclear decommissioning trust funds, net of \$4, \$2 and \$2 tax | (6) | (3) | (4) |
| Other comprehensive income | 2 | 23 | 6 |
| Comprehensive income | \$ 860 | \$ 1,161 | \$ 1,056 |

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

| At December 31, (millions) | 2014 | 2013 |
|--|-----------|-----------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 15 | \$ 16 |
| Customer receivables (less allowance for doubtful accounts of \$25 and \$11) | 986 | 946 |
| Other receivables (less allowance for doubtful accounts of \$1 and \$2) | 65 | 78 |
| Inventories (average cost method): | | |
| Materials and supplies | 455 | 418 |
| Fossil fuel | 398 | 390 |
| Prepayments | 252 | 32 |
| Regulatory assets | 298 | 128 |
| Deferred income taxes | 6 | 87 |
| Other ⁽¹⁾ | 76 | 68 |
| Total current assets | 2,551 | 2,163 |
| Investments | | |
| Nuclear decommissioning trust funds | 1,930 | 1,765 |
| Other | 4 | 12 |
| Total investments | 1,934 | 1,777 |
| Property, Plant and Equipment | | |
| Property, plant and equipment | 35,180 | 32,848 |
| Accumulated depreciation and amortization | (11,080) | (10,580) |
| Total property, plant and equipment, net | 24,100 | 22,268 |
| Deferred Charges and Other Assets | | |
| Intangible assets, net | 205 | 193 |
| Regulatory assets | 439 | 417 |
| Other ⁽¹⁾ | 280 | 143 |
| Total deferred charges and other assets | 924 | 753 |
| Total assets | \$ 29,509 | \$ 26,961 |

(1) See Note 24 for amounts attributable to affiliates.

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| At December 31, (millions) | 2014 | 2013 |
|---|-----------|-----------|
| LIABILITIES AND SHAREHOLDER S EQUITY | | |
| Current Liabilities | | |
| Securities due within one year | \$ 211 | \$ 58 |
| Short-term debt | 1,361 | 842 |
| Accounts payable | 458 | 479 |
| Payables to affiliates | 92 | 69 |
| Affiliated current borrowings | 427 | 97 |
| Accrued interest, payroll and taxes | 199 | 218 |
| Derivative liabilities | 60 | 12 |
| Customer deposits | 107 | 95 |
| Regulatory liabilities | 90 | 41 |
| Other | 271 | 306 |
| Total current liabilities | 3,276 | 2,217 |
| Long-Term Debt | | |
| | 8,726 | 7,974 |
| Deferred Credits and Other Liabilities | | |
| Deferred income taxes and investment tax credits | 4,415 | 4,137 |
| Asset retirement obligations | 848 | 689 |
| Regulatory liabilities | 1,683 | 1,597 |
| Pension and other postretirement benefit liabilities ⁽¹⁾ | 219 | 147 |
| Other | 287 | 145 |
| Total deferred credits and other liabilities | 7,452 | 6,715 |
| Total liabilities | 19,454 | 16,906 |
| Commitments and Contingencies (see Note 22) | | |
| Preferred Stock Not Subject to Mandatory Redemption | | 257 |
| Common Shareholder s Equity | | |
| Common stock-no par ⁽²⁾ | 5,738 | 5,738 |
| Other paid-in capital | 1,113 | 1,113 |
| Retained earnings | 3,154 | 2,899 |
| Accumulated other comprehensive income | 50 | 48 |
| Total common shareholder s equity | 10,055 | 9,798 |
| Total liabilities and shareholder s equity | \$ 29,509 | \$ 26,961 |

(1) See Note 24 for amounts attributable to affiliates.

(2) 500,000 shares authorized at December 31, 2014 and 2013; 274,723 shares outstanding at December 31, 2014 and 2013.
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 Common Shareholders Equity

| | Common Stock | | Other Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|-----------------------|-----------------|-----------------------------|----------------------|---|------------------|
| | Shares (thousands) | Amount | | | | |
| (millions, except for shares) | | | | | | |
| Balance at December 31, 2011 | 275 | \$ 5,738 | \$ 1,111 | \$ 1,882 | \$ 19 | \$ 8,750 |
| Net income | | | | 1,050 | | 1,050 |
| Dividends | | | | (575) | | (575) |
| Tax benefit from stock awards and stock options exercised | | | 2 | | | 2 |
| Other comprehensive income, net of tax | | | | | 6 | 6 |
| Balance at December 31, 2012 | 275 | 5,738 | 1,113 | 2,357 | 25 | 9,233 |
| Net income | | | | 1,138 | | 1,138 |
| Dividends | | | | (596) | | (596) |
| Other comprehensive income, net of tax | | | | | 23 | 23 |
| Balance at December 31, 2013 | 275 | 5,738 | 1,113 | 2,899 | 48 | 9,798 |
| Net income | | | | 858 | | 858 |
| Dividends | | | | (603) | | (603) |
| Other comprehensive income, net of tax | | | | | 2 | 2 |
| Balance at December 31, 2014 | 275 | \$ 5,738 | \$ 1,113 | \$ 3,154 | \$ 50 | \$ 10,055 |

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

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|---|---------|----------|----------|
| Operating Activities | | | |
| Net income | \$ 858 | \$ 1,138 | \$ 1,050 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization (including nuclear fuel) | 1,090 | 1,016 | 927 |
| Deferred income taxes and investment tax credits, net | 396 | 240 | 502 |
| Charges associated with North Anna and offshore wind legislation | 374 | | |
| Charges associated with proposed settlement for ash pond closure costs | 121 | | |
| Net payments related to rate refunds | | (5) | (151) |
| Other adjustments | (35) | (63) | (70) |
| Changes in: | | | |
| Accounts receivable | (27) | (124) | 126 |
| Affiliated accounts receivable and payable | 23 | 3 | (2) |
| Inventories | (45) | (19) | 8 |
| Deferred fuel expenses, net | (191) | 93 | 378 |
| Prepayments | (220) | (9) | 18 |
| Accounts payable | 5 | 15 | 19 |
| Accrued interest, payroll and taxes | (19) | 14 | (22) |
| Other operating assets and liabilities | (82) | 30 | (77) |
| Net cash provided by operating activities | 2,248 | 2,329 | 2,706 |
| Investing Activities | | | |
| Plant construction and other property additions | (2,911) | (2,394) | (2,082) |
| Purchases of nuclear fuel | (196) | (139) | (206) |
| Purchases of securities | (574) | (603) | (638) |
| Proceeds from sales of securities | 549 | 572 | 626 |
| Other | (2) | (37) | 18 |
| Net cash used in investing activities | (3,134) | (2,601) | (2,282) |
| Financing Activities | | | |
| Issuance (repayment) of short-term debt, net | 519 | (151) | 98 |
| Issuance (repayment) of affiliated current borrowings, net | 330 | (338) | 248 |
| Issuance of long-term debt | 950 | 1,835 | 450 |
| Repayment of long-term debt | (61) | (470) | (641) |
| Preferred stock redemption | (259) | | |
| Common dividend payments | (590) | (579) | (559) |
| Preferred dividend payments | (11) | (17) | (16) |
| Other | 7 | (20) | (5) |
| Net cash provided by (used in) financing activities | 885 | 260 | (425) |
| Decrease in cash and cash equivalents | (1) | (12) | (1) |
| Cash and cash equivalents at beginning of year | 16 | 28 | 29 |
| Cash and cash equivalents at end of year | \$ 15 | \$ 16 | \$ 28 |
| Supplemental Cash Flow Information | | | |
| Cash paid during the year for: | | | |
| Interest and related charges, excluding capitalized amounts | \$ 383 | \$ 328 | \$ 376 |
| Income taxes | 386 | 427 | 225 |

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Significant noncash investing activities:

Accrued capital expenditures

181

276

242

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of

Dominion Gas Holdings, LLC

Richmond, Virginia

We have audited the accompanying consolidated balance sheets of Dominion Gas Holdings, LLC (a wholly-owned subsidiary of Dominion Resources, Inc.) and subsidiaries (Dominion Gas) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of Dominion Gas management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Dominion Gas is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Dominion Gas internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Dominion Gas Holdings, LLC and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Richmond, Virginia

February 27, 2015

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Dominion Gas Holdings, LLC

Consolidated Statements of Income

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|--|-----------------|-----------------|-----------------|
| Operating Revenue⁽¹⁾ | \$ 1,898 | \$ 1,937 | \$ 1,677 |
| Operating Expenses | | | |
| Purchased gas ⁽¹⁾ | 315 | 323 | 235 |
| Other energy-related purchases | 40 | 93 | 41 |
| Other operations and maintenance: | | | |
| Affiliated suppliers | 64 | 70 | 112 |
| Other ⁽²⁾ | 274 | 353 | 223 |
| Depreciation and amortization | 197 | 188 | 176 |
| Other taxes | 157 | 148 | 140 |
| Total operating expenses | 1,047 | 1,175 | 927 |
| Income from operations | 851 | 762 | 750 |
| Other income | 22 | 28 | 37 |
| Interest and related charges ⁽¹⁾ | 27 | 28 | 40 |
| Income from operations before income tax expense | 846 | 762 | 747 |
| Income tax expense | 334 | 301 | 288 |
| Net Income | \$ 512 | \$ 461 | \$ 459 |

(1) See Note 24 for amounts attributable to related parties.

(2) Includes gains on the sales of assets to related parties of \$59 million, \$122 million and \$176 million in 2014, 2013 and 2012, respectively. See Note 9 for more information.

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

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Dominion Gas Holdings, LLC

Consolidated Statements of Comprehensive Income

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|--|---------------|--------|--------|
| Net income | \$ 512 | \$ 461 | \$ 459 |
| Other comprehensive income (loss), net of taxes: | | | |
| Net deferred gains (losses) on derivatives-hedging activities, net of \$19, \$(27) and \$(10) tax | (31) | 39 | 13 |
| Changes in unrecognized pension and other postretirement benefit costs, net of \$6, \$(18) and \$5 tax | (10) | 26 | (7) |
| Amounts reclassified to net income: | | | |
| Net derivative losses-hedging activities, net of \$(5), \$(5) and \$(13) tax | 8 | 11 | 20 |
| Net pension and other postretirement benefit costs, net of \$(3), \$(4) and \$(4) tax | 5 | 6 | 5 |
| Other comprehensive income (loss) | (28) | 82 | 31 |
| Comprehensive income | \$ 484 | \$ 543 | \$ 490 |

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

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Dominion Gas Holdings, LLC

Consolidated Balance Sheets

| At December 31, (millions) | 2014 | 2013 |
|---|------------|------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 9 | \$ 8 |
| Customer receivables (less allowance for doubtful accounts of \$4 and \$5) ⁽¹⁾ | 322 | 311 |
| Other receivables (less allowance for doubtful accounts of \$1 at both dates) | 19 | 2 |
| Affiliated receivables | 12 | 41 |
| Inventories: | | |
| Materials and supplies | 53 | 56 |
| Gas stored | 12 | 7 |
| Prepayments | 166 | 67 |
| Regulatory assets | 38 | 79 |
| Deferred income taxes | 96 | 89 |
| Other ⁽¹⁾ | 83 | 141 |
| Total current assets | 810 | 801 |
| Investments | 108 | 106 |
| Property, Plant and Equipment | | |
| Property, plant and equipment | 8,902 | 8,240 |
| Accumulated depreciation and amortization | (2,538) | (2,421) |
| Total property, plant and equipment, net | 6,364 | 5,819 |
| Deferred Charges and Other Assets | | |
| Goodwill | 542 | 545 |
| Intangible assets, net | 79 | 82 |
| Regulatory assets | 379 | 285 |
| Pension and other postretirement benefit assets ⁽¹⁾ | 1,486 | 1,436 |
| Other ⁽¹⁾ | 80 | 68 |
| Total deferred charges and other assets | 2,566 | 2,416 |
| Total assets | \$ 9,848 | \$ 9,142 |

(1) See Note 24 for amounts attributable to related parties.

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| At December 31, (millions) | 2014 | 2013 |
|--|----------|----------|
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 247 | \$ 277 |
| Payables to affiliates | 41 | 45 |
| Affiliated current borrowings | 384 | 1,342 |
| Accrued interest, payroll and taxes | 194 | 209 |
| Regulatory liabilities | 75 | 79 |
| Other ⁽¹⁾ | 97 | 118 |
| Total current liabilities | 1,038 | 2,070 |
| Long-Term Debt | | |
| | 2,594 | 1,198 |
| Deferred Credits and Other Liabilities | | |
| Deferred income taxes and investment tax credits | 2,158 | 1,977 |
| Regulatory liabilities | 192 | 203 |
| Other ⁽¹⁾ | 300 | 267 |
| Total deferred credits and other liabilities | 2,650 | 2,447 |
| Total liabilities | 6,282 | 5,715 |
| Commitments and Contingencies (see Note 22) | | |
| Equity | | |
| Membership interests | 3,652 | 3,485 |
| Accumulated other comprehensive loss | (86) | (58) |
| Total equity | 3,566 | 3,427 |
| Total liabilities and equity | \$ 9,848 | \$ 9,142 |

(1) See Note 24 for amounts attributable to related parties.

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

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Dominion Gas Holdings, LLC

Consolidated Statements of Equity

| (millions) | Membership Interests | Accumulated Other Comprehensive Income (Loss) | Total |
|--|----------------------|---|-----------------|
| Balance at December 31, 2011 | \$ 3,167 | \$ (171) | \$ 2,996 |
| Net income | 459 | | 459 |
| Distributions | (210) | | (210) |
| Other comprehensive income, net of tax | | 31 | 31 |
| Balance at December 31, 2012 | 3,416 | (140) | 3,276 |
| Net income | 461 | | 461 |
| Equity contribution from parent | 6 | | 6 |
| Distributions | (398) | | (398) |
| Other comprehensive income, net of tax | | 82 | 82 |
| Balance at December 31, 2013 | 3,485 | (58) | 3,427 |
| Net income | 512 | | 512 |
| Equity contribution from parent | 1 | | 1 |
| Distributions | (346) | | (346) |
| Other comprehensive loss, net of tax | | (28) | (28) |
| Balance at December 31, 2014 | \$ 3,652 | \$ (86) | \$ 3,566 |

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

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Dominion Gas Holdings, LLC

Consolidated Statements of Cash Flows

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|--|--------|--------|--------|
| Operating Activities | | | |
| Net income | \$ 512 | \$ 461 | \$ 459 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Gains on sales of assets | (124) | (122) | (176) |
| Depreciation and amortization | 197 | 188 | 176 |
| Deferred income taxes and investment tax credits, net | 216 | 102 | 294 |
| Other adjustments | 2 | (3) | 2 |
| Changes in: | | | |
| Accounts receivable | (42) | (17) | 63 |
| Affiliated receivables | (1) | 2 | (3) |
| Inventories | (2) | | 5 |
| Prepayments | (99) | 13 | (9) |
| Accounts payable | (35) | 62 | (52) |
| Payables to affiliates | (4) | 8 | (12) |
| Accrued interest, payroll and taxes | (15) | 48 | (43) |
| Other operating assets and liabilities | (134) | (44) | (75) |
| Net cash provided by operating activities | 471 | 698 | 629 |
| Investing Activities | | | |
| Plant construction and other property additions | (719) | (650) | (928) |
| Proceeds from sale of assets to an affiliate | 47 | 113 | |
| Proceeds from Blue Racer | 1 | 78 | |
| Proceeds from assignments of Marcellus acreage | 60 | 18 | |
| Advances to affiliate, net | | (5) | (14) |
| Other | (5) | (14) | (10) |
| Net cash used in investing activities | (616) | (460) | (952) |
| Financing Activities | | | |
| Issuance (repayment) of affiliated current borrowings, net | (892) | (545) | 549 |
| Repayment and acquisition of affiliated long-term debt | | (569) | (10) |
| Issuance of long-term debt | 1,400 | 1,200 | |
| Distribution payments | (346) | (318) | (210) |
| Other | (16) | (10) | |
| Net cash provided by (used in) financing activities | 146 | (242) | 329 |
| Increase (decrease) in cash and cash equivalents | 1 | (4) | 6 |
| Cash and cash equivalents at beginning of year | 8 | 12 | 6 |
| Cash and cash equivalents at end of year | \$ 9 | \$ 8 | \$ 12 |
| Supplemental Cash Flow Information | | | |
| Cash paid during the year for: | | | |
| Interest and related charges, excluding capitalized amounts | \$ 23 | \$ 31 | \$ 43 |
| Income taxes | 266 | 148 | 67 |
| Significant noncash investing and financing activities: | | | |
| Accrued capital expenditures | 35 | 42 | 62 |
| Extinguishment of affiliated long-term debt in exchange for assets sold to affiliate | 67 | | 187 |
| Distribution of non-cash asset (account receivable) to parent | | 80 | |

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| | | |
|---|----|----|
| Proceeds from sale of assets to affiliate not yet received | 30 | 61 |
| Conversion of affiliated current borrowings to membership interests | | 61 |
| <i>The accompanying notes are an integral part of Dominion Gas Consolidated Financial Statements.</i> | | |

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Combined Notes to Consolidated Financial Statements

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 and Dominion Gas. Virginia Power is a regulated public utility that generates, transmits and distributes electricity for sale in Virginia and northeastern North Carolina. Virginia Power is a member of PJM, an RTO, and its electric transmission facilities are integrated into the PJM wholesale electricity markets. All of Virginia Power's stock is owned by Dominion. Dominion Gas is a holding company that conducts business activities through a regulated interstate natural gas transmission pipeline and underground storage system in the Northeast, mid-Atlantic and Midwest states, regulated gas transportation and distribution operations in Ohio, and gas gathering and processing activities primarily in West Virginia, Ohio and Pennsylvania. All of Dominion Gas' membership interests are held by Dominion.

Dominion's operations also include an LNG import, transport and storage facility in Maryland, a preferred equity interest in which was contributed to Dominion Midstream in 2014, an equity investment in Atlantic Coast Pipeline and regulated gas transportation and distribution operations in West Virginia. Dominion's nonregulated operations include merchant generation, energy marketing and price risk management activities, retail energy marketing operations and an equity investment in Blue Racer.

In October 2014, Dominion Midstream launched its initial public offering of 20,125,000 common units representing limited partner interests at a price of \$21 per unit, which included an over-allotment option to purchase an additional 2,625,000 common units at the initial offering price, which was exercised in full by the underwriters. Dominion received \$392 million in net proceeds from the sale of the units, after deducting underwriting discounts, structuring fees and estimated offering expenses. Dominion owns the general partner and 68.5% of the limited partner interests in Dominion Midstream, which owns a preferred equity interest and the general partner interest in Cove Point. The public's ownership interest in Dominion Midstream is reflected as non-controlling interest in Dominion's Consolidated Financial Statements.

Dominion manages its daily operations through three primary operating segments: DVP, Dominion Generation and Dominion Energy. Dominion also reports a Corporate and Other segment, which includes its corporate, service company and other functions (including unallocated debt) and the net impact of operations that are discontinued, which is discussed in Note 3 and Note 25. 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.

Virginia Power manages its daily operations through two primary operating segments: DVP and Dominion Generation. It also reports a Corporate and Other segment that 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.

Dominion Gas manages its daily operations through one primary operating segment: Dominion Energy. It also reports a Corporate and Other segment that primarily includes specific items attributable to its operating segment that are not included in profit measures evaluated by executive management in assessing the segment's performance and the effect of certain items recorded at Dominion Gas as a result of the recognition of Dominion's basis in the net assets contributed.

See Note 25 for further discussion of the Companies' operating segments.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

General

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, expenses and cash flows for the periods presented. Actual results may differ from those estimates.

The Companies' Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of their respective majority-owned subsidiaries.

The Companies report certain contracts, instruments and investments at fair value. See Note 6 for further information on fair value measurements.

Dominion maintains pension and other postretirement benefit plans. Virginia Power and Dominion Gas participate in certain of these plans. See Note 21 for further information on these plans.

Certain amounts in the 2013 and 2012 Consolidated Financial Statements and footnotes have been reclassified to conform to the 2014 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 and/or Dominion Gas, where applicable.

Operating Revenue

Operating revenue is recorded on the basis of services rendered, commodities delivered or contracts settled and includes amounts yet to be billed to customers. Dominion and Virginia Power collect sales, consumption and consumer utility taxes and Dominion Gas collects sales taxes; however, these amounts are excluded from revenue. Dominion's customer receivables at December 31, 2014 and 2013 included \$564 million and \$555 million, respectively, of accrued unbilled revenue based on estimated amounts of electricity and natural gas delivered but not yet billed to its utility customers. Virginia Power's customer receivables at December 31, 2014 and 2013 included \$407 million and \$395 million, respectively, of accrued unbilled revenue based on estimated amounts of electricity delivered but not yet billed to its customers. Dominion Gas customer receivables at December 31, 2014 and 2013 included \$127 million and \$106 million, respectively, of accrued unbilled revenue based on estimated amounts of natural gas delivered but not yet billed to its customers.

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The primary types of sales and service activities reported as operating revenue for Dominion are as follows:

Regulated electric sales consist primarily of state-regulated retail electric sales, and federally-regulated wholesale electric sales and electric transmission services;

Nonregulated electric sales consist primarily of sales of electricity at market-based rates and contracted fixed rates, and associated derivative activity;

Regulated gas sales consist primarily of state- and FERC-regulated natural gas sales and related distribution services;

Nonregulated gas sales consist primarily of sales of natural gas production at market-based rates and contracted fixed prices, sales of gas purchased from third parties, gas trading and marketing revenue and associated derivative activity;

Gas transportation and storage consists primarily of regulated sales of gathering, transmission, distribution and storage services. Also included are regulated gas distribution charges to retail distribution service customers opting for alternate suppliers; and

Other revenue consists primarily of sales of NGL production and condensate, extracted products and associated derivative activity. Other revenue also includes miscellaneous service revenue from electric and gas distribution operations, and gas processing and handling revenue.

The primary types of sales and service activities reported as operating revenue for Virginia Power are as follows:

Regulated electric sales consist primarily of state-regulated retail electric sales and federally-regulated wholesale electric sales and electric transmission services; and

Other revenue consists primarily of miscellaneous service revenue from electric distribution operations and miscellaneous revenue from generation operations, including sales of capacity and other commodities.

The primary types of sales and service activities reported as operating revenue for Dominion Gas are as follows:

Regulated gas sales consist primarily of state- and FERC-regulated natural gas sales and related distribution services;

Nonregulated gas sales consist primarily of sales of natural gas production at market-based rates and contracted fixed prices and sales of gas purchased from third parties. Revenue from sales of gas production is recognized based on actual volumes of gas sold to purchasers and is reported net of royalties;

Gas transportation and storage consists primarily of regulated sales of gathering, transmission, distribution and storage services. Also included are regulated gas distribution charges to retail distribution service customers opting for alternate suppliers;

NGL revenue consists primarily of sales of NGL production and condensate, extracted products and associated derivative activity; and

Other revenue consists primarily of miscellaneous service revenue, gas processing and handling revenue and gathering revenue.

Electric Fuel, Purchased Energy and Purchased Gas-Deferred Costs

Where permitted by regulatory authorities, the differences between Dominion's and Virginia Power's actual electric fuel and purchased energy expenses and Dominion's and Dominion Gas

purchased gas expenses and the related levels of recovery for these expenses in current rates are deferred and matched against recoveries in future periods. The deferral of costs in excess of current period fuel rate recovery is recognized as a regulatory asset, while rate recovery in excess of current period fuel expenses is recognized as a regulatory liability.

Of the cost of fuel used in electric generation and energy purchases to serve utility customers, approximately 84% is currently subject to deferred fuel accounting, while substantially all of the remaining amount is subject to recovery through similar mechanisms.

Virtually all of Dominion Gas's, Cove Point's and Hope's natural gas purchases are either subject to deferral accounting or are recovered from the customer in the same accounting period as the sale.

Income Taxes

A consolidated federal income tax return is filed for Dominion and its subsidiaries, including Virginia Power and Dominion Gas's subsidiaries. In addition, where applicable, combined income tax returns for Dominion and its subsidiaries are filed in various states; otherwise, separate state income tax returns are filed.

Although Dominion Gas is disregarded for income tax purposes, a provision for income taxes is recognized to reflect the inclusion of its business activities in the tax returns of its parent, Dominion. Virginia Power and Dominion Gas participate in intercompany tax sharing agreements with Dominion and its subsidiaries, and current income taxes are based on taxable income or loss, determined on a separate company basis.

Under the agreements, if a subsidiary incurs a net operating loss, recognition of current income tax benefits is limited to refunds of prior year taxes obtained by the carryback of the net operating loss or to the extent the net operating loss is absorbed by the taxable income of other Dominion consolidated group members. Otherwise, the net operating loss is carried forward and is recognized as a deferred tax asset until realized.

Accounting for income taxes involves an asset and liability approach. Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the bases of assets and liabilities for financial reporting and tax purposes.

Accordingly, deferred taxes are recognized for the future consequences of different treatments used for the reporting of transactions in financial accounting and income tax returns. The Companies establish a valuation allowance when it is more-likely-than-not that all, or a portion, of a deferred tax asset will not be realized. Where the treatment of temporary differences is different for rate-regulated operations, a regulatory asset is recognized if it is probable that future revenues will be provided for the payment of deferred tax liabilities.

The Companies recognize positions taken, or expected to be taken, in income tax returns that are more-likely-than-not to be realized, assuming that the position will be examined by tax authorities with full knowledge of all relevant information.

If it is not more-likely-than-not that a tax position, or some portion thereof, will be sustained, the related tax benefits are not recognized in the financial statements. Unrecognized tax benefits may result in an increase in income taxes payable, a reduction of income tax refunds receivable or changes in deferred taxes. Also, when uncertainty about the deductibility of an amount is limited

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Combined Notes to Consolidated Financial Statements, Continued

to the timing of such deductibility, the increase in income taxes payable (or reduction in tax refunds receivable) is accompanied by a decrease in deferred tax liabilities. Except when such amounts are presented net with amounts receivable from or amounts prepaid to tax authorities, noncurrent income taxes payable related to unrecognized tax benefits are classified in other deferred credits and other liabilities on the consolidated balance sheets and current payables are included in accrued interest, payroll and taxes on the consolidated balance sheets.

The Companies recognize interest on underpayments and overpayments of income taxes in interest expense and other income, respectively. Penalties are also recognized in other income.

Dominion's, Virginia Power's and Dominion Gas' interest and penalties were immaterial in 2014, 2013 and 2012.

At December 31, 2014, Virginia Power's Consolidated Balance Sheet included \$225 million of federal and state income taxes receivable, \$13 million of noncurrent state income taxes receivable and \$38 million of noncurrent federal and state income taxes payable.

At December 31, 2013, Virginia Power's Consolidated Balance Sheet included \$3 million of state income taxes receivable, \$22 million of federal and state income taxes payable, \$12 million of noncurrent state income taxes receivable and \$28 million of noncurrent federal and state income taxes payable.

At December 31, 2014, Dominion Gas' Consolidated Balance Sheet included \$96 million of federal and state income taxes receivable, \$14 million of state income taxes payable, \$7 million of noncurrent state income taxes payable and \$20 million noncurrent state income taxes receivable.

At December 31, 2013, Dominion Gas' Consolidated Balance Sheet included \$17 million of federal income taxes payable, \$23 million of state income taxes payable, \$1 million of state income taxes receivable, \$7 million of noncurrent state income taxes payable and \$20 million noncurrent state income taxes receivable.

Investment tax credits are recognized by nonregulated operations in the year qualifying property is placed in service. For regulated operations, investment tax credits are deferred and amortized over the service lives of the properties giving rise to the credits. Production tax credits are recognized as energy is generated and sold.

Cash and Cash Equivalents

Current banking arrangements generally do not require checks to be funded until they are presented for payment. The following table illustrates the checks outstanding but not yet presented for payment and recorded in accounts payable for the Companies:

| Year Ended December 31, (millions) | 2014 | 2013 |
|---------------------------------------|-------|-------|
| Dominion | \$ 42 | \$ 38 |
| Virginia Power | 20 | 21 |
| Dominion Gas | 9 | 7 |

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, cash in banks and temporary investments purchased with an original maturity of three months or less.

Derivative Instruments

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Dominion and Virginia Power use derivative instruments such as futures, swaps, forwards, options and FTRs to manage the commodity, currency exchange and financial market risks of their business operations. Dominion Gas uses derivative instruments such as physical and financial forwards, futures and swaps to manage commodity price and interest rate risks.

All derivatives, except those for which an exception applies, are required to be reported in the Consolidated Balance Sheets at fair value. Derivative contracts representing unrealized gain positions and purchased options are reported as derivative assets. Derivative contracts representing unrealized losses and options sold are reported as derivative liabilities. One of the exceptions to fair value accounting, normal purchases and normal sales, may be elected when the contract satisfies certain criteria, including a requirement that physical delivery of the underlying commodity is probable. Expenses and revenues resulting from deliveries under normal purchase contracts and normal sales contracts, respectively, are included in earnings at the time of contract performance.

The Companies do not offset amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. Dominion had margin assets of \$287 million and \$620 million associated with cash collateral at December 31, 2014 and 2013, respectively. Dominion had margin liabilities of \$34 million and \$2 million associated with cash collateral at December 31, 2014 and 2013, respectively. Virginia Power had margin assets of \$6 million and \$11 million associated with cash collateral at December 31, 2014 and 2013, respectively. Virginia Power did not have any margin liabilities associated with cash collateral at December 31, 2014 or 2013. Dominion Gas did not have any margin assets or liabilities related to cash collateral at December 31, 2014 or 2013. See Note 7 for further information about derivatives.

To manage price risk, Dominion and Virginia Power hold certain derivative instruments that are not designated as hedges for accounting purposes. However, to the extent Dominion and Virginia Power do not hold offsetting positions for such derivatives, they believe these instruments represent economic hedges that mitigate their exposure to fluctuations in commodity prices, interest rates and foreign exchange rates. As part of Dominion's strategy to market energy and manage related risks, it formerly managed a portfolio of commodity-based financial derivative instruments held for trading purposes. Dominion used established policies and procedures to manage the risks associated with price fluctuations in these energy commodities and used various derivative instruments to reduce risk by creating offsetting market positions. In the second quarter of 2013, Dominion commenced a repositioning of its producer services business. The repositioning was completed in the first quarter of 2014 and resulted in the termination of natural gas trading and certain energy marketing activities.

Statement of Income Presentation:

Derivatives Held for Trading Purposes: All income statement activity, including amounts realized upon settlement, is presented in operating revenue on a net basis.

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Derivatives Not Held for Trading Purposes: All income statement activity, including amounts realized upon settlement, is presented in operating revenue, operating expenses or interest and related charges based on the nature of the underlying risk.

In Virginia Power's generation operations, changes in the fair value of derivative instruments result in the recognition of regulatory assets or regulatory liabilities for jurisdictions subject to cost-based rate regulation. Realized gains or losses on the derivative instruments are generally recognized when the related transactions impact earnings.

DERIVATIVE INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

The Companies designate a portion of their derivative instruments as either cash flow or fair value hedges for accounting purposes. For all derivatives designated as hedges, the Companies formally document the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for using the hedging instrument. The Companies assess whether the hedging relationship between the derivative and the hedged item is highly effective at offsetting changes in cash flows or fair values both at the inception of the hedging relationship and on an ongoing basis. Any change in the fair value of the derivative that is not effective at offsetting changes in the cash flows or fair values of the hedged item is recognized currently in earnings. Also, the Companies may elect to exclude certain gains or losses on hedging instruments from the assessment of hedge effectiveness, such as gains or losses attributable to changes in the time value of options or changes in the difference between spot prices and forward prices, thus requiring that such changes be recorded currently in earnings. Hedge accounting is discontinued prospectively for derivatives that cease to be highly effective hedges. For derivative instruments that are accounted for as fair value hedges or cash flow hedges, the cash flows from the derivatives and from the related hedged items are classified in operating cash flows.

Cash Flow Hedges A majority of the Companies' hedge strategies represents cash flow hedges of the variable price risk associated with the purchase and sale of electricity, natural gas, NGLs and other energy-related products. The Companies also use foreign currency contracts to hedge the variability in foreign exchange rates and interest rate swaps to hedge their exposure to variable interest rates on long-term debt. For transactions in which the Companies are hedging the variability of cash flows, changes in the fair value of the derivatives are reported in AOCI, to the extent they are effective at offsetting changes in the hedged item. Any derivative gains or losses reported in AOCI are reclassified to earnings when the forecasted item is included in earnings, or earlier, if it becomes probable that the forecasted transaction will not occur. For cash flow hedge transactions, hedge accounting is discontinued if the occurrence of the forecasted transaction is no longer probable.

Dominion entered into interest rate derivative instruments to hedge its forecasted interest payments related to planned debt issuances in 2013 and 2014. These interest rate derivatives were designated by Dominion as cash flow hedges in 2012 and 2013, prior to the formation of Dominion Gas. For the purposes of the Dominion Gas financial statements, the derivative balances, AOCI balance, and any income statement impact related to these

interest rate derivative instruments entered into by Dominion have been, and will continue to be, included in the Dominion Gas Consolidated Financial Statements as the forecasted interest payments related to the debt issuances will now occur at Dominion Gas.

Fair Value Hedges Dominion also uses fair value hedges to mitigate the fixed price exposure inherent in certain firm commodity commitments and commodity inventory. In addition, Dominion and Virginia Power have designated interest rate swaps as fair value hedges on certain fixed rate long-term debt to manage interest rate exposure. For fair value hedge transactions, changes in the fair value of the derivative are generally offset currently in earnings by the recognition of changes in the hedged item's fair value. Derivative gains and losses from the hedged item are reclassified to earnings when the hedged item is included in earnings, or earlier, if the hedged item no longer qualifies for hedge accounting. Hedge accounting is discontinued if the hedged item no longer qualifies for hedge accounting. See Note 6 for further information about fair value measurements and associated valuation methods for derivatives. See Note 7 for further information on derivatives.

Property, Plant and Equipment

Property, plant and equipment is recorded at lower of original cost or fair value, if impaired. Capitalized costs include labor, materials and other direct and indirect costs such as asset retirement costs, capitalized interest and, for certain operations subject to cost-of-service rate regulation, AFUDC and overhead costs. The cost of repairs and maintenance, including minor additions and replacements, is generally charged to expense as it is incurred.

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In 2014, 2013 and 2012, Dominion capitalized interest costs and AFUDC to property, plant and equipment of \$80 million, \$66 million and \$91 million, respectively. In 2014, 2013 and 2012, Virginia Power capitalized AFUDC to property, plant and equipment of \$39 million, \$33 million and \$31 million, respectively. In 2014, 2013 and 2012, Dominion Gas capitalized AFUDC to property, plant and equipment of \$1 million, \$5 million and \$23 million, respectively.

Under Virginia law, certain Virginia jurisdictional projects qualify for current recovery of AFUDC through rate adjustment clauses. AFUDC on these projects is calculated and recorded as a regulatory asset and is not capitalized to property, plant and equipment. In 2014, 2013 and 2012, Virginia Power recorded \$8 million, \$32 million and \$37 million of AFUDC related to these projects, respectively.

For property subject to cost-of-service rate regulation, including Virginia Power electric distribution, electric transmission, and generation property, Dominion Gas natural gas distribution and transmission property, and for certain Dominion natural gas property, the undepreciated cost of such property, less salvage value, is generally charged to accumulated depreciation at retirement. Cost of removal collections from utility customers not representing AROs are recorded as regulatory liabilities. For property subject to cost-of-service rate regulation that will be abandoned significantly before the end of its useful life, the net carrying value is reclassified from plant-in-service when it becomes probable it will be abandoned.

For property that is not subject to cost-of-service rate regulation, including nonutility property, cost of removal not asso-

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Combined Notes to Consolidated Financial Statements, Continued

ciated with AROs is charged to expense as incurred. The Companies also record gains and losses upon retirement based upon the difference between the proceeds received, if any, and the property's net book value at the retirement date.

Depreciation of property, plant and equipment is computed on the straight-line method based on projected service lives. The Companies' average composite depreciation rates on utility property, plant and equipment are as follows:

| Year Ended December 31, (percent) | 2014 | 2013 | 2012 |
|--------------------------------------|------|------|------|
| Dominion | | | |
| Generation | 2.66 | 2.71 | 2.62 |
| Transmission | 2.38 | 2.36 | 2.17 |
| Distribution | 3.12 | 3.13 | 3.17 |
| Storage | 2.39 | 2.43 | 2.59 |
| Gas gathering and processing | 2.81 | 2.39 | 2.49 |
| General and other | 3.62 | 3.82 | 4.55 |
| Virginia Power | | | |
| Generation | 2.66 | 2.71 | 2.62 |
| Transmission | 2.34 | 2.28 | 1.98 |
| Distribution | 3.34 | 3.33 | 3.32 |
| General and other | 3.29 | 3.51 | 4.32 |
| Dominion Gas | | | |
| Transmission | 2.40 | 2.43 | 2.35 |
| Distribution | 2.47 | 2.50 | 2.66 |
| Storage | 2.40 | 2.43 | 2.58 |
| Gas gathering and processing | 2.82 | 2.39 | 2.50 |
| General and other | 5.77 | 5.93 | 6.09 |

In 2013, Virginia Power revised its depreciation rates to reflect the results of a new depreciation study. This change resulted in an increase of \$19 million (\$12 million after-tax) in depreciation and amortization expense in Virginia Power's Consolidated Statements of Income.

In 2014, Virginia Power also made a one-time adjustment to depreciation expense as ordered by the Virginia Commission. This adjustment resulted in an increase of \$38 million (\$23 million after-tax) in depreciation and amortization expense in Virginia Power's Consolidated Statements of Income.

In 2013, Dominion Gas revised the depreciation rates for East Ohio to reflect the results of a new depreciation study. This change resulted in a decrease of \$8 million (\$5 million after-tax) in depreciation and amortization expense in Dominion Gas' Consolidated Statements of Income.

Dominion's nonutility property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

| Asset | Estimated Useful Lives |
|-----------------------------|------------------------|
| Merchant generation-nuclear | 44 years |
| Merchant generation-other | 15 - 36 years |
| General and other | 5 - 59 years |

Depreciation and amortization related to Virginia Power's and Dominion Gas' nonutility property, plant and equipment and E&P properties was immaterial for the years ended December 31, 2014, 2013 and 2012.

Nuclear fuel used in electric generation is amortized over its estimated service life on a units-of-production basis. Dominion and Virginia Power report the amortization of nuclear fuel in

electric fuel and other energy-related purchases expense in their Consolidated Statements of Income and in depreciation and amortization in their Consolidated Statements of Cash Flows.

Long-Lived and Intangible Assets

The Companies perform an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets or intangible assets with finite lives may not be recoverable. A long-lived or intangible asset is written down to fair value if the sum of its expected future undiscounted cash flows is less than its carrying amount. Intangible assets with finite lives are amortized over their estimated useful lives. See Note 6 for a discussion of impairments related to certain long-lived assets and intangible assets with finite lives.

Regulatory Assets and Liabilities

The accounting for Dominion's and Dominion Gas's regulated gas and Virginia Power's regulated electric operations differs from the accounting for nonregulated operations in that they are required to reflect the effect of rate regulation in their Consolidated Financial Statements. For regulated businesses subject to federal or state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, these costs that otherwise would be expensed by nonregulated companies are deferred as regulatory assets. Likewise, regulatory liabilities are recognized when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have yet to be incurred. Generally, regulatory assets and liabilities are amortized into income over the period authorized by the regulator.

The Companies evaluate whether or not recovery of their regulatory assets through future rates is probable and make various assumptions in their analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions, legislation or historical experience, as well as discussions with applicable regulatory authorities and legal counsel. If recovery of a regulatory asset is determined to be less than probable, it will be written off in the period such assessment is made.

Asset Retirement Obligations

The Companies recognize AROs at fair value as incurred or when sufficient information becomes available to determine a reasonable estimate of the fair value of future retirement activities to be performed. These amounts are generally capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, fair value is estimated using discounted cash flow analyses. At least annually, the Companies evaluate the key assumptions underlying their AROs including estimates of the amounts and timing of future cash flows associated with retirement activities. AROs are adjusted when significant changes in these assumptions are identified. Dominion and Dominion Gas report accretion of AROs and depreciation on asset retirement costs associated with their natural gas pipeline and storage well assets as an adjustment to the related regulatory liabilities when revenue is recoverable from customers for AROs. Virginia Power reports accretion of AROs and depreciation on asset retirement costs associated with decommissioning its nuclear

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power stations as an adjustment to the regulatory liability for certain jurisdictions. Accretion of all other AROs and depreciation of all other asset retirement costs is reported in other operations and maintenance expense and depreciation expense in the Consolidated Statements of Income.

Debt Issuance Costs

The Companies defer and amortize debt issuance costs and debt premiums or discounts over the expected lives of the respective debt issues, considering maturity dates and, if applicable, redemption rights held by others. Deferred debt issuance costs are recorded as an asset and classified in other current assets and other deferred charges and other assets in the Consolidated Balance Sheets. Unamortized costs associated with redemptions of debt securities prior to stated maturity dates are generally recognized and recorded in interest expense immediately. As permitted by regulatory authorities, gains or losses resulting from the refinancing of debt allocable to utility operations subject to cost-based rate regulation are deferred and amortized over the lives of the new issuances.

Investments
MARKETABLE EQUITY AND DEBT SECURITIES

Dominion accounts for and classifies investments in marketable equity and debt securities as trading or available-for-sale securities. Virginia Power classifies investments in marketable equity and debt securities as available-for-sale securities.

Trading securities include marketable equity and debt securities held by Dominion in rabbi trusts associated with certain deferred compensation plans. These securities are reported in other investments in the Consolidated Balance Sheets at fair value with net realized and unrealized gains and losses included in other income in the Consolidated Statements of Income.

Available-for-sale securities include all other marketable equity and debt securities, primarily comprised of securities held in the nuclear decommissioning trusts. These investments are reported at fair value in nuclear decommissioning trust funds in the Consolidated Balance Sheets. Net realized and unrealized gains and losses (including any other-than-temporary impairments) on investments held in Virginia Power's nuclear decommissioning trusts are recorded to a regulatory liability for certain jurisdictions subject to cost-based regulation. For all other available-for-sale securities, including those held in Dominion's merchant generation nuclear decommissioning trusts, net realized gains and losses (including any other-than-temporary impairments) are included in other income and unrealized gains and losses are reported as a component of AOCI, after-tax.

In determining realized gains and losses for marketable equity and debt securities, the cost basis of the security is based on the specific identification method.

NON-MARKETABLE INVESTMENTS

The Companies account for illiquid and privately held securities for which market prices or quotations are not readily available under either the equity or cost method. Non-marketable investments include:

Equity method investments when the Companies have the ability to exercise significant influence, but not control, over the investee. Dominion's investments are included in investments in equity method affiliates and Virginia Power's investments are included in other investments in their Consolidated Balance Sheets. The Companies record equity method adjustments in other income in the Consolidated Statements of Income including: their proportionate share of investee income or loss, gains or losses resulting from investee capital transactions, amortization of certain differences between the carrying value and the equity in the net assets of the investee at the date of investment and other adjustments required by the equity method.

Cost method investments when Dominion and Virginia Power do not have the ability to exercise significant influence over the investee. Dominion's and Virginia Power's investments are included in other investments and nuclear decommissioning trust funds.

OTHER-THAN-TEMPORARY IMPAIRMENT

Dominion and Virginia Power periodically review their investments to determine whether a decline in fair value should be considered other-than-temporary. If a decline in fair value of any security is determined to be other-than-temporary, the security is written down to its fair value at the end of the reporting period.

Decommissioning Trust Investments Special Considerations

The recognition provisions of the FASB's other-than-temporary impairment guidance apply only to debt securities classified as available-for-sale or held-to-maturity, while the presentation and disclosure requirements apply to both debt and equity securities.

Debt Securities Using information obtained from their nuclear decommissioning trust fixed-income investment managers, Dominion and Virginia Power record in earnings any unrealized loss for a debt security when the manager intends to sell the debt security or it is more-likely-than-not that the manager will have to sell the debt security before recovery of its fair value up to its cost basis. If that is not the case, but the debt security is deemed to have experienced a credit loss, Dominion and Virginia Power record the credit loss in earnings and any remaining portion of the unrealized loss in AOCL. Credit losses are evaluated primarily by considering the credit ratings of the issuer, prior instances of non-performance by the issuer and other factors.

Equity securities and other investments Dominion's and Virginia Power's method of assessing other-than-temporary declines requires demonstrating the ability to hold individual

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Combined Notes to Consolidated Financial Statements, Continued

securities for a period of time sufficient to allow for the anticipated recovery in their market value prior to the consideration of the other criteria mentioned above. Since Dominion and Virginia Power have limited ability to oversee the day-to-day management of nuclear decommissioning trust fund investments, they do not have the ability to ensure investments are held through an anticipated recovery period. Accordingly, they consider all equity and other securities as well as non-marketable investments held in nuclear decommissioning trusts with market values below their cost bases to be other-than-temporarily impaired.

Inventories

Materials and supplies and fossil fuel inventories are valued primarily using the weighted-average cost method. Stored gas inventory for Dominion Gas used in East Ohio gas distribution operations is valued using the LIFO method. Under the LIFO method, stored gas inventory was valued at \$12 million and \$7 million at December 31, 2014 and December 31, 2013, respectively. Based on the average price of gas purchased during 2014 and 2013, the cost of replacing the current portion of stored gas inventory exceeded the amount stated on a LIFO basis by approximately \$98 million and \$77 million, respectively. Stored gas inventory for Dominion held by Hope and certain nonregulated gas operations is valued using the weighted-average cost method.

Gas Imbalances

Natural gas imbalances occur when the physical amount of natural gas delivered from, or received by, a pipeline system or storage facility differs from the contractual amount of natural gas delivered or received. Dominion and Dominion Gas value these imbalances due to, or from, shippers and operators at an appropriate index price at period end, subject to the terms of its tariff for regulated entities. Imbalances are primarily settled in-kind. Imbalances due to Dominion and Dominion Gas from other parties are reported in other current assets and imbalances that Dominion and Dominion Gas owe to other parties are reported in other current liabilities in the Consolidated Balance Sheets.

Goodwill

Dominion and Dominion Gas evaluate goodwill for impairment annually as of April 1 and whenever an event occurs or circumstances change in the interim that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount.

NOTE 3. ACQUISITIONS AND DISPOSITIONS

DOMINION

ACQUISITION OF SOLAR DEVELOPMENT PROJECTS

In March 2014, Dominion acquired 100% of the equity interests of six solar development projects in California from Recurrent Energy Development Holdings, LLC for approximately \$50 million in cash. The projects cost approximately \$446 million to construct, including the initial acquisition cost. The facilities, which began commercial operations in the fourth quarter of 2014, generate approximately 139 MW.

In November 2014, Dominion acquired 100% of the equity interests of a solar project in California from CSI Project Holdco,

LLC for approximately \$79 million in cash. The project costs approximately \$80 million to construct, including the initial acquisition cost. The facility, which began commercial operations in the fourth quarter of 2014, generates approximately 20 MW.

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In December 2014, Dominion acquired 100% of the equity interests of a solar project in California from EDF Renewable Development, Inc. for approximately \$71 million in cash. The project is expected to cost approximately \$73 million to construct, including the initial acquisition cost. The facility, which began commercial operations in January 2015, generates approximately 20 MW.

The purchase price for each of these acquisitions was allocated to Property, Plant and Equipment.

In September 2014, Dominion entered into agreements to acquire 100% of the equity interests in two additional solar projects in California from EDF Renewable Development, Inc. for approximately \$175 million in cash. The acquisitions are expected to close in the first half of 2015 prior to the projects commencing operations. The projects are expected to cost approximately \$185 million once constructed, including the initial acquisition cost. Upon completion, the facilities are expected to generate approximately 42 MW.

These acquisitions provide Dominion with a large utility-scale solar presence and significantly increase its solar generation portfolio. Long-term power purchase, interconnection and operation and maintenance agreements have been executed for the projects. Dominion has claimed or expects to claim federal investment tax credits on the projects.

ACQUISITION OF CGT

In January 2015, Dominion completed the acquisition of 100% of the equity interests of CGT from SCANA Corporation for approximately \$495 million in cash, subject to final acquired working capital adjustments. CGT owns and operates nearly 1,500 miles of FERC-regulated interstate natural gas pipeline in South Carolina and southeastern Georgia. This acquisition supports Dominion's natural gas expansion into the Southeast. The acquired assets of CGT will be included in the Dominion Energy operating segment. Subject to board approvals by Dominion and Dominion Midstream, Dominion expects to contribute CGT into Dominion Midstream for a combination of debt and Dominion Midstream common units during the first half of 2015. The allocation of the purchase price to individual assets is under evaluation by management and has not been finalized.

SALE OF ELECTRIC RETAIL ENERGY MARKETING BUSINESS

In March 2014, Dominion completed the sale of its electric retail energy marketing business. The proceeds were approximately \$187 million, net of transaction costs. The sale resulted in a gain, subject to post-closing adjustments, of approximately \$100 million (\$57 million after-tax) net of a \$31 million write-off of goodwill, and is included in other operations and maintenance expense in Dominion's Consolidated Statements of Income. The sale of the electric retail energy marketing business did not qualify for discontinued operations classification.

SALE OF ILLINOIS GAS CONTRACTS

In June 2013, Dominion completed the sale of Illinois Gas Contracts. The sales price was approximately \$32 million, subject to post-closing adjustments. The sale resulted in a gain of approx-

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imately \$29 million (\$18 million after-tax) net of a \$3 million write-off of goodwill, and is included in other operations and maintenance expense in Dominion's Consolidated Statement of Income. The sale of Illinois Gas Contracts did not qualify for discontinued operations classification as it is not considered a component under applicable accounting guidance.

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 equity method investment in Elwood.

In the first and second quarters of 2013, Brayton Point's and Kincaid's 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 impairment charges totaling \$48 million (\$28 million after-tax), which are included in discontinued operations in Dominion's Consolidated Statements of Income. In both periods, Dominion used the market approach to estimate the fair value of Brayton Point's and Kincaid's long-lived assets. These were considered Level 2 fair value measurements given that they were based on the agreed-upon sales price.

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

In August 2013, Dominion completed the sale and received proceeds of approximately \$465 million, net of transaction costs. The sale resulted in a \$35 million (\$25 million after-tax) gain attributable to its equity method investment in Elwood, which is included in other income in Dominion's Consolidated Statement of Income, which was partially offset by a \$17 million (\$18 million after-tax) loss attributable to Brayton Point and Kincaid, which includes a \$16 million write-off of goodwill and is reflected in loss from discontinued operations in Dominion's Consolidated Statement of Income. See Note 6 for other impairments related to these power stations.

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:

| Year Ended December 31, (millions) | 2013 | 2012 |
|---------------------------------------|----------------------|------------------------|
| Operating revenue | \$ 304 | \$ 258 |
| Loss before income taxes | (135) ⁽¹⁾ | (1,768) ⁽²⁾ |

(1) Includes \$64 million of charges related to the defeasance of Brayton Point debt and the early redemption of Kincaid debt in 2013.

(2) Includes a long-lived asset impairment charge of \$1.6 billion.

SALE OF SALEM HARBOR AND STATE LINE

In August 2012, Dominion completed the sale of Salem Harbor. 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. Also during the second quarter of 2012, Dominion completed the sale of State Line, which ceased operations in March 2012. See Note 6 for impairments related to these power stations.

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

| Year Ended December 31, (millions) | 2012 |
|---------------------------------------|------|
| | |

| | |
|----------------------------------|-------|
| Operating revenue | \$ 57 |
| Loss before income taxes | (49) |
| Dominion and Dominion Gas | |

BLUE RACER

See Note 9 for a discussion of transactions related to Blue Racer.

MARCELLUS ACREAGE

See Note 10 for a discussion of assignments of Marcellus acreage.

NOTE 4. OPERATING REVENUE

The Companies' operating revenue consists of the following:

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|---------------------------------------|-----------|-----------|-----------|
| Dominion | | | |
| Electric sales: | | | |
| Regulated | \$ 7,460 | \$ 7,193 | \$ 7,102 |
| Nonregulated | 1,839 | 2,511 | 2,483 |
| Gas sales: | | | |
| Regulated | 334 | 323 | 250 |
| Nonregulated | 751 | 930 | 1,071 |
| Gas transportation and storage | 1,543 | 1,535 | 1,401 |
| Other | 509 | 628 | 528 |
| Total operating revenue | \$ 12,436 | \$ 13,120 | \$ 12,835 |
| Virginia Power | | | |
| Regulated electric sales | \$ 7,460 | \$ 7,193 | \$ 7,102 |
| Other | 119 | 102 | 124 |
| Total operating revenue | \$ 7,579 | \$ 7,295 | \$ 7,226 |
| Dominion Gas | | | |
| Gas sales: | | | |
| Regulated | \$ 209 | \$ 202 | \$ 138 |
| Nonregulated | 26 | 32 | 28 |
| Gas transportation and storage | 1,353 | 1,338 | 1,188 |
| NGL revenue | 212 | 292 | 275 |
| Other | 98 | 73 | 48 |
| Total operating revenue | \$ 1,898 | \$ 1,937 | \$ 1,677 |

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NOTE 5. INCOME TAXES

Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. The interpretation of tax laws involves uncertainty, since tax authorities may interpret the laws differently. The Companies are routinely audited by federal and state tax authorities. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

In December 2014, U.S. federal legislation was enacted that provides an extension of the 50% bonus depreciation allowance for qualifying capital expenditures incurred through 2014.

Continuing Operations

Details of income tax expense for continuing operations including noncontrolling interests were as follows:

| Year Ended December 31, (millions) | Dominion | | | Virginia Power | | | Dominion Gas | | |
|--|----------|--------|--------|----------------|--------|--------|--------------|--------|--------|
| | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 |
| Current: | | | | | | | | | |
| Federal | \$ (11) | \$ 317 | \$ 43 | \$ 85 | \$ 357 | \$ 70 | \$ 86 | \$ 158 | \$ (8) |
| State | 14 | 110 | 84 | 67 | 62 | 81 | 32 | 41 | 2 |
| Total current expense (benefit) | 3 | 427 | 127 | 152 | 419 | 151 | 118 | 199 | (6) |
| Deferred: | | | | | | | | | |
| Federal | | | | | | | | | |
| Taxes before operating loss carryforwards and investment tax credits | 956 | 563 | 645 | 381 | 224 | 482 | 192 | 92 | 257 |
| Tax benefit of operating loss carryforwards | (352) | (18) | | | | | | | |
| Investment tax credits | (152) | (48) | | | | | | | |
| State | (2) | (31) | 40 | 16 | 17 | 21 | 24 | 10 | 37 |
| Total deferred expense | 450 | 466 | 685 | 397 | 241 | 503 | 216 | 102 | 294 |
| Amortization of deferred investment tax credits | (1) | (1) | (1) | (1) | (1) | (1) | | | |
| Total income tax expense | \$ 452 | \$ 892 | \$ 811 | \$ 548 | \$ 659 | \$ 653 | \$ 334 | \$ 301 | \$ 288 |

For continuing operations including noncontrolling interests, the statutory U.S. federal income tax rate reconciles to the Companies' effective income tax rate as follows:

| Year Ended December 31, | Dominion | | | Virginia Power | | | Dominion Gas | | |
|--|----------|-------|-------|----------------|-------|-------|--------------|-------|-------|
| | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 |
| U.S. statutory rate | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| Increases (reductions) resulting from: | | | | | | | | | |
| State taxes, net of federal benefit | | 2.1 | 4.2 | 3.8 | 3.1 | 3.9 | 4.4 | 4.3 | 3.4 |
| Investment tax credits | (8.6) | (1.8) | | | | | | | |
| Production tax credits | (1.2) | (0.6) | (0.5) | (0.6) | (0.2) | | | | |
| Valuation allowances | 0.7 | (0.1) | (0.7) | | | | | | |

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| | | | | | | | | | |
|---|--------------|-------|-------|--------------|-------|-------|--------------|-------|-------|
| AFUDC - equity | | (0.6) | (0.9) | | (0.8) | (0.9) | | (0.1) | (0.6) |
| Employee stock ownership plan deduction | (0.9) | (0.6) | (0.7) | | | | | | |
| Other, net | 0.4 | (0.4) | (0.6) | 0.8 | (0.4) | 0.3 | 0.1 | 0.3 | 0.7 |
| Effective tax rate | 25.4% | 33.0% | 35.8% | 39.0% | 36.7% | 38.3% | 39.5% | 39.5% | 38.5% |

Dominion's effective tax rate in 2014 reflects the recognition of state tax credits and previously unrecognized tax benefits due to the expiration of statutes of limitations.

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The Companies' deferred income taxes consist of the following:

| At December 31, (millions) | Dominion | | Virginia Power | | Dominion Gas | |
|--|----------|----------|----------------|----------|--------------|----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Deferred income taxes: | | | | | | |
| Total deferred income tax assets | \$ 2,023 | \$ 2,142 | \$ 500 | \$ 462 | \$ 227 | \$ 216 |
| Total deferred income tax liabilities | 8,663 | 8,463 | 4,915 | 4,498 | 2,289 | 2,103 |
| Total net deferred income tax liabilities | \$ 6,640 | \$ 6,321 | \$ 4,415 | \$ 4,036 | \$ 2,062 | \$ 1,887 |
| Total deferred income taxes: | | | | | | |
| Plant and equipment, primarily depreciation method and basis differences | \$ 5,895 | \$ 5,383 | \$ 3,965 | \$ 3,628 | \$ 1,417 | \$ 1,266 |
| Nuclear decommissioning | 1,241 | 1,136 | 474 | 441 | | |
| Deferred state income taxes | 659 | 606 | 299 | 285 | 207 | 182 |
| Federal benefit of deferred state income taxes | (231) | (212) | (105) | (100) | (72) | (64) |
| Deferred fuel, purchased energy and gas costs | 27 | (33) | 18 | (50) | 7 | 13 |
| Pension benefits | 272 | 435 | (77) | (52) | 567 | 522 |
| Other postretirement benefits | (17) | (78) | 13 | (3) | (12) | (13) |
| Loss and credit carryforwards | (1,434) | (797) | (116) | (106) | (10) | (10) |
| Valuation allowances | 87 | 69 | | | | |
| Partnership basis differences | 304 | 125 | | | 42 | 42 |
| Other | (163) | (313) | (56) | (7) | (84) | (51) |
| Total net deferred income tax liabilities | \$ 6,640 | \$ 6,321 | \$ 4,415 | \$ 4,036 | \$ 2,062 | \$ 1,887 |

At December 31, 2014, Dominion had the following deductible loss and credit carryforwards:

- Federal loss carryforwards of \$2.2 billion that expire if unutilized during the period 2021 through 2034;
- Federal investment tax credits of \$245 million that expire if unutilized during the period 2033 through 2034;
- Federal production and other tax credits of \$65 million that expire if unutilized during the period 2031 through 2034;
- State loss carryforwards of \$1.7 billion that expire if unutilized during the period 2018 through 2034. A valuation allowance on \$962 million of these carryforwards has been established;
- State minimum tax credits of \$194 million that do not expire; and
- State investment tax credits of \$29 million that expire if unutilized during the period 2016 through 2019.

At December 31, 2014, Virginia Power had the following deductible loss and credit carryforwards:

- Federal loss carryforwards of \$279 million that expire if unutilized during the period 2031 through 2033; and
- Federal production and other tax credits of \$14 million that expire if unutilized during the period 2031 through 2034.

At December 31, 2014, Dominion Gas had the following deductible loss carryforwards:

- Federal loss carryforwards of \$25 million that expire if unutilized during the period 2031 through 2033; and
- State loss carryforwards of \$4 million that expire if unutilized during the period 2031 through 2032.

Dominion Gas had no credit carryforwards at December 31, 2014.

A reconciliation of changes in the Companies' unrecognized tax benefits follows:

| (millions) | Dominion | | | Virginia Power | | | Dominion Gas | | |
|----------------------------------|----------|--------|--------|----------------|-------|--------|--------------|-------|-------|
| | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 |
| Balance at January 1 | \$ 222 | \$ 293 | \$ 347 | \$ 39 | \$ 57 | \$ 114 | \$ 29 | \$ 30 | \$ 30 |
| Increases-prior period positions | 24 | 17 | 28 | 2 | 12 | 4 | | | |
| Decreases-prior period positions | (26) | (99) | (106) | (16) | (42) | (80) | | (1) | |

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| | | | | | | | | | |
|---------------------------------------|--------|--------|--------|-------|-------|-------|-------|-------|-------|
| Increases-current period positions | 16 | 30 | 43 | 11 | 14 | 24 | | | |
| Decreases-current period positions | | (5) | | | | | | | |
| Settlements with tax authorities | | (2) | (4) | | (2) | (4) | | | |
| Expiration of statutes of limitations | (91) | (12) | (15) | | | (1) | | | |
| Balance at December 31 | \$ 145 | \$ 222 | \$ 293 | \$ 36 | \$ 39 | \$ 57 | \$ 29 | \$ 29 | \$ 30 |

Certain unrecognized tax benefits, or portions thereof, if recognized, would affect the effective tax rate. Changes in these unrecognized tax benefits may result from remeasurement of amounts expected to be realized, settlements with tax authorities and expiration of statutes of limitations. For Dominion and its subsidiaries, these unrecognized tax benefits were \$77 million, \$126 million and \$167 million at December 31, 2014, 2013 and 2012, respectively. For Dominion, the change in these unrecognized tax benefits decreased income tax expense by \$47 million and \$29 million in 2014 and 2013, respectively, and increased income tax expense by \$1 million in 2012. For Virginia Power, these unrecognized tax benefits were \$8 million at December 31, 2014 and 2013, and \$13 million at December 31, 2012. For Virginia Power, the change in these unrecognized tax benefits decreased income tax expense by less than \$1 million in 2014, and increased income tax expense by \$4 million and \$1 million in 2013 and 2012, respectively. For Dominion Gas, these unrecognized tax benefits were \$19 million at December 31, 2014 and 2013 and \$20 million at December 31, 2012. For Dominion Gas, the change in these unrecognized tax benefits affected income tax expense by less than \$1 million in 2014, 2013 and 2012.

In January 2012, the Appellate Division of the IRS informed Dominion that the Joint Committee had completed its review of the settlement of tax years 2004 and 2005 for Dominion and its consolidated subsidiaries. Since the measurement of unrecognized tax benefits in 2011 considered the results of completed settlement negotiations, Dominion's results of operations in 2012 were not affected.

In April 2012, the IRS issued its Revenue Agent Report for Dominion's consolidated tax returns for tax years 2006 and 2007, reflecting the resolution of all issues except one that was subsequently settled in 2012.

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Combined Notes to Consolidated Financial Statements, Continued

The IRS examination of tax years 2008, 2009, 2010 and 2011 concluded in late 2013, resulting in a payment of \$46 million, and an adjustment to a refund previously received by Dominion for its carryback of 2008 losses to 2007. The loss carryback, as adjusted, was submitted to the Joint Committee for review. Early in 2014, Dominion received notification that the matter had been resolved with no further adjustments. Accordingly, the earliest tax year remaining open for examination of Dominion's federal tax returns is 2012.

Effective for its 2014 tax year, Dominion has been accepted into the CAP. The CAP is a method of identifying and resolving tax issues through open, cooperative, and transparent interaction between the IRS and taxpayers prior to the filing of a return. Through the CAP, Dominion will have the opportunity to resolve complex tax matters with the IRS before filing its federal income tax returns, thus achieving certainty for such tax return filing positions accepted by the IRS. Under a Pre-CAP plan, the IRS audit of tax years 2012 and 2013 began in early 2014.

It is reasonably possible that settlement negotiations and expiration of statutes of limitations could result in a decrease in unrecognized tax benefits in 2015 by up to \$30 million for Dominion and up to \$25 million for Virginia Power. If such changes were to occur, other than revisions of the accrual for interest on tax underpayments and overpayments, earnings could increase by up to \$10 million for Dominion and \$7 million for Virginia Power.

Otherwise, with regard to 2014 and prior years, Dominion and Virginia Power cannot estimate the range of reasonably possible changes to unrecognized tax benefits that may occur in 2015.

After considering the possibility of potential changes in the status of its remaining unrecognized tax benefits, Dominion Gas has concluded that no significant changes are reasonably possible to occur in 2015.

For each of the major states in which Dominion operates, the earliest tax year remaining open for examination is as follows:

| State | Earliest Open Tax Year |
|------------------------------|------------------------------|
| Pennsylvania ⁽¹⁾ | 2010 |
| Connecticut | 2011 |
| Virginia ⁽²⁾ | 2011 |
| West Virginia ⁽¹⁾ | 2011 |
| New York ⁽¹⁾ | 2007 |

(1) Considered a major state for Dominion Gas operations.

(2) Considered a major state for Virginia Power's operations.

The Companies are also obligated to report adjustments resulting from IRS settlements to state tax authorities. In addition, if Dominion utilizes operating losses or tax credits generated in years for which the statute of limitations has expired, such amounts are subject to examination.

Discontinued Operations

Details of income tax expense for Dominion's discontinued operations were as follows:

| | | |
|---------------------------------------|----------|----------|
| Year Ended December 31, (millions) | 2013 | 2012 |
| Current: | | |
| Federal | \$ (274) | \$ (248) |

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| | | |
|----------------------------------|---------|----------|
| State | (41) | (6) |
| Total current benefit | (315) | (254) |
| Deferred: | | |
| Federal | 232 | (368) |
| State | 40 | (70) |
| Total deferred expense (benefit) | 272 | (438) |
| Total income tax benefit | \$ (43) | \$ (692) |

Dominion's effective tax rate for 2013 reflects the impact of goodwill written off in the sale of Kincaid and Brayton Point that is not deductible for tax purposes.

NOTE 6. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. However, the use of a mid-market pricing convention (the mid-point between bid and ask prices) is permitted. Fair values are based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. This includes not only the credit standing of counterparties involved and the impact of credit enhancements but also the impact of the Companies' own nonperformance risk on their liabilities. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). Dominion and Virginia Power apply fair value measurements to certain assets and liabilities including commodity and interest rate derivative instruments, and nuclear decommissioning trust and other investments including those held in Dominion's rabbi, pension and other postretirement benefit plan trusts, in accordance with the requirements described above. Dominion Gas applies fair value measurements to certain assets and liabilities including commodity and interest rate derivative instruments and investments held in pension and other postretirement benefit plan trusts, in accordance with the requirements described above. The Companies apply credit adjustments to their derivative fair values in accordance with the requirements described above. These credit adjustments are currently not material to the derivative fair values.

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Inputs and Assumptions

The Companies maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is based on actively-quoted market prices, if available. In the absence of actively-quoted market prices, price information is sought from external sources, including broker quotes and industry publications. When evaluating pricing information provided by brokers and other pricing services, the Companies consider whether the broker is willing and able to trade at the quoted price, if the broker quotes are based on an active market or an inactive market and the extent to which brokers are utilizing a particular model if pricing is not readily available. If pricing information from external sources is not available, or if the Companies believe that observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases the Companies must estimate prices based on available historical and near-term future price information and certain statistical methods, including regression analysis, that reflect their market assumptions.

The Companies' commodity derivative valuations are prepared by Dominion's ERM department. The ERM department reports directly to Dominion's CFO. The ERM department creates daily mark-to-market valuations for the Companies' derivative transactions using computer-based statistical models. The inputs that go into the 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.

For options and contracts with option-like characteristics where observable pricing information is not available from external sources, Dominion and Virginia Power generally use a modified Black-Scholes Model that considers time value, the volatility of the underlying commodities and other relevant assumptions when estimating fair value. Dominion and Virginia Power use other option models under special circumstances, including a Spread Approximation Model when contracts include different commodities or commodity locations and a Swing Option Model when contracts allow either the buyer or seller the ability to exercise within a range of quantities. For contracts with unique characteristics, Dominion and Virginia Power may estimate fair value using a discounted cash flow approach deemed appropriate in the circumstances and applied consistently from period to period. For individual contracts, the use of different valuation models or assumptions could have a significant effect on the contract's estimated fair value.

The inputs and assumptions used in measuring fair value include the following:

For commodity and foreign currency derivative contracts:

- Forward commodity prices
- Forward foreign currency prices
- Transaction prices
- Price volatility
- Price correlation
- Volumes
- Commodity location
- Interest rates
- Credit quality of counterparties and the Companies
- Credit enhancements
- Time value

For interest rate derivative contracts:

- Interest rate curves
- Credit quality of counterparties and the Companies

Volumes
Credit enhancements
Time value

For investments:

Quoted securities prices and indices
Securities trading information including volume and restrictions
Maturity
Interest rates
Credit quality
NAV (for alternative investments and common/collective trust funds)

The Companies regularly evaluate and validate the inputs used to estimate fair value by a number of methods, including review and verification of models, as well as various market price verification procedures such as the use of pricing services and multiple broker quotes to support the market price of the various commodities and investments in which the Companies transact.

Levels

The Companies also utilize the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities that they have the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of financial instruments such as certain exchange-traded derivatives, and exchange-listed equities, mutual funds and certain Treasury securities held in nuclear decommissioning trust funds for Dominion and Virginia Power, benefit plan trust funds for Dominion and Dominion Gas, and rabbi trust funds for Dominion.
Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2

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Combined Notes to Consolidated Financial Statements, Continued

primarily include commodity forwards and swaps, interest rate swaps, restricted cash equivalents, and certain Treasury securities, money market funds, common/collective trust funds, and corporate, state and municipal debt securities held in nuclear decommissioning trust funds for Dominion and Virginia Power, benefit plan trust funds for Dominion and Dominion Gas, and rabbi trust funds for Dominion.

Level 3 Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 for the Companies consist of long-dated commodity derivatives, FTRs, NGLs, natural gas peaking options and other modeled commodity derivatives. Additional instruments categorized in Level 3 for Dominion and Dominion Gas include alternative investments, consisting of investments in partnerships, joint ventures and other alternative investments, held in benefit plan trust funds.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In these cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

For derivative contracts, the Companies recognize transfers among Level 1, Level 2 and Level 3 based on fair values as of the first day of the month in which the transfer occurs. Transfers out of Level 3 represent assets and liabilities that were previously classified as Level 3 for which the inputs became observable for classification in either Level 1 or Level 2. Because the activity and liquidity of commodity markets vary substantially between regions and time periods, the availability of observable inputs for substantially the full term and value of the Companies over-the-counter derivative contracts is subject to change.

Level 3 Valuations

Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs that are considered to be unobservable are used in their valuations. Long-dated commodity derivatives are generally based on unobservable inputs due to the length of time to settlement and the absence of market activity and are therefore categorized as Level 3. For NGL derivatives, market illiquidity requires a valuation based on proxy markets that do not always correlate to the actual instrument, therefore they are categorized as Level 3. FTRs are categorized as Level 3 fair value measurements because the only relevant pricing available comes from ISO auctions, which are generally not considered to be liquid markets. Other modeled commodity derivatives have unobservable inputs in their valuation, mostly due to non-transparent and illiquid markets. Alternative investments are categorized as Level 3 due to the absence of quoted market prices, illiquidity and the long-term nature of these assets. These investments are generally valued using NAV based on the proportionate share of the fair value as determined by reference to the most recent audited fair value financial statements or fair value statements provided by the investment manager adjusted for any significant events occurring between the investment manager's and the Companies' measurement date.

The Companies enter into certain physical and financial forwards, futures, options and swaps, 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 and futures 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. 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, the original sales prices, and volumes. For Level 3 fair value measurements, forward market prices, credit spreads and implied price volatilities 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 and Dominion Gas' quantitative information about Level 3 fair value measurements at December 31, 2014. The range and weighted average are presented in dollars for market price inputs and percentages for price volatility and credit spreads.

| | Fair Value (millions) | Valuation Techniques | Unobservable Input | Range | Weighted Average ⁽¹⁾ |
|--|-----------------------|----------------------|------------------------|-------------|---------------------------------|
| Assets: | | | | | |
| Physical and Financial Forwards and Futures: | | | | | |
| Natural Gas ⁽²⁾ | \$ 74 | Discounted Cash Flow | Market Price (per Dth) | (4) (2) 11 | (1) |
| | | | Credit Spread | (6) 1% 5% | 2% |
| FTRs | 44 | Discounted Cash Flow | Market Price (per MWh) | (4) (1) 21 | 3 |
| NGLs ⁽³⁾ | 2 | 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 4 | 3 |
| | | | Price Volatility | (5) 19% 67% | 33% |
| Total assets | \$ 125 | | | | |
| Liabilities: | | | | | |
| Physical and Financial Forwards and Futures: | | | | | |
| Natural Gas ⁽²⁾ | \$ 12 | Discounted Cash Flow | Market Price (per Dth) | (4) (2) 4 | 2 |
| FTRs | 4 | Discounted Cash Flow | Market Price (per MWh) | (4) (21) 21 | |
| Physical and Financial Options: | | | | | |
| Natural Gas | 2 | Option Model | Market Price (per Dth) | (4) 2 4 | 3 |
| | | | Price Volatility | (5) 19% 67% | 33% |
| Total liabilities | \$ 18 | | | | |

(1) Averages weighted by volume.

(2) Includes basis.

(3) Information represents Dominion Gas' quantitative information about Level 3 fair value measurements.

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

(5) Represents volatilities unrepresented in published markets.

(6) Represents credit spreads unrepresented in published markets.

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) |
| Credit Spread | Asset | Increase (decrease) | Loss (gain) |

Nonrecurring Fair Value Measurements**DOMINION GAS***Natural Gas Assets*

In the fourth quarter of 2014, Dominion Gas recorded an impairment charge of \$9 million (\$6 million after-tax) in other operations and maintenance expense in its Consolidated Statements of Income, to write off previously capitalized costs following the cancellation of a development project.

In June 2013, Dominion Gas purchased certain natural gas infrastructure facilities that were previously leased from third parties. The purchase price was based on terms in the lease, which exceeded current market pricing. As a result of the purchase price and expected losses, Dominion Gas recorded an impairment charge of \$49 million (\$29 million after-tax) in other operations and maintenance expense in its Consolidated Statements of Income, to write down the long-lived assets to their estimated fair values 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 Gas used the income approach (discounted cash flows)

to estimate the fair value of the assets in this impairment test. This was considered a Level 3 fair value measurement due to the use of significant unobservable inputs, including estimates of future production and other commodity prices.

Also in June 2013, Dominion Gas recorded an impairment charge of \$6 million (\$4 million after-tax) in other operations and maintenance expense in its Consolidated Statements of Income, to write off previously capitalized costs following the cancellation of two development projects.

DOMINION

Merchant Power Stations

In the third quarter of 2012, Dominion decided to pursue the sale of Brayton Point and Kincaid, as well as its 50% interest in Elwood, which is an equity method investment. Since Dominion was unlikely to operate the Brayton Point and Kincaid facilities through their estimated useful lives, Dominion evaluated these power stations for recoverability under a probability weighted approach and concluded that the carrying values of these facilities were not impaired as of September 30, 2012.

At December 31, 2012, Dominion updated its recoverability analysis for Brayton Point and Kincaid to reflect bids received and an updated probability weighting. As a result of this updated evaluation, Dominion recorded an impairment charge of approximately \$1.6 billion (\$1.0 billion after-tax), which is included in loss from discontinued operations in its Consolidated Statement of Income, to write down Brayton Point's and Kincaid's long-lived assets to their estimated fair value of approximately \$216 million. Dominion used a 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 bids received.

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Combined Notes to Consolidated Financial Statements, Continued

See Note 3 for information regarding the sale of Brayton Point, Kincaid and Dominion's equity method investment in Elwood, including an additional impairment.

In April 2011, Dominion announced it would pursue a sale of Kewaunee since it was not able to move forward with its original plan to grow its nuclear fleet in the Midwest to take advantage of economies of scale. Dominion was unable to find a buyer for the facility. In addition, the power purchase agreements for the two utilities that contracted to buy Kewaunee's generation expired in December 2013 at a time of low wholesale electricity prices in the region. At September 30, 2012, Dominion expected that it would permanently cease generation operations at Kewaunee in 2013 and commence decommissioning of the facility. As a result, Dominion evaluated Kewaunee for impairment since it was more likely than not that Kewaunee would be retired before the end of its previously estimated useful life. 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 Kewaunee's long-lived assets. 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.

As a result of this evaluation in September 2012, Dominion recorded impairment and other charges of \$435 million (\$281 million after-tax) largely reflected in other operations and maintenance expense in its Consolidated Statement of Income. This primarily reflects a \$378 million (\$244 million after-tax) charge for the full impairment of Kewaunee's long-lived assets, a write down of materials and supplies inventories of \$33 million (\$21 million after-tax), and a \$24 million (\$16 million after-tax) charge related to severance costs.

The decision to decommission Kewaunee was approved by Dominion's Board of Directors in October 2012 after consideration of the factors discussed above, which made it uneconomic for Kewaunee to continue operations. Kewaunee ceased operations and decommissioning activities commenced in May 2013.

In the second quarter of 2012, an agreement was reached to sell Salem Harbor and the assets and liabilities to be disposed were classified as held for sale and adjusted to their estimated fair value less cost to sell. This resulted in a pre-tax charge of \$27 million (\$16 million after-tax), which is included in loss from discontinued operations in Dominion's Consolidated Statement of Income. This was considered a Level 2 fair value measurement as it was based on the negotiated sales price. Salem Harbor was sold in the third quarter of 2012.

Recurring Fair Value Measurements

Fair value measurements are separately disclosed by level within the fair value hierarchy with a separate reconciliation of fair value measurements categorized as Level 3. Fair value disclosures for assets held in Dominion's and Dominion Gas' pension and other postretirement benefit plans are presented in Note 21.

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 December 31, 2014 | | | | |
| Assets: | | | | |
| Derivatives: | | | | |
| Commodity | \$ 3 | \$ 567 | \$ 125 | \$ 695 |
| Interest rate | | 24 | | 24 |

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| | | | | |
|--|----------|----------|--------|----------|
| Investments ⁽¹⁾ : | | | | |
| Equity securities: | | | | |
| U.S.: | | | | |
| Large Cap | 2,669 | | | 2,669 |
| Other | 6 | | | 6 |
| Non-U.S.: | | | | |
| Large Cap | 12 | | | 12 |
| Fixed Income: | | | | |
| Corporate debt instruments | | 441 | | 441 |
| U.S. Treasury securities and agency debentures | 419 | 190 | | 609 |
| State and municipal | | 395 | | 395 |
| Other | | 74 | | 74 |
| Cash equivalents and other | 3 | 10 | | 13 |
| Total assets | \$ 3,112 | \$ 1,701 | \$ 125 | \$ 4,938 |
| Liabilities: | | | | |
| Derivatives: | | | | |
| Commodity | \$ 3 | \$ 571 | \$ 18 | \$ 592 |
| Interest rate | | 202 | | 202 |
| Total liabilities | \$ 3 | \$ 773 | \$ 18 | \$ 794 |
| At December 31, 2013 | | | | |
| Assets: | | | | |
| Derivatives: | | | | |
| Commodity | \$ 3 | \$ 718 | \$ 32 | \$ 753 |
| Interest rate | | 137 | | 137 |
| Investments ⁽¹⁾ : | | | | |
| Equity securities: | | | | |
| U.S.: | | | | |
| Large Cap | 2,417 | | | 2,417 |
| Other | 79 | | | 79 |
| Non-U.S.: | | | | |
| Large Cap | 13 | | | 13 |
| Fixed Income: | | | | |
| Corporate debt instruments | | 345 | | 345 |
| U.S. Treasury securities and agency debentures | 415 | 175 | | 590 |
| State and municipal | | 343 | | 343 |
| Other | | 3 | | 3 |
| Cash equivalents and other | | 103 | | 103 |
| Restricted cash equivalents | | 8 | | 8 |
| Total assets | \$ 2,927 | \$ 1,832 | \$ 32 | \$ 4,791 |
| Liabilities: | | | | |
| Derivatives: | | | | |
| Commodity | \$ 3 | \$ 1,051 | \$ 48 | \$ 1,102 |
| Total liabilities | \$ 3 | \$ 1,051 | \$ 48 | \$ 1,102 |

(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) | 2014 | 2013 | 2012 |
|--|---------|---------|---------|
| Balance at January 1, | \$ (16) | \$ 25 | \$ (71) |
| Total realized and unrealized gains (losses): | | | |
| Included in earnings | 97 | (9) | (15) |
| Included in other comprehensive income (loss) | 7 | 1 | 101 |
| Included in regulatory assets/liabilities | 109 | (9) | 30 |
| Settlements | (88) | (23) | 47 |
| Transfers out of Level 3 | (2) | (1) | (67) |
| Balance at December 31, | \$ 107 | \$ (16) | \$ 25 |
| The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date | \$ 6 | \$ | \$ 42 |

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

| (millions) | Operating Revenue | Electric Fuel and Energy Purchases | Purchased Gas | Total |
|--|-------------------|------------------------------------|---------------|---------|
| Year Ended December 31, 2014 | | | | |
| Total gains (losses) included in earnings | \$ 4 | \$ 97 | \$ (4) | \$ 97 |
| The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date | 4 | 1 | 1 | 6 |
| Year Ended December 31, 2013 | | | | |
| Total gains (losses) included in earnings | \$ 11 | \$ (19) | \$ (1) | \$ (9) |
| The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date | 1 | | (1) | |
| Year Ended December 31, 2012 | | | | |
| Total gains (losses) included in earnings | \$ 35 | \$ (50) | \$ | \$ (15) |
| The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date | 42 | | | 42 |

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Combined Notes to Consolidated Financial Statements, Continued

VIRGINIA POWER

The following table presents Virginia Power's quantitative information about Level 3 fair value measurements at December 31, 2014. The range and weighted average are presented in dollars for market price inputs and percentages for credit spreads.

| | Fair Value (millions) | Valuation Techniques | Unobservable Input | Range | Weighted Average ⁽¹⁾ |
|--|--------------------------|----------------------|---------------------------------------|---------|------------------------------------|
| Assets: | | | | | |
| Physical and Financial Forwards and Futures: | | | | | |
| FTRs | \$ 44 | Discounted Cash Flow | Market Price (per MWh) ⁽³⁾ | (1) 21 | 3 |
| Natural gas ⁽²⁾ | 62 | Discounted Cash Flow | Market Price (per Dth) ⁽³⁾ | (2) 7 | (1) |
| | | | Credit Spread ⁽⁴⁾ | 1% 5% | 2% |
| Total assets | \$ 106 | | | | |
| Liabilities: | | | | | |
| Physical and Financial Forwards and Futures: | | | | | |
| FTRs | \$ 4 | Discounted Cash Flow | Market Price (per MWh) ⁽³⁾ | (21) 21 | |
| Total liabilities | \$ 4 | | | | |

(1) Averages weighted by volume.

(2) Includes basis.

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

(4) Represents credit spreads unrepresented in published markets.

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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) |
| Credit Spread | Asset | Increase (decrease) | Loss (gain) |

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 December 31, 2014 | | | | |
| Assets: | | | | |
| Derivatives: | | | | |
| Commodity | \$ | \$ 7 | \$ 106 | \$ 113 |
| Investments ⁽¹⁾ : | | | | |
| Equity securities: | | | | |
| U.S.: | | | | |
| Large Cap | 1,157 | | | 1,157 |
| Fixed Income: | | | | |
| Corporate debt instruments | | 250 | | 250 |
| U.S. Treasury securities and agency debentures | 137 | 61 | | 198 |
| State and municipal | | 211 | | 211 |
| Other | | 23 | | 23 |
| Total assets | \$ 1,294 | \$ 552 | \$ 106 | \$ 1,952 |
| Liabilities: | | | | |
| Derivatives: | | | | |
| Commodity | \$ | \$ 11 | \$ 4 | \$ 15 |
| Interest rate | | 72 | | 72 |
| Total liabilities | \$ | \$ 83 | \$ 4 | \$ 87 |
| At December 31, 2013 | | | | |
| Assets: | | | | |
| Derivatives: | | | | |
| Commodity | \$ | \$ 3 | \$ 2 | \$ 5 |
| Interest rate | | 48 | | 48 |
| Investments ⁽¹⁾ : | | | | |
| Equity securities: | | | | |
| U.S.: | | | | |
| Large Cap | 1,021 | | | 1,021 |
| Other | 36 | | | 36 |
| Fixed Income: | | | | |
| Corporate debt instruments | | 191 | | 191 |
| U.S. Treasury securities and agency debentures | 146 | 66 | | 212 |
| State and municipal | | 164 | | 164 |
| Cash equivalents and other | | 31 | | 31 |
| Restricted cash equivalents | | 8 | | 8 |
| Total assets | \$ 1,203 | \$ 511 | \$ 2 | \$ 1,716 |
| Liabilities: | | | | |
| Derivatives: | | | | |
| Commodity | \$ | \$ 3 | \$ 9 | \$ 12 |
| Total liabilities | \$ | \$ 3 | \$ 9 | \$ 12 |

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

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) | 2014 | 2013 | 2012 |
|---|--------|--------|---------|
| Balance at January 1, | \$ (7) | \$ 2 | \$ (28) |
| Total realized and unrealized gains (losses): | | | |
| Included in earnings | 96 | (17) | (50) |
| Included in regulatory assets/liabilities | 109 | (9) | 30 |
| Settlements | (96) | 17 | 50 |
| Balance at December 31, | \$ 102 | \$ (7) | \$ 2 |

The gains and losses included in earnings in the Level 3 fair value category were classified in electric fuel and other energy-related purchases expense in Virginia Power's Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012. 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 years ended December 31, 2014, 2013 and 2012.

DOMINION GAS

The following table presents Dominion Gas' assets and liabilities for commodity and interest rate derivatives 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 December 31, 2014 | | | | |
| Assets: | | | | |
| Commodity | \$ | \$ | \$ 2 | \$ 2 |
| Total assets | \$ | \$ | \$ 2 | \$ 2 |
| Liabilities: | | | | |
| Interest rate | \$ | \$ 9 | \$ | \$ 9 |
| Total liabilities | \$ | \$ 9 | \$ | \$ 9 |
| At December 31, 2013 | | | | |
| Assets: | | | | |
| Commodity | \$ | \$ | \$ 6 | \$ 6 |
| Interest rate | | 34 | | 34 |
| Total assets | \$ | \$ 34 | \$ 6 | \$ 40 |
| Liabilities: | | | | |
| Commodity | \$ | \$ 13 | \$ 12 | \$ 25 |
| Total liabilities | \$ | \$ 13 | \$ 12 | \$ 25 |

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Combined Notes to Consolidated Financial Statements, Continued

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

| | 2014 | 2013 | 2012 |
|---|--------|---------|---------|
| (millions) | | | |
| Balance at January 1, | \$ (6) | \$ (12) | \$ (98) |
| Total realized and unrealized gains (losses): | | | |
| Included in earnings | 2 | 1 | (15) |
| Included in other comprehensive income (loss) | 10 | 3 | 86 |
| Settlements | (4) | 2 | 15 |
| Balance at December 31, | \$ 2 | \$ (6) | \$ (12) |

The gains and losses included in earnings in the Level 3 fair value category were classified in operating revenue in Dominion Gas Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012. 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 years ended December 31, 2014, 2013 and 2012.

Fair Value of Financial Instruments

Substantially all of the Companies financial instruments are recorded at fair value, with the exception of the instruments described below, which 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, restricted cash (which is recorded in other current assets), customer and other receivables, short-term debt, affiliated current borrowings, payables to affiliates and accounts payable are representative of fair value because of the short-term nature of these instruments. For the Companies financial instruments that are not recorded at fair value, the carrying amounts and estimated fair values are as follows:

| At December 31, | 2014 | | 2013 | |
|---|-----------------|-------------------------------------|-----------------|-------------------------------------|
| | Carrying Amount | Estimated Fair Value ⁽¹⁾ | Carrying Amount | Estimated Fair Value ⁽¹⁾ |
| (millions) | | | | |
| Dominion | | | | |
| Long-term debt, including securities due within one year ⁽²⁾ | \$ 19,723 | \$ 21,881 | \$ 18,396 | \$ 19,887 |
| Junior subordinated notes ⁽³⁾ | 1,374 | 1,396 | 1,373 | 1,394 |
| Remarketable subordinated notes ⁽³⁾ | 2,083 | 2,362 | 1,080 | 1,192 |
| Subsidiary preferred stock ⁽⁴⁾ | | | 257 | 261 |
| Virginia Power | | | | |
| Long-term debt, including securities due within one year ⁽³⁾ | \$ 8,937 | \$ 10,293 | \$ 8,032 | \$ 8,897 |
| Preferred stock ⁽⁴⁾ | | | 257 | 261 |
| Dominion Gas | | | | |
| Long-term debt ⁽³⁾ | \$ 2,594 | \$ 2,672 | \$ 1,198 | \$ 1,169 |

(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) Carrying amount includes amounts which represent the unamortized discount and/or premium. At December 31, 2014, and 2013, includes the valuation of certain fair value hedges associated with Dominion's fixed rate debt, of approximately \$19 million and \$55 million, respectively.

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(3) Carrying amount includes amounts which represent the unamortized discount and/or premium.

(4) Includes deferred issuance expenses of \$2 million at December 31, 2013. See Note 18 for information about the redemption of preferred stock in 2014.

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NOTE 7. DERIVATIVES AND HEDGE ACCOUNTING ACTIVITIES

The Companies are exposed to the impact of market fluctuations in the price of electricity, natural gas and other energy-related products they market and purchase, as well as currency exchange and interest rate risks of their business operations. The Companies use derivative instruments to manage exposure to these risks, and designate certain derivative instruments as fair value or cash flow hedges for accounting purposes. As discussed in Note 2, for jurisdictions subject to cost-based rate regulation, changes in the fair value of derivatives are deferred as regulatory assets or regulatory liabilities until the related transactions impact earnings. See Note 6 for further information about fair value measurements and associated valuation methods for derivatives.

Derivative assets and liabilities are presented gross on the Companies' Consolidated Balance Sheets. Dominion's and Virginia Power's derivative contracts include both over-the-counter transactions and those that are executed on an exchange or other trading platform (exchange contracts) and centrally cleared. Dominion Gas' derivative contracts include over-the-

counter transactions. 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 the Companies' 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 or similar arrangements and would reduce the net exposure.

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Combined Notes to Consolidated Financial Statements, Continued

DOMINION**Balance Sheet Presentation**

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

| | December 31, 2014 | | | December 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 | Gross Amounts Recognized Assets | Offset in the Consolidated Balance Sheet | Net Amounts of Assets Presented in the Consolidated Balance Sheet |
| (millions) | | | | | | |
| Interest rate contracts: | | | | | | |
| Over-the-counter | \$ 24 | \$ | \$ 24 | \$ 137 | \$ | \$ 137 |
| Commodity contracts: | | | | | | |
| Over-the-counter | 382 | | 382 | 240 | | 240 |
| Exchange | 298 | | 298 | 506 | | 506 |
| Total derivatives, subject to a master netting or similar arrangement | 704 | | 704 | 883 | | 883 |
| Total derivatives, not subject to a master netting or similar arrangement | 15 | | 15 | 7 | | 7 |
| Total | \$ 719 | \$ | \$ 719 | \$ 890 | \$ | \$ 890 |

| | December 31, 2014 | | | | December 31, 2013 | | | |
|---|--|--------------------------|-------------|-------------|---|-----------------------|--------------------------|-------------|
| | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | Net Amounts | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | Net Amounts |
| Net Amounts of Assets Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Received | Net Amounts | | Net Amounts of Assets Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Received | |
| (millions) | | | | | | | | |
| Interest rate contracts: | | | | | | | | |
| Over-the-counter | \$ 24 | \$ 16 | \$ | \$ 8 | \$ 137 | \$ | \$ | \$ 137 |
| Commodity contracts: | | | | | | | | |
| Over-the-counter | 382 | 34 | 34 | 314 | 240 | 63 | | 177 |
| Exchange | 298 | 298 | | | 506 | 505 | | 1 |
| Total | \$ 704 | \$ 348 | \$ 34 | \$ 322 | \$ 883 | \$ 568 | \$ | \$ 315 |

December 31, 2014

December 31, 2013

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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 | Gross Amounts Offset in the Consolidated Balance Sheet | Gross Amounts Presented in the Consolidated Balance Sheet |
|---|---|---|---|--|--|
| (millions) | | | | | |
| Interest rate contracts: | | | | | |
| Over-the-counter | \$ 202 | \$ | \$ | 202 | \$ |
| Commodity contracts: | | | | | |
| Over-the-counter | 87 | | 87 | 262 | 262 |
| Exchange | 493 | | 493 | 838 | 838 |
| Total derivatives, subject to a master netting or similar arrangement | 782 | | 782 | 1,100 | 1,100 |
| Total derivatives, not subject to a master netting or similar arrangement | 12 | | 12 | 2 | 2 |
| Total | \$ 794 | \$ | \$ | 794 | \$ 1,102 |

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| | December 31, 2014 Gross Amounts Not Offset in the Consolidated Balance Sheet | | | | December 31, 2013 Gross Amounts Not Offset in the Consolidated Balance Sheet | | | |
|--------------------------|---|--------------------------|----------------------------|----------------|---|--------------------------|-------------------------|-------------|
| | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Paid | Net Amounts | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Paid | Net Amounts |
| (millions) | | | | | | | | |
| Interest rate contracts: | | | | | | | | |
| Over-the-counter | \$ 202 | \$ 16 | \$ | \$ 186 | \$ | \$ | \$ | \$ |
| Commodity contracts: | | | | | | | | |
| Over-the-counter | 87 | 34 | 1 | 52 | 262 | 63 | 69 | 130 |
| Exchange | 493 | 298 | 195 | | 838 | 505 | 333 | |
| Total | \$ 782 | \$ 348 | \$ 196 | \$ 238 | \$ 1,100 | \$ 568 | \$ 402 | \$ 130 |

Volumes

The following table presents the volume of Dominion's derivative activity as of December 31, 2014. 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⁾ | 52 | 13 |
| Basis | 227 | 575 |
| Electricity (MWh): | | |
| Fixed price | 14,689,432 | 6,148,800 |
| FTRs | 35,786,150 | |
| Capacity (MW) | 10,700 | 7,600 |
| Liquids (Gals) ⁽²⁾ | 39,984,000 | 1,260,000 |
| Interest rate | \$ 1,300,000,000 | \$ 4,450,000,000 |

(1) Includes options.

(2) Includes NGLs and oil.

Ineffectiveness and AOCI

For the years ended December 31, 2014, 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 December 31, 2014:

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| (millions) | AOCI After-Tax | Amounts Expected to be Reclassified to Earnings during the next 12 Months After-Tax | Maximum Term |
|---------------------|-------------------|---|-------------------|
| Commodities: | | | |
| Gas | \$ (8) | \$ (7) | 27 months |
| Electricity | 56 | 46 | 24 months |
| Other | | | 17 months |
| Interest rate | (226) | (6) | 384 months |
| Total | \$ (178) | \$ 33 | |

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.

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Combined Notes to Consolidated Financial Statements, Continued

Fair Value and Gains and Losses on Derivative Instruments

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

| (millions) | Fair Value - Derivatives under Hedge Accounting | Fair Value - Derivatives not under Hedge Accounting | Total Fair Value |
|--|--|---|------------------------|
| At December 31, 2014 | | | |
| ASSETS | | | |
| Current Assets | | | |
| Commodity | \$ 281 | \$ 242 | \$ 523 |
| Interest rate | 13 | | 13 |
| Total current derivative assets | 294 | 242 | 536 |
| Noncurrent Assets | | | |
| Commodity | 71 | 101 | 172 |
| Interest rate | 11 | | 11 |
| Total noncurrent derivative assets ⁽¹⁾ | 82 | 101 | 183 |
| Total derivative assets | \$ 376 | \$ 343 | \$ 719 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Commodity | \$ 224 | \$ 267 | \$ 491 |
| Interest rate | 100 | | 100 |
| Total current derivative liabilities | 324 | 267 | 591 |
| Noncurrent Liabilities | | | |
| Commodity | 55 | 46 | 101 |
| Interest rate | 102 | | 102 |
| Total noncurrent derivative liabilities ⁽²⁾ | 157 | 46 | 203 |
| Total derivative liabilities | \$ 481 | \$ 313 | \$ 794 |
| At December 31, 2013 | | | |
| ASSETS | | | |
| Current Assets | | | |
| Commodity | \$ 49 | \$ 522 | \$ 571 |
| Interest rate | 116 | | 116 |
| Total current derivative assets | 165 | 522 | 687 |
| Noncurrent Assets | | | |
| Commodity | 28 | 154 | 182 |
| Interest rate | 21 | | 21 |
| Total noncurrent derivative assets ⁽¹⁾ | 49 | 154 | 203 |
| Total derivative assets | \$ 214 | \$ 676 | \$ 890 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Commodity | \$ 267 | \$ 561 | \$ 828 |
| Total current derivative liabilities | 267 | 561 | 828 |
| Noncurrent Liabilities | | | |
| Commodity | 119 | 155 | 274 |
| Total noncurrent derivative liabilities ⁽²⁾ | 119 | 155 | 274 |
| Total derivative liabilities | \$ 386 | \$ 716 | \$ 1,102 |

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(1) Noncurrent derivative assets are presented in other deferred charges and other assets in Dominion's Consolidated Balance Sheets.

(2) 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) | | | |
| Year Ended December 31, 2014 | | | |
| Derivative Type and Location of Gains (Losses) | | | |
| Commodity: | | | |
| Operating revenue | | \$ (130) | |
| Purchased gas | | (13) | |
| Electric fuel and other energy-related purchases | | 7 | |
| Total commodity | \$ 245 | \$ (136) | \$ (4) |
| Interest rate ⁽³⁾ | (208) | (16) | (81) |
| Total | \$ 37 | \$ (152) | \$ (85) |
| Year Ended December 31, 2013 | | | |
| Derivative Type and Location of Gains (Losses) | | | |
| Commodity: | | | |
| Operating revenue | | \$ (58) | |
| Purchased gas | | (47) | |
| Electric fuel and other energy-related purchases | | (10) | |
| Total commodity | \$ (481) | \$ (115) | \$ 5 |
| Interest rate ⁽³⁾ | 77 | (15) | 81 |
| Total | \$ (404) | \$ (130) | \$ 86 |
| Year Ended December 31, 2012 | | | |
| Derivative Type and Location of Gains (Losses) | | | |
| Commodity: | | | |
| Operating revenue | | \$ 188 | |
| Purchased gas | | (75) | |
| Electric fuel and other energy-related purchases | | (17) | |
| Total commodity | \$ 71 | \$ 96 | \$ 10 |
| Interest rate ⁽³⁾ | (84) | (2) | (35) |
| Total | \$ (13) | \$ 94 | \$ (25) |

(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.

Derivatives not designated as hedging

| instruments Year Ended December 31, (millions) | Amount of Gain (Loss) Recognized in Income on Derivatives ⁽¹⁾ | | |
|--|---|---------|--------|
| | 2014 | 2013 | 2012 |
| Derivative Type and Location of Gains (Losses) | | | |
| Commodity: | | | |
| Operating revenue | \$ (310) | \$ (45) | \$ 168 |
| Purchased gas | (51) | (9) | (14) |
| Electric fuel and other energy-related purchases | 113 | (29) | (40) |
| Interest rate ⁽²⁾ | | | 17 |
| Total | \$ (248) | \$ (83) | \$ 131 |

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(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.

VIRGINIA POWER**Balance Sheet Presentation**

The tables below present Virginia Power's derivative asset and liability balances by type of financial instrument, before and after the effects of offsetting:

| | December 31, 2014 | | | December 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 | 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 | \$ | \$ | \$ | \$ 48 | \$ | \$ 48 |
| Commodity contracts: | | | | | | |
| Over-the-counter | 106 | | 106 | 4 | | 4 |
| Exchange | | | | 1 | | 1 |
| Total derivatives, subject to a master netting or similar arrangement | 106 | | 106 | 53 | | 53 |
| Total derivatives, not subject to a master netting or similar arrangement | 7 | | 7 | | | |
| Total | \$ 113 | \$ | \$ 113 | \$ 53 | \$ | \$ 53 |

| | December 31, 2014 | | | | December 31, 2013 | | | |
|--------------------------|---|-----------------------|--------------------------|-------------|---|-----------------------|--------------------------|-------------|
| | Net Amounts of Assets Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Received | Net Amounts | Net Amounts of Assets Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Received | Net Amounts |
| (millions) | | | | | | | | |
| Interest rate contracts: | | | | | | | | |
| Over-the-counter | \$ | \$ | \$ | \$ | \$ 48 | \$ | \$ | \$ 48 |
| Commodity contracts: | | | | | | | | |
| Over-the-counter | 106 | 4 | | 102 | 4 | 4 | | |
| Exchange | | | | | 1 | | | 1 |
| Total | \$ 106 | \$ 4 | \$ | \$ 102 | \$ 53 | \$ 4 | \$ | \$ 49 |

December 31, 2014

December 31, 2013

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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 | 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 | \$ 72 | \$ | \$ 72 | \$ | \$ | \$ |
| Commodity contracts: | | | | | | |
| Over-the-counter | 8 | | 8 | 12 | | 12 |
| Total derivatives, subject to a master netting or similar arrangement | 80 | | 80 | 12 | | 12 |
| Total derivatives, not subject to a master netting or similar arrangement | 7 | | 7 | | | |
| Total | \$ 87 | \$ | \$ 87 | \$ 12 | \$ | \$ 12 |

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Combined Notes to Consolidated Financial Statements, Continued

| | December 31, 2014 | | | | December 31, 2013 | | | | |
|--|--|------|----|----------------------|--|--|-----------------------|----------------------|-------------|
| | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | Cash Collateral Paid | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | | |
| Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Financial Instruments | | | | Net Amounts | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Paid | Net Amounts |
| (millions) | | | | | | | | | |
| Interest rate contracts: | | | | | | | | | |
| Over-the-counter | \$ 72 | \$ | \$ | \$ 72 | \$ | \$ | \$ | \$ | \$ |
| Commodity contracts: | | | | | | | | | |
| Over-the-counter | 8 | 4 | | 4 | 12 | 4 | 7 | 1 | 1 |
| Total | \$ 80 | \$ 4 | \$ | \$ 76 | \$ 12 | \$ 4 | \$ 7 | \$ 1 | \$ 1 |

Volumes

The following table presents the volume of Virginia Power's derivative activity at December 31, 2014. 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 | 7 | |
| Basis | 51 | 493 |
| Electricity (MWh): | | |
| FTRs | 33,709,386 | |
| Capacity (MW) | 10,700 | 7,600 |
| Interest rate | \$ 550,000,000 | \$ 900,000,000 |

Ineffectiveness

For the years ended December 31, 2014, 2013 and 2012, gains or losses on hedging instruments determined to be ineffective were not material.

Fair Value and Gains and Losses on Derivative Instruments

The following tables present the fair values of Virginia Power's derivatives and where they are presented in its Consolidated Balance Sheets:

| | Fair Value - Derivatives | Fair Value - Derivatives | Total Fair |
|--|-----------------------------|-----------------------------|---------------|
|--|-----------------------------|-----------------------------|---------------|

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| | under | not under | Value |
|--|------------|------------|--------|
| | Hedge | Hedge | |
| | Accounting | Accounting | |
| (millions) | | | |
| At December 31, 2014 | | | |
| ASSETS | | | |
| Current Assets | | | |
| Commodity | \$ | \$ | \$ 51 |
| Total current derivative assets ⁽¹⁾ | | | 51 |
| Noncurrent Assets | | | |
| Commodity | | | 62 |
| Total noncurrent derivative assets ⁽²⁾ | | | 62 |
| Total derivative assets | \$ | \$ | \$ 113 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Commodity | \$ | \$ | \$ 15 |
| Interest rate | | | 45 |
| Total current derivative liabilities | | | 48 |
| Noncurrent Liabilities | | | |
| Interest rate | | | 27 |
| Total noncurrent derivative liabilities ⁽³⁾ | | | 27 |
| Total derivative liabilities | \$ | \$ | \$ 75 |
| At December 31, 2013 | | | |
| ASSETS | | | |
| Current Assets | | | |
| Commodity | \$ | \$ | \$ 5 |
| Interest rate | | | 48 |
| Total current derivative assets ⁽¹⁾ | | | 50 |
| Total derivative assets | \$ | \$ | \$ 53 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Commodity | \$ | \$ | \$ 12 |
| Total current derivative liabilities | | | 1 |
| Total derivative liabilities | \$ | \$ | \$ 11 |

(1) Current derivative assets are presented in other current assets in Virginia Power's Consolidated Balance Sheets.

(2) Noncurrent derivative assets are presented in other deferred charges and other assets in Virginia Power's Consolidated Balance Sheets.

(3) Noncurrent derivative liabilities are presented in other deferred credits and other liabilities in Virginia Power's Consolidated Balance Sheets.

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The following tables present the gains and losses on Virginia Power's derivatives, as well as where the associated activity is presented in its Consolidated Balance Sheets and Statements of Income:

| Derivatives in cash flow hedging relationships (millions) | Amount of | Amount of | Increase |
|---|--|--|--|
| | Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) ⁽¹⁾ | Gain (Loss) Reclassified from AOCI to Income | (Decrease) in Derivatives Subject to Regulatory Treatment ⁽²⁾ |
| Year Ended December 31, 2014 | | | |
| Derivative Type and Location of Gains (Losses) | | | |
| Commodity: | | | |
| Electric fuel and other energy-related purchases | | \$ 5 | |
| Total commodity | \$ 4 | \$ 5 | \$ (4) |
| Interest rate ⁽³⁾ | (10) | | (81) |
| Total | \$ (6) | \$ 5 | \$ (85) |
| Year Ended December 31, 2013 | | | |
| Derivative Type and Location of Gains (Losses) | | | |
| Commodity: | | | |
| Electric fuel and other energy-related purchases | | \$ | |
| Total commodity | \$ | \$ | \$ 5 |
| Interest rate ⁽³⁾ | 9 | | 81 |
| Total | \$ 9 | \$ | \$ 86 |
| Year Ended December 31, 2012 | | | |
| Derivative Type and Location of Gains (Losses) | | | |
| Commodity: | | | |
| Electric fuel and other energy-related purchases | | \$ (4) | |
| Total commodity | \$ (2) | \$ (4) | \$ 10 |
| Interest rate ⁽³⁾ | (6) | | (35) |
| Total | \$ (8) | \$ (4) | \$ (25) |

(1) Amounts deferred into AOCI have no associated effect in Virginia Power'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 Virginia Power's Consolidated Statements of Income.

(3) Amounts recorded in Virginia Power's Consolidated Statements of Income are classified in interest and related charges.

Derivatives not designated as hedging

| instruments Year Ended December 31, (millions) | 2014 | Amount of Gain (Loss) Recognized in Income on Derivatives ⁽¹⁾ | |
|--|--------|---|---------|
| | | 2013 | 2012 |
| Derivative Type and Location of Gains (Losses) | | | |
| Commodity ⁽²⁾ | | | |
| Total | \$ 105 | \$ (16) | \$ (50) |
| Total | \$ 105 | \$ (16) | \$ (50) |

- (1) Includes derivative activity amortized out of regulatory assets/liabilities. Amounts deferred into regulatory assets/liabilities have no associated effect in Virginia Power's Consolidated Statements of Income.
 (2) Amounts recorded in Virginia Power's Consolidated Statements of Income are classified in electric fuel and other energy-related purchases.

DOMINION GAS

Balance Sheet Presentation

The tables below present Dominion Gas derivative asset and liability balances by type of financial instrument, before and after the effects of offsetting:

| | December 31, 2014 | | | December 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 | 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 | \$ | \$ | \$ | \$ 34 | \$ | \$ 34 |
| Commodity contracts: | | | | | | |
| Over-the-counter | 2 | | 2 | 6 | | 6 |
| Total derivatives, subject to a master netting or similar arrangement | \$ 2 | \$ | \$ 2 | \$ 40 | \$ | \$ 40 |

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Combined Notes to Consolidated Financial Statements, Continued

| | December 31, 2014 | | | | December 31, 2013 | | | |
|--------------------------|---|-----------------------|--------------------------|-------------|---|-----------------------|--------------------------|-------------|
| | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | |
| | Net Amounts of Assets Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Received | Net Amounts | Net Amounts of Assets Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Received | Net Amounts |
| (millions) | | | | | | | | |
| Interest rate contracts: | | | | | | | | |
| Over-the-counter | \$ | \$ | \$ | \$ | \$ | \$ 34 | \$ | \$ 34 |
| Commodity contracts: | | | | | | | | |
| Over-the-counter | | 2 | | 2 | | 6 | 6 | |
| Total | \$ | 2 | \$ | \$ 2 | \$ | 40 | \$ 6 | \$ 34 |

| | December 31, 2014 | | | | December 31, 2013 | | | |
|---|---|--|--|---|--|--|---|--|
| | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheet | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Consolidated Balance Sheet |
| (millions) | | | | | | | | |
| Interest rate contracts: | | | | | | | | |
| Over-the-counter | \$ 9 | \$ | \$ 9 | \$ | \$ | \$ | \$ | \$ |
| Commodity contracts: | | | | | | | | |
| Over-the-counter | | | | 25 | | | 25 | |
| Total derivatives, subject to a master netting or similar arrangement | \$ 9 | \$ | \$ 9 | \$ 25 | \$ | \$ | \$ 25 | \$ 25 |

| | December 31, 2014 | | | | December 31, 2013 | | | |
|------------|--|-----------------------|----------------------|-------------|--|-----------------------|----------------------|-------------|
| | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | | Gross Amounts Not Offset in the Consolidated Balance Sheet | | | |
| | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Paid | Net Amounts | Net Amounts of Liabilities Presented in the Consolidated Balance Sheet | Financial Instruments | Cash Collateral Paid | Net Amounts |
| (millions) | | | | | | | | |

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| | Balance Sheet | | | | | | | | | | |
|--------------------------|---------------|---|----|----|----|----|----|----|------|----|----|
| (millions) | | | | | | | | | | | |
| Interest rate contracts: | | | | | | | | | | | |
| Over-the-counter | \$ | 9 | \$ | \$ | \$ | 9 | \$ | \$ | \$ | | |
| Commodity contracts: | | | | | | | | | | | |
| Over-the-counter | | | | | | 25 | 6 | | 19 | | |
| Total | \$ | 9 | \$ | \$ | \$ | 9 | \$ | 25 | \$ 6 | \$ | 19 |

Volumes

The following table presents the volume of Dominion Gas derivative activity at December 31, 2014. 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 |
|---------------|------------|----------------|
| NGLs (Gals) | 32,340,000 | |
| Interest rate | \$ | \$ 250,000,000 |

Ineffectiveness and AOCI

For the years ended December 31, 2014, 2013 and 2012, gains or losses on hedging instruments determined to be ineffective were not material.

The following table presents selected information related to gains (losses) on cash flow hedges included in AOCI in Dominion Gas Consolidated Balance Sheet at December 31, 2014:

| | AOCI After-Tax | Amounts Expected to be Reclassified to Earnings during the next 12 Months After-Tax | Maximum Term |
|---------------|----------------|---|--------------|
| (millions) | | | |
| Commodities: | | | |
| Natural Gas | \$ | \$ | 3 months |
| NGLs | | | 12 months |
| Interest rate | (20) | | 360 months |
| Total | \$ (20) | \$ | |

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 tables present the fair values of Dominion Gas 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) | | | |
| At December 31, 2014 | | | |
| ASSETS | | | |
| Current Assets | | | |
| Commodity | \$ 2 | \$ | \$ 2 |
| Total current derivative assets ⁽¹⁾ | 2 | | 2 |
| Total derivative assets | \$ 2 | \$ | \$ 2 |
| LIABILITIES | | | |
| Noncurrent Liabilities | | | |
| Interest rate | \$ 9 | \$ | \$ 9 |
| Total noncurrent derivative liabilities ⁽²⁾ | 9 | | 9 |
| Total derivative liabilities | \$ 9 | \$ | \$ 9 |
| At December 31, 2013 | | | |
| ASSETS | | | |
| Current Assets | | | |
| Commodity | \$ 6 | \$ | \$ 6 |
| Interest rate | 34 | | 34 |
| Total current derivative assets ⁽¹⁾ | 40 | | 40 |
| Total derivative assets | \$ 40 | \$ | \$ 40 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Commodity | \$ 25 | \$ | \$ 25 |
| Total current derivative liabilities ⁽³⁾ | 25 | | 25 |
| Total derivative liabilities | \$ 25 | \$ | \$ 25 |

(1) Current derivative assets are presented in other current assets in Dominion Gas Consolidated Balance Sheets.

(2) Noncurrent derivative liabilities are presented in other deferred credits and other liabilities in Dominion Gas Consolidated Balance Sheets.

(3) Current derivative liabilities are presented in other current liabilities in Dominion Gas Consolidated Balance Sheets.

The following tables present the gains and losses on Dominion Gas derivatives, as well as where the associated activity is presented in its Consolidated Balance Sheets and Statements of Income:

| Derivatives in cash flow hedging relationships | Amount of Gain (Loss) Recognized in | Amount of Gain (Loss) Reclassified |
|---|---|--|
| | | |

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| | AOCI on | from AOCI to |
|--|-------------------------|--------------|
| | Derivatives | Income |
| | (Effective | |
| | Portion) ⁽¹⁾ | |
| (millions) | | |
| Year Ended December 31, 2014 | | |
| Derivative Type and Location of Gains (Losses) | | |
| Commodity: | | |
| Operating revenue | | \$ 2 |
| Purchased gas | | (14) |
| Total commodity | \$ 12 | \$ (12) |
| Interest rate ⁽²⁾ | (62) | (1) |
| Total | \$ (50) | \$ (13) |
| Year Ended December 31, 2013 | | |
| Derivative Type and Location of Gains (Losses) | | |
| Commodity: | | |
| Operating revenue | | \$ (2) |
| Purchased gas | | (14) |
| Total commodity | \$ (2) | \$ (16) |
| Interest rate ⁽²⁾ | 68 | |
| Total | \$ 66 | \$ (16) |
| Year Ended December 31, 2012 | | |
| Derivative Type and Location of Gains (Losses) | | |
| Commodity: | | |
| Operating revenue | | \$ (15) |
| Purchased gas | | (18) |
| Total commodity | \$ 64 | \$ (33) |
| Interest rate ⁽²⁾ | (41) | |
| Total | \$ 23 | \$ (33) |

(1) Amounts deferred into AOCI have no associated effect in Dominion Gas Consolidated Statements of Income.

(2) Amounts recorded in Dominion Gas Consolidated Statements of Income are classified in interest and related charges.

NOTE 8. EARNINGS PER SHARE

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

| | 2014 | 2013 | 2012 |
|--|----------|----------|---------|
| (millions, except EPS) | | | |
| Net income attributable to Dominion | \$ 1,310 | \$ 1,697 | \$ 302 |
| Average shares of common stock outstanding-Basic | 582.7 | 578.7 | 572.9 |
| Net effect of dilutive securities ⁽¹⁾ | 1.8 | 0.8 | 1.0 |
| Average shares of common stock outstanding-Diluted | 584.5 | 579.5 | 573.9 |
| Earnings Per Common Share-Basic | \$ 2.25 | \$ 2.93 | \$ 0.53 |
| Earnings Per Common Share-Diluted | \$ 2.24 | \$ 2.93 | \$ 0.53 |

(1) Dilutive securities consist primarily of contingently convertible senior notes and the 2013 Equity Units for 2014 and contingently convertible senior notes for 2013 and 2012. Dominion redeemed all of its contingently convertible senior notes in 2014. See Note 17 for more information.

The 2014 Equity Units are potentially dilutive securities but were excluded from the calculation of diluted EPS for the year ended December 31, 2014, as the dilutive stock price threshold was not met. The 2013 Equity Units are potentially dilutive securities but were excluded from the calculation of diluted EPS for the year ended December 31, 2013. See Note 17 for more information. There were no potentially dilutive

securities excluded from the calculation of diluted EPS for the year ended December 31, 2012.

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Combined Notes to Consolidated Financial Statements, Continued

NOTE 9. 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 \$110 million and \$107 million at December 31, 2014 and 2013, respectively. Cost-method investments held in Dominion's rabbi trusts totaled \$6 million and \$10 million at December 31, 2014 and 2013, respectively.

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) | | | | |
| 2014 | | | | |
| Marketable equity securities: | | | | |
| U.S. large cap | \$ 1,273 | \$ 1,353 | \$ | \$ 2,626 |
| Marketable debt securities: | | | | |
| Corporate debt instruments | 424 | 19 | (2) | 441 |
| U.S. Treasury securities and agency debentures | 597 | 13 | (4) | 606 |
| State and municipal | 332 | 23 | | 355 |
| Other | 66 | | | 66 |
| Cost method investments | 86 | | | 86 |
| Cash equivalents and other ⁽²⁾ | 16 | | | 16 |
| Total | \$ 2,794 | \$ 1,408 | \$ (6) ⁽³⁾ | \$ 4,196 |
| 2013 | | | | |
| Marketable equity securities: | | | | |
| U.S.: | | | | |
| Large Cap | \$ 1,183 | \$ 1,194 | \$ | \$ 2,377 |
| Other | 49 | 23 | | 72 |
| Marketable debt securities: | | | | |
| Corporate debt instruments | 332 | 16 | (3) | 345 |
| U.S. Treasury securities and agency debentures | 589 | 8 | (10) | 587 |
| State and municipal | 297 | 11 | (5) | 303 |
| Other | 3 | | | 3 |

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| | | | | |
|---|----------|----------|------------------------|----------|
| Cost method investments | 106 | | | 106 |
| Cash equivalents and other ⁽²⁾ | 110 | | | 110 |
| Total | \$ 2,669 | \$ 1,252 | \$ (18) ⁽³⁾ | \$ 3,903 |

(1) Included in AOCI and the nuclear decommissioning trust regulatory liability as discussed in Note 2.

(2) Includes pending sales of securities of \$3 million and \$11 million at December 31, 2014 and 2013, respectively.

(3) The fair value of securities in an unrealized loss position was \$379 million and \$604 million at December 31, 2014 and 2013, respectively.

The fair value of Dominion's marketable debt securities held in nuclear decommissioning trust funds at December 31, 2014 by contractual maturity is as follows:

| | Amount |
|--|----------|
| (millions) | |
| Due in one year or less | \$ 169 |
| Due after one year through five years | 390 |
| Due after five years through ten years | 426 |
| Due after ten years | 483 |
| Total | \$ 1,468 |

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

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|---------------------------------------|----------|----------|----------|
| Proceeds from sales | \$ 1,235 | \$ 1,476 | \$ 1,356 |
| Realized gains ⁽¹⁾ | 171 | 157 | 98 |
| Realized losses ⁽¹⁾ | 30 | 33 | 33 |

(1) Includes realized gains and losses recorded to the nuclear decommissioning trust regulatory liability as discussed in Note 2.

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Dominion recorded other-than-temporary impairment losses on investments held in nuclear decommissioning trust funds as follows:

| Year Ended December 31, (millions) | 2014 | 2013 | 2012 |
|---|-------|-------|-------|
| Total other-than-temporary impairment losses ⁽¹⁾ | \$ 21 | \$ 31 | \$ 26 |
| Losses recorded to nuclear decommissioning trust regulatory liability | (5) | (13) | (10) |
| Losses recognized in other comprehensive income (before taxes) | (3) | (10) | (2) |
| Net impairment losses recognized in earnings | \$ 13 | \$ 8 | \$ 14 |

(1) Amounts include other-than-temporary impairment losses for debt securities of \$3 million, \$18 million and \$4 million at December 31, 2014, 2013 and 2012, respectively.

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: