Application of Virginia Electric and Power Company
For approval and certification of the proposed Brunswick County Power Station
electric generation and related transmission facilities under §§ 56-580 D, 56-265.2
and 56-46.1 of the Code of Virginia and for approval of a rate adjustment clause,
designated Rider BW, under § 56-585.1 A 6 of the Code of Virginia
Case No. PUE-2012-00128

Dear Mr. Peck:

Enclosed for filing are an unbound original and five (5) bound copies of the Public
(Redacted) Version of Virginia Electric and Power Company's Application in the
above-referenced matter (consisting of Public Volumes 1-5). An extraordinarily sensitive
and confidential version of this filing is being filed under seal, under separate cover.

In addition, the Company's Motion for Entry of a Protective Order and Additional
Protective Treatment in the above-referenced matter is being filed with the Commission
under separate cover.

As indicated in Section II.A.9.b of the Transmission Appendix contained in the enclosed
filing, three (3) copies of the map showing the proposed route of the transmission
interconnection facilities described in the Application were hand delivered to the
Commission's Division of Energy Regulation today. The Company also delivered to the
Division of Energy Regulation today a CD-ROM containing the digital geographic
system (GIS) map required by § 56-46.1 of the Code of Virginia, which is Attachment
II.A.9 to the Transmission Appendix contained in the enclosed filing.
If you have any questions regarding this filing, please do not hesitate to contact me.

Sincerely,

Lisa S. Booth
Assistant General Counsel

Enclosures

cc: William H. Chambliss, Esq. (w/o enc.)
    C. Meade Browder, Jr., Esq. (w/enc.)
    All parties listed in Transmission Appendix Sections V.B-C (w/ enclosures)
Application, Direct Testimony, Exhibits and Schedules of Virginia Electric and Power Company

Before the State Corporation Commission of Virginia

For approval and certification of the proposed Brunswick County Power Station electric generation and related transmission facilities under §§ 56-580 D, 56-265.2 and 56-46.1 of the Code of Virginia and for approval of a rate adjustment clause, designated Rider BW, under § 56-585.1 A 6 of the Code of Virginia

Case No. PUE-2012-00128

Filed: November 2, 2012

PUBLIC VERSION
Volume 1 of 5
Case No. PUE-2012-00128

For approval and certification of the proposed Brunswick County Power Station electric generation and related transmission facilities under §§ 56-580 D, 56-265.2 and 56-46.1 of the Code of Virginia and for approval of a rate adjustment clause, designated Rider BW, under § 56-585.1 A 6 of the Code of Virginia

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ES = Extraordinarily Sensitive
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For approval and certification of the proposed Brunswick County Power Station electric generation and related transmission facilities under §§ 56-580 D, 56-265.2 and 56-46.1 of the Code of Virginia and for approval of a rate adjustment clause, designated Rider BW, under § 56-585.1 A 6 of the Code of Virginia

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For approval and certification of the proposed Brunswick County Power Station
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For approval and certification of the proposed Brunswick County Power Station electric generation and related transmission facilities under §§ 56-580 D, 56-265.2 and 56-46.1 of the Code of Virginia and for approval of a rate adjustment clause, designated Rider BW, under § 56-585.1 A 6 of the Code of Virginia

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ES = Extraordinarily Sensitive
APPLICATION OF

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

VIRGINIA ELECTRIC AND POWER COMPANY

For approval and certification of the proposed
Brunswick County Power Station electric generation
and related transmission facilities under §§ 56-580 D,
56-265.2 and 56-46.1 of the Code of Virginia and for
approval of a rate adjustment clause, designated
Rider BW, under § 56-585.1 A 6 of the Code of
Virginia

VIRGINIA ELECTRIC AND POWER COMPANY'S
APPLICATION, PETITIONS AND REQUEST FOR WAIVER

Virginia Electric and Power Company ("Dominion Virginia Power" or the "Company")
hereby files with the State Corporation Commission of Virginia (the "Commission") the
Company's:

(1) Petition for a certificate of public convenience and necessity ("CPCN") and for
approval, pursuant to §§ 56-580 D and 56-46.1 of the Code of Virginia ("Va. Code") and the
Commission’s Rules Governing Applications to Construct and Operate Electric Generating
Facilities (20 VAC 5-302-10, et seq.) ("Generation Rules"), to construct and operate the
Brunswick County Power Station, an approximate 1,358 megawatt ("MW") (nominal) natural
gas-fired combined-cycle ("CC") electric generating facility in Brunswick County, Virginia
(together with its associated transmission interconnection facilities, the "Project");

(2) Application for a certificate of public convenience and necessity and for approval,
pursuant to Va. Code §§ 56-265.2 and 56-46.1, to construct new 500 kV transmission lines, two
new switching stations and associated facilities in Brunswick and Greensville Counties, Virginia (collectively, the "Transmission Interconnection Facilities"); and

(3) Petition for approval of a rate adjustment clause ("RAC"), designated Rider BW, pursuant to Va. Code § 56-585.1 A 6 ("Subsection A 6") and the Commission's Rules Governing Utility Rate Case Applications and Annual Informational Filings (20 VAC 5-201-10, et seq.) ("Rate Case Rules") for timely and current recovery of the costs of the Project.

The Company further requests a partial waiver of the requirements of Rules 60 and 90 of the Rate Case Rules with respect to Filing Schedule 45 (Return on Equity Peer Group).

In support of its Application, Petitions and request for partial waiver (collectively, the "Application"), the Company respectfully shows as follows:

I. GENERAL INFORMATION

1. Dominion Virginia Power is a public service corporation organized under the laws of the Commonwealth of Virginia furnishing electric service to the public within its certificated service territory. The Company also supplies electric service to nonjurisdictional customers in Virginia and to the public in portions of North Carolina. The Company is engaged in the business of generating, transmitting, distributing, and selling electric power and energy to the public for compensation. The Company is also a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission. The Company is an operating subsidiary of Dominion Resources, Inc. Exhibit 1 to this Application includes the Company's principal corporate officers and directors, and the Company's most recent stockholder report and Form 10-K.
2. Dominion Virginia Power’s post office address is:

Virginia Electric and Power Company
120 Tredegar Street
Richmond, Virginia 23219

3. The addresses and telephone numbers of the attorneys for the Company are:

Lisa S. Booth
Charlotte P. McAfee
Dominion Resources Services, Inc.
120 Tredegar Street
Richmond, Virginia 23219
(804) 819-2288 (phone)
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One James Center
901 East Cary Street
Richmond, Virginia 23219
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(804) 775-4357 (phone)
(804) 775-7877 (phone)

II. CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AND FOR APPROVAL FOR CONSTRUCTION AND OPERATION OF THE BRUNSWICK COUNTY POWER STATION

4. The Brunswick County Power Station is the clear economic and operational choice for the Company’s customers as the next required resource in order to meet long-term capacity and energy needs. It will support a balanced portfolio of Company-owned generating facilities that utilize a variety of fuel technologies and can be leveraged for changing economic and operational conditions over time, which is particularly important given the environmental and economic constraints on aging coal-fired generating resources coming into play within and outside of the Company’s system. The Project presents an opportunity to take advantage of
favorable construction and equipment markets, access to abundant new and conventional gas supplies, and one of the most advanced high-efficiency generating technologies for the benefit of the Company’s customers.

5. While construction of new generating units, unit conversions, and demand-side management programs will meet key portions of the Company’s load growth, the need for additional capacity and energy resources in 2016 and beyond still exists. The Company’s projections demonstrate peak load growth of over 5,300 MW in the Dominion (“Dom”) Zone over the next fifteen years—with an average annual growth rate of 1.7%. Likewise, energy requirements are projected to increase by approximately 28,500 gigawatt hours (1.8% average annual growth rate) over this same period. PJM Interconnection, LLC’s (“PJM’s”) 2012 Load Forecast Report confirms these growth rates and identifies the Dom Zone as continuing to be one of the fastest growing zones of the twenty control zones in the PJM Regional Transmission Organization (“RTO”) region. Using a conservative 11% resource margin, the Company’s capacity gap is expected to grow from 582 MW in 2016 to 4,056 MW in 2027 if the Project is not constructed. The capacity gap decreases to 2,681 MW by 2027 if the Project is available. In addition to supplying needed capacity, the Project provides significant fuel cost savings and energy benefits. In 2017, the first full year of operation, the Project is expected to provide approximately 9% of the Company’s total energy requirements, and will reduce system-wide fuel expenses, while market purchases will provide 13% of the Company’s total energy requirement.

6. The need for the Project in 2016 is further supported by the pending 918 MW of coal retirements at the Company’s Yorktown and Chesapeake Power Stations, which will occur by 2015 in light of the current and anticipated future environmental and economic constraints on
conventional coal-fired generators, especially those generators which have not invested in controls required to meet new environmental standards. Dominion Virginia Power committed years ago to make such investments – over $2.2 billion worth – in order to safeguard the continued operation, in an environmentally responsible manner, of its largest and most efficient coal units for the benefit of customers. However, federal regulations currently on the books that further restrict air emissions will render the continued operation of some of the Company’s other coal-fired facilities – including our Chesapeake and Yorktown Power Station units – more costly for our customers than replacement of that generation with new environmentally compliant resources. The retirements at Chesapeake and Yorktown will reduce the Company’s system supply resources by more than 900 MW by 2015. Likewise, generators in the PJM RTO have already announced the retirement of more than 19,000 MW of coal-fired generating capacity from 2011 through 2019, with most of that capacity retiring by the end of 2015. Brunswick reflects a cost-effective, environmentally responsible, and timely replacement of the Company’s retiring resources.

7. Virginia, and our service territory in particular, are strong growth areas, and the Company must remain committed to providing reliable and cost-effective electric service to its 2.4 million customers today, as well as to its future customers. No single resource will meet this need. Rather, the Company’s integrated resource planning (“IRP”) process looks across the spectrum of supply-side resources and technologies, wholesale market opportunities, and demand reduction alternatives in order to determine the preferred mix of resource options to meet the forecasted demand. As part of this process, the Company uses the Strategist model (“Strategist”) to assist in evaluating the economics of various integrated resource alternatives. Strategist determines the value of adding various supply- and demand-side resources to the
Company's system to meet future customer capacity and energy needs by simulating real-world operation of a utility system in a power market. In the Company's 2011 and 2012 Integrated Resource Plans ("2011 Plan" and "2012 Plan," respectively), a 3×1 CC facility in the 2016 timeframe was identified as part of the optimal resource mix to meet future customer capacity and energy needs. While there have been minor updates to the estimated costs of the Project since the filing of the 2012 Plan on August 31, 2012, all other inputs and assumptions have remained the same, and the Project remains the best choice for customers and necessary to meet projected needs beginning in 2016.

8. The analysis conducted for this proceeding reaffirms the 2011 and 2012 Plans in identifying the need for a new 3×1 CC by 2016. Supporting this conclusion, the Company calculated the customer value of the Project as compared to three different alternatives: (1) market purchases, (2) simple-cycle CTs (the next best build option), and (3) the environmental retrofit of Chesapeake Units 1-4 and Yorktown Units 1-2. The Project was selected as the most reasonable and cost-effective means of addressing customers' growing needs from these options. Over its life, the Project provides a customer savings of approximately $1.3 billion net present value ("NPV") when compared to market purchases, $898 million NPV when compared to CTs, and $1.5 billion NPV when compared to the retrofit of Chesapeake Units 1-4 and Yorktown Units 1-2.

9. The Company also conducted sensitivity analyses to consider the effects of Project under different external conditions. These sensitivities included higher and lower than expected construction costs; higher and lower than expected fuel costs; no future carbon legislation or regulation; and, a sensitivity based on the assumption that cooling towers would not be required at the Company's Yorktown and Chesapeake Stations if they remain as coal
burning units but were retrofitted with all other necessary environmental equipment (Low 316(b) Requirement sensitivity). These sensitivities demonstrate significant customer benefits of the Project compared to the three alternatives (market purchases, CTs, or retrofits of the Chesapeake and Yorktown units), producing a range of projected savings between approximately $1.626 billion NPV and $0.749 billion NPV.

10. The Company considered market alternatives as an option for meeting future capacity and energy needs in two ways. First, forecasts of PJM wholesale market prices for capacity and energy (including sensitivities) were evaluated versus the Project. This analysis consistently showed the Project as a superior choice to long term market purchases. Second, the Company actively solicited quotes for extensions of its existing non-utility generator ("NUG") agreements with expiration dates in the next three to five years. This solicitation was aimed at determining whether those NUG operators could continue to provide cost-effective resources for the benefit of the Company’s customers and/or serve as superior alternatives to the construction of the Project. The Company received multiple offers which were subsequently evaluated using the same methodology used for IRP and CPCN proceedings. The evaluation confirmed that all of the received NUG extension offers were higher cost than the Company’s most economic self-build alternatives and did not displace the need for the Project in 2016, confirming that the Project is in the best interest of customers.

11. In addition to the significant customer benefits discussed above, energy from this new resource will have a positive impact on the Dom Zone by lowering the zone price and reducing the cost of purchased power. The Company projects that the reduction of purchased power costs directly linked to the Project will provide approximately $67 million (NPV) in
savings over the life of the Project as a direct result of having new, cost-effective generation in the Dom Zone. These savings are in addition to the values provided in the sensitivity results.

12. The Company has also analyzed the Project's value under recent historical prices to confirm its customer value. The Company used historical data to perform a "backcast" analysis, which shows the significant wholesale market direct benefits (net margin from PJM markets) that would have accrued for customers from having the Project available over the past five years. This backcast analysis provides supplemental information in order to help validate the projections of future benefits of the Project.

13. The Project is well-timed to avoid over-dependence on volatile market purchases of energy and capacity, during a period where an extensive number of coal retirements are expected to occur across PJM. The availability of market purchases has been beneficial for Dominion Virginia Power customers since the Company joined the PJM RTO. At times, the market can provide the opportunity to procure lower cost energy and capacity than that associated with self-generation or other resources. While market purchases have been, and will continue to be, an important aspect of meeting customer needs, it is the dependence on these market resources that is cause for concern. It is important for additional economical resources that are owned and controlled by the Company to be added to its portfolio as customers' needs grow so that the Company does not increase its dependence on market purchases. An over-dependence on the wholesale energy market leaves customers purchasing a significant portion of their power from the highest priced unit that clears the market. This becomes even more important as a large number of generation facilities in the PJM market are expected to retire within the next several years, a significant number of which are happening in regions that have traditionally supported the Company's market energy purchases. The Company will still utilize
the PJM energy and capacity markets when it is cost-effective to do so, but having additional economical generating resources increases dispatch flexibility and ultimately reduces the cost to serve our customers. In fact, had this unit been available in 2011, it would have reduced the Company’s fuel factor cost by an estimated $112 million in one year alone. In addition, Brunswick will support a continued balance of Company-owned clean coal, nuclear, natural gas and renewable supply resources, in addition to access to the wholesale markets, and will serve as a prudent addition to the Company’s generating fleet from a fuel diversity perspective.

14. The Project’s economic benefits flow from its highly-efficient 3x1 combined-cycle technology and low installed cost per unit produced. The plant will include three Mitsubishi Heavy Industries (“MHI”) “G” class combustion turbine generators, three heat recovery steam generators with supplemental firing capability, one Mitsubishi steam generator, and auxiliary equipment necessary to operate the facility. It is expected to achieve, without supplemental firing, a nominal net capacity of approximately 1,194 MW and, with supplemental firing, a nominal net capacity of 1,358 MW. This performance will be achieved at a low installed cost of approximately $934/kW at the 1,358 MW (nominal) rating based on a total estimated construction cost of approximately $1.27 billion, excluding financing costs. The Brunswick County Power Station will use the most efficient generating facility equipment with operating experience available in the market. This superior efficiency lowers the cost of construction per unit produced, which in turn, lowers the cost to customers.

15. The Brunswick County Power Station will be fueled by natural gas and will have 250,000 Dth per day of reliable firm transportation provided by Transcontinental Gas Pipe Line Company, LLC (“Transco”), at a cost-effective rate. This arrangement will provide the Brunswick County Power Station with access to abundant natural gas supplies from the Gulf
Coast to the expanding Marcellus Shale region and other supply regions. As a result of the competitive bidding process involving multiple pipelines, Transco proposed the Virginia Southside Expansion Project ("VSSE") in response to the Company's request for firm pipeline capacity to the Brunswick County Power Station. Transco's VSSE will include construction of 91.4 miles of 24-inch pipeline on existing right-of-way; 7.2 miles of 24-inch, "greenfield" lateral to the Brunswick County Power Station; modification of a Transco mainline compressor station in Mercer County, New Jersey; and a new compressor station in Pittsylvania County, Virginia. Transco will be responsible for all acquisition, design, construction, installation, land rights, and permitting activities necessary to place in-service the facilities necessary to supply its firm transportation and pressure obligations to the Brunswick County Power Station, which is detailed in Transco's Delivery Interconnect, Reimbursement and Operating Agreement with the Company. The Project, and the Company's customers, will also benefit from a total of $30 million from the Virginia Tobacco Indemnification and Community Revitalization Commission towards the VSSE. These funds lowered Transco's VSSE capital costs, and these savings are passed on to the Company's customers through the firm transportation arrangements with Transco.

16. The high level performance of the Brunswick County Power Station will not be achieved at the expense of the environment. No significant impact to ambient air quality is expected based on air quality modeling conducted per the Virginia Department of Environmental Quality ("DEQ")-approved modeling protocol that has been conducted as part of the Company's Prevention of Significant Deterioration Permit ("PSD Permit") submitted to DEQ on December 21, 2011, the modeling analysis sections of which were submitted to DEQ on September 7, 2012. The new turbines to be installed at the Brunswick County Power Station will be equipped with
Best Available Control Technology (BACT), in accordance with the PSD Permit requirements and pursuant to 9 VAC 5-50-260, to limit emissions of nitrogen oxides (NO₃), carbon monoxide, sulfur dioxide (SO₂), volatile organic compounds, particulate matter, and greenhouse gases ("GHGs"). The facility will also comply with effective and anticipated Clean Air Act requirements, including the Clean Air Interstate Rule emission program and future New Source Performance Standards for GHG emissions, if applicable. The Project will utilize air-cooled condenser technology to minimize its cooling requirements, such that the facility will use an approximate average of 500,000 gallons of water per day to operate, a reduction of water consumption of more than 90% when compared to a wet cooling tower design. In order to facilitate review and analysis of the proposed Project by the Commission, the DEQ and other relevant agencies, the Company has developed a supplement to this Application ("DEQ Supplement") containing the information and analysis required by Generation Rule 20 VAC 5-302-20 (12)(a)–(n). The DEQ Supplement demonstrates that the proposed Project will reasonably minimize impacts on the environment in accordance with Virginia Code § 56-46.1.

17. The Project will be located on an approximately 214-acre site located in Freeman, Virginia, which is approximately eight miles east of the Town of Lawrenceville on U.S. Route 58 in Brunswick County, Virginia. The Brunswick site was chosen based on a site selection process applied by the Company.

18. In selecting the MHI 501G gas turbines for the Project, the Company leveraged its recent experience procuring the gas turbines for the Warren County Power Station ("Warren") project. The Company obtained gas turbine proposals for the Warren project from multiple bidders and selected MHI's 501G advanced gas turbines and a resulting Turbine Supply Agreement, which included an option for additional gas and steam turbines in the event of an
additional facility, such as the Brunswick County Power Station. Stable market conditions over this short time since the Warren solicitations allowed the Company to re-engage those aforementioned gas turbine suppliers that had presented bids with the greatest customer value to price gas turbines for the Brunswick Project. The Company chose to exercise its purchase option with MHI for additional 501GACs since it was more favorable. All other major plant equipment will be provided by Fluor Corporation (“Fluor”) who was selected as the Engineering, Procurement, and Construction (“EPC”) contractor for the Project as a result of a competitive bidding process. The EPC contractor will competitively procure all of the other major plant equipment, except for some facilities related to the transmission line interface, which the Company will furnish. As with the recent Virginia City Hybrid Energy Center (“VCHEC”), Bear Garden Generating Station (“Bear Garden”) and Warren projects undertaken by the Company and approved by the Commission, and as a result of the Company’s aggressive management of this procurement process, a large portion (81%) of the total costs to construct the Project were fixed at the time of the execution of the EPC contract with Fluor on July 31, 2012.

19. Dominion Virginia Power is well qualified to achieve successful completion of the Project. The Company has a long, excellent record of designing, developing, constructing and operating large generation projects in a safe and reliable manner, and at a reasonable cost. Most recently, the Company has completed Bear Garden and VCHEC and has commenced construction of Warren. VCHEC and Bear Garden finished ahead of schedule and under budget, and Warren is on-schedule and on-budget. In addition, Dominion Virginia Power has an excellent safety record. Through July 2012, projects managed within the Company’s Generation Construction group over the last five years worked nearly 26 million hours, and achieved an Occupational Safety and Health Administration recordable incident rate of approximately 1.3,
which compares very favorably to an industry average recordable incident rate of 3.7 for similar heavy and civil engineering construction projects. The Company will be actively involved in the day-to-day activities during the course of constructing the Project, and its staff on-site during the Project's execution is estimated to reach a peak of approximately 20 full time employees during the commissioning phase.

20. This Application and the above-referenced DEQ Supplement, testimonies and exhibits demonstrate that the Company has the technical and financial fitness to construct, operate and maintain the proposed combined-cycle facility and that the Project fully satisfies the requirements of Virginia Code §§ 56-580 D and 56-46.1. The Project will have no material adverse impact upon the reliability of electric service, is required by the public convenience and necessity and is not contrary to the public interest. In fact, the Project will help assure continued system reliability in a cost-effective manner. The Project will contribute to serving the generation and energy needs in the Dominion Virginia Power service territory and help the Company meet its projected native load requirements, including reserve margin. The Project will help maintain fuel diversity and assist the Company in avoiding an over-reliance on wholesale power markets and managing the risk of market volatility for the benefit of customers, particularly as environmental requirements continue to evolve, which will assist in keeping electricity costs affordable and stable for Dominion Virginia Power's customers. The environmental impacts of the Project will be minimal and limited. In addition, the Project strongly supports the public interest because it will increase the tax base and contribute to the economy in Virginia and the local area. During the development and construction phase, the Project will provide direct and indirect economic benefits to the Commonwealth of almost $824 million (approximately $451 million will occur in Brunswick County), which includes on
average approximately 380 jobs annually in the Commonwealth (approximately 200 jobs annually in Brunswick County). Post-construction economic benefits are projected to amount to approximately $51 million annually, and approximately 138 jobs will be supported, with most of these effects occurring in Brunswick County. In addition, both local and state tax revenues will increase substantially over the construction and operational phases of the Project. Moreover, the Project will support and foster economic development in Virginia by providing electricity supply to meet the growing demand for electric service in the Commonwealth.

21. Dominion Virginia Power is committed to meeting its public service obligations by providing reliable, cost-effective and environmentally responsible electric utility service to our customers. The Project is the optimal economic and operational choice as the next required resource to fulfill those commitments. The Project will utilize state-of-the-art technology and economies of scale and will provide an efficient, reliable, reasonable cost facility with an outstanding heat rate and low emissions. The terms of the fixed-price contracts to construct the Project were also obtained under advantageous market conditions. Finally, the Project has very favorable projected long-term customer savings and substantial anticipated economic benefits. All of this adds up to an outstanding proposal for the Company's customers, and for the Commonwealth.

III. CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AND APPROVAL FOR CONSTRUCTION OF ELECTRIC TRANSMISSION INTERCONNECTION FACILITIES

22. The Company requests a certificate of public convenience and necessity and approval to construct the new 500 kV Transmission Interconnection Facilities in Brunswick County, Virginia. Specifically, the Company proposes to construct: (A) a new 500 kV seven breaker Brunswick Switching Station, to be located on the Brunswick County Power Station site;
(B) a new single circuit 500 kV transmission line to be designated Brunswick County Power Station-Brunswick Switching Station Line #509 approximately 666 feet long and located entirely on the Brunswick County Power Station site, connecting the generating plant with the Brunswick Switching Station; (C) a new three breaker 500 kV Rawlings Switching Station to be constructed at a point in Brunswick County on the Company’s existing 500 kV Carson-Clover Line #556 approximately 22.6 miles southwest of the Company’s existing Carson Substation, where Line #556 will be split into two 500 kV circuits, Carson-Rawlings Line #511 and Rawlings-Clover Line #556; (D) a new single circuit 500 kV line, to be designated Brunswick Switching Station-Rawlings Line #591, to run northward from Brunswick Switching Station for approximately 13.5 miles, predominantly within new right-of-way, to Rawlings Switching Station; and (E) tap the Company’s portion of existing 500 kV Carson-Wake Line #570 at a point in Greensville County approximately 28.1 miles southward of Carson Substation (“Line #570 Junction”) and construct two new parallel 500 kV single circuit transmission lines, each approximately 4.7 miles long, to run west from Line #570 Junction in new right-of-way parallel and adjacent to the right-of-way of the Company’s existing 115 kV Clubhouse-Chase City Line #71 for approximately 3.0 miles, at which point the new lines turn north in entirely new right-of-way for approximately 1.7 miles, to loop in and out of the proposed Brunswick Switching Station, thereby creating two 500 kV circuits, Carson-Brunswick Switching Station Line #585 and Brunswick Switching Station-Wake Line #570. The Transmission Appendix attached to the Application contains detailed information regarding the Transmission Interconnection Facilities as required by the

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1 The Company owns the portion of Carson-Wake Line #570 running southward from the Company’s Carson Substation in Virginia approximately 56.4 miles to a point in Halifax County, North Carolina, from which point Progress Energy Carolinas (“Progress Energy”) owns the remaining approximately 52.6 miles of the line continuing southward to Progress Energy’s existing Wake Substation in North Carolina.
23. The estimated cost of the Transmission Interconnection Facilities, comprised of Attachment Facilities and Direct Network Upgrades, is approximately $79.5 million ($57.0 million for transmission line work, including work on Progress Energy facilities, and $22.5 million for the switching station work). The estimated cost for the required Non-Direct Network Upgrades is $9.6 million, for a total cost of required interconnection facilities for the Brunswick County Power Station of approximately $89.1 million (2012 dollars), which is included in the approximately $1.27 billion estimated total cost of the Project.

24. The in-service date for the proposed Line #570 and Line #585 between Brunswick Switching Station and Line #570 Junction and the proposed Line #509 attachment facilities between Brunswick County Power Station and Brunswick Switching Station is May of 2015. The in-service date for the proposed Line #591 between Brunswick Switching Station and Rawlings Substation is November of 2015. The estimated construction time for the Transmission Interconnection Facilities is 24 months. A period of 12 months will be needed for engineering, material procurement, and construction permitting.

25. On July 28, 2011, the Company submitted a queue request to PJM for a feasibility and interconnection study for a 3x1 combined-cycle generating facility on the Brunswick County Power Station site. On December 22, 2011, PJM completed its Feasibility Study Report for the proposed queue request, and on August 15, 2012, PJM completed its System Impact Study Report for the proposed queue request, which confirmed the need for the proposed 500 kV Brunswick and Rawlings Switching Stations and associated 500 kV Line transmission lines to reliably connect the proposed Brunswick County Power Station to the transmission system.
October 22, 2012, PJM issued its Facilities Study Report, which describes in detail these required facilities. The Transmission Interconnection Facilities are required to interconnect the Brunswick County Power Station with the Company’s transmission system, and to upgrade the network to resolve North American Electric Reliability Corporation Reliability violations that would otherwise result from this interconnection. There are no feasible alternatives to the Transmission Interconnection Facilities. The need for the Transmission Interconnection Facilities is described in Section I of the Transmission Appendix.

26. Due to the length of the Transmission Interconnection Facilities and the amount of information that would need to be collected and compared during routing selection, the Company obtained the services of Natural Resource Group, LLC ("NRG"). NRG provided a detailed analysis of the Transmission Project area and performed a routing analysis comparing the alternative routes for the proposed 500 kV lines as provided in the Environmental Routing Study included as part of the DEQ Supplement. Generally, the Proposed Route (D) for interconnecting with existing Line #556 was chosen because it was the shortest and most cost-effective alternative presented and disturbs the least acreage of wetlands, and the Proposed Route (C) for interconnecting with existing Line #570 was chosen because it uses existing electric transmission right-of-way to a substantial extent and avoids the removal of any residences. The facts influencing the Company’s selection of the transmission line route are described in Section III of the Transmission Appendix. Alternative routes are discussed in detail in the Environmental Routing Study.

27. The Transmission Interconnection Facilities also involve the construction of two new 500 kV switching stations in Brunswick County, to be called Brunswick Switching Station and Rawlings Switching Station. These stations are needed to provide the necessary
interconnection facilities to interconnect the Brunswick County Power Station with the Company's 500 kV transmission system.

28. The approximate size of the structures and materials to be used in the transmission line, and the right-of-way clearing methods, corridor usage and maintenance procedures are described in Section II of the Transmission Appendix. The proposed Transmission Interconnection Facilities will meet or exceed the standards of the National Electrical Safety Code in effect at the time of construction.

29. A list of federal, state and local agencies and officials that reasonably may be expected to have an interest in the proposed construction, and to which a copy of the Application will be sent, is set forth in Section V of the Transmission Appendix.

30. Based on consultations with the DEQ, the Company developed the DEQ Supplement attached to this Application, which contains information designed to facilitate review and analysis of the Project, including the proposed Transmission Interconnection Facilities, by the DEQ and other relevant agencies.

31. Dominion Virginia Power's experience, the advice of consultants, and a review of published studies by experts in the field have disclosed no causal link to harmful health or safety effects from electric and magnetic fields generated by the Company's existing or proposed facilities. Further discussion on this topic is provided in Section IV of the Transmission Appendix.

IV. APPROVAL OF RIDER BW

32. Va. Code § 56-585.1 A 6 provides that:

To ensure a reliable and adequate supply of electricity, to meet the utility's projected native load obligations and to promote economic development, a utility may at any time, after the expiration or termination of capped rates, petition the Commission for approval of a rate adjustment clause for
recovery on a timely and current basis from customers of the costs of . . . 
(ii) one or more . . . generation facilities . . . . 

33. In addition, Subsection A 6 states that any such utility:

shall have the right to recover the costs of the facility, as accrued against income, through its rates, including projected construction work in progress, and any associated allowance for funds used during construction, planning, development and construction costs, life-cycle costs, and costs of infrastructure associated therewith, plus, as an incentive to undertake such projects, an enhanced rate of return on common equity . . . .

34. Pursuant to Va. Code Subsection A 6, the Company seeks approval for its accrual of allowance for funds used during construction ("AFUDC") of the Project commencing April 1, 2012, at the enhanced rate of return on common equity authorized by Subsection A 6, and to recover the costs of the Project through proposed Rider BW, including projected construction work in progress ("CWIP"), planning, development and construction costs, life-cycle costs and costs of infrastructure associated therewith, at the enhanced rate of return on common equity under Subsection A 6 for the AFUDC period, the CWIP period and for the first 15 years of the Project's service life.

35. In the instant Application, the Company seeks Commission approval of its proposed RAC, Rider BW, pursuant to Subsection A 6, to recover, on a timely and current basis, the costs of financing construction of the Project, including the transmission facilities necessary to interconnect the facility with the Company's transmission system.

36. On November 27, 2011, the Commission issued a Final Order in the Company's 2011 biennial rate review mandated by Va. Code § 56-585.1 A 3 ("Subsection A 3"), docketed as Commission Case No. PUE-2011-00027 ("2011 Biennial Review"). In that Final Order, the

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Commission determined the Company’s general rate of return on common equity ("ROE"), as defined by Va. Code §56-585.1 A 5, is 10.4%. The Commission further found that "an ROE of 10.4% is applicable to qualifying RACs under §§ 56-585.1 A 5 and A 6 as of the date of this Final Order." Accordingly, the Company has used a general ROE of 10.4% determined in the 2011 Biennial Review plus the 100 basis point enhanced return for a combined-cycle generating facility directed by Subsection A 6, for a total ROE of 11.4%, in this Application for purposes of the Rate Year projected revenue requirement. Any change in the general ROE and resulting Rider BW revenue requirement associated with the Company’s upcoming 2013 biennial rate review can be addressed in subsequent Rider BW true-ups.

37. Thus, for purposes of Rider BW, the Company is applying an enhanced rate of return on common equity of 11.4%. The figure includes the approved ROE in the Biennial Review of 10.4% and, in addition, the 100 basis point enhanced return applicable to a "combined cycle combustion turbine" under Va. Code § 56-585.1 A 6.

38. For purposes of the enhanced return provisions of Va. Code § 56-585.1, the first portion of the service life of the Project should be determined by the Commission to be 15 years. Subsection A 6 provides that the first portion of the service life for a combined-cycle combustion generation facility shall be in the range of 10 to 20 years and that:

- the Commission shall determine the duration of the first portion of the service life of any facility, within the range specified in the table . . . which determination shall be consistent with the public interest and shall reflect the Commission’s determinations regarding how critical the facility may be in meeting the energy needs of the citizens of the Commonwealth and the risks involved in the development of the facility.

39. Due to the critical need for additional generating capacity and energy resources in the Company’s service territory, the cost-effectiveness of the Project to help meet this growing

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3 Id. at 23, 2011 S.C.C. Ann. Rept. at 465.
need, and the risks associated with the development of this Project, the Commission should
determine that the first portion of the Project’s service life will be 15 years.

40. The proposed rate year for this proceeding is from September 1, 2013 through
August 31, 2014. The key components of the proposed Rider BW are the Projected Cost
Recovery Factor, the AFUDC Cost Recovery Factor, and the Actual Cost True-Up Factor.

41. The Projected Cost Recovery Factor is designed to recover the projected
financing costs on invested capital for the rate year plus income taxes on the equity component
of the return. It multiplies the projected 13-month average rate base (for the month ending
August 31, 2013 through the month ending August 31, 2014) by the cost of capital. This
calculation produces the projected financing costs for the Project for the projected average
investment in rate base during the rate year. The Projected Cost Recovery Factor calculation
results in the operating income necessary for recovery of projected financing costs based on the
expected average investment during the year. The revenue requirement associated with the
Projected Cost Recovery Factor is $43,119,000.

42. The AFUDC Cost Recovery Factor consists of the recovery of AFUDC deferred
on the books of the Company between April 1, 2012 and August 31, 2013, the date immediately
preceding the day the Rider BW rates are proposed to go into effect. The Company recommends
that the amortization period for the total amount of deferred AFUDC be the period beginning
with the commencement of rates for the initial Rider BW implementation, September 1, 2013,
through the projected end of the construction period, April 30, 2016, or 32 months. The revenue
requirement associated with the AFUDC Cost Recovery Factor for the 12-month period
beginning September 1, 2013 is $1,486,000, includes 12-month recovery of approximately 38%
of the projected accrued balance of AFUDC, at a revenue requirement level, which has been
grossed up for taxes.

43. Although no true-up amount is included in this case, when initiated in 2014 as
anticipated, the Actual Cost True Up Factor portion of the revenue requirement will either credit
to, or recover from, jurisdictional customers the difference between revenues recovered through
Rider BW for the calendar year 2013 and the actual cost of financing rate base for the same
period plus the associated amortization of actual AFUDC.

44. The Company is therefore requesting a Projected Cost Recovery Factor revenue
requirement of $43,119,000, an AFUDC Cost Recovery Factor revenue requirement of
$1,486,000, and no Actual Cost True-Up Factor revenue requirement for proposed Rider BW.
The total revenue requirement requested for Rider BW is $44,605,000 proposed to go into effect
on September 1, 2013 and be effective through August 31, 2014.

45. The Company has calculated the proposed Rider BW in accordance with the
methodologies approved in Case Nos. PUE-2011-00073 (Rider B), PUE-2009-00017 (Rider S),
PUE-2007-00066 (Rider S) and PUE-2011-00042 (Rider W).

46. Rider BW identifies the rates, in either cents per kilowatt-hour or dollars per
kilowatt, that will apply to each Company Rate Schedule or special contract approved by the
Commission pursuant to Va. Code § 56-235.2. If approved as proposed, Rider BW would be
applicable for usage on and after September 1, 2013.

47. The implementation of the proposed Rider BW on September 1, 2013 will
increase the residential customer's monthly bill, based on 1,000 kWh usage per month, by $0.83.
Typical monthly bill increases for customers receiving service on Residential Schedule 1,
General Service Schedules GS-1, GS-2, GS-3, and GS-4, and Church Schedule 5C, are provided to present proposed Rider BW at several representative levels of consumption or demand.

V. SUPPORTING TESTIMONY, SCHEDULE 46 AND REQUEST FOR PARTIAL WAIVER OF RATE CASE RULES FILING REQUIREMENTS

48. The Company’s request for certification and approval of the Project, and for approval of Rider BW, in this Application is supported by the attached prepared direct testimonies of Company Witnesses Fred G. Wood, III, Glenn A. Kelly, Robert B. McKinley, James E. Eck, Robert M. Bisha, David M. Wilkinson, Bonnie P. Horton, Peter Nedwick, Robert J. Shevenock, II, Anthony J. Spears, Jonathon-David W. Schultis and William P. Johnsen. In addition, see Exhibit 1 attached hereto for the information required by 20 VAC 5-302-10, Par. 1(ii), and 20 VAC 5-302-20 (1), (2), (3), (4) and (6), which is sponsored by Company Witness Fred G. Wood, III, as indicated by his prepared direct testimony.

49. Section 20 VAC 5-201-60 of the Rate Case Rules provides that an application filed pursuant to Subsection A 6 “shall include Schedules 45 and 46 as identified and described in 20 VAC 5-201-90, and which shall be submitted with the utility’s direct testimony.” The Company is filing with this Application Filing Schedule 46 as follows:

A. Filing Schedule 46A, consisting of Statements 1-3, is sponsored by Company Witness Kelly. Filing Schedule 46A, Statement 1 (contains only Public information), provides load and generating capacity reserve forecast information that demonstrates the need for the plant in the in-service year proposed. Filing Schedule 46A, Statement 2 (contains only Public information), provides economic studies that compare the selected alternative with other options considered, including sensitivity analyses and production costing simulations of the applicant’s overall generating resources that demonstrate that the selected option is the best alternative. Filing Schedule 46A, Statement 3 (contains Public and Extraordinarily Sensitive
information), provides feasibility studies that support the site selected for the proposed Project. The Strategist modeling supporting the Base Case and Sensitivities provided in Filing Schedule 46A, Statement 2, and the site selection studies provided in Filing Schedule 46A, Statement 3, is considered Extraordinarily Sensitive; therefore, subject to the protections set forth in 5 VAC 5-20-170 and the Company’s Motion for Protective Order and Additional Protective Treatment filed coincident with this Application, upon reasonable notice, the licensed Strategist model, Base Case and Sensitivities are available for inspection during regular business hours at the Company’s offices.

B. Company Witness McKinley sponsors Filing Schedule 46B, consisting of Statements 1-3. Filing Schedule 46B, Statement 1 (contains Public and Extraordinarily Sensitive information), provides feasibility and engineering design studies that support the specific plant type selected, and detailed support for planning assumptions regarding plant performance and operating costs, including historical information for similar units. Filing Schedule 46B, Statement 2 (contains Public and Extraordinarily Sensitive information), provides a schedule of all projected costs by type of cost and year associated with Rider BW pursuant to Subsection A 6 for which the Company is seeking initial approval, which also satisfies subsection (f) of Filing Schedule 46. Filing Schedule 46B, Statement 3 (contains Public and Extraordinarily Sensitive information), provides documents, contracts, studies, investigations and correspondence that support costs proposed to be recovered through Rider BW.

C. Company Witness Eck sponsors Filing Schedule 46C, Statements 1-2. Filing Schedule 46C, Statement 1 (contains only Public information), provides fuel supply studies that demonstrate the availability and adequacy of natural gas for the Project. Filing
Schedule 46C, Statement 2 (contains Public and Extraordinarily Sensitive information), provides feasibility studies that support the site selected for the proposed Project.

D. Company Witness Bisha, sponsors Filing Schedule 46D, Statement 1 (contains Public and Extraordinarily Sensitive information), which provides feasibility studies that support the site selected for the proposed Project.

E. Filing Schedule 46E, consisting of Statements 1-4, is sponsored by Company Witness Wilkinson. Filing Schedule 46D, Statement 1 (contains only Public information), provides the annual revenue requirement calculation for the rate year ending August 31, 2014. In addition, Filing Schedule 46D, Statement 2 (contains only Public information), provides the projected annual revenue requirement over the duration of the RAC, and Statement 3 (contains Public and Confidential information), provides documentation supporting Statement 2. Lastly, Filing Schedule 46D, Statement 4 (contains only Public information), provides a detailed description of all significant accounting procedures and internal controls that the Company will institute to identify all costs associated with the Subsection A 6 RAC.

F. Filing Schedule 46F, consisting of Statements 1-2, is sponsored by Company Witness Horton. Detailed information relative to the Company's methodology for allocating the revenue requirement among the rate classes and the design of the class rates is provided in Filing Schedule 46F, Statement 1 (contains only Public information). In addition, Filing Schedule 46F, Statement 2 (contains only Public information), provides the annual revenue requirement by class over the duration of the RAC.

G. Filing Schedules 46A, 46B, 46C and 46D; the testimony and schedules, as applicable, of Company Witnesses Wood, Kelly, McKinley, Eck, Bisha, Nedwick, Shevenock,
Spears, and Schultis; and the DEQ Supplement, are also responsive to the Schedule 46 requirement to provide information relative to the need and prudence of the proposed Project.

50. The Company, for good cause shown and pursuant to 20 VAC 5-201-10 E, respectfully requests that the Commission waive, in part, the requirements of Rules 60 and 90 of the Rate Case Rules with respect to Filing Schedule 45 (Return on Equity Peer Group). The Commission by its 2011 Biennial Review Final Order directed that a “ROE of 10.4% is applicable to qualifying RACs under §§ 56-585.1 A 5 and A 6 as of the date of this Final Order.” Consistent with this determination, the Company has utilized a general ROE of 10.4%, plus the 100 basis point enhanced return for a combined-cycle generating facility directed by Subsection A 6, for the Rate Year projected revenue requirement. For purposes of judicial economy and consistent with the Commission’s 2011 Biennial Review Final Order and recent Commission orders granting similar limited waivers, the Company requests waiver of Filing Schedule 45 filing requirements in this proceeding. For these reasons, the Company respectfully requests that the Commission waive, for good cause shown, the requirements of 20 VAC 5-201-60 and 20 VAC 5-201-90 with respect to the submission of Filing Schedule 45 with this Application.

VI. REQUEST FOR CONFIDENTIAL TREATMENT AND ADDITIONAL PROTECTIVE TREATMENT OF EXTRAORDINARILY SENSITIVE INFORMATION

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4 Biennial Review Final Order at 24.
51. The Company’s Application contains, at points so designated, Confidential and Extraordinarily Sensitive information, and this Confidential and Extraordinarily Sensitive information is being filed under seal and subject to the Company’s Motion for Protective Order and Additional Protective Treatment filed coincident hereto. Because portions of the Company’s Application contain such Confidential and Extraordinarily Sensitive information, in compliance with Rule 10 F and Rule 170, 20 VAC 5-201-10 F and 5 VAC 5-20-170, this filing is accompanied by a separate Motion for Protective Order and Additional Protective Treatment, including a form of Proposed Protective Order, filed contemporaneously with this Application.

VII. COMPLIANCE WITH RULE 20 OF THE GENERATION RULES

52. A copy of the Public Version of this Application has been served on all natural gas LDCs in whose certificated service territories the proposed Project or interconnected natural gas facilities will be constructed or operated as required by 20 VAC 5-302-20. The Brunswick County Power Station and related interconnected gas facilities are located within the service territory of Columbia Gas of Virginia, Inc., which is aware of the Project.

VIII. COMPLIANCE WITH RULE 10 OF THE RATE CASE RULES

53. The Company’s Application for approval of Rider BW complies with the requirements contained in Rule 10 of the Rate Case Rules. In accordance with Rule 10 A, the Company filed with the Commission on August 31, 2012, the Company’s notice of intent to file this Application under Va. Code § 56-585.1 A 6. Copies of this Application, to the extent required by Rule 10 J, along with the additional information required by Rule 10 J, have been served upon the persons addressed in that Rule. A complete copy of this Application has been served upon the Office of the Attorney General’s Division of Consumer Counsel, in conformity
with Rule 10 J. Also included with and following this Application, pursuant to Rule 10, is a table of contents of this filing, including exhibits and schedules.

**WHEREFORE**, Dominion Virginia Power respectfully requests that the Commission expeditiously:

1. Direct that notice of the Application be given as required by Va. Code § 56-46.1;
2. Schedule this matter for hearing;
3. Grant a certificate of public convenience and necessity for, and approve, the construction and operation of the proposed Brunswick County Power Station under Va. Code §§ 56-580 D and 56-46.1, as requested herein;
4. Grant a certificate of public convenience and necessity approving, pursuant to Va. Code §§ 56-265.2 and 56-46.1, the construction of the proposed Transmission Interconnection Facilities, as requested herein;
5. Approve, effective for usage as of September 1, 2013, proposed Rider BW for recovering the Project expenses described herein as reasonable and prudent, subject to future Rider BW proceedings and true-ups, under Va. Code § 56-585.1 A 6, as requested herein;
6. Establish a rate of return on common equity for the purposes of this proceeding at 11.4% inclusive of an additional 100 basis points to be added to the general rate of return on common equity for AFUDC purposes, for the CWIP period, and for the first portion of the Project’s service life pursuant to Va. Code § 56-585.1 A 6;
7. Determine that the first portion of the Brunswick County Power Station’s service life shall be 15 years pursuant to Code § 56-585.1 A 6;
8. Grant the Company’s requested partial waiver as to the filing requirement of Schedule 45; and
(9) Grant such other and further relief as it deems just and proper.

Respectfully submitted,

VIRGINIA ELECTRIC AND POWER COMPANY

By: [Signature]

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Charlotte P. McAfee
Dominion Resources Services, Inc.
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Richmond, Virginia 23219
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(804) 819-2277 (phone)
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Richmond, Virginia 23219
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(804) 775-7877 (phone)
jreid@mcguirewoods.com
swatts@mcguirewoods.com
bmcnamee@mcguirewoods.com

Counsel for Virginia Electric and Power Company

November 2, 2012
Virginia Electric and Power Company ("Dominion Virginia Power" or the "Company") is a public service corporation, which was incorporated in Virginia in 1909. The Company's current legal name is Virginia Electric and Power Company, and it uses the following trade names in Virginia: Virginia Power, Dominion Virginia Power, Dominion Virginia Power (Greene County), Dominion Virginia, and Dominion Generation. Dominion Virginia Power does business in North Carolina under the trade name Dominion North Carolina Power.

Principal Corporate Officers/Directors of Virginia Electric and Power Company
20 VAC 5-302-20(3)

Thomas F. Farrell, II
Chairman of the Board of Directors and Chief Executive Officer
120 Tredegar Street
Richmond, VA 23219

Mark F. McGettrick
Executive Vice President and Chief Financial Officer and Director
120 Tredegar Street
Richmond, VA 23219

Paul D. Koonce
President and Chief Operating Officer
120 Tredegar Street
Richmond, VA 23219

David A. Christian
President and Chief Operating Officer
120 Tredegar Street
Richmond, VA 23219

David A. Heacock
President and Chief Nuclear Officer
5000 Dominion Boulevard
Glen Allen, VA 23060
Robert M. Blue  
Senior Vice President, Law, Public Policy & Environment  
120 Tredegar Street  
Richmond, VA 23219

Mary C. Doswell  
Senior Vice President – Alternative Energy Solutions  
120 Tredegar Street  
Richmond, VA 23219

G. Scott Hetzer  
Senior Vice President – Tax and Treasurer  
120 Tredegar Street  
Richmond, VA 23219

Margaret E. McDermid  
Senior Vice President and Chief Information Officer  
120 Tredegar Street  
Richmond, VA 23219

J. David Rives  
Senior Vice President – Fossil & Hydro  
5000 Dominion Boulevard  
Glen Allen, VA 23060

Paul E. Ruppert  
Senior Vice President – Business Development & Generation Construction  
5000 Dominion Boulevard  
Glen Allen, VA 23060

Daniel G. Stoddard  
Senior Vice President – Nuclear Operations  
1022 Haley Drive  
Mineral, VA 23117

Thomas P. Wohlfarth  
Senior Vice President – Regulatory Affairs  
120 Tredegar Street  
Richmond, VA 23219

Fred G. Wood, III  
Senior Vice President – Financial Management  
120 Tredegar Street  
Richmond, VA 23219
Virginia Electric and Power Company Financial Information and Qualifications to Construct/Operate the Proposed Facilities
20 VAC 5-302-20(4) and (6); 20 VAC 5-302-10, Par. 1(ii)

See the most recent Form 10-K for Virginia Electric and Power Company attached hereto for the Company’s financial information (20 VAC 5-302-20(4)). See page 26 of the attached Form 10-K for a list of other generation facilities developed or owned and operated by the Company (20 VAC 5-302-20(6)(a)). A description of the Company’s organization structure is provided on pages 5-8 and Exhibit 21 of the attached Form 10-K (20 VAC 5-302-20(6)(b)). Virginia Electric and Power Company is an incumbent electric utility as defined in Va. Code § 56-576.
10-K
Annual report pursuant to section 13 and 15(d)
Filed on 2/28/2012
Filed Period 12/31/2011
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

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

Commission File Number 001-08489

DOMINION RESOURCES, INC.

Exact name of registrants as specified in their charters 54-1229715

State or other jurisdiction of incorporation or organization

I.R.S. Employer Identification Number 54-0418825

VIRGINIA ELECTRIC AND POWER COMPANY

120 TREDEGAR STREET
RICHMOND, VIRGINIA

Address of principal executive offices

23219

(Virginia)

(804) 819-2000

(Registrants' telephone number)

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

DOMINION RESOURCES, INC.

Common Stock, no par value

New York Stock Exchange

2009 Series A 8 375% Enhanced Junior Subordinated Notes

VIRGINIA ELECTRIC AND POWER COMPANY

Preferred Stock (cumulative), $100 par value, $5.00 dividend

New York Stock Exchange

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

None

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 0 Virginia Electric and Power Company Yes ☐ No 0

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 0 Virginia Electric and Power Company Yes ☐ No 0

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 ($235.405 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. ☐ Virginia Electric and Power Company ☐ Virginia Electric and Power Company ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(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 ☐

The aggregate market value of Dominion Resources, Inc. common stock held by non-affiliates of Dominion was approximately $22.3 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 the registrant's most recently completed second fiscal quarter. Dominion is the sole holder of Virginia Electric and Power Company common stock. As of January 31, 2012, Dominion had 570,127,118 shares of common stock outstanding and Virginia Power had 274,723 shares of common stock outstanding.

DOCUMENT INCORPORATED BY REFERENCE.

Portions of Dominion's 2012 Proxy Statement are incorporated by reference in Part III.

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

Portions of Dominion's 2012 Proxy Statement are incorporated by reference in Part III.

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

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#### Glossary of Terms

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

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<th>Abbreviation or Acronym</th>
<th>Definition</th>
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<tr>
<td>2009 Base Rate Review</td>
<td>Order entered by the Virginia Commission in January 2009, pursuant to the Regulation Act, initiating reviews of the base rates and terms and conditions of all investor-owned utilities in Virginia</td>
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<tr>
<td>2012 Proxy Statement</td>
<td>Dominion 2012 Proxy Statement, File No. 001-08489</td>
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<tr>
<td>ABO</td>
<td>Accumulated benefit obligation</td>
</tr>
<tr>
<td>AES</td>
<td>Alternative Energy Solutions</td>
</tr>
<tr>
<td>AFUDC</td>
<td>Allowance for funds used during construction</td>
</tr>
<tr>
<td>AIP</td>
<td>Annual Incentive Plan</td>
</tr>
<tr>
<td>AMR</td>
<td>Automated meter reading program deployed by East Ohio</td>
</tr>
<tr>
<td>AOCI</td>
<td>Accumulated other comprehensive income (loss)</td>
</tr>
<tr>
<td>AROs</td>
<td>Asset retirement obligations</td>
</tr>
<tr>
<td>ARP</td>
<td>Acid Rain Program, a market–based initiative for emissions allowance trading, established pursuant to Title IV of the CAA</td>
</tr>
<tr>
<td>ASA</td>
<td>Average Speed of Answer, a primary metric used to measure customer service</td>
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<tr>
<td>ASLB</td>
<td>Atomic Safety and Licensing Board</td>
</tr>
<tr>
<td>bcf</td>
<td>Billion cubic feet</td>
</tr>
<tr>
<td>Bear Garden</td>
<td>A 590 MW combined cycle, natural gas–fired power station in Buckingham County, Virginia</td>
</tr>
<tr>
<td>Biennial Review Order</td>
<td>Order issued by the Virginia Commission in November 2011 concluding the 2009 - 2010 biennial review of Virginia Power's base rates, terms and conditions</td>
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<td>BP</td>
<td>BP Wind Energy North America Inc.</td>
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<td>Brayton Point</td>
<td>Brayton Point power station</td>
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<td>BREDL</td>
<td>Blue Ridge Environmental Defense League</td>
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<tr>
<td>Bremo</td>
<td>Bremo power station</td>
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<tr>
<td>BRP</td>
<td>Dominion Retirement Benefit Restoration Plan</td>
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<tr>
<td>BVP</td>
<td>Book Value Performance</td>
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<tr>
<td>CAA</td>
<td>Clean Air Act</td>
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<td>CAIR</td>
<td>Clean Air Interstate Rule</td>
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<td>CAO</td>
<td>Chief Accounting Officer</td>
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<td>Carson-to-Suffolk line</td>
<td>Virginia Power 60-mile 500–kV transmission line in southeastern Virginia</td>
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<td>CD&amp;A</td>
<td>Compensation Discussion and Analysis</td>
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<td>CDO</td>
<td>Collateralized debt obligation</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CERCLA</td>
<td>Comprehensive Environmental, Response, Compensation and Liability Act of 1980</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
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<tr>
<td>CFTC</td>
<td>Commodity Futures Trading Commission</td>
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<td>CGN Committee</td>
<td>Compensation, Governance and Nominating Committee</td>
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<td>Chesapeake</td>
<td>Chesapeake power station</td>
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<td>CNG</td>
<td>Consolidated Natural Gas Company</td>
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<td>CNO</td>
<td>Chief Nuclear Officer</td>
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<td>CO2</td>
<td>Carbon dioxide</td>
</tr>
<tr>
<td>COL</td>
<td>Combined Construction Permit and Operating License</td>
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<tr>
<td>Companies</td>
<td>Dominion and Virginia Power, collectively</td>
</tr>
<tr>
<td>CONSOL</td>
<td>CONSOL Energy, Inc.</td>
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<tr>
<td>COO</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>Cooling degree days</td>
<td>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</td>
</tr>
<tr>
<td>Cove Point</td>
<td>Dominion Cove Point LNG, LP</td>
</tr>
<tr>
<td>CSAPR</td>
<td>Cross State Air Pollution Rule</td>
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<tr>
<td>CWA</td>
<td>Clean Water Act</td>
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<tr>
<td>DCI</td>
<td>Dominion Capital, Inc.</td>
</tr>
<tr>
<td>DD&amp;A</td>
<td>Depreciation, depletion and amortization expense</td>
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<td>DEI</td>
<td>Dominion Energy, Inc.</td>
</tr>
<tr>
<td>Dodd–Frank Act</td>
<td>The Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010</td>
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<tr>
<td>DOE</td>
<td>Department of Energy</td>
</tr>
<tr>
<td>Dominion</td>
<td>The legal entity, Dominion Resources, Inc., one or more of Dominion Resources, Inc.'s consolidated subsidiaries (other than Virginia Power) or operating segments or the entirety of Dominion Resources, Inc. and its consolidated subsidiaries</td>
</tr>
<tr>
<td>Dominion Direct®</td>
<td>A dividend reinvestment and open enrollment direct stock purchase plan</td>
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<td>Dooms-to-Bremo line</td>
<td>Virginia Power project to rebuild approximately 53 miles of existing 115–kV to 230–kV lines, between the Dooms and Bremo substations</td>
</tr>
<tr>
<td>Abbreviation or Acronym</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>DPP</td>
<td>Dominion’s Defined Benefit Pension Plan</td>
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<tr>
<td>Dresden</td>
<td>Partially-completed merchant generation facility sold in 2007</td>
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<td>DRS</td>
<td>Dominion Resources Services, Inc.</td>
</tr>
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<td>DSM</td>
<td>Demand-side management</td>
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<tr>
<td>DTI</td>
<td>Dominion Transmission, Inc.</td>
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<tr>
<td>DVP</td>
<td>Dominion Virginia Power operating segment</td>
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<tr>
<td>E&amp;P</td>
<td>Exploration &amp; production</td>
</tr>
<tr>
<td>East Ohio</td>
<td>The East Ohio Gas Company, doing business as Dominion East Ohio</td>
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<tr>
<td>EGWP</td>
<td>Employer Group Waiver Plan</td>
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<td>EPA</td>
<td>Environmental Protection Agency</td>
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<tr>
<td>EPACT</td>
<td>Energy Policy Act of 2005</td>
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<tr>
<td>EPS</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>ERISA</td>
<td>The Employment Retirement Income Security Act of 1974</td>
</tr>
<tr>
<td>ERO</td>
<td>Electric Reliability Organization</td>
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<tr>
<td>ESERP</td>
<td>Dominion Executive Supplemental Retirement Plan</td>
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<tr>
<td>Excess Tax Benefits</td>
<td>Benefits of tax deductions in excess of the compensation cost recognized for stock-based compensation</td>
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<td>Fairless</td>
<td>Fairless power station</td>
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<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<tr>
<td>FCM</td>
<td>Futures Commission Merchant</td>
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<td>FERC</td>
<td>Federal Energy Regulatory Commission</td>
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<td>Flitch</td>
<td>Flitch Ratings Ltd.</td>
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<tr>
<td>Fowler Ridge</td>
<td>A wind-turbine facility joint venture with BP in Benton County, Indiana</td>
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<td>Frozen Deferred</td>
<td>Dominion Resources, Inc. Executives’ Deferred Compensation Plan</td>
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<td>Frozen DSOP</td>
<td>Dominion Resources, Inc. Security Option Plan</td>
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<tr>
<td>FTRs</td>
<td>Financial transmission rights</td>
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<td>GAAP</td>
<td>U.S. generally accepted accounting principles</td>
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<td>GHG</td>
<td>Greenhouse gas</td>
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<tr>
<td>GWSA</td>
<td>Global Warming Solutions Act</td>
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<td>Hayes-to-Yorktown line</td>
<td>Virginia Power project to construct an approximately eight-mile 230-kV transmission line in southeastern Virginia</td>
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<tr>
<td>Heating degree days</td>
<td>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</td>
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<td>Hope</td>
<td>Hope Gas, Inc., doing business as Dominion Hope</td>
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<td>IOGA</td>
<td>Independent Oil and Gas Association of West Virginia, Inc.</td>
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<td>INPO</td>
<td>Institute of Nuclear Power Operations</td>
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<td>IRC</td>
<td>Internal Revenue Code</td>
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<tr>
<td>IRS</td>
<td>Internal Revenue Service</td>
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<tr>
<td>ISO</td>
<td>Independent system operator</td>
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<tr>
<td>ISO-NE</td>
<td>ISO New England</td>
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<td>Joint Committee</td>
<td>U.S. Congressional Joint Committee on Taxation</td>
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<td>June 2006 hybrids</td>
<td>2006 Series A Enhanced Junior Subordinated Notes due 2066</td>
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<tr>
<td>June 2009 hybrids</td>
<td>2009 Series A Enhanced Junior Subordinated Notes due 2064, subject to extensions no later than 2079</td>
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<td>Juniper Capital L.P.</td>
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<td>Kewaunee</td>
<td>Kewaunee nuclear power station</td>
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<td>Kincaid</td>
<td>Kincaid power station</td>
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<td>kv</td>
<td>Kilovolt</td>
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<tr>
<td>LIBOR</td>
<td>London Interbank Offered Rate</td>
</tr>
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<td>LIFO</td>
<td>Last-in-first-out inventory method</td>
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<td>LNG</td>
<td>Liquefied natural gas</td>
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<td>LTIP</td>
<td>Long-term incentive program</td>
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<td>MATS</td>
<td>Utility Mercury and Air Toxics Standard Rule</td>
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<td>Manchester Street</td>
<td>Manchester Street power station</td>
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<tr>
<td>mcf</td>
<td>Million cubic feet</td>
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<tr>
<td>MD&amp;A</td>
<td>Management’s Discussion and Analysis of Financial Condition and Results of Operations</td>
</tr>
<tr>
<td>Meadow</td>
<td>An approximately 65-mile 500-kV transmission line that begins in Warren County, Virginia and terminates in Loudoun County, Virginia</td>
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<tr>
<td>Medicare Act</td>
<td>The Medicare Prescription Drug, Improvement and Modernization Act of 2003</td>
</tr>
<tr>
<td>Medicare Part D</td>
<td>Prescription drug benefit introduced in the Medicare Act</td>
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<td>MF Global</td>
<td>MF Global Inc.</td>
</tr>
<tr>
<td>Abbreviation or Acronym</td>
<td>Definition</td>
</tr>
<tr>
<td>------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>MGD</td>
<td>Million gallons a day</td>
</tr>
<tr>
<td>Millstone</td>
<td>Millstone nuclear power station</td>
</tr>
<tr>
<td>MISIO</td>
<td>Midwest Independent Transmission System Operators, Inc.</td>
</tr>
<tr>
<td>MNES</td>
<td>Mitsubishi Nuclear Energy Systems, Inc., a wholly-owned subsidiary of Mitsubishi Heavy Industries, Inc.</td>
</tr>
<tr>
<td>Moody's</td>
<td>Moody's Investors Service</td>
</tr>
<tr>
<td>Mt. Storm-to-Doub line</td>
<td>Virginia Power project to rebuild approximately 96 miles of an existing 500-kV transmission line in Virginia and West Virginia</td>
</tr>
<tr>
<td>MW</td>
<td>Megawatt</td>
</tr>
<tr>
<td>MWh</td>
<td>Megawatt hour</td>
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<td>NAAQS</td>
<td>National Ambient Air Quality Standards</td>
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<td>NAV</td>
<td>Net asset value</td>
</tr>
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<td>NCEMC</td>
<td>North Carolina Electric Membership Corporation</td>
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<tr>
<td>NedPower</td>
<td>A wind-turbine facility joint venture with Shell in Grant County, West Virginia</td>
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<td>NEIL</td>
<td>Nuclear Electric Insurance Limited</td>
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<td>NEOs</td>
<td>Named executive officers</td>
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<tr>
<td>NERC</td>
<td>North American Electric Reliability Corporation</td>
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<td>NGLs</td>
<td>Natural gas liquids</td>
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<td>NOz</td>
<td>Nitrogen dioxide</td>
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<td>Non-Employee Directors</td>
<td>Non-Employee Directors Compensation Plan</td>
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<tr>
<td>North Anna</td>
<td>North Anna nuclear power station</td>
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<tr>
<td>North Branch</td>
<td>North Branch power station</td>
</tr>
<tr>
<td>North Carolina Utilities Commission</td>
<td>Order issued by the North Carolina Commission in December 2010 approving the Stipulation and Settlement Agreement filed by Virginia Power in connection with the ending of its North Carolina base rate moratorium</td>
</tr>
<tr>
<td>NOx</td>
<td>Nitrogen oxide</td>
</tr>
<tr>
<td>NPDES</td>
<td>National Pollutant Discharge Elimination System</td>
</tr>
<tr>
<td>NRC</td>
<td>Nuclear Regulatory Commission</td>
</tr>
<tr>
<td>NSPS</td>
<td>New Source Performance Standards</td>
</tr>
<tr>
<td>NYMEX</td>
<td>New York Mercantile Exchange</td>
</tr>
<tr>
<td>NYSE</td>
<td>New York Stock Exchange</td>
</tr>
<tr>
<td>ODEC</td>
<td>Old Dominion Electric Cooperative</td>
</tr>
<tr>
<td>Ohio Commission</td>
<td>Public Utilities Commission of Ohio</td>
</tr>
<tr>
<td>OSHA</td>
<td>Occupational Safety and Health Administration</td>
</tr>
<tr>
<td>PBGC</td>
<td>Pension Benefit Guaranty Corporation</td>
</tr>
<tr>
<td>Peakers</td>
<td>Collectively, the three natural gas-fired merchant generation peaking facilities sold in 2007</td>
</tr>
<tr>
<td>Pennsylvania Commission</td>
<td>Pennsylvania Public Utility Commission</td>
</tr>
<tr>
<td>Peoples</td>
<td>The Peoples Natural Gas Company</td>
</tr>
<tr>
<td>Pipeline Safety Act</td>
<td>The Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011</td>
</tr>
<tr>
<td>PIPP</td>
<td>Percentage of Income Payment Plan</td>
</tr>
<tr>
<td>PIR</td>
<td>Pipeline Infrastructure Replacement program deployed by East Ohio</td>
</tr>
<tr>
<td>PJM</td>
<td>PJM Interconnection, LLC</td>
</tr>
<tr>
<td>PM&amp;P</td>
<td>Pearl Meyer &amp; Partners</td>
</tr>
<tr>
<td>PNG Companies LLC</td>
<td>An indirect subsidiary of Steel River Infrastructure Fund North America</td>
</tr>
<tr>
<td>RCCs</td>
<td>Replacement Capital Covenants</td>
</tr>
<tr>
<td>RCRA</td>
<td>Resource Conservation and Recovery Act</td>
</tr>
<tr>
<td>Regulation Act</td>
<td>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</td>
</tr>
<tr>
<td>REIT</td>
<td>Real estate investment trust</td>
</tr>
<tr>
<td>RGGI</td>
<td>Regional Greenhouse Gas Initiative</td>
</tr>
<tr>
<td>Rider B</td>
<td>Rate adjustment clause associated with the recovery of costs related to the proposed conversion of three of Virginia Power's coal-fired power stations to biomass</td>
</tr>
<tr>
<td>Rider R</td>
<td>A rate adjustment clause associated with the recovery of costs related to Bear Garden</td>
</tr>
<tr>
<td>Rider S</td>
<td>A rate adjustment clause associated with the recovery of costs related to the Virginia City Hybrid Energy Center</td>
</tr>
<tr>
<td>Rider T</td>
<td>A rate adjustment clause associated with the recovery of certain electric transmission-related expenditures</td>
</tr>
<tr>
<td>Rider W</td>
<td>A rate adjustment clause associated with the recovery of costs related to Warren County</td>
</tr>
<tr>
<td>Riders C1 and C2</td>
<td>Rate adjustment clauses associated with the recovery of costs related to certain DSM programs</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on equity</td>
</tr>
<tr>
<td>ROIC</td>
<td>Return on invested capital</td>
</tr>
<tr>
<td>Abbreviation or Acronym</td>
<td>Definition</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>RPM Buyers</td>
<td>The Maryland Public Service Commission, Delaware Public Service Commission, Pennsylvania Commission, New Jersey Board of Public Utilities and several other organizations representing consumers in the PJM region</td>
</tr>
<tr>
<td>RPS</td>
<td>Renewable Portfolio Standard</td>
</tr>
<tr>
<td>RTEP</td>
<td>Regional transmission expansion plan</td>
</tr>
<tr>
<td>RTO</td>
<td>Regional transmission organization</td>
</tr>
<tr>
<td>SAIDI</td>
<td>Metric used to measure electric service reliability, System Average Interruption Duration Index</td>
</tr>
<tr>
<td>Salem Harbor</td>
<td>Salem Harbor power station</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>September 2006 hybrids</td>
<td>2006 Series B Enhanced Junior Subordinated Notes due 2066</td>
</tr>
<tr>
<td>Shell</td>
<td>Shell WindEnergy, Inc.</td>
</tr>
<tr>
<td>SO₂</td>
<td>Sulfur dioxide</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>Standard &amp; Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc.</td>
</tr>
<tr>
<td>State Line</td>
<td>State Line power station</td>
</tr>
<tr>
<td>Surry</td>
<td>Surry nuclear power station</td>
</tr>
<tr>
<td>TGP</td>
<td>Tennessee Gas Pipeline Company</td>
</tr>
<tr>
<td>TSR</td>
<td>Total shareholder return</td>
</tr>
<tr>
<td>U.S.</td>
<td>United States of America</td>
</tr>
<tr>
<td>U.S. DOT</td>
<td>United States Department of Transportation</td>
</tr>
<tr>
<td>UAO</td>
<td>Unilateral Administrative Order</td>
</tr>
<tr>
<td>UEX Rider</td>
<td>Uncollectible Expense Rider</td>
</tr>
<tr>
<td>US-APWR</td>
<td>Mitsubishi Heavy Industry’s Advanced Pressurized Water Reactor</td>
</tr>
<tr>
<td>VEBA</td>
<td>Voluntary Employees’ Beneficiary Association</td>
</tr>
<tr>
<td>VIE</td>
<td>Variable Interest entity</td>
</tr>
<tr>
<td>Virginia City Hybrid Energy Center</td>
<td>A 585 MW baseload carbon-capture compatible, clean coal powered electric generation facility under construction in Wise County, Virginia</td>
</tr>
<tr>
<td>Virginia Commission</td>
<td>Virginia State Corporation Commission</td>
</tr>
<tr>
<td>Virginia Power</td>
<td>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</td>
</tr>
<tr>
<td>Virginia Settlement Approval Order</td>
<td>Order issued by the Virginia Commission in March 2010 concluding Virginia Power’s 2009 Base Rate Review</td>
</tr>
<tr>
<td>VPDES</td>
<td>Virginia Pollutant Discharge Elimination System</td>
</tr>
<tr>
<td>VSWCB</td>
<td>Virginia State Water Control Board</td>
</tr>
<tr>
<td>Warren County</td>
<td>A 1,300 MW, combined-cycle, natural gas-fired power station under construction in Warren County, Virginia</td>
</tr>
<tr>
<td>Waxpool–Brambleton–BECO line</td>
<td>A Virginia Power project to construct an approximately 1.5 mile double circuit 230–kV line to a new Waxpool substation, and a new 230–kV line between the Brambleton and BECO substations</td>
</tr>
<tr>
<td>West Virginia Commission</td>
<td>Public Service Commission of West Virginia</td>
</tr>
<tr>
<td>Yorktown</td>
<td>Yorktown power station</td>
</tr>
</tbody>
</table>
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. Dominion’s portfolio of assets includes approximately 28,142 MW of generating capacity, 6,300 miles of electric transmission lines, 56,800 miles of electric distribution lines, 11,000 miles of natural gas transmission, gathering and storage pipeline and 21,800 miles of gas distribution pipeline, exclusive of service lines of two inches in diameter or less. Dominion also operates the nation’s largest underground natural gas storage system, with approximately 947 bcf of storage capacity, and serves nearly 6 million utility and retail energy customers in 15 states.

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. As a result, regulated capital projects will continue to receive priority treatment in its spending plans. Dominion expects this will increase its earnings contribution from regulated operations, while reducing the sensitivity of its earnings to commodity prices.

Dominion continues to expand and improve its regulated electric and natural gas businesses, in accordance with its five-year investment program. A major impetus for this program is to meet the anticipated increase in electricity demand in its electric utility service territory as forecasted by PJM. Other drivers for the capital investment program include the need to construct infrastructure to handle the increase in natural gas production from the Marcellus and Utica Shale formations; and to upgrade its gas distribution and electric transmission and distribution network. Dominion has announced that it may make further substantial investments in other gas projects over the next five years.

Dominion’s nonregulated operations include merchant generation, energy marketing and price risk management activities and retail energy marketing operations. Dominion’s operations are conducted through various subsidiaries, including Virginia Power.

Virginia Power, headquartered in Richmond, Virginia and incorporated in Virginia in 1909 as a Virginia public service corporation, is 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.” 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 common stock is owned by Dominion.

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

Employees

As of December 31, 2011, Dominion had approximately 15,800 full-time employees, of which approximately 5,900 employees are subject to collective bargaining agreements. As of December 31, 2011, Virginia Power had approximately 6,800 full-time employees, of which approximately 3,100 employees are subject to collective bargaining agreements.

Principal Executive Offices

Dominion and Virginia Power’s principal executive offices are located at 120 Tredegar Street, Richmond, Virginia 23219 and their telephone number is (804) 819-2000.

Where You Can Find More Information About Dominion and Virginia Power

Dominion and Virginia Power 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.
Acquisitions and Dispositions

Following are significant divestitures by Dominion and Virginia Power during the last five years. There were no significant acquisitions by either registrant during this period.

Sale of E&P Properties

In 2010, Dominion completed the sale of substantially all of its Appalachian E&P operations, including its rights to associated Marcellus acreage, to a newly-formed subsidiary of CONSOL for approximately $3.5 billion. See Note 4 to the Consolidated Financial Statements for additional information.

In 2007, Dominion completed the sale of its non-Appalachian natural gas and oil E&P operations and assets for approximately $13.9 billion. The historical results of the non-Appalachian E&P operations are included in the Corporate and Other segment. The historical results of the Appalachian E&P operations are included in the Dominion Energy segment.
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. The historical results of these operations are included in the Corporate and Other segment and presented in discontinued operations. See Note 4 to the Consolidated Financial Statements for additional information.

ASSIGNMENT OF MARCELLUS ACREAGE
In 2008, Dominion completed a transaction with Antero Resources to assign drilling rights to approximately 117,000 acres in the Marcellus Shale formation located in West Virginia and Pennsylvania. Dominion received proceeds of approximately $347 million. Under the agreement, Dominion received a 7.5% overriding royalty interest on future natural gas production from the assigned acreage. The overriding royalty interest was transferred to CONSOL as part of the sale of substantially all of Dominion’s Appalachian E&P operations in 2010.

SALE OF MERCHANT FACILITIES
In March 2007, Dominion sold three Peaker facilities for net cash proceeds of $254 million. The Peaker facilities included the 625 MW Armstrong facility in Shelolca, Pennsylvania; the 600 MW Troy facility in Luckey, Ohio; and the 313 MW Pleasants facility in St. Mary’s, West Virginia. The results of these operations were presented in discontinued operations.

SALE OF DRESDEN
In September 2007, Dominion completed the sale of Dresden to AEP Generating Company for $85 million.

SALE OF CERTAIN DCI OPERATIONS
In March 2008, Dominion reached an agreement to sell its remaining interest in the subordinated notes of a third-party CDO entity held as an investment by DCI and in April 2008 received proceeds of $54 million, including accrued interest. Dominion deconsolidated the CDO entity as of March 31, 2008.

In August 2007, Dominion completed the sale of Gichner, LLC, all of the issued and outstanding shares of the capital stock of Gichner, Inc. (an affiliate of Gichner, LLC) and Dallastown Realty for approximately $30 million.

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 the operations and sale of Peoples, which is discussed in Note 4 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.

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.

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

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

<table>
<thead>
<tr>
<th>Primary Operating Segment</th>
<th>Description of Operations</th>
<th>Dominion</th>
<th>Virginia Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>DVP</td>
<td>Regulated electric distribution</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Regulated electric transmission</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Nonregulated retail energy</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td></td>
<td>marketing (electric and gas)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominion Generation</td>
<td>Regulated electric fleet</td>
<td>x</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Merchant electric fleet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominion Energy</td>
<td>Gas transmission and storage</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Gas distribution and storage</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>LNG Import and storage</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Producer services</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
For additional financial information on operating segments, including revenues from external customers, see Note 26 to the Consolidated Financial Statements. For additional information on operating revenue related to Dominion's and Virginia Power's principal products and services, see Notes 2 and 5 to the Consolidated Financial Statements, which information is incorporated herein by reference.

**DVP**

The DVP Operating Segment of Virginia Power includes Virginia Power's regulated electric transmission and distribution (including customer service) operations, which serve approximately 2.4 million residential, commercial, industrial and governmental customers in Virginia and North Carolina.

Virginia Power has announced its five-year investment plan, which includes spending approximately $4 billion from 2012 through 2016 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 population growth and increases in electricity consumption by the typical consumer. In addition, data centers continue to contribute to anticipated demand growth, with an expected load of approximately 715 MW by the end of 2013.

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. The three-year average SAIDI has improved from 127 minutes at the end of 2006 to 111 minutes at the end of 2011. Likewise, ASA has also shown significant improvement. The three-year average ASA has improved from 60
seconds at the end of 2006 to 40 seconds at the end of 2011. Customer service options continue to be enhanced and expanded through the use of technology. Customers now have the ability to use the Internet for routine billing and payment transactions, connecting and disconnecting service, reporting outages and obtaining outage updates. Additionally, customers can follow progress to restore electric service following major outages by accessing Facebook or Twitter. As electric distribution moves forward, safety, electric service reliability and customer service will remain key focal areas.

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.

The DVP Operating Segment of Dominion includes all of Virginia Power's regulated electric transmission and distribution operations as discussed above, as well as Dominion's nonregulated retail energy marketing operations.

Dominion's retail energy marketing operations compete in nonregulated energy markets. The retail business requires limited capital investment and currently employs approximately 190 people. The retail customer base includes 2.2 million customers and is diversified across three product lines—natural gas, electricity and home warranty services. Dominion has a heavy concentration of natural gas customers in markets where utilities have a long-standing commitment to customer choice. Dominion pursues customers in electricity markets where utilities have divested of generation assets and where customers are permitted and have opted to purchase from the market. Major growth drivers are net customer additions, new market penetration, product development and expanded sales channels and supply optimization.

COMPETITION

DVP Operating Segment—Dominion and Virginia Power

Within Virginia Power's service territory in Virginia and North Carolina, there is no competition for electric distribution service. Additionally, since its electric transmission facilities are integrated into PJM, electric transmission services are administered by PJM and are not subject to competition in relation to transmission service provided to customers within the PJM region. Virginia Power is seeing continued growth in new customers in its transmission and distribution operations.

DVP Operating Segment—Dominion

Dominion's retail energy marketing operations compete against incumbent utilities and other energy marketers in nonregulated energy markets for natural gas and electricity. 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

Virginia Power's electric retail service, including the rates it may charge to jurisdictional customers, is subject to regulation by the Virginia Commission and the North Carolina Commission. Virginia Power's 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 14 to the Consolidated Financial Statements for additional information, including a discussion of the 2011 Biennial Review Order.

PROPERTIES

Virginia Power has approximately 6,300 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.
Each year, as part of PJM's RTEP process, reliability projects are authorized. In 2011, Virginia Power completed construction of two of the major construction projects authorized in 2006, Meadow Brook-to-Loudoun and Carson-to-Suffolk, which are each designed to improve the reliability of service to customers and the region.

As part of subsequent annual PJM RTEP processes, PJM authorized additional electric transmission upgrade projects including Hayes-to-Yorktown in December 2008 and Mt. Storm-to-Doubs and Dooms-to-Bremo in December 2010. See Note 14 to the Consolidated Financial Statements for additional information on these and other electric transmission projects.

In addition, Virginia Power's electric distribution network includes approximately 56,800 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 owner 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.

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.
DVP Operating Segment—Dominion
The supply of electricity to serve Dominion's retail energy marketing customers is procured through market wholesalers and RTO or ISO transactions. DVP's supply of gas to serve its customers is procured through market wholesalers or by Dominion Energy. See Dominion Energy 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 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.

DVP Operating Segment—Dominion
The earnings of Dominion's retail energy marketing operations also vary seasonally. Generally, the demand for electricity peaks during the summer and winter months to meet cooling and heating needs, while the demand for gas peaks during the winter months to meet heating needs.

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.

Earnings for the 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. Rates for the Virginia jurisdiction are set using a modified cost-of-service rate model. 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. Variability in earnings for Virginia Power's generation operations results from changes in rates, the demand for services, which is primarily weather dependent, and labor and benefit costs, as well as the timing, duration and costs of scheduled and unscheduled outages. See Electric Regulation in Virginia under Regulation and Note 14 to the Consolidated Financial Statements for additional information, including a discussion of the 2011 Biennial Review Order.

The Dominion Generation Operating Segment of Dominion includes Virginia Power's generation facilities and its related energy supply operations described above as well as the generation operations of Dominion's merchant fleet and energy marketing and price risk management activities for these assets. The 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 associated capacity and ancillary services from Dominion's merchant generation assets.

Variability in earnings provided by Dominion's 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 electric and capacity price volatility of its merchant fleet by hedging a substantial portion of its expected near-term sales with derivative instruments and also entering into long-term power sales agreements. However, earnings have been adversely impacted due to a sustained decline in commodity prices. 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.

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 merchant generation fleet is dependent on its ability to operate in a competitive environment and does not have a predetermined rate structure that allows for a rate of return on its capital investments. Competition for the 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 merchant generation fleet owns and operates several facilities in the Midwest that operate within functioning RTOs. A significant portion of the output from these facilities is sold under long-term contracts, with expiration dates ranging from December 31, 2012 to August 31, 2017, and is therefore largely unaffected by price competition during the term of these contracts. Following expiration of these contracts, earnings could be adversely impacted if prevailing prices for energy, capacity and ancillary services are lower than the levels currently received under these contracts.

Dominion Generation's other merchant assets also 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 merchant units have a variety of short- and medium-term contracts, and also compete in the spot market with other generators 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 merchant fleet is competitive compared to similar assets within the region.

REGULATION

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 Commission and the North Carolina Commission. See State Regulations and Federal Regulations in Regulation 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 18,985 MW. The generation mix is diversified and includes coal, nuclear, gas, oil, hydro and renewables. Virginia Power’s generation facilities are located in Virginia, West Virginia and North Carolina and serve load in Virginia and northeastern North Carolina.

Based on available generation capacity and current estimates of growth in customer demand in its utility service area, Virginia Power will need additional generation capacity over the next decade. Virginia Power has announced a comprehensive generation growth program, referred to as Powering Virginia, which involves the development, financing, construction and operation of new multi-fuel, multi-technology generation capacity to meet the anticipated growing demand in its core market in Virginia. Significant projects under construction or development include:

- The Virginia City Hybrid Energy Center located in Wise County, Virginia, is expected to generate about 585 MW when completed. The baseload facility is estimated to cost $1.8 billion, excluding financing costs. Construction was approximately 95% complete at the end of 2011, and commercial operations are expected to commence in the summer of 2012.
- Warren County is expected to generate more than 1,300 MW of electricity when operational. In February 2012, the Virginia Commission authorized the construction of this power station, which is estimated to cost approximately $1.1 billion, excluding financing costs. Commercial operations are scheduled to commence by late 2014. In connection with the air permit process for Warren County, Virginia Power reached an agreement to permanently retire North Branch, a 74 MW coal-fired plant located in West Virginia, once Warren County begins commercial operations.
- Virginia Power plans to convert three coal-fired Virginia generating stations to biomass, a renewable energy source. The conversions of the power stations in Altavista, Hopewell and Southampton County would increase Dominion’s renewable generation by more than 150 MW and are expected to cost approximately $165 million, excluding financing costs. After approval by the Virginia Department of Environmental Quality and the Virginia Commission, construction will begin; these conversions are expected to be complete by the end of 2013.
- Subject to the receipt of certain regulatory approvals, Virginia Power plans to construct a combined-cycle natural gas-fired power station in Brunswick County, Virginia, that is expected to generate more than 1,300 MW. If the project is approved, commercial operations are expected to commence in 2016. Brunswick County has approved a conditional use permit to allow for construction of the plant. This facility would more than offset the expected reduction in capacity caused by the anticipated retirement of coal-fired units at Chesapeake and Yorktown during 2015 and 2016 primarily due to the cost of compliance with MATS. The facility would be similar to the power station being built in Warren County, Virginia, which is estimated to cost approximately $1.1 billion, excluding financing costs.

In May 2011, Virginia Power completed construction of Bear Garden, at a total cost of approximately $620 million, excluding financing costs, and the 590 MW combined-cycle, natural gas-fired power station commenced commercial operations.

In addition to the projects above, Virginia Power is considering the construction of a third nuclear unit at a site located at North Anna. See Note 14 to the Consolidated Financial Statements for more information on
this project.

**Dominion Generation Operating Segment—Dominion**

The generation capacity of Dominion’s merchant fleet totals 9,157 MW.
The generation mix is diversified and includes nuclear, coal, gas, oil and renewables. Merchant generation facilities are located in Connecticut, Illinois, Indiana, Massachusetts, Pennsylvania, Rhode Island, West Virginia and Wisconsin with a majority of that capacity concentrated in New England. Dominion is the largest generator in ISO-NE and, mirroring the region’s load demand, has principally baseload units with the remainder split between intermediate and peaking.

In the first quarter of 2011, Dominion decided to pursue the sale of Kewaunee. Any sale of Kewaunee would be subject to the approval of Dominion’s Board of Directors, as well as applicable state and federal approvals.

During the second quarter of 2011, Dominion announced its intention to retire State Line by mid-2014 and to retire two of the four units at Salem Harbor by the end of 2011 and the remaining two Salem Harbor units on June 1, 2014. These decisions were prompted by the economic outlook for both facilities, in combination with the expectation that State Line would be impacted by potential environmental regulations that would likely require significant capital expenditures. During the third quarter of 2011, Dominion announced an accelerated schedule for State Line, with the facility to be retired in the first quarter of 2012, given a continued decline in power prices and the expected cost to comply with environmental regulations.
Salem Harbor units 1 and 2 were refired as planned on December 3, 2011.

SOURCES OF ENERGY SUPPLY

Dominion Generation Operating Segment—Dominion and Virginia Power

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, oil 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 both domestic and international 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, 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 allows flexibility in delivering natural gas to its gas turbine fleet, while minimizing costs.

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, ISO-NE and MISO 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:

<table>
<thead>
<tr>
<th>Source</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased power, net</td>
<td>33%</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>Nuclear(1)</td>
<td>28%</td>
<td>28%</td>
<td>32%</td>
</tr>
<tr>
<td>Coal(2)</td>
<td>26%</td>
<td>31%</td>
<td>33%</td>
</tr>
<tr>
<td>Natural gas</td>
<td>12%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Other(3)</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

(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 2011 Virginia in-system generation was $33.35 per MWh.
(3) Includes all, hydro and biomass.

SEASONALITY

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. Generally, the demand for electricity peaks during the summer and winter months to meet cooling and heating needs. An increase in heating degree-days 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.

NUCLEAR DECOMMISSIONING

In June 2011, the NRC amended its regulations to improve decommissioning planning. As applied to the operators of nuclear power plants, these amendments require licensees to conduct operations in a manner minimizing introduction of residual radioactivity into the site, perform additional surveys, and maintain records of their results. In addition, the amendments make minor changes to financial assurance methods and require additional information on decommissioning and spent fuel management costs after a plant permanently ceases operations. The revised regulations will become effective in December 2012 and are not expected to significantly affect the decommissioning cost estimates or funding for Dominion’s or Virginia Power’s units.

Dominion Generation Operating Segment—Dominion and Virginia Power

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

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 and placed into trusts have been
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
requirement, which may include the use of parent company guarantees,
surety bonding or other financial guarantees recognized by the NRC.

The total estimated cost to decommission Virginia Power's four nuclear
units is $2.2 billion in 2011 dollars and is primarily based upon
site-specific studies completed in 2009. 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 2067.
Dominion Generation Operating Segment—Dominion

In addition to the four nuclear units discussed above, Dominion has three licensed, operating nuclear reactors, two at Millstone in Connecticut and one at Kewaunee in Wisconsin. A third Millstone unit ceased operations before Dominion acquired the power station. 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 requirement, which may include the use of parent company guarantees, surety bonding or other financial guarantees recognized by the NRC. The total estimated cost to decommission Dominion’s eight units is $4.7 billion in 2011 dollars and is primarily based upon site-specific studies completed in 2009. For the Millstone and Kewaunee operating units, the current cost estimate assumes decommissioning activities will begin shortly after cessation of operations, which will occur when the operating licenses expire. Millstone Unit 1 is not in service and selected minor decommissioning activities are being performed. This unit will continue to be monitored until full decommissioning activities begin for the remaining Millstone operating units. Dominion expects to start minor decommissioning activities at Millstone Unit 2 in 2035, with full decommissioning of Millstone Units 1, 2 and 3 at the permanent cessation of operations of Millstone Unit 3 during the period 2045 to 2069. In February 2011, the NRC approved the renewal of the Kewaunee operating license. The renewal permits Kewaunee to operate through December 21, 2033 with full decommissioning of Kewaunee during the period 2033 to 2065.

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

<table>
<thead>
<tr>
<th>Unit</th>
<th>Most recent cost estimate (2011 dollars)</th>
<th>Funds in trusts at December 31, 2011</th>
<th>Contributions To Trusts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NRC license expiration year</td>
<td>(Millions)</td>
<td>(Millions)</td>
</tr>
<tr>
<td>Surry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit 1</td>
<td>2032 $582</td>
<td>$387</td>
<td>$0.6</td>
</tr>
<tr>
<td>Unit 2</td>
<td>2033 $584</td>
<td>$382</td>
<td>$0.6</td>
</tr>
<tr>
<td>North Anna</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit 1(1)</td>
<td>2038 $509</td>
<td>$310</td>
<td>$0.4</td>
</tr>
<tr>
<td>Unit 2(2)</td>
<td>2040 $522</td>
<td>$281</td>
<td>$0.3</td>
</tr>
<tr>
<td>Total (Virginia Power)</td>
<td></td>
<td>2,177</td>
<td>1,370</td>
</tr>
<tr>
<td>Millstone</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit 1(3)</td>
<td></td>
<td>450</td>
<td>321</td>
</tr>
<tr>
<td>Unit 2</td>
<td>2035 $676</td>
<td>398</td>
<td></td>
</tr>
<tr>
<td>Unit 3(4)</td>
<td>2045 $708</td>
<td>393</td>
<td></td>
</tr>
<tr>
<td>Total (Dominion)</td>
<td></td>
<td>2,833</td>
<td>681</td>
</tr>
<tr>
<td>Total (Dominion)</td>
<td></td>
<td>$4,690</td>
<td>2,959</td>
</tr>
</tbody>
</table>

1. The cost estimates shown above are total decommissioning cost estimates and differ from the cost estimates used to calculate Dominion’s and Virginia Power’s nuclear decommissioning AROs. Among other items, the cost estimates above do not reflect any reduction for the expected future recovery from the DOE of certain spent fuel costs based on the Companies’ contracts with the DOE for disposal of spent nuclear fuel.

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 costs for both of North Anna’s units.

3. Unit 1 ceased operations in 1998 before Dominion’s acquisition of Millstone.

4. Millstone Unit 3 is jointly owned by Dominion Nuclear Connecticut, with a 6.33% undivided interest in Unit 3 owned by Massachusetts Municipal Wholesale Electric Company and Central Vermont Public Service Corporation. Decommissioning cost is shown at 100% and the trust funds are shown at Dominion’s ownership percentage. As of December 31, 2011, the minority owners held approximately $1.7 million of trust funds related to Millstone Unit 3 that are not reflected in the table above.

Also see Note 15 and Note 23 to the Consolidated Financial Statements for further information about AROs and nuclear decommissioning, respectively.

Dominion Energy

Dominion Energy includes Dominion’s regulated natural gas distribution companies, regulated gas transmission pipeline and storage operations, natural gas gathering and by-products extraction activities and regulated LNG operations. Dominion Energy also includes producer services, which aggregates natural gas supply, engages in natural gas trading and marketing activities and natural gas supply management and provides price risk management services to Dominion affiliates.
The gas transmission pipeline and storage business serves gas distribution businesses and other customers in the Northeast, mid-Atlantic and Midwest. Included in Dominion's gas transmission pipeline and storage business is its gas gathering and extraction activity, which sells extracted products at market rates. 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. In connection with the recent increase in Eastern U.S. natural gas production, including from the Marcellus and Utica shale formations, Dominion has requested regulatory authority to operate Cove Point as a bi-directional facility, able to import LNG, and vaporize it as natural gas, and liquefy natural gas and export it as LNG. See Future Issues and Other Matters in MD&A for more information.

Revenue provided by Dominion's regulated gas transmission and storage and LNG operations is based primarily on rates established by FERC. Additionally, Dominion receives revenue from firm fee-based contractual arrangements, including negotiated rates, for certain gas transportation, gas storage, LNG storage and regasification services. Dominion's gas distribution operations serve residential, commercial and industrial gas sales and transportation customers. Revenue provided by its gas distribution operations is based primarily on rates established by the Ohio and West Virginia Commissions. The profitability of these businesses is dependent on Dominion's 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 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.

In October 2008, East Ohio implemented a rate case settlement which provided for a straight-fixed-variable rate design.
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.

Earnings from Dominion Energy’s producer services business are unregulated, and are subject to variability associated with changes in commodity prices. Producer services uses physical and financial arrangements to hedge this price risk.

COMPETITION
Dominion Energy’s gas transmission operations compete with domestic and Canadian pipeline companies. Dominion 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.

Retail competition for gas supply exists to varying degrees in the two states in which Dominion’s gas distribution subsidiaries operate. In Ohio, there has been no legislation enacted to require supplier choice for residential and commercial natural gas consumers. However, Dominion offers an Energy Choice program to customers, in cooperation with the Ohio Commission. At December 31, 2011, approximately 1 million of Dominion’s 1.2 million Ohio customers were participating in this Energy Choice Program. West Virginia does not require customers to choose their provider in its retail natural gas markets at this time. 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. See Regulation—State Regulations—Gas for additional information.

REGULATION
Dominion Energy’s natural gas transmission pipeline, storage and LNG operations are regulated primarily by FERC. Dominion Energy’s gas distribution service, including the rates that it may charge customers, is regulated by the Ohio and West Virginia Commissions. See State Regulations and Federal Regulations in Regulation for more information.

PROPERTIES
Dominion Energy’s gas distribution network is located in the states of Ohio and West Virginia. This network involves approximately 21,800 miles of pipe, exclusive of service lines of two inches in diameter or less. The rights-of-way grants for many natural gas pipelines have been obtained from the actual owner 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 Energy has approximately 11,000 miles of gas transmission, gathering and storage pipelines located in the states of Maryland, New York, Ohio, Pennsylvania, Virginia and West Virginia. Dominion Energy operates gas processing and fractionation facilities in West Virginia with a total processing capacity of 267,000 mcf per day and fractionation capacity of 382,000 gallons per day. Dominion Energy also operates 20 underground gas storage fields located in New York, Ohio, Pennsylvania and West Virginia, with almost 2,000 storage wells and approximately 349,000 acres of operated leaseholds.

The total designed capacity of the underground storage fields operated by Dominion Energy is approximately 947 bcf. Certain storage fields are jointly-owned and operated by Dominion Energy. The capacity of those fields owned by Dominion’s partners totals about 242 bcf. Dominion Energy also has about 15 bcf of above-ground storage capacity at Cove Point. Dominion Energy has about 128 compressor stations with more than 777,000 installed compressor horsepower.

In August 2009, Dominion announced the proposed development of the Keystone Connector Project, a joint venture with The Williams Companies that would transport new natural gas supplies from the Appalachian Basin to Transcontinental Gas Pipe Line Corporation’s Station 195, providing access to markets throughout the eastern U.S. The joint venture was terminated in June 2011. DTI is currently independently marketing its Keystone Connector Project. Project timing is subject to producer drilling plans in the Appalachian Basin, as well as customer demand throughout the mid-Atlantic and Northeast regions.
In January 2011, Dominion completed the $50 million Cove Point Pier Reinforcement Project to upgrade, expand and modify the existing pier at the Cove Point terminal to accommodate the next generation of LNG vessels (up to 267,000 cubic meters) that are much larger than those that could previously be accommodated (no larger than 148,000 cubic meters). DTI has announced the Gathering Enhancement Project, a $253 million expansion of its natural gas gathering, processing and liquids facilities in West Virginia. The project is designed to increase the efficiency and reduce high pressures in its gathering system, thus increasing the amount of natural gas local producers can move through DTI’s West Virginia system. Construction started in 2009 and is expected to be completed by the fourth quarter of 2012. The cost of the project will be paid for by rates charged to producers.

In June 2011, FERC approved DTI’s $634 million Appalachian Gateway Project. The project is expected to provide approximately 484,000 dekatherms per day of firm transportation services for new Appalachian gas supplies in West Virginia and southwestern Pennsylvania to an interconnection with Texas Eastern Transmission, LP at Oakford, Pennsylvania. Construction has commenced and transportation services are scheduled to begin by September 2012.

In August 2011, DTI received FERC authorization for the Northeast Expansion Project. The project is expected to provide approximately 200,000 dekatherms per day of firm transportation services for CONSOL’s Marcellus Shale natural gas production from various receipt points in central and southwestern Pennsylvania to a nexus of market pipelines and storage facilities in Leidy, Pennsylvania. The project is expected to cost approximately $100 million. Construction of new compression facilities
at three existing compressor stations in central Pennsylvania is expected to begin in March 2012, with a projected in-service date of November 2012.

In September 2011, FERC approved DTI's proposed Ellisburg-to-Craigs project. The project is expected to have capacity of approximately 150,000 dekatherms per day, which will be leased by TGP to move Marcellus shale natural gas supplies from TGP's 300 Line pipeline system in northern Pennsylvania to its 200 Line pipeline system in upstate New York. The project is expected to cost approximately $46 million. Construction of additional compression facilities and a new measurement and regulating station is expected to begin in March 2012, with a projected in-service date of November 2012.

In November 2011, DTI filed a FERC application for approval to construct the $17 million Sabinsville to Morrisville project, a pipeline to move additional Marcellus supplies from a TGP pipeline in northeast Pennsylvania to its line in upstate New York. DTI executed a binding precedent agreement with TGP in October 2010 to provide this firm transportation service up to 92,000 dekatherms per day for a 14-year term. Construction is expected to commence April 2013 with an expected in-service date of November 2013.

DTI is developing the Allegheny Storage Project, which is expected to provide approximately 7.5 bcf of incremental storage service and 125,000 dekatherms per day of associated year-round firm transportation service to three local distribution companies under 15-year contracts. Storage capacity for the project will be provided from storage pool enhancements at DTI and capacity leased from East Ohio. DTI intends to construct additional compression facilities and upgrade measurement and regulation in order to provide 115,000 dekatherms per day of transportation service. The remaining 10,000 dekatherms per day of transportation service will not require construction of additional facilities. The $112 million project is expected to be in service in 2014, subject to FERC approval, which DTI requested in February 2012.

In February 2011, DTI concluded a binding open season for its $67 million Tioga Area Expansion Project, which is designed to provide approximately 270,000 dekatherms per day of firm transportation service from supply interconnects in Tioga and Potter Counties in Pennsylvania to DTI's Crayne interconnect with Texas Eastern Transmission, LP in Greene County, Pennsylvania and the Leidy interconnect with Transcontinental Gas Pipe Line Company in Clinton County, Pennsylvania. Two customers have contracted for the service under 15-year terms. DTI filed a certificate application with FERC in November 2011. Subject to the receipt of regulatory approvals, the project is anticipated to be in service in November 2013.

In January 2011, Dominion announced the development of a natural gas processing and fractionation facility in Natrium, West Virginia, and in July 2011 it executed a contract for the construction of the first phase of the facility. This phase of the project is fully contracted and is expected to be in service by December 2012. The Phase 1 costs for processing, fractionation, plant inlet and outlet natural gas transportation, gathering, and various modes of NGL transportation is approximately $500 million. Dominion is also in negotiations for the possible construction of Phase 2 at Natrium, which could be in service by the fourth quarter of 2013. The complete project is designed to process up to 400,000 mcf of natural gas per day and fractionate up to 59,000 barrels of NGLs per day.

In March 2011, East Ohio filed a request with the Ohio Commission to accelerate the PIR program by nearly doubling its PIR spending to more than $200 million annually. East Ohio identified 1,450 miles of pipeline that need to be replaced, in addition to the pipeline originally identified in the PIR project scope. See Note 14 to the Consolidated Financial Statements for additional information.

Sources of Energy Supply
Dominion Energy's 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 large underground natural gas storage network and the location of its pipeline system are a significant link between the country's major interstate gas pipelines, including the Rockies Express East pipeline, and large markets in the Northeast and mid-Atlantic regions. Dominion's 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 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.

Seasonality
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. Commodity prices can be impacted by seasonal weather changes, the effects of unusual weather events on operations and the economy. Dominion's producer services business is affected by seasonal changes in the prices of commodities that it transports, stores and actively markets and trades.

Corporate and Other

Corporate and Other Segment—Virginia Power

Virginia Power's Corporate and Other segment primarily includes certain 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.

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 the operations and sale of Peoples, which is
Environmental Strategy

Dominion and Virginia Power 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 five major elements:

- Compliance with applicable environmental laws, regulations and rules;
- Conservation and load management;
- Renewable generation development;
- Other generation development to maintain fuel diversity, including clean coal, advanced nuclear energy, and natural gas; and
- Improvements in other energy infrastructure.

This strategy incorporates Dominion’s and Virginia Power’s efforts to voluntarily reduce GHG emissions, which are described below. See Dominion Generation-Properties for more information on certain of the projects described below, as well as other projects under current development.

Environmental Compliance

Dominion and Virginia Power remain committed to compliance with all applicable environmental laws, regulations and rules related to their operations. Additional information related to Dominion’s and Virginia Power’s environmental compliance matters can be found in Future Issues and Other Matters in MD&A and in Note 23 to the Consolidated Financial Statements.

Conservation and Load Management

Conservation plays a significant role in meeting the growing demand for electricity. The Regulation Act provides incentives for energy conservation and sets a voluntary goal to reduce electricity consumption by retail customers in 2022 by ten percent of the amount consumed in 2006 through the implementation of conservation programs. Legislation in 2009 added definitions of peak-shaving and energy efficiency programs and allowed for a margin on operating expenses and revenue reductions related to energy efficiency programs.

Virginia Power’s DSM programs provide important incremental steps toward achieving the voluntary ten percent energy conservation goal. The conservation and load management plan includes the following DSM programs, which were approved by the Virginia Commission in March 2010 and were rolled out in May 2010:

- Residential Lighting Program—an instant, in-store discount on the purchase of qualifying compact fluorescent lights;
- Home Energy Improvement—energy audits and improvements for homes of low-income customers;
- Smart Cooling Rewards—incentives for residential customers who voluntarily enroll to allow Virginia Power to cycle their air conditioners and heat pumps during periods of peak demand;
- Commercial Heating, Ventilating and Air Conditioning Upgrade Program—incentives for commercial customers to improve the energy efficiency of their heating and/or cooling units; and
- Commercial Lighting Program—incentives for commercial customers to install energy-efficient lighting.

In September 2011, Virginia Power filed an application for approval of six additional DSM programs and to expand the approved Commercial Lighting and Commercial Heating, Ventilating and Air Conditioning Upgrade programs, in addition to requesting annual recovery of DSM program costs. The proposed DSM programs include:

- Commercial Energy Audit Program—an on-site energy audit providing commercial customers with information to evaluate potential energy cost savings options;
- Commercial Duct Testing & Sealing—an incentive for commercial customers to seal duct and air distribution systems to improve system efficiency;
- Commercial Refrigeration Program—an incentive for commercial customers to install more efficient refrigeration technologies;
- Commercial Distributed Generation—a redesigned distributed generation program allowing customers to commit their on-site back-up generators to Virginia Power during periods of peak demand;
- Residential Lighting Phase II—an extension of the initial in-store discount on the purchase of qualifying compact fluorescent lighting as well as light-emitting diode bulbs to phase out and replace conventional incandescent bulbs; and
- Residential Bundle Program—a bundle of four residential programs to be available to residential customers, including a Residential Home Energy Check-up Program, Residential Duct Testing & Sealing Program, Residential Heat Pump Tune-Up Program and Residential Heat Pump Upgrade Program.

In September 2010, Virginia Power filed with the North Carolina Commission an application for approval and its initial request for cost recovery of the five DSM programs initially approved in Virginia, as well as the distributed generation program. In February 2011, the North Carolina Commission approved the five DSM programs approved in Virginia, and Virginia Power subsequently launched the residential lighting program in May 2011 and the remainder of the approved programs in June 2011. In a separate order issued in September of 2011, the North Carolina Commission denied approval of Virginia Power’s proposed distributed generation program.

Virginia Power continues to assess smart grid technologies through a demonstration designed to indicate how these technologies may enhance Virginia Power’s electric distribution system by allowing energy to be delivered more efficiently. The demonstration involves a limited deployment, within Virginia Power’s Virginia service territory, of smart meters that use digital technology to enable two-way communication between the meter and Virginia Power’s electric distribution system. Dependent upon the outcome of the demonstration and certain regulatory proceedings, Virginia Power may make a significant investment in replacing existing meters with Advanced Metering Infrastructure. The technology is intended to help customers monitor and control their
energy use. It is also expected to lead to more efficient use of the power grid, which is expected to result in energy savings and lower environmental emissions. Moreover, deployment of smart grid technology is expected to provide more accurate outage information, fewer service calls, and faster service restoration.

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% renewable power by 2022 and 15% by 2025, and North Carolina’s RPS of 12.5% by 2021. In May 2010, the Virginia Commission approved Virginia Power’s participation in the state’s RPS program. As a participant, Virginia Power is permitted to seek recovery, through rate adjustment clauses, of the costs of programs designed to meet RPS goals. Virginia Power plans to meet the respective RPS targets in Virginia and North Carolina by utilizing existing renewable facilities, as well as through additional renewable generation where it makes sense for customers. In addition, Virginia Power intends to purchase renewable energy certificates, as permitted by each RPS program, to meet any remaining annual requirement needs. Virginia Power continues to explore opportunities to develop new renewable facilities within its service territory, the energy attributes of which would qualify for inclusion in the RPS programs.

Dominion has invested in wind energy through two joint ventures. Dominion is a 50% owner of NedPower. Dominion’s share of this project produces 132 MW of renewable energy. Dominion is also a 50% owner with BP of the first phase of Fowler Ridge, which has a generating capacity of 300 MW. Dominion has a long-term agreement with Fowler Ridge to purchase 200 MW of energy, capacity and environmental attributes from this first phase. In the first quarter of 2011, Dominion completed the sale of its remaining share of the development assets of the second phase of Fowler Ridge to BP.

In October 2011, Virginia Power filed with the Virginia Commission an application to conduct a solar distributed generation demonstration program, consisting of up to a combined 30 MW of company-owned solar distributed generation facilities to be located at selected commercial, industrial and community locations throughout its Virginia service territory, as well as up to a combined 3 MW of customer-owned solar distributed generation facilities that will be subject to a tariff filed with the Virginia Commission in 2012. If approved, this program is expected to generate enough electricity to power about 6,000 homes during peak daylight hours.

Other Generation Development
Virginia Power has announced a comprehensive generation growth program, referred to as Powering Virginia, which involves the development, financing, construction and operation of new multi-fuel, multi-technology generation capacity to meet the anticipated growth in demand in its core market of Virginia. Virginia Power expects that these investments collectively will provide the following benefits: expanded electricity production capability, increased technological and fuel diversity and a reduction in the CO₂ emission intensity of its generation fleet.

Improvements in Other Energy Infrastructure
Virginia Power’s five-year investment plan includes significant capital expenditures 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. 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.

Virginia Power is taking measures to ensure that its electrical infrastructure can support the expected demand from electric vehicles, which have significantly lower carbon intensity than conventional vehicles. Virginia Power has partnered with Ford Motor Company to help prepare Virginia for the operation of electric vehicles, in a collaboration that involves consumer outreach, educational programs and the exchange of information on vehicle charging requirements.

Dominion, in connection with its five-year growth plan, is also pursuing the construction or upgrade of regulated infrastructure in its natural gas business.

Dominion and Virginia Power’s Strategy for Voluntarily Reducing GHG Emissions
While Dominion and Virginia Power have not established a standalone GHG emissions reduction target or timetable, they are actively engaged in voluntary reduction efforts, as well as working toward achieving required RPS standards established by existing state regulations, as set forth above. The Companies have an integrated voluntary strategy for reducing overall
GHG emission intensity that is based on maintaining a diverse fuel mix, including nuclear, coal, gas, oil, hydro and renewable energy, investing in renewable energy projects and promoting energy conservation and efficiency efforts. Below are some of the Companies' efforts that have or are expected to reduce the Companies' overall carbon emissions or intensity:

- In 2003, Virginia Power retired two oil-fired units at its Possum Point power station, replacing them with a new 559 MW combined-cycle natural gas unit. Virginia Power also converted two coal-fired units at Possum Point to cleaner burning natural gas.
- Since 2000, Dominion has added over 2,600 MW of non-emitting nuclear generation and over 3,500 MW of new lower-emitting natural gas-fired generation including nearly 1,600 MW at Virginia Power (excluding Possum Point), to its generation mix.
- Virginia Power added 83 MW of renewable biomass and has plans to convert three coal-fired power stations to biomass, which is anticipated to be considered carbon neutral by regulatory agencies.
- Dominion has over 800 MW of wind energy in operation or development.
- Virginia Power completed construction of the natural gas-fired Bear Garden generating facility in May 2011.
- Virginia Power is constructing the natural gas-fired Warren County power station. In connection with the air permit process for Warren County, Virginia Power reached an
agreement with the National Park Service to permanently retire the North Branch power station, a 74 MW coal-fired plant located in West Virginia, once Warren County begins commercial operations.

- Virginia Power plans to construct an additional combined-cycle natural gas-fired power station similar in size to Warren County to replace coal-fired units at Chesapeake and Yorktown that are anticipated to be retired in 2015 and 2016.
- Virginia Power has received an Early Site Permit from the NRC for the possible addition of approximately 1,500 MW of nuclear generation in Virginia. Virginia Power has not yet committed to building a new nuclear unit.
- Virginia Power has developed the DSM programs described above.
- Virginia Power has initiated a demonstration of smart grid technologies as described above.
- In October 2011, Virginia Power announced plans to develop the community solar power program described above.
- Dominion retired two coal-fired units at Salem Harbor in 2011 and announced that the remaining units at Salem Harbor will be retired during the second quarter of 2014.
- Dominion has announced its plans to retire State Line during the first quarter of 2012.

While Virginia Power's new Virginia City Hybrid Energy Center, which is currently under construction in southwest Virginia, will be a new source of GHG emissions upon entering service, Virginia Power has taken steps to minimize the impact on the environment. The new plant is expected to use at least 10% biomass for fuel and is designed to be carbon-capture compatible, meaning that technology to capture CO₂ can be added to the station if or when it becomes commercially available. Also, Virginia Power has announced plans to convert its coal units at Bremo to natural gas, contingent upon the Virginia City Hybrid Energy Center entering service and receipt of necessary approvals. It is currently estimated that the Virginia City Hybrid Energy Center will have the potential to emit about 4.8 million metric tonnes of direct CO₂ emissions in a year assuming a 100% capacity factor and 100% coal-fired operation. Actual emissions will depend on the capacity factor of the facility and the extent to which biomass is burned.

Dominion also developed a comprehensive GHG inventory for calendar year 2010. For Dominion Generation, Dominion's and Virginia Power's direct CO₂ equivalent emissions, based on equity share (ownership), were approximately 52.4 million metric tonnes and 32.4 million metric tonnes, respectively. For the DVP operating segment's electric transmission and distribution operations, direct CO₂ equivalent emissions were approximately 0.2 million metric tonnes. DTI's (including Cove Point) direct CO₂ equivalent emissions were approximately 3.0 million metric tonnes and East Ohio's direct CO₂ equivalent emissions were approximately 1.4 million metric tonnes. While the Companies do not have final 2011 emissions data, they do not expect a significant variance in emissions from 2010 amounts. With respect to electric generation, primary facility stack emissions of CO₂ from carbon based fuel combustion are directly measured via continuous emissions monitor system methods set forth under 40 CFR Part 75 of the U.S. Electric Code of Federal Regulation. For those emission sources not covered under 40 CFR Part 75, and for methane and nitrous oxide emissions, quantification is based on fuel combustion, higher heating values, emission factors, and global warming potentials as specified in the EPA’s Mandatory Reporting of Greenhouse Gases Rule. For the DVP operating segment’s electric transmission and distribution emissions, the protocol used was The Climate Registry. For Dominion’s natural gas businesses, combustion related emissions were calculated using the EPA Mandatory Reporting of Greenhouse Gases Rule as described above. For DTI, the protocol used to calculate the non—combustion related emissions reported above was Greenhouse Gas Emission Estimation Guidelines for Natural Gas Transmission and Storage, Volume I—GHG Estimation Methodologies and Procedures—Revision 2, September 28, 2001 developed by the Interstate Natural Gas Association of America. For East Ohio, the protocol used to calculate the non—combustion related emissions reported above was the American Gas Association’s April 2008 Greenhouse Emissions Estimation Methodologies and Procedures for Natural Gas Distribution Operations.

Since 2000, the Companies have tracked the emissions of their electric generating fleet. Their electric generation fleet employs a mix of fuel and renewable energy sources. Comparing annual year 2000 to annual year 2010, Dominion and Virginia Power’s electric generating fleet (based on ownership percentage) reduced their average CO₂ emissions rate per MWh of energy produced from electric generation by about 21% and 10%, respectively. During such time period the capacity of Dominion and Virginia Power’s electric generation fleet has grown.

Alternative Energy Initiatives
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 base 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. For example, in March 2011, AES initiated a Dominion scoping study for a high-voltage underwater transmission line from Virginia Beach into the ocean to support multiple offshore wind farms; the first of many steps with the goal being the development of a transmission line making offshore wind resources available to its customers. A 2010 Dominion study of its existing transmission system in eastern Virginia showed that it is possible to interconnect large scale wind facilities up to an installed capability of 4,500 MW.

REGULATION

Dominion and Virginia Power are subject to regulation by the Virginia Commission, North Carolina Commission, SEC, FERC, EPA, DOE, NRC, Army Corps of Engineers and other federal, state and local authorities.

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 certificates of public convenience and necessity 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.

Electric Regulation in Virginia

The enactment of the Regulation Act in 2007 significantly changed electric service regulation in Virginia by instituting a modified cost-of-service rate model. With respect to most classes of customers, the Regulation Act ended Virginia's planned transition to retail competition for its electric supply service. Base rates are set by a process that allows Virginia Power to recover its operating costs and an ROIC. The Virginia Commission reviews 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. If, as a result of the earnings test review, the Virginia Commission determines that Virginia Power's historic earnings for the two-year test period are more than 50 basis points above the authorized level, between 60% and 100% of earnings above this level must be shared with customers through a refund process. 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 a determination by the Virginia Commission that Virginia Power has exceeded its authorized level of earnings by more than 50 basis points 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. Virginia Power's ROE may be increased or decreased by up to 100 basis points based on operating performance criteria, or alternatively, will be increased by 50 basis points for compliance with Virginia's RPS.

In addition, the Regulation Act authorizes stand-alone rate adjustment clauses for recovery of costs for new generation facilities or major unit modifications of existing facilities, FERC-approved transmission costs, environmental compliance, conservation and energy efficiency programs and renewable energy programs. It provides for enhanced returns on capital expenditures relating to the construction or major modification of facilities that are nuclear-powered, clean coal/carbon capture compatible-powered, or renewable-powered, as well as conventional coal and combined-cycle combustion turbine facilities. Costs of fuel used for the generation of electricity, along with costs of purchased power, are recovered from customers through an annually approved fuel rider, as provided for under a separate section of the Virginia Code. Decisions of the Virginia Commission may be appealed to the Supreme Court of Virginia.

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, it could adversely affect its results of operations, financial condition and cash flows.

2009 Base Rate Review


2011 Biennial Review

Pursuant to the Regulation Act and the Virginia Settlement Approval Order, in March 2011, Virginia Power submitted its base rate filing and accompanying schedules in support of the first biennial review of its base rates, terms and conditions, as well as its earnings for the 2009 and 2010 test period. In November 2011, the Virginia Commission issued the Biennial Review Order.

In the 2011 Biennial Review Order, the Virginia Commission determined that Virginia Power earned an ROE of approximately 13.3% during the 2009 and 2010 combined test years, which exceeded the authorized ROE earnings band of 11.4% to 12.4% established in the Virginia Settlement Approval Order, resulting in an order that Virginia Power refund 60% of earnings above the upper end of the authorized ROE earnings band, or approximately $78 million, to its customers. The actual refund amount is expected to total approximately $81 million, taking into account refunds to be paid to certain non-jurisdictional customers pursuant to their customer contracts. The Virginia Commission also...
determined that Virginia Power's new authorized ROE is 10.9%, inclusive of a performance incentive of 50 basis points for meeting RPS targets. Subject to the outcome of Virginia Power's petition for rehearing or reconsideration described below, this ROE will serve as the ROE against which Virginia Power's earned return will be compared for all or part of the test periods in the 2013 biennial review proceeding.

With respect to Virginia Power's rate adjustment clauses, the Virginia Commission determined that, effective December 1, 2011, the ROE applicable to Riders C1 and C2 is 10.4% and the ROE applicable to Riders R and S is 11.4%, inclusive of a statutory enhancement of 100 basis points. The Virginia Commission also found that, as a result of its determination that credits will be applied to customers' bills, the Regulation Act requires the combination of its existing Riders T, C1, and C2 with Virginia Power's base costs, revenues and investments, and these Riders will thereafter be considered part of Virginia Power's base costs, revenues and investments for purposes of future biennial review proceedings. Accordingly, the Virginia Commission directed that Virginia Power's tariff filings pursuant to the Biennial Review Order reflect such combination. The Virginia Commission has initiated a proceeding to address further implementation of this directive. As a result of the Virginia Settlement Approval Order and the Regulation Act, Virginia Power's base rates will otherwise remain unchanged through at least December 1, 2013.

In December 2011, Virginia Power filed a petition with the Virginia Commission seeking rehearing or reconsideration of the Biennial Review Order, to clarify whether the effective date of the
newly authorized base ROE is prospective from the date the Virginia Commission issued the Biennial Review Order or retrospective to January 1, 2011. Also, in December 2011, Virginia Power filed with the Virginia Commission a Notice of Appeal of the Biennial Review Order to the Supreme Court of Virginia. See Note 14 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 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 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. Virginia Power intends to file an application with the North Carolina Commission by March 30, 2012, to increase its base rates. See Note 14 to the Consolidated Financial Statements for additional information.

GAS
Dominion's gas distribution services are regulated by the Ohio Commission and the West Virginia Commission.

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

Ohio—Ohio has not enacted legislation requiring supplier choice for residential or commercial natural gas consumers. However, in cooperation with the Ohio Commission, Dominion offers retail choice to residential and commercial customers. At December 31, 2011, approximately 1.0 million of Dominion's 1.2 million Ohio customers were participating in this Energy Choice program. In October 2006, East Ohio implemented a program approved by the Ohio Commission as a transitional step towards the improvement and expansion of the Energy Choice program, under which East Ohio entered into gas purchase contracts with selected suppliers at a fixed price above the NYMEX month-end settlement. This Standard Service Offer pricing mechanism replaced the traditional gas cost recovery rate with a monthly market price that eliminated the true-up adjustment, making it easier for customers to compare and switch to competitive suppliers if they so choose.

In June 2008, the Ohio Commission approved a settlement filed in response to East Ohio's application seeking approval of Phase 2 of its plan to restructure its commodity service. Under that settlement, the existing Standard Service Offer program was continued through March 2009 with an update to the fixed rate adder to the NYMEX price. Starting in April 2009, East Ohio buys natural gas under the Standard Service Offer program 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. 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 to require 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.

Rates
Dominion's gas distribution subsidiaries are subject to regulation of rates and other aspects of their businesses by the states in which they operate - Ohio and West Virginia. When necessary, Dominion's gas distribution subsidiaries seek 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 any portion of the majority of operating costs are recovered through monthly charges 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. Base rates for Hope are designed primarily based on a rate design methodology in which the majority of operating costs are recovered through volumetric charges. In addition to general rate increases,
Dominion's gas distribution subsidiaries make routine separate filings with their respective state regulatory commissions 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 prospective one-, three- or twelve-month periods. 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. 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 14 to the Consolidated Financial Statements for additional information.

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.

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 is evaluating its transmission facilities for any discrepancies between design and actual field conditions. In addition, NERC has requested the industry to increase the number of assets subject to NERC reliability standards that are designated as critical assets, 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-批准 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 Dominion’s interstate natural gas company subsidiaries, including DTI, Cove Point and the Dominion South Pipeline Company, LP. FERC also has jurisdiction over siting, construction and operation of natural gas import facilities and interstate natural gas pipeline facilities.

Domion’s interstate gas transmission and storage activities are generally conducted on an open access basis, in accordance with certificates, tariffs and service agreements on file with FERC.

Dominion 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 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.

See Future Issues and Other Matters in MD&A and Note 14 to the Consolidated Financial Statements for additional information.

Environmental Regulations
Each of Dominion’s and Virginia Power’s 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 jurisdictions) or market prices (in deregulated jurisdictions), those costs could adversely affect future results of operations and cash flows. Dominion and Virginia Power 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 MD&A, which information is incorporated herein by reference. Additional information can also be found in Item 3, Legal Proceedings and Note 23 to the Consolidated Financial Statements.

GLOBAL CLIMATE CHANGE
The national and international attention in recent years on GHG emissions and their relationship to climate change has resulted in federal, regional and state legislative or regulatory action in this
area. Dominion and Virginia Power 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 MD&A and Note 23 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 Powers' nuclear power stations, which are part of the Dominion Generation segment, 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 Nuclear Matters in Future Issues and Other Matters in MD&A 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 the Companies are required by the NRC to be financially prepared. For information on decommissioning trusts, see Dominion Generation—Nuclear Decommissioning and Note 10 to the Consolidated Financial Statements. See Note 23 to the Consolidated Financial Statements for information on spent nuclear fuel.

Item 1A. Risk Factors
Dominion's and Virginia Power's 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.

Dominion’s and Virginia Power's results of operations can be affected by changes in the weather. Weather conditions directly influence the demand for electricity and natural gas, and affect the price of energy commodities. In addition, severe weather, including hurricanes and winter storms, can be destructive, causing outages and property damage that require incurring additional expenses. Droughts can result in reduced water levels 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.

Dominion and Virginia Power are subject to complex governmental regulation that could adversely affect their results of operations. Dominion and Virginia Power's operations are subject to extensive federal, state and local regulation and require numerous permits, approvals and certificates from various governmental agencies. 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. However, new laws or regulations, the revision or reinterpretation of existing laws or regulations, or penalties imposed for non-compliance with existing laws or regulations may result in substantial expense.

Dominion and Virginia Power could be subject to penalties as a result of mandatory reliability standards. As a result of EFECT, owners and operators of generation facilities and bulk electric transmission systems, including Dominion and Virginia Power, are subject to mandatory reliability standards enacted by NERC and enforced by FERC. Compliance with the mandatory reliability standards may subject the Companies to higher operating costs and may result in increased capital expenditures. If either Dominion or Virginia Power is found not to be in
compliance with the mandatory reliability standards it could be subject to remediation costs, as well as sanctions, including substantial monetary penalties.

Dominion's and Virginia Power's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws, including laws and regulations designed to address global climate change, air quality, coal combustion by-products, cooling water and other matters could make certain of the Companies' generation facilities uneconomical to maintain or operate. Dominion's and Virginia Power's 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 pollution 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 Dominion and Virginia Power expect that they will remain significant in the future.

Existing environmental laws and regulations may be revised and/or new laws may be adopted or become applicable to Dominion or Virginia Power. The EPA is expected to issue additional regulations with respect to air quality under the CAA, including revised NAAQS and regulations governing the emissions of GHGs from electric generating units. Risks relating to potential regulation of GHG emissions are discussed below. Dominion and
Virginia Power also expect additional federal water and waste regulations, including regulations concerning cooling water intake structures and coal combustion by-product handling and disposal practices that are expected to be applicable to at least some of its generating facilities.

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' 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.

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 Dominion's or Virginia Power's 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 requiring efficiency improvements from fossil fuel-fired electric generating units.

There are also potential impacts on Dominion's 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. Additionally, GHG requirements could result in increased demand for energy conservation and renewable products. Several regions of the U.S. have moved forward with GHG emission regulations including regions where Dominion has operations. For example, Massachusetts and Rhode Island have implemented regulations requiring reductions in CO₂ emissions through RGGI, a cap and trade program covering CO₂ emissions from power plants in the Northeast, which affects several of Dominion's facilities.

Compliance with GHG emission reduction requirements may require increasing the energy efficiency of equipment at facilities, committing significant capital toward carbon capture and storage technology, 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 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 capture and storage technology, and the selected compliance alternatives. The Companies 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 the Companies' 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.

The rates of Virginia Power are subject to regulatory review. In the Biennial Review Order, the Virginia Commission determined that Virginia Power's actual ROE during the 2009 and 2010 combined test years exceeded the upper end of the authorized ROE earnings band for that period, resulting in an order that Virginia Power refund approximately $78 million to its customers. The Virginia Commission also determined that Virginia Power's new authorized ROE is 10.9%, inclusive of a performance incentive of 50 basis points for meeting certain renewable energy targets. Subject to the outcome of the petition for rehearing or reconsideration described below, this ROE will serve as the ROE against which Virginia Power's earned return will be compared for all or part of the test periods in the 2013 biennial review proceeding. In December 2011, Virginia Power filed a petition with the Virginia Commission seeking rehearing or reconsideration of the Biennial Review Order to clarify whether the effective date of the newly authorized ROE is the date the Virginia Commission issued the 2011 Biennial Review Order or January 1, 2011. If the Virginia Commission orders that the effective date of the newly authorized ROE is January 1, 2011, such effective date may adversely affect the outcome of the earnings test in the 2013 biennial review. In addition, Virginia Power's base rates are subject to reduction if the Virginia Commission concludes, in the 2013 biennial review, that Virginia Power's actual ROE during the test period exceeded the upper end of the authorized ROE earnings band for that period, under circumstances described in the Regulation Act. The Virginia Commission could also order Virginia Power to refund to customers 60% of any such excess earnings for the 2011-2012 earnings test period. The Virginia
Commission may alternatively order Virginia Power to refund up to 100% of earnings that exceed the earnings band in a biennial review if it finds that Virginia Power’s total aggregate regulated rates have exceeded annual increases in the U.S. Consumer Price Index, as described in the Regulation Act.

In the 2011 Biennial Review Order, as a result of the Virginia Commission’s determination that credits will be applied to customers’ bills, the Virginia Commission, as required by the Regulation Act, directed Virginia Power to combine its existing Riders T, C1, and C2 with Virginia Power’s base costs, revenues and investments, and to file revised tariffs reflecting such combination. These existing Riders will thereafter be considered part of Virginia Power’s base costs, revenues and investments for purposes of future biennial review proceedings. The Virginia Commission has initiated a proceeding to address how this combination will be implemented. Depending on how the Virginia Commission orders the combination of existing Riders T, C1 and C2 to be effected, Virginia Power may be required to discontinue deferral accounting and could potentially not receive full recovery of costs associated with these existing riders. At this time, Virginia Power is not able to estimate the impact, if any, of the outcome of these proceedings.

The rates of Virginia Power’s electric transmission operations and Dominion’s gas transmission and distribution operations are subject to regulatory review. Revenue provided by Virginia Power’s electric
Companies are unable to perform their contractual obligations, penalties or satisfy forward energy and capacity obligations. Moreover, if the replacement energy and capacity from third parties in the open market to evenues as a result of selling less energy or may require the Companies to Companies' business. Unplanned outages typically increase the problems occur from time to time and are an inherent risk of the and extensions of scheduled outages due to mechanical failures or other equipment, material and labor, operational restrictions resulting from environmental limitations and governmental interventions, and performance below expected levels. In addition, weather-related incidents, earthquakes and other natural disasters can disrupt generation, transmission and distribution facilities. Because Virginia Power's transmission facilities are interconnected with those of third parties, the operation of its facilities could be adversely affected by unexpected or uncontrollable events occurring on the systems of such third parties.

Operation of the Companies' generation facilities below expected capacity levels could result in lost revenues and increased expenses, including higher maintenance costs. Operation of the Companies' generation, transmission and distribution facilities involves risk, including the risk of potential breakdown or failure of equipment or processes due to aging infrastructure, fuel supply or transportation disruptions, accidents, labor disputes or work stoppages 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. In addition, weather-related incidents, earthquakes and other natural disasters can disrupt generation, transmission and distribution facilities. Because Virginia Power's transmission facilities are interconnected with those of third parties, the operation of its facilities could be adversely affected by unexpected or uncontrollable events occurring on the systems of such third parties.

Operation of the Companies' generation facilities below expected capacity levels could result in lost revenues and increased expenses, including higher maintenance costs. Unplanned outages of generating units 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 energy or may require the Companies to incur significant costs as a result of operating higher cost units or obtaining replacement energy and capacity from third parties in the open market to satisfy forward energy and capacity obligations. Moreover, if the Companies are unable to perform their contractual obligations, penalties or liability for damages could result. Dominion's merchant power business is operating in a challenging environment 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 purchase and 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 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. 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.

Dominiom 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. 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.

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 in PJM, MISO and ISO–NE depend upon FERC’s continued use of clearly identified market rules. From time to time FERC may investigate and authorize PJM, MISO and ISO–NE 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, 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.

War, acts and threats of terrorism, natural disaster and other significant events could adversely affect Dominion’s and Virginia Power’s operations. Dominion and Virginia Power 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, infrastructure facilities, such as electric generation, electric and gas transmission and distribution facilities could be direct targets of, or indirect casualties of, an act of terror. Furthermore, the physical or cybersecurity compromise of the Companies’ facilities could adversely affect the Companies’ ability to manage these facilities effectively. Instability in financial mar–
Dominion and Virginia Power have substantial ownership interests in and operations of 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 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 and Virginia Power 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, 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.

The use of derivative instruments could result in financial losses and liquidity constraints. Dominion and Virginia Power use derivative instruments, including futures, swaps, forwards, options and FTRs, to manage commodity and financial market risks. In addition, Dominion purchases and sells commodity-based contracts primarily in the natural gas market for trading purposes. The Companies could recognize financial losses on these contracts, including as a result of volatility in the market values of the underlying commodities, if a counterparty fails to perform under a contract or upon the failure or insolvency of a financial intermediary, exchange or clearinghouse used to enter, execute or clear these transactions. In the absence of actively-quoted market prices and pricing information from external sources, the valuation of these contracts involves management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts.

The use of derivatives to hedge future sales may limit the benefit Dominion would otherwise receive from increases in commodity prices. These hedge arrangements generally include collateral requirements that require Dominion to deposit funds or post letters of credit with counterparties, financial intermediaries or clearinghouses to cover the fair value of covered contracts in excess of agreed upon credit limits. For instance, when commodity prices rise to levels substantially higher than the levels where it has hedged future sales, Dominion may be required to use a material portion of its available liquidity or obtain additional liquidity to cover these collateral requirements. In some circumstances, this could have a compounding effect on Dominion's financial liquidity and results of operations. In addition, the availability or security of the collateral delivered by Dominion may be adversely affected by the failure or insolvency of a financial intermediary, exchange or clearinghouse used to enter, execute or clear these types of transactions. Derivatives designated under hedge accounting, to the extent not fully offset by the hedged transaction, can result in ineffectiveness losses. These losses primarily result from differences between the location and/or specifications of the derivative hedging instrument and the hedged item and could adversely affect Dominion's results of operations.

Dominion's and Virginia Power's operations in regards to these transactions are subject to multiple market risks including market liquidity, price volatility, credit strength of the Companies' counterparties and the financial condition of the financial intermediaries, exchanges and clearinghouses used for the types of transactions. These market risks are beyond the Companies' control and could adversely affect their results of