C L E A R
V I S I O N

Dominion

It all starts here.℠

C L E A R

The most successful companies are defined by a clear vision — the kind that inspires the loyalty of customers, the commitment of employees and the confidence of shareholders.

Now we have energy enough to fuel an unlimited vision. As you'll see in the pages ahead, our merger with Consolidated Natural Gas gives us the resources and people to bring abundant, affordable energy to more homes and businesses than ever before.

VISION

As clear as our goals may be, their full value can only be realized when supported by an effective rallying cry. That is why we are proud to unveil a brand that embodies the strength of our past with the promise of our future.

With the resources to bring more energy to more people and a history of trusted service, we can begin to build America's premier energy company.

At Dominion, it all starts here.

FOCUS

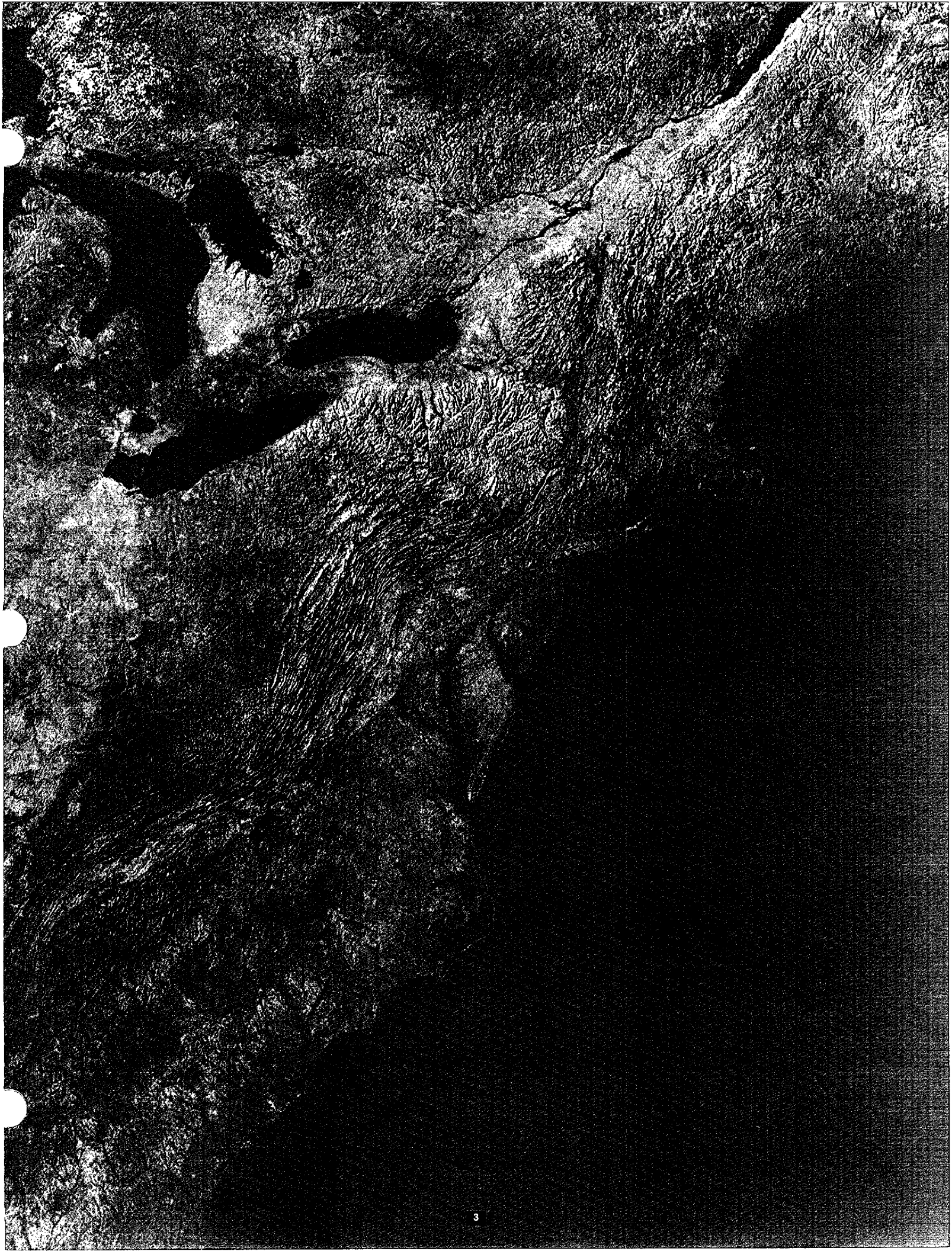
We're setting our sights on the energy hungry Midwest, Northeast and Mid-Atlantic regions of the U.S. Forty percent of our nation's energy is consumed by this area's homes, businesses and industry. And they're paying some of the highest prices for it. No wonder they're opening their power markets to competition faster than anywhere else in the country. We plan to be there, offering the same low-cost gas and electricity, customer service and reliability we've provided for decades.

KEY POINTS

- **Market share:**
  3.9 million retail customers
  2.1 million electric
  1.8 million natural gas
- **Market size:**
  52 million homes and businesses
- **Market conditions:**
  Uneven prices, service and supply
- **Market strategy:**
  Competitive prices, great service and reliable supply

40%

of the nation's demand for energy



CONVERGENCE

North America's energy markets are converging to create a new supermarket for BTUs. As a newly merged company, we're entering this new market bigger and better equipped. We're uniquely positioned to cross-sell electricity to gas customers and gas to electricity customers. With the capability to store gas, sell it, or use it to generate power, we can produce and sell BTUs in whatever form our customers find most useful and economical.

KEY POINTS

- **Energy deregulation is underway** in our region of focus. Fourteen states have approved retail choice for electric customers. Eight have opened gas markets to competition or will do so soon.

- **Consumers want change.** Public opinion surveys show strong support for retail choice in both electricity and gas markets.

- **Dominion can produce and sell both forms.** Our customers will benefit from our gas and electric assets at each point along the production and delivery chain and our record of superior service and reliability.

an emerging

$300 BILLION

energy supermarket

ASSETS

Our 4 million electric and natural gas customers and our thousands of energetic employees are valuable human assets. Backing them is a 20,000-megawatt generation portfolio of efficient electric power transmitted over 6,000 miles of transmission lines. Our gas customers are served by 7,600 miles of transmission pipeline and 2.8 trillion cubic feet of reserves. We're expanding to serve a potential market of more than 50 million homes and businesses in America's most energy-intensive region.

KEY POINTS

20,000 MW of generation capacity

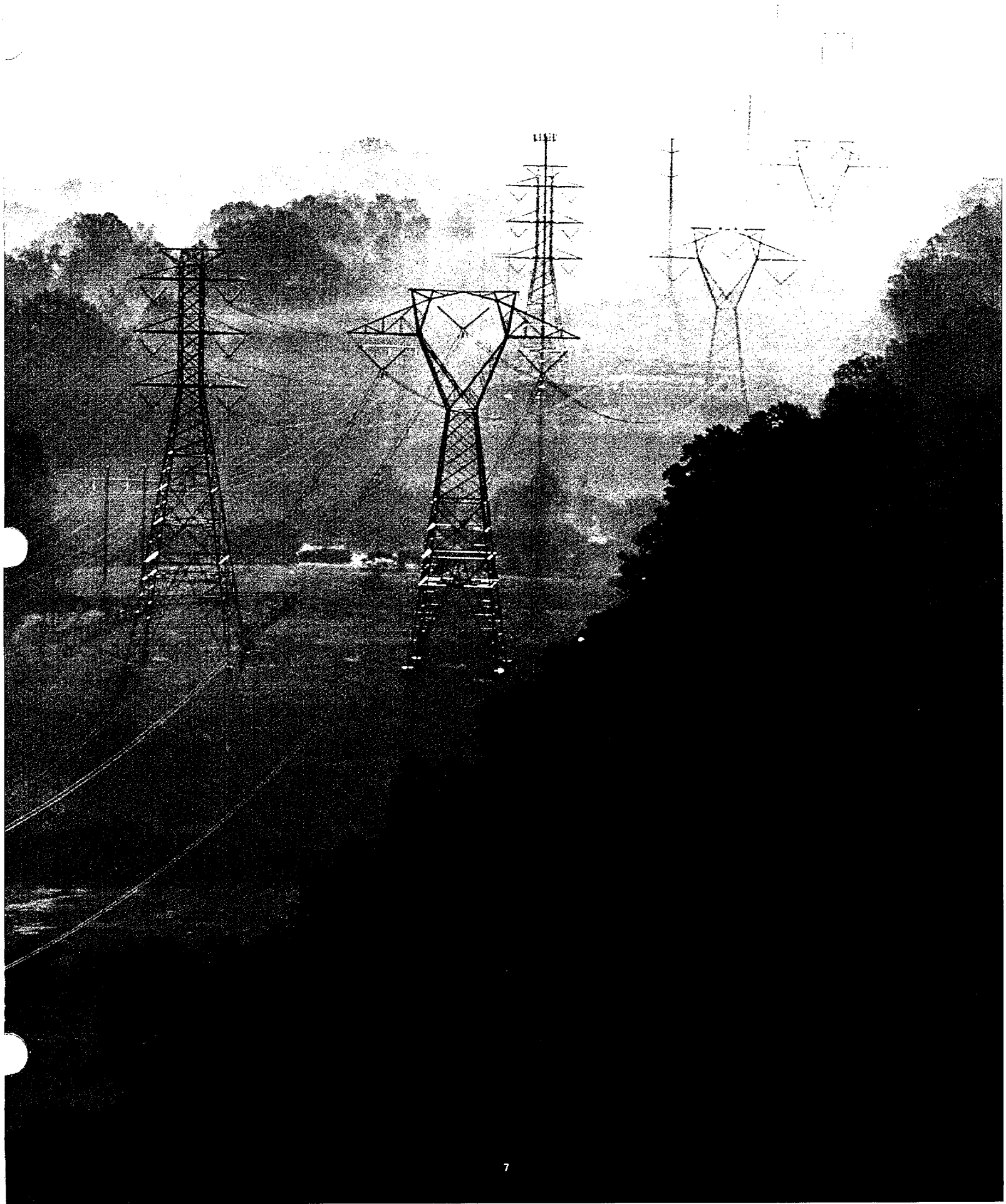
Power Stations

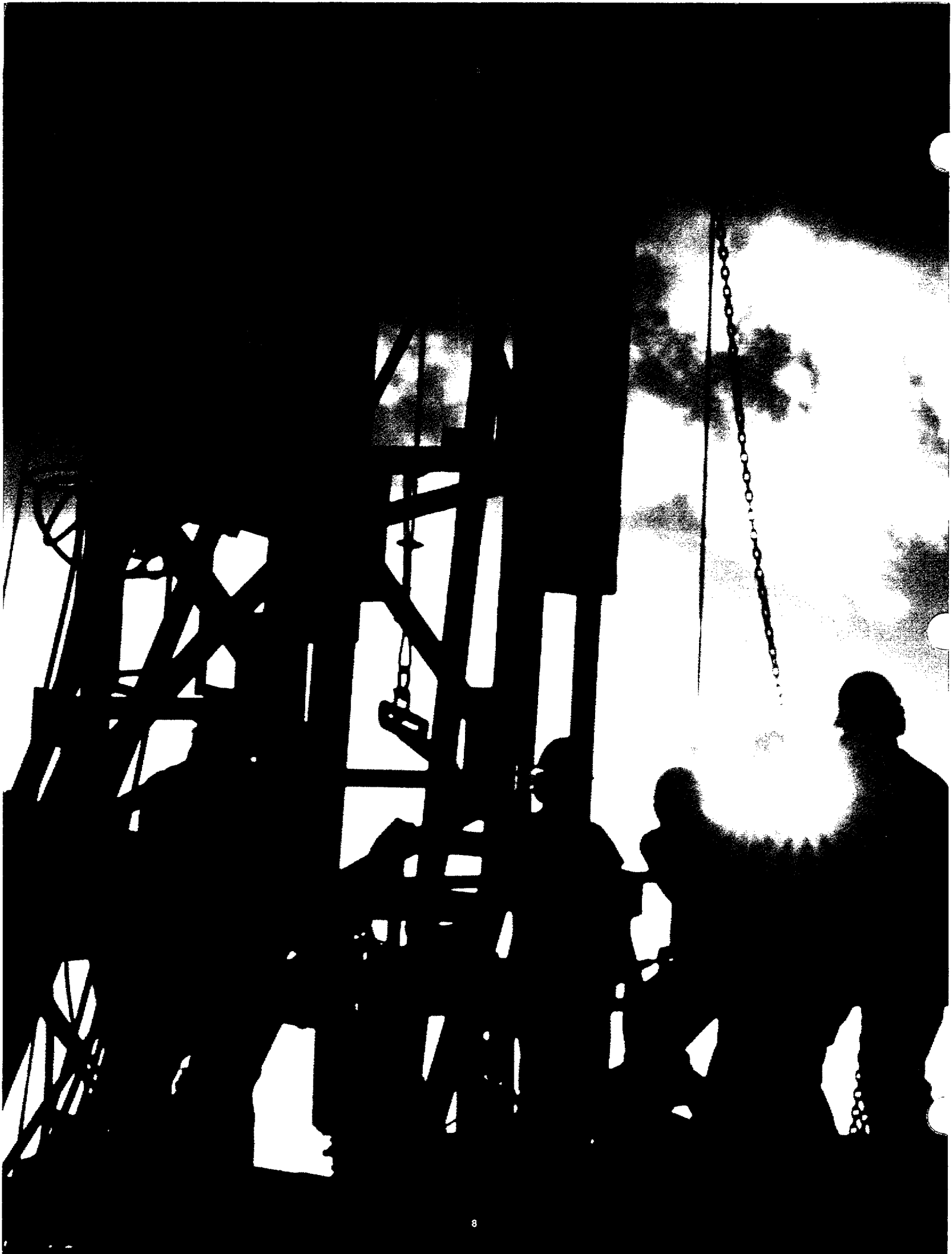
- Bath County
- Bellmeade
- Bremo
- Chesapeake
- Chesterfield
- Clover
- Cushaw
- Darbytown
- Elwood
- Gaston
- Gravel Neck
- Kincaid
- Kitty Hawk
- Low Moor
- Morgantown
- Mt. Storm
- North Anna
- North Branch
- Northern Neck
- Possum Point
- Roanoke Rapids
- Surry
- Yorktown

- North America's largest natural gas storage system

- Five of the region's 10 largest gas storage fields:
  - Oakford, Pa.
  - Fink-Kennedy-Lost Creek, W.Va.
  - Leidy-Tamarack, Pa.
  - Stark-Summit, Ohio
  - Ellisburg, Pa.

2.8 TRILLION CU. FT. of natural gas and oil reserves





LOW COST

Our low-cost electric and gas operations provide a powerful platform to grow shareholder value. We're proud to operate the nation's two most efficient nuclear power plants. The men and women at our gas exploration and production businesses have achieved some of the industry's most competitive finding and extraction costs. Our ability to keep costs low is a key advantage as we sell energy into high-priced markets throughout the Midwest, Northeast and Mid-Atlantic regions.

KEY POINTS

- **Keeping costs low at our North Anna and Surry nuclear plants** made them the nation's top two most efficient producers of nuclear generation.
- **Consolidating redundant functions** will reduce expenses and create new merger synergies.
- **Acquiring assets at fair prices and running them well** helps us take more profit to the bottom line and deliver increased value to shareholders.

Low costs will help us achieve a targeted earnings growth rate of

8% to 10%

SERVICE

Serving our customers. Earning their loyalty. And winning more. Reliable power at competitive prices provides a great foundation, and fortunately we've had lots of practice. Our electric customers have power 99.9 percent of the time. Our rate of service restoration is one of the industry's best. We're committed to investing in the latest technology to keep on the heat and lights. In a competitive market, we'll provide the skill, innovation and dedication to serve our customers' energy needs.

KEY POINTS

Service to customers:

- We're working with our neighboring competitors to improve reliability and regional service and to promote a coordinated marketplace.
- Our electric customers have power 99.9% of the time.
- We're surveying customers throughout our region to learn more about their service needs.

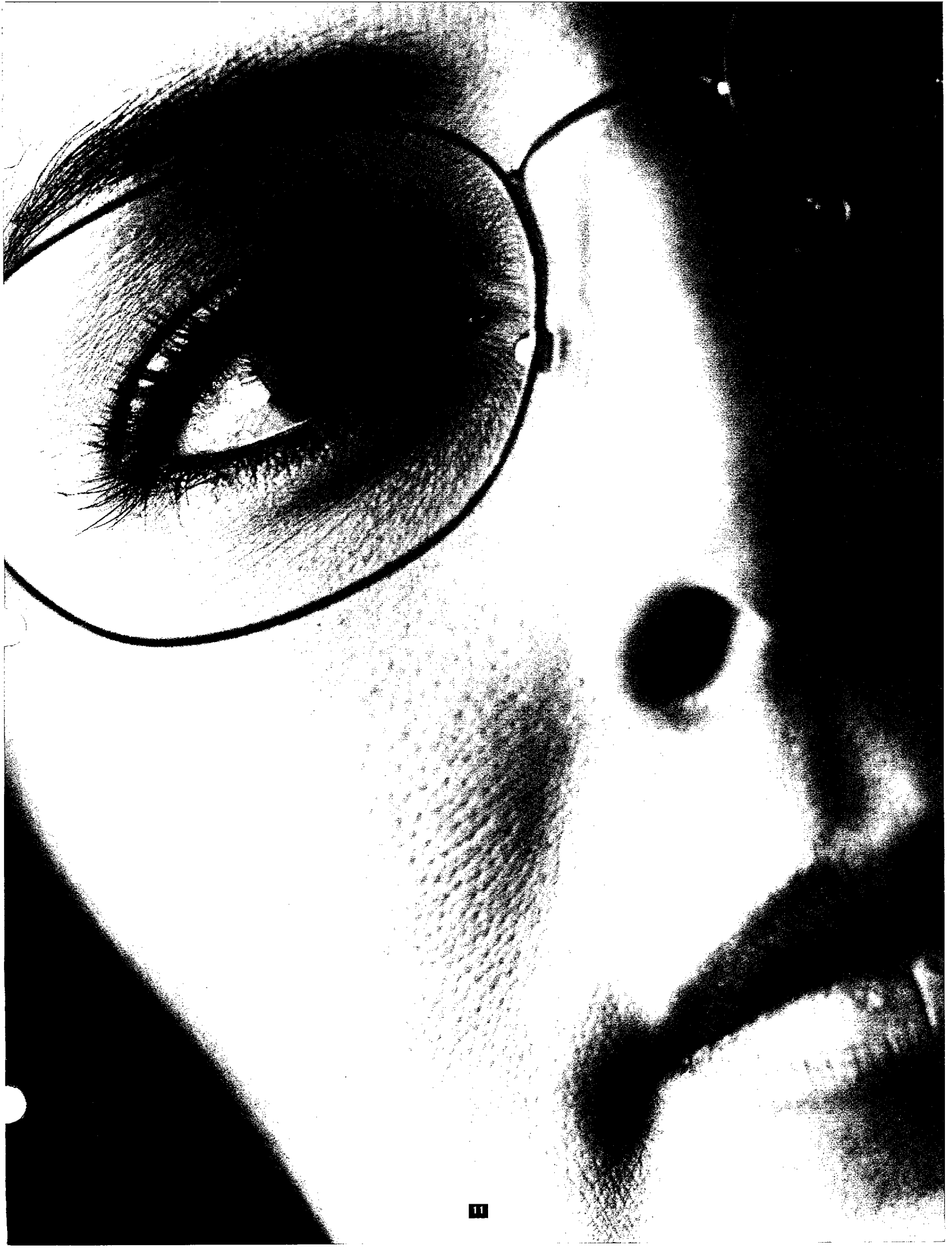
Service to shareholders:

- We've set a goal of 15 percent or better annual total return in share appreciation plus quarterly dividends. We value our shareholders' investment and trust. We're committed to outperforming their expectations.

We're investing

$100 MILLION

in continued customer service enhancements



DEAR FELLOW SHAREHOLDERS

THOS. E. CAPPS
President and
Chief Executive Officer

Dear Fellow Shareholders

Thanks to your 99-percent confidence vote for our merger with Consolidated Natural Gas, we're now the nation's largest fully integrated natural gas and electric company. You and I are business partners in an energy provider that serves nearly 4 million homes and businesses in the Midwest, Northeast and Mid-Atlantic regions of the United States.

Today, our combined annual revenues total $8.6 billion; our assets, more than $24 billion. Our annual operating cash flow exceeds $1.6 billion.

...we have the potential to reach more than 50 million homes and businesses with one-stop energy shopping, freeing them from the confusion and hassles of multiple suppliers.

We own and operate some of the nation's most valued electric and natural gas businesses. We can produce energy, transport it over long distances, distribute it to our existing customers, and, in the case of gas, use it to generate power or store it and save it for a better sales day. We can use clean-burning natural gas as the fuel of choice for generators that will electrify our nation in this new century. And we have the potential to reach more than 50 million homes and businesses with one-stop energy shopping, freeing them from the confusion and hassles of multiple suppliers.

Many industry leaders and experts say bigger is better. I agree — but only if size helps us earn more income by better serving our customers, earning their loyalty and winning more of them.

Advantages of size

As a merged company, we have better access to capital. We benefit from greater economies of scale and can achieve savings through the cost-effective consolidation of functions. As a merged company, we have a powerful array of assets in the heart of the nation's most energy-intensive region — home to 40 percent of the nation's demand for energy, some of its highest prices and, as a result, some of the fastest moves toward deregulation and restructuring.

But customers don't really care how big we are. For our company to deliver great service at the competitive prices they'll

Looking ahead, we've set as a goal a 15 percent or better annual total return — the combination of share appreciation and our quarterly dividends.

expect, we'll have to be swift of foot, be flexible and make decisions fast. These qualities don't typically come to mind when you think of big companies.

Fortunately, we've already demonstrated that we can move quickly.

Consider: Our transition team announced and closed one of the energy industry's biggest mergers in only 11 months. In about the same time, they created an entirely new management structure. Just six weeks after our merger announcement, a Dominion-CNG working group began siting and permitting four quick-start, natural gas merchant power plants in Ohio, Pennsylvania and West Virginia, three states in significant need of additional generation to meet peak demand.

It's important to acknowledge the roles of the forward-looking legislators whose policies are opening up our energy markets. Also, we're grateful to state and federal regulators whose equally prompt actions made our powerful combination possible.

In Illinois, we announced our first joint-venture merchant facility in 1998. And our energetic project team sited, permitted and built the facility and began booking profits in just over a year. In the summer of 1999, when power disruptions occurred with alarming consequences, the facility "opened just in time to start supplying much-needed electricity," said the *Chicago Tribune*.

Sale of Latin American generation portfolio and Dominion Capital

In a matter of months, we sold our profitable Latin American generation businesses (but kept our notes and lessons learned). We're also selling our portfolio of financial services businesses at Dominion Capital and will use proceeds from both sales to pay down debt and reinvest in our focused energy business. Dominion Capital is an old friend that has contributed several hundred million dollars in profits since its inception and taught us much about bare-knuckle competition. We wish our friends and colleagues there the very best, and we'll watch its progress with enthusiasm.

In 1998, as I told you last year, we swiftly reached legislative and regulatory agreements that set the rules for Virginia's transition to competitive energy markets — rules that cap rates for consumers and allow us to carry future savings to the bottom line. We told you the settlement would help the bottom line, and in 1999 it did.

Earnings are up

We reported a 9.5-percent increase in earnings from operations — earnings that exclude one-time gains and losses. Earnings from operations were $3.01 per share in 1999 compared to $2.75 per share the preceding year. We continued the annual dividend payment of $2.58 per share, a strong yield last year of 6.6 percent. We intend to maintain the dividend at that level. A dividend is money in our pockets. It's an important and often underappreciated part of a stock's value.

Looking ahead, we've set as a goal a 15 percent or better annual total return — the combination of share appreciation and our quarterly dividends. In addition to paying our existing dividend, our goal is to increase earnings by 8 percent to 10 percent annually.

Last year, when value investing was at a historical low, total shareholder return for utility stocks was minus 18.9 percent based on the S&P Electric Utilities Index, one of the industry's most prominent indicators. Our total return was minus 10.5 percent. But it's cold comfort to outperform a down market and, frankly, relative performance doesn't pay the bills.

We are committed to producing a total return in excess of 15 percent going forward and will continue to be focused on a broad range of performance indicators.

Helping the state to grow — and *Fortune* magazine's "Most Admired"

One of the best ways to promote our own growth is to help the economies of the states and cities we now serve. We've been especially successful in Virginia and North Carolina, where we have more than 2 million retail electric customers. Last year,

Virginia Power's support to state and local agencies helped bring more than 4,000 new jobs to the service area and $739 million in capital investment. By the end of 1999, another 15 projects were under construction. They're expected to provide about 7,200 new jobs and an additional $1.4 billion in capital investment.

As recognition of this effort, *Site Selection* magazine named Virginia Power's economic development program one of the nation's "10 Best" out of 275 U.S. gas and electric companies.

There were other indicators of our progress.

We were honored and privileged last year when analysts, industry participants and others saw fit to list us among *Fortune* magazine's "Top Ten Most Admired" corporations in the U.S. natural gas and electric power sectors.

The judges considered many factors, high among them the ability to execute. Nowhere is this ability better illustrated than our low-cost generation business.

Setting the standard for nuclear performance

Our energy portfolio includes almost 20,000 megawatts of power generation, virtually all in the Midwest to Northeast to Mid-Atlantic quadrant of the United States. Thanks to a lot of hard work by a lot of good people, all are efficiently and safely operated.

Our ability to grow earnings is sustained by our low-cost nuclear generation in fast-growing Virginia. The company's nuclear units are the nation's best. We count on them for a third of the generation distributed by Virginia Power and that puts us in a superb competitive position.

Fact: Our North Anna and Surry stations ranked as the nation's first and second lowest-cost nuclear generators on a three-year average, according to *Nucleonics Week* magazine. Our competitors had median production costs more than 45 percent higher than ours. Our team at North Anna set a new dual-unit Westinghouse record for continuous operation after running both units for 340 straight days before taking Unit 2 off line to refuel, a national record for units of that type. Last year our nuclear generators increased production by 4 percent, generating more than 28.3 million megawatt hours, enough to light nearly 2.4 million homes for an entire year.

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At the heart and soul

At the heart and soul of this success, and other successes within our family of businesses, is a gifted, dedicated work force committed to our most important advantage in a competitive world — customer satisfaction and loyalty. My hat is off to all of our people. Their examples of commitment, energy and pride in their jobs could fill a book.

Remember Hurricanes Dennis and Floyd last summer? They destroyed poles, lines and substations in nearly 11,000 North Carolina and Virginia locations. Our linemen and other important support people — not in the public eye — worked around the clock and kept hard at it until all customers had their lights back. They faced extraordinarily poor working conditions with commitment and courage. The fact that many of our employees were without electricity in their own homes further increased their hardship, but they showed up for duty. In fact, in some cases, a few of their own homes were flooded and their families had to seek temporary shelter elsewhere.

It happened to Joel Bek, a North Carolina Power customer coordinator in the small town of Ahoskie, N.C. Flooding in

To use an old — but appropriate — cliché, management is putting our money where our mouth is.

Ahoskie Creek forced Joel's family out of their home for 10 days, and left a foot of standing water inside the house. Despite his loss, Joel worked during and after Hurricane Floyd to restore power to other customers, and hundreds of others hooked up 350 emergency housing units for flood victims. Hats off to all our employees like Joel!

Linking the money — and the mouth

For years, I've been proud that our employees are among Dominion's largest groups of shareholders. Together, we've got more than $300 million of our hard-earned money invested in the company. I'm also proud to be one of Dominion's largest individual shareholders. I'm so confident in our employees, their ability to serve and our vision for growth that I'm buying even more shares. Earlier this year, I purchased an additional 10 times my annual salary in shares. And I won't be the only company officer with a substantial investment. As a group, the officers of your company recently increased their personal stake in Dominion by nearly $70 million.

To use an old — but appropriate — cliché, management is putting our money where our mouth is.

Under voluntary guidelines adopted by the board last December, our officers are expected to own company shares in amounts totaling from three to eight times their base salaries, not including their current share ownership through the company savings plan. Of course, this is a significant financial commitment for all of us, and the company will support a third-party loan program to help officers meet these guidelines. Our dividend will help pay the interest. But the ultimate financial obligation will belong to our officers.

Our board believes this degree of common interest between our managers and our shareholders will spur the kind of decision making and action needed to produce the results shareholders deserve.

Warm under the collar

I'm proud of my senior management. They're an energetic and ambitious bunch. But I want them to begin each day warm under the collar at any thought or hint of a decline in share value or dividend reduction.

As an enticing carrot, the board authorized the distribution of 7 million options to purchase our shares at a fixed price over the next ten years. These options have been distributed to about 250 members of senior and middle management in our combined company.

Our clear vision: BTUs in any form

Simply put, our strategy to create growth — our clear vision — boils down to "BTUs in any form." As an energy company, our goal is to deliver the type of energy that customers find most useful and economical. In some cases, it's electricity; in others, it's natural gas. And in still others, it's electricity that we've put on the wires by burning natural gas.

This is particularly important as monopolies are breaking down in the Midwest, Northeast and Mid-Atlantic. In the words of one top company policy analyst, "It's happening with the speed of a row of tumbling dominoes."

Opening competitive retail markets

Competitive retail electric markets have been scheduled to open in Virginia and New Jersey under laws adopted in February 1999. In March of the same year, Delaware followed suit. Maryland acted in April. In June, Ohio — one of the nation's leading industrial states, where we're planning two merchant generation plants — joined the competitive ranks. So far, 14 states in the Midwest to Mid-Atlantic to Northeast regions of the United States have approved retail choice for electric customers.

The natural gas industry is going about it with just as much determination. So far, eight states in our target region have opened their retail gas markets to customer choice or plan to do so in the near future.

Unfortunately for consumers in our other target states, high prices and substandard service are common. The typical monthly

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residential electric bill on Long Island is 61 percent higher than that of a Virginia Power customer. In Philadelphia, the bill is 56 percent higher; in Newark, it's 36 percent higher; and in Wilmington, Del., it's 16 percent higher.

For commercial customers, the differentials are just as staggering. On average, the typical commercial customer pays 65 percent more each month on Long Island than does his or her Virginia counterpart.

These statistics aren't a pure apples-to-apples comparison. The gaps would narrow if we exported power from existing plants or built plants to gain market share. But the numbers clearly and convincingly illustrate a community of customers in need of choice.

Surveys: People want choice

Supply is also constrained. Sometimes it's unreliable, especially in extreme heat and frigid cold. Last July, at the peak of the summer heat wave, people in the Midwest and New England went through several power shortages. High demand for cooling outstripped available power supply. People literally sweltered in the dark. In coming summers and winters, we'll be there to serve.

It's no mystery why public-opinion surveys show strong support for retail choice in both the electricity and gas retail markets. In November 1998, more than 70 percent of voters in Massachusetts said they wanted to choose their electricity supplier. You don't need a survey to read the pulse. Whenever I'm out of town, I always ask my taxi drivers what they think of their local electric supplier. My non-scientific conclusion: A lot of homes and businesses are open to change.

The challenge to distinguish and differentiate

A critical challenge for us will be to distinguish and differentiate ourselves. After all, electrons and natural gas are the same everywhere, and customers don't really care if they come from Pennsylvania, Virginia or Alaska.

We intend to stand out in a time-honored way. We'll stick to what has served us so well in the past — the reliable delivery of utility service.

$100 million in new customer investment

Remember that our record as a low-cost producer with a reliability record of 99.9 percent is only part of our customer service story.

In fact, we are investing more than $100 million for customer service. Last year, I told you about our new phone system that gives our customer service center the ability to respond to 100,000 calls per hour during an emergency. This system proved itself golden during devastating hurricanes last summer. In September, during the first 24 hours of Hurricane Floyd, we received more than 308,000 customer calls, including a peak of about 50,000 calls in one hour. Not one of those customers received a busy signal. Not one.

We'll keep using the best new technology — such as automated meters and mobile data dispatch systems — to provide the very best in customer service. Of course, new technology had all of us, indeed the entire world, focused on ensuring a smooth transition last New Year's Eve into the new century. Overall, we spent $30 million to prepare. Our people did an outstanding job ensuring that the rollover went smoothly.

In the short term, I'm pleased that fast economic growth in Virginia is keeping most of our low-cost power booked. To serve more customers in the immediate future, we'll have to build more quick-start, natural gas-fired generating units.

A need for more

We made a start with those merchant facilities now under development in Ohio, Pennsylvania and West Virginia. When they come on line, they'll offer a combined output of up to 2,100 megawatts.

In Illinois, at our new, jointly owned 600-megawatt, natural gas-fired facility in Elwood, we gladly flipped the switches when one of our wholesale customers asked us to turn on the juice a few days

before its official on-line date. In fact, we finished the summer with enough run time to keep the air conditioners humming in Chicago and to book significant profits from the station in the third quarter. "The new plant," a local paper said, "appears to have solved the problem."

We're also in the market to purchase existing units, as we did with our highly successful, profitable Kincaid Power Station. It's our largest non-utility generation business, a 1,108-megawatt facility near Springfield, Ill. Our team there wrapped up its first full year of operations under company ownership with an 84-percent improvement in availability. We successfully switched to a cheaper, cleaner fuel source. Low-sulfur coal from Wyoming's Powder River Basin will help us further reduce emissions and ensure competitively priced generation. Hard work at Kincaid paid off. Pretax net income came in millions of dollars above our planned level in 1999.

We purchased Kincaid in competitive bidding from Chicago's Commonwealth Edison under an agreement to improve the facility's performance and make environmental upgrades. As part of the agreement, ComEd is purchasing all of the station's output for about 12 more years.

Other generating stations like this are coming up for sale, particularly in the East, as some companies decide they can't compete in the generation business. We're interested, but only if it's at a price that's right — a price that adds immediately to earnings and earns a higher return than our cost of capital. Otherwise, we don't want it.

Acquire only when it adds immediately to earnings

Our actions at Kincaid speak clearly — acquire assets only when their prices support an immediate and significant earnings contribution; operate at existing company standards of excellence; protect the environment; and stay focused on core businesses in our region.

Whether we build them or buy them, merchant peaking facilities represent a large part of our future. In the old days, power companies that needed new generation got regulatory permission to build plants, then put them up and passed the costs along to captive consumers. Today, we have no guarantees that a customer will stay with us. We go where the demand is, find a site, win local support, obtain our environmental approvals and start building. If we can operate efficiently, customers will buy our power.

Regional cooperation as a key to success

In instances where our customers can benefit, we'll work with our neighboring competitors to improve reliable, regional service and promote a coordinated marketplace. Take, for example, our work on a regional transmission organization, which is sometimes known by the acronym "RTO." It sounds arcane, but creating successful RTOs is instrumental to the coordinated exchange between buyers and sellers doing business in tomorrow's energy marketplace.

Think of the transmission systems as our industry's roads and rivers. If pipes can be compared to rivers, then wires can be seen as highways. We want to make sure we've got assets properly placed and fairly priced, good pavement on all stretches and systems to divert flow in the case of a jam.

Our company owns more than 6,000 miles of electric transmission lines. We're well positioned to transmit power from the Southeast into the high-priced markets to the north and northeast.

We also operate a major interstate gas transmission pipeline system and have the continent's largest natural gas storage capacity — nearly 900 billion cubic feet.

Clearly, we think regional management is a key to making sure power flows freely. That's why in 1999 Virginia Power and four

We're interested, but only if it's at a price that's right — a price that adds immediately to earnings and earns a higher return than our cost of capital.

other utilities to the north and west joined together to form an organization to jointly manage all five transmission systems. The organization reached a major milestone in December when it won conditional approval from the Federal Energy Regulatory Commission.

Growing exploration and production

At our merged company, however, generation and transmission are only one part of the Dominion picture.

We're also one of the largest independent oil and gas producers in the United States, with reserves of nearly 3 trillion cubic feet. (An *independent* is a gas producer not affiliated with one of the well-known petroleum giants.) Our annual production exceeds 300 billion cubic feet. And our expected annual production growth rate is about 10 percent.

In fact, our reserve base alone ranks us among the nation's top dozen independent natural gas operators.

We're fortunate that the combined mix of Dominion's onshore gas businesses will complement CNG's offshore assets. We'll work hard to make the most of this excellent fit. We're looking to our natural gas production business to make substantial contributions to our overall earnings goals. It will be rewarding to see the experienced natural gas teams from both sides of the merged company meld and continue to grow. Their single new business brings to one table the best practices, field experience and winning attitudes that distinguished each as two of the nation's fastest-growing independents.

Firm steps to protect our environment

As an energy provider, being mindful of the environment is not just good citizenship, it's good business.

In Virginia, we developed a productive working relationship with consumer and environmental groups to make sure that adequate and reasonable environmental protections were included in the state's electric utility restructuring act. The law equips consumers with information on all suppliers' emissions and fuel mix. No doubt, it'll help environmentally conscious consumers make informed decisions.

We closely monitor new and developing environmental laws, regulations and policies and actively support efforts to protect our environment with sound, rational measures. We intend to carry on our fine record of environmental protection.

Action speaks louder than words

At our Mt. Storm Power Station in West Virginia, we started a massive $126 million environmental protection initiative. New scrubbers at the station will be able to reduce sulfur dioxide emissions by 95 percent from two of its generating units. Each scrubber can remove up to 50,000 tons of sulfur dioxide per year from the station's emissions.

In June, we reopened the North Branch Power Station in West Virginia to provide electricity for the wholesale market. North Branch uses a sophisticated technology that injects limestone into the burning coal, greatly reducing sulfur emissions.

We also donated some extraordinary unspoiled land in West Virginia to the Nature Conservancy, one of the most respected conservation organizations in the world. The Bear Rocks property, which was owned by Virginia Power, harbors rare plants and animals. It's known for its natural beauty and, from certain vantage points, the property serves up views of the Alleghenies that'll take your breath away.

Philanthropist of the Year

Last year, our employees worked weekends and evenings giving back. They built playgrounds at schools in the communities of South Boston, Chesapeake, Suffolk, Portsmouth, Orange and Prince William County. They also refurbished the school grounds. They even built a bird observation deck at Dutch Gap near the small town of Chester, Va.

We closely monitor new and developing environmental laws, regulations and policies and actively support efforts to protect our environment with sound, rational measures.

A playground at Essex Village Day Care got a nice boost when former Virginia Power Senior Vice President Larry Girvin retired. Larry transferred funds earmarked for his retirement party to the volunteer program.

I swelled with pride when the 1999 Virginia Governor's Community Service and Volunteerism Award went to members of our community relations group and Virginia Power volunteers.

And I got even more puffed up when we were designated 1999's "Philanthropist of the Year" by the National Society of Fund Raising Executives. We actively give back to the communities where we work — thousands of volunteer hours and hundreds of thousands of dollars annually.

Our new logo

Our focus and determination to brighten our future is clearly reflected in the new corporate logo that we unveiled in November. You can expect our new logo to become a familiar, friendly sight wherever we market our energy and services. Its most striking feature is a burst of energy — emanating from a human hand — squarely in the middle of the corporate stock ticker symbol "D." It has sweep and majesty and even brings to mind the Michelangelo painting on the ceiling of the Sistine chapel.

I'm confident this symbol will make a strong impression on existing and potential customers. It will reinforce our message that Dominion is a powerful source of energy — not just gas, not just electricity, but energy. And the human hand reinforces our emphasis on people.

Thank you

None of this exciting enterprise would be possible without you. Thank you for your investment and continued confidence. As always, a lot of hardworking and talented people are doing their best to live up to your trust and faith in our abilities as careful stewards of your investment. I want you to know that this is a responsibility we take seriously. We believe only in growth at a reasonable price, not growth at any cost.

Again, I want to recognize another great job by our collective workforce and thank them. They have performed well each and every day while facing the uncertainty and anxiety that all mergers inevitably create. No enterprise can survive without customers, so to all of our customers I can only say it has been our pleasure to serve. We hope you will continue to stay with us and will help send others our way.

To the transition teams from both Dominion Resources and Consolidated Natural Gas who have worked many nights, weekends and holidays during the last year to make this combination come about as quickly and seamlessly as we promised — great job!

To the hardworking vendors, suppliers, contractors and agencies who help us every minute, our deepest thanks.

Last, I would like to thank our board of directors for its guidance. With our collective resources and the people and assets that we have in place, I'm a long-term bull about our prospects. I look forward in the coming year to making good on the trust that you've invested in us.

Sincerely,

Thos. E. Capps

THOS. E. CAPPS
President and
Chief Executive Officer

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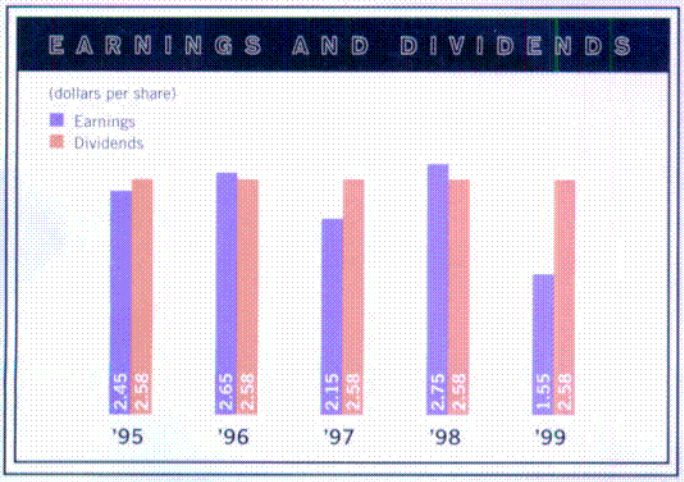
Consolidated Financial Highlights

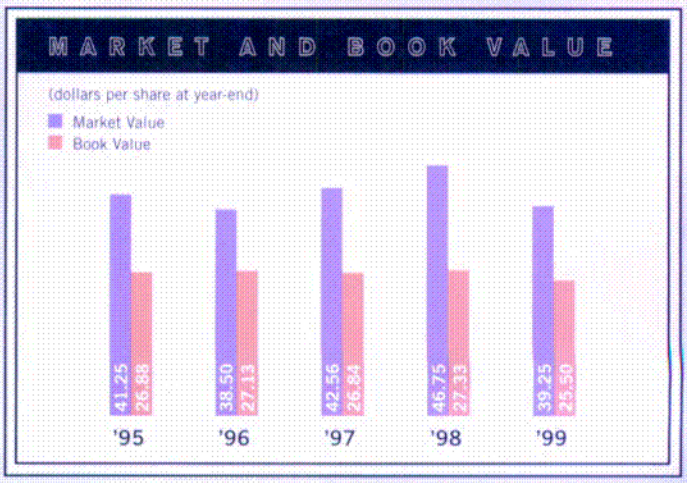
For The Years Ended December 31,	1999	1998	% change
Operating Results (millions)			
Operating revenue and income	$ 5,520	$ 6,081	(9.2)
Income from operations	1,311	1,086	20.7
Net Income – reported	296	536	(44.8)
Net Income – excluding non-recurring items (1)	575	536	7.3
Data Per Common Share			
Earnings – reported	$ 1.55	$ 2.75	(43.6)
Earnings – excluding non-recurring items (1)	3.01	2.75	9.5
Dividends paid	2.58	2.58	0.0
Market value (year-end)	39.25	46.75	(16.0)
Book value (year-end)	25.50	27.33	(6.7)
Financial Position at December 31			
Assets (millions)	$ 17,747	$ 17,517	
Capitalization (millions)	14,019	13,402	
Capitalization ratios			
Debt and capital lease obligations	58%	52%	
Preferred securities of subsidiary trust	3%	3%	
Preferred stock	5%	5%	
Common equity	34%	40%	
Other Statistics			
Return on average common equity	5.9%	10.1%	
Market to book value (year-end)	153.9%	171.1%	
Common stock price range	49 3/8 – 36 9/16	48 15/16 – 37 13/16	
Outstanding shares of common stock (thousands)			
– average	191,391	194,886	
– actual (year-end)	186,320	194,458	
Number of registered common shareholders (year-end)	188,317 (2)	201,553	
Number of full-time employees	11,035	11,033	
Domestic generation			
– Regulated summer capability (megawatts)	18,109	18,150	
– Regulated retail electric sales (MWh-thousands)	65,826	64,323	
– Unregulated owned capacity (megawatts)	1,487	1,180	
– Independent power generation (MWh-thousands)	4,426	4,253	
Proved natural gas reserves at year-end (billion cubic feet equivalent)	1,234	616	
Natural gas production (billion cubic feet equivalent)	109	69	

(1) 1999 amounts exclude write-off of regulatory assets and liabilities of $255 million or $1.33 per share; loss on sale of foreign generation of $21 million or $0.11 per share; and merger transition costs of $3 million or $0.02 per share.

1998 amounts exclude rate case settlement of $201 million or $1.03 per share and gain on sale of East Midlands Electricity of $201 million or $1.03 per share.

(2) Includes 101,367 holders of record (certificate holders).





C1

Consolidated Statements of Income

For The Years Ended December 31, (millions, except per share amounts)	1999	1998	1997
Operating revenue and income:			
Domestic electric utility service	**$4,274**	$4,013	$4,230
East Midlands-electric utility service		1,010	1,970
Other	**1,246**	1,058	1,063
Total	**5,520**	6,081	7,263
Expenses:			
Fuel, net	**996**	961	1,222
Purchased power capacity, net	**809**	806	718
Supply and distribution—East Midlands		655	1,466
Impairment of regulatory assets		159	38
Other operation and maintenance	**1,384**	1,374	1,226
Depreciation, depletion and amortization	**716**	734	819
Other taxes	**304**	306	302
Total	**4,209**	4,995	5,791
Income from operations	**1,311**	1,086	1,472
Other income and expense:			
Gain on sale (windfall profits tax)—East Midlands		332	(157)
Other	**91**	99	39
Total other income and expense	**91**	431	(118)
Income before fixed charges and income taxes	**1,402**	1,517	1,354
Fixed charges:			
Interest charges	**507**	583	627
Distributions—preferred securities and preferred stock	**67**	65	48
Total fixed charges	**574**	648	675
Income before provision for income taxes, minority interests and extraordinary item	**828**	869	679
Provision for income taxes	**259**	306	233
Minority interests	**18**	27	47
Income before extraordinary item	**551**	536	399
Extraordinary item (net of income taxes of $197)	**255**		
Net income	**$ 296**	$ 536	$ 399
Basic earnings per common share:			
Income before extraordinary item	**$ 2.88**	$ 2.75	$ 2.15
Extraordinary item	**$ (1.33)**		
Net income	**$ 1.55**	$ 2.75	$ 2.15
Diluted earnings per common share:			
Income before extraordinary item	**$ 2.81**	$ 2.75	$ 2.15
Extraordinary item	**$ (1.33)**		
Net income	**$ 1.48**	$ 2.75	$ 2.15
Dividends paid per common share	**$ 2.58**	$ 2.58	$ 2.58
Average common shares outstanding	**191.4**	194.9	185.2

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

Consolidated Balance Sheets

Assets

At December 31, (millions)	1999	1998
Current assets:		
Cash and cash equivalents	$ 280	$ 426
Accounts receivable:		
Customers (less allowance for doubtful accounts of $12 in 1999 and $5 in 1998)	664	778
Other	269	256
Materials and supplies at average cost or less:		
Plant and general	143	158
Fossil fuel	111	95
Mortgage loans in warehouse	119	140
Commodity contract assets	362	180
Finance receivables held for sale	15	174
Other	229	252
Total current assets	2,192	2,459
Investments:		
Loans receivable, net	2,034	1,513
Investments in affiliates	433	382
Available for sale securities	512	500
Nuclear decommissioning trust funds	818	705
Investments in real estate	86	94
Other	334	263
Total net investments	4,217	3,457
Property, plant and equipment	18,646	18,106
Less accumulated depreciation, depletion and amortization	7,882	7,469
Net property, plant and equipment	10,764	10,637
Deferred charges and other assets:		
Goodwill, net	132	150
Regulatory assets, net	221	620
Other, net	221	194
Total deferred charges and other assets	574	964
Total assets	$17,747	$17,517

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

Liabilities and Shareholders' Equity

At December 31, (millions)	1999	1998
Current liabilities:		
Securities due within one year	$ 536	$ 443
Short-term debt	870	301
Accounts payable, trade	711	699
Accrued interest	121	109
Accrued payroll	93	86
Accrued taxes	89	175
Commodity contract liabilities	347	266
Other	232	259
Total current liabilities	2,999	2,338
Long-term debt	6,936	6,252
Deferred credits and other liabilities:		
Deferred income taxes	1,699	1,793
Investment tax credits	146	221
Other	222	212
Total deferred credits and other liabilities	2,067	2,226
Total liabilities	12,002	10,816
Minority interest	99	311
Commitments and contingencies (See Note Q)		
Obligated mandatorily redeemable preferred securities of subsidiary trusts*	385	385
Preferred stock:		
Preferred stock subject to mandatory redemption		180
Preferred stock not subject to mandatory redemption	509	509
Common shareholders' equity:		
Common stock—no par; authorized—500.0 shares; outstanding—186.3 shares at 1999 and 194.5 shares at 1998	3,561	3,933
Retained earnings	1,190	1,387
Accumulated other comprehensive income	(15)	(20)
Other paid-in capital	16	16
Total common shareholders' equity	4,752	5,316
Total liabilities and shareholders' equity	$17,747	$17,517

* As described in Note M, the 7.83% and 8.05% Junior Subordinated Notes totaling $258 million and $139 million principal amounts, respectively constitute 100% of the Trusts' assets.

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

Consolidated Statements of Shareholders' Equity

(millions)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Other Paid-In Capital	Total
Balance at January 1, 1997	181	$ 3,472	$ 1,438	$(10)	$16	$ 4,916
Issuance of stock through employee and direct stock purchase plans	5	176				176
Other common stock activity	2	26				26
Comprehensive income			399	7		406
Dividends and other adjustments			(483)			(483)
Balance at December 31, 1997	188	$ 3,674	$ 1,354	$ (3)	$16	$ 5,041
Issuance of stock through public offering	7	268				268
Issuance of stock through employee and direct stock purchase plans	2	86				86
Stock repurchase and retirement	(2)	(99)				(99)
Other common stock activity		4				4
Comprehensive income			536	(17)		519
Dividends and other adjustments			(503)			(503)
Balance at December 31, 1998	195	$ 3,933	$ 1,387	$(20)	$16	$ 5,316
Stock repurchase and retirement	**(9)**	**(372)**				**(372)**
Comprehensive income			**296**	**5**		**301**
Dividends and other adjustments			**(493)**			**(493)**
Balance at December 31, 1999	**186**	**$3,561**	**$1,190**	**$(15)**	**$16**	**$4,752**

Consolidated Statements of Comprehensive Income

For The Years Ended December 31, (millions)	1999	1998	1997
Net income	**$296**	$536	$399
Other comprehensive income, net of tax:			
Unrealized holding gains (losses) arising during a period	**(14)**	(3)	9
Less: reclassification adjustment for gains realized in net income	**3**	3	—
Unrealized gains (losses) on investment securities*	**(17)**	(6)	9
Foreign currency translation adjustment	**22**	(11)	(2)
Other comprehensive income	**5**	(17)	7
Comprehensive income	**$301**	$519	$406

* Reclassification adjustments for gains (losses) realized in net income were not material in any of the periods presented.

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

Consolidated Statements of Cash Flows

For The Years Ended December 31, (millions)	1999	1998	1997
Cash flow from (used in) operating activities:			
Net income	**$ 296**	$ 536	$ 399
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, depletion and amortization	**798**	814	905
Gain on sale of East Midlands		(332)	
Deferred income taxes	**64**	22	13
Deferred fuel expense	**(35)**	(34)	10
Extraordinary item, net of income taxes	**255**		
Impairment of regulatory assets		159	38
Changes in current assets and liabilities:			
Accounts receivable	**81**	(90)	(176)
Materials and supplies	**(6)**	(24)	16
Purchase and origination of mortgages	**(2,575)**	(2,503)	(1,695)
Proceeds from sale and principal collections of mortgages	**2,597**	2,450	1,672
Accounts payable, trade	**(24)**	65	113
Accrued interest and taxes	**(48)**	100	119
Commodity contract assets and liabilities	**(92)**	66	14
Other	**(56)**	(4)	(116)
Net cash flow from operating activities	**1,255**	1,225	1,312
Cash flow from (used in) financing activities:			
Issuance of common stock		354	176
Repurchase of common stock	**(372)**	(99)	
Issuance of preferred securities of subsidiary trust			250
Issuance (repayment) of short-term debt	**394**	65	(100)
Issuance of long-term debt	**6,446**	4,027	6,316
Repayment of long-term debt	**(5,790)**	(4,207)	(4,376)
Common dividend payments	**(493)**	(503)	(478)
Other	**(44)**	(90)	42
Net cash flow from (used in) financing activities	**141**	(453)	1,830
Cash flow from (used in) investing activities:			
Utility capital expenditures	**(737)**	(624)	(649)
Acquisition of natural gas and independent power properties	**(157)**	(131)	(53)
Loan originations	**(2,581)**	(2,580)	(1,147)
Repayments of loan originations	**2,238**	1,778	1,065
Purchase of East Midlands			(1,902)
Sale of businesses, including East Midlands	**180**	1,462	123
Purchase of property, plant and equipment	**(67)**	(80)	(124)
Sale of marketable securities	**35**	70	117
Purchase of debt securities	**(53)**	(120)	(138)
Acquisitions of businesses	**(167)**	(338)	(145)
Other investments	**(152)**	(75)	(50)
Other	**(81)**	(30)	(28)
Net cash flow used in investing activities	**(1,542)**	(668)	(2,931)
(Decrease) increase in cash and cash equivalents	**(146)**	104	211
Cash and cash equivalents at beginning of the year	**426**	322	111
Cash and cash equivalents at end of the year	**$ 280**	$ 426	$ 322
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest, excluding capitalized amounts	**$ 522**	$ 474	$ 440
Income taxes	**199**	202	190
Non-cash transactions from investing and financing activities:			
Assumption or issuance of debt as part of acquisitions	**260**	26	18
Note issued in sale of business		57	
Exchange of securities		12	52
Equity contribution for Wolverine acquisition			21

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

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

(unaudited)

Forward-Looking Information

We have included certain information in this annual report which contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995, including (without limitation) discussions as to expectations, beliefs, plans, objectives and future financial performance, or assumptions underlying or concerning matters discussed in this document. These discussions, and any other discussions, including certain contingency matters (and their respective cautionary statements) discussed elsewhere in this report, that are not historical facts, are forward-looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

The business and financial condition of Dominion Resources, Inc. and its subsidiaries (Dominion or the Company) is influenced by a number of factors including political and economic risks, market demand for energy, inflation, capital market conditions, governmental policies, legislative and regulatory actions (including those of the Federal Energy Regulatory Commission [FERC], the Securities and Exchange Commission [SEC], the Environmental Protection Agency [EPA], the Department of Energy, the Nuclear Regulatory Commission, the Virginia State Corporation Commission [Virginia Commission], and the North Carolina Utilities Commission [North Carolina Commission]), industry and rate structure, and legal and administrative proceedings. Some other important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements include changes in and compliance with environmental laws and policies, weather conditions and catastrophic weather-related damage, present or prospective wholesale and retail competition, competition for new energy development opportunities, pricing and transportation of commodities, operation of nuclear power facilities, acquisition and disposition of assets and facilities, effects of the merger with Consolidated Natural Gas (CNG), nuclear decommissioning costs, exposure to changes in the fair value of commodity contracts, counterparty credit risk and unanticipated changes in operating expenses and capital expenditures. All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond the control of Dominion. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on Dominion.

Any forward-looking statement speaks only as of the date on which such statement is made, and Dominion undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

Introduction

In Management's Discussion and Analysis of Financial Condition and Results of Operations, we explain the general financial condition and the results of operations for Dominion. As you read this section, it will be helpful to refer to our consolidated financial statements and notes.

At December 31, 1999, Dominion's principal subsidiaries were Virginia Electric and Power Company (Virginia Power), Dominion Energy, Inc. (DEI), and Dominion Capital, Inc. (Dominion Capital). Virginia Power, a regulated public utility, is engaged in the generation, transmission, distribution and sale of electric energy within a 30,000 square mile area in Virginia and northeastern North Carolina. Virginia Power is also engaged in off-system wholesale purchases and sales of electricity and purchases and sales of natural gas beyond the geographic limits of its service territory. DEI is engaged in independent power production and oil and gas exploration, development and production. Dominion Capital's primary business is financial services which includes commercial lending, merchant banking, asset management and residential mortgage lending.

In preparation for the transition to competition for electric generation in Virginia, Dominion is evaluating operating results and financial information across Virginia Power's and DEI's current business lines. Although the employees and assets involved remain with their respective legal entities, Dominion currently evaluates the operations of DEI and Virginia Power in the following business segments:

- generation-related operations of both Virginia Power and DEI (referred to as Dominion Energy);
- regulated electric transmission and distribution services (referred to as Dominion Delivery); and
- oil and gas operations of DEI (referred to as Dominion E&P).

In addition to the business segments mentioned above, Dominion also reviews the following as business segments:

- the financial services of Dominion Capital;
- East Midlands which was sold by Dominion in mid-1998; and
- Corporate Operations which include: corporate costs of Dominion's holding company; Corby Power (Corby) operations; intercompany eliminations; the impact of the impairment of regulatory assets and one-time refund recorded as a result of Virginia Power's 1998 rate settlement; and the extraordinary item recorded in 1999.

Dominion has structured its Management's Discussion and Analysis of Operations to reflect these business segments. Certain activities are currently evaluated based on existing legal entities rather than operating segments. In those cases, discussion is provided on a legal entity basis.

Three major events occurred in 1999 which will have a significant effect on Dominion's future operations and business segments. These events are more fully described in *Future Issues* and include:

- the announcement of Dominion's merger with CNG which closed on January 28, 2000;
- the enactment of law which established a detailed plan to restructure the electric industry in Virginia; and
- the sale of Dominion Energy's interests in Latin American power generation.

RESULTS OF OPERATIONS

Overview

Dominion achieved earnings of $296 million in 1999 or $1.55 per average common share, compared with earnings of $536 million in 1998 or $2.75 per share. Absent the extraordinary item, earnings would have been $551 million in 1999, or $2.88 per share. Significant factors impacting earnings in 1999 and 1998 include:

- the write-off of generation-related assets and liabilities at Virginia Power in 1999;
- the loss recorded by Dominion Energy in 1999 related to its interests in Latin American power generation;
- the increased contribution from Dominion Energy's energy marketing business during 1999;
- the sale of East Midlands which resulted in a gain in 1998 and the absence of East Midlands' contribution to earnings in 1999; and
- the impairment of regulatory assets and one-time base rate refund resulting from the settlement of Virginia Power's 1998 Virginia jurisdictional rate proceedings.

Earnings increased $137 million in 1998 as compared to 1997 primarily due to the gain on the sale of East Midlands in mid-1998 offset by the impact of Virginia Power's 1998 rate case settlement and the recognition of the windfall profits tax by East Midlands in 1997.

Below we have provided a comparison of net income and earnings per share contributions by segment:

Year ended December 31,	1999		1998		1997	
(millions, except per share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS
Dominion Delivery	**$ 175**	**$ 0.91**	$ 168	$ 0.86	$ 193	$ 1.04
Dominion Energy	**271**	**1.42**	262	1.35	275	1.48
Dominion E&P	**43**	**0.22**	22	0.11	35	0.19
Dominion Capital	**78**	**0.41**	59	0.30	45	0.24
East Midlands			26	0.14	47	0.25
Corporate:						
Operations	**(16)**	**(0.08)**	(1)	(0.01)	(15)	(0.08)
Rate case settlement			(201)	(1.03)		
Extraordinary item	**(255)**	**(1.33)**				
Impairment — regulatory assets					(24)	(0.12)
East Midlands Gain on sale/ (windfall profits tax)			201	1.03	(157)	(0.85)
Consolidated	**$ 296**	**$ 1.55**	$ 536	$ 2.75	$ 399	$ 2.15
Average Shares	**191.4**		194.9		185.2	

Domestic Electric Utility Service

As mentioned above, Dominion is evaluating the operating results of its domestic utility operations as two separate businesses. Although distinct discussions are presented for these businesses below, this section provides a general discussion of factors that affect both the utility operations of Dominion Energy and the regulated transmission and distribution business of Dominion Delivery.

Revenue

Domestic electric utility service revenue for fiscal years 1999, 1998, and 1997 were allocated to the utility operations of Dominion Energy and Dominion Delivery businesses as follows:

Year ended December 31, (millions)	1999	1998	1997
Revenue:			
Dominion Energy	**$3,129**	$3,075	$3,150
Dominion Delivery	**1,148**	1,092	1,080
Corporate Operations	**(3)**	(154)	
Total revenue	**$4,274**	$4,013	$4,230

See Note R for discussion of the nature of items in this caption.

The following factors contributed to the increase in domestic electric utility service revenue in 1999 as compared to 1998 and the decrease in 1998 as compared to 1997:

(millions)	1999 vs. 1998	1998 vs. 1997
Increase (decrease) due to:		
Customer growth	**$ 68**	$ 60
Weather	**2**	(7)
Base rate refund	**154**	(154)
Base rate variance	**(57)**	(88)
Fuel rate variance	**24**	(121)
Other retail, net	**31**	99
Total retail	**222**	(211)
Other electric service revenue	**39**	(6)
Total increase (decrease) in domestic electric service revenue	**$261**	$(217)

Domestic electric utility service revenue consists primarily of sales to retail customers in Virginia Power's service territory at rates authorized by the Virginia and North Carolina commissions and sales to cooperatives and municipalities at wholesale rates authorized by FERC. Also, included in this revenue are amounts received from others for use of our transmission system to transport electric energy under tariffs authorized by FERC. The primary factors affecting this revenue in both fiscal years 1999 and 1998 were customer growth and changes in rates.

Retail Customer Growth

Virginia Power's retail customer base increased by approximately 39,000 in 1999 and 35,000 in 1998 over the respective prior year periods. These additional customers increased our electric utility service revenue by an estimated $68 million in 1999 compared to 1998 and an estimated $60 million in 1998 compared to 1997.

Weather

Weather typically has a significant impact on the Company's revenue. However, for the comparative periods presented, weather did not have a significant impact.

Base Rate Reduction

Electric utility service revenue in 1998 was less than revenue in both 1999 and 1997 as a result of a one-time $150 million base rate refund. Further, a two-phased rate reduction in Virginia ($100 million effective March 1, 1998 and an additional $50 million effective March 1, 1999), reduced 1999 electric service revenue by $57 million compared to 1998 and 1998 revenue by $88 million compared to 1997. As a result of Virginia law enacted in 1999, Virginia Power's jurisdictional base rates will remain unchanged until mid-2007. See Note (C) to Consolidated Financial Statements.

Fuel Rates

Currently, Virginia Power is permitted to recover the cost of fuel used in generating electricity through fuel rates approved by regulatory authorities. The decrease in 1998 fuel rate revenue of $121 million, as compared to 1997, is primarily attributable to lower fuel rates. The reduction recognized savings from negotiated changes to power supply contracts. In December 1998, Virginia Power's annual fuel case resulted in an increase in fuel rates and increased electric utility service revenue in 1999 by $24 million as compared to 1998.

Dominion Delivery

The business segment Dominion Delivery includes customer service, bulk power transmission, distribution and metering services that continue to be subject to cost-based regulation.

Overall Dominion Delivery's operating income increased in 1999, as compared to 1998, primarily due to an increase in revenue for electric transmission services and from retail electric service customer growth, offset in part by increased expenses associated with storm damage. The decrease in Dominion Delivery's operating income in 1998, as compared to 1997, reflects primarily the excess of increased storm damage costs and other routine operational expenses over the increase in revenue for electric transmission services. Selected financial information relevant to Dominion Delivery is as follows:

Year ended December 31, (millions)	**1999**	1998	1997
Domestic electric utility service revenue	**$1,148**	$1,092	$1,080
Operation and maintenance	**313**	286	266
Operating income	**431**	424	442

Operation and maintenance

Operation and maintenance increased in 1999 and 1998 as compared to respective prior years, primarily due to increased service restoration costs associated with storm damage.

Dominion Energy

The business segment Dominion Energy consists of the independent power generation operations of DEI and the utility generation operations of Virginia Power. Dominion Energy's 1999 operating income increased when compared to 1998 primarily due to the performance of the energy marketing business. The performance was attributable to changes in the composition and the fair value of its portfolio of commodity contracts as well as the settlement of commodity contract liabilities using Dominion Energy resources rather than market purchases. Selected financial information relevant to Dominion Energy is as follows:

Year ended December 31, (millions)	**1999**	1998	1997
Domestic electric utility service revenue	**$3,129**	$3,075	$3,150
Other revenue	**464**	435	599
Fuel, net	**996**	961	1,222
Purchased power capacity, net	**809**	806	718
Other operation and maintenance	**690**	605	624
Operating income	**624**	615	645

Other revenue includes sales of electricity beyond Virginia Power's retail service territory, including trading revenues, and sales of natural gas, nuclear consulting services and energy management services. The increase in other revenue in 1999 over 1998 reflects primarily changes in the composition and fair value of our portfolio of commodity contracts.

Other revenue decreased in 1998 as compared to 1997 due to electricity trading revenue being reported net of purchased energy for the entirety of 1998 and only for the last four months of 1997. Such revenue was reported gross for the first eight months of 1997 as a result of being subject to cost of service rate regulation during that time.

Fuel, net increased in 1999, as compared to 1998, primarily due to increased fuel costs resulting from higher production from our generating units and increased energy purchases.

Fuel, net decreased in 1998, as compared to 1997, primarily due to the inclusion of the cost of power marketing purchases for the first eight months of 1997. However, the cost of power marketing purchases since September 1997 is being reported net of related revenue in *Other revenue.* Prior to September 1997, this activity was subject to cost of service rate regulation.

Purchased power capacity, net increased in 1998 as compared to 1997 primarily due to (1) increased expenses associated with the restructuring of certain contracts and (2) the discontinuance of deferral accounting for such expenses. See Note (C) to the Consolidated Financial Statements.

The increase in *Operation and maintenance* in 1999 as compared to 1998, includes the following:

- increased maintenance activities performed during planned outages at fossil plants;
- adjustments to inventories related to the planned disposal of identified obsolete and excess materials and supplies;
- certain accounting policy changes, including the recognition of losses on retirement of equipment and related removal costs; and
- the recognition of a loss related to the sale of the Latin American power generation businesses.

See Note (B) to the Consolidated Financial Statements for discussion of accounting policy changes made in connection with the discontinuance of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (SFAS No. 71), to utility generation operations.

Dominion E&P

In 1999, DEI acquired interests in certain gas producing properties located in the San Juan Basin of New Mexico for approximately $115 million. In addition, DEI completed its purchase of all of the issued and outstanding shares of Remington Energy Ltd. (Remington), a publicly traded natural gas exploration and production company headquartered in Calgary, Alberta, Canada. DEI paid $33 million and assumed $260 million of Remington's debt and liabilities.

Selected financial information relevant to Dominion E&P is as follows:

Year ended December 31, (millions)	**1999**	1998	1997
Revenue	**$256**	$164	$158
Operating income:			
Oil and gas*	**73**	44	53
Adjustments*	**(46)**	(32)	(25)
Total operating income	**27**	12	28

*Oil and gas Operating income includes Nonconventional Fuels Tax Credits. Such credits are reversed on the Adjustments line as they are not ordinarily reported as a component of Operating income.

Operating income increased in 1999 primarily due to increased natural gas production. Natural gas production rose to 109 billion cubic feet equivalent (Bcfe) in 1999, compared to 69 Bcfe in 1998, a 58 percent increase. At December 31, 1999, proved gas reserves totaled 1,234 Bcfe, an increase of 618 Bcfe over 1998. The 1999 increase in production and reserves resulted primarily from the development of existing acreage, a full year's production at Dominion Energy Canada, Ltd., and the acquisition of interests discussed above.

Natural gas production rose to 69 Bcfe in 1998, compared to 59 Bcfe in 1997, a 17 percent increase. At December 31, 1998, proved gas reserves totaled 616 Bcfe, an increase of 157 Bcfe over 1997. The 1998 increase resulted primarily from the development of existing acreage and the acquisition of Dominion Energy Canada, Ltd. The increased production for 1998 was offset by a $0.38 reduction in average sales price per Mcfe, from $2.44 in 1997 to $2.06 in 1998. The 1998 decreases in gas prices resulted from a combination of shifting geographic production mix and lower overall market price.

Dominion Capital

Dominion Capital's 1999 results of operations increased as compared to 1998 primarily due to a higher earnings contribution from the commercial lending, merchant banking, asset management and residential mortgage lending operations in 1999, partially offset by a decrease in net investment gains.

Dominion Capital's 1998 operating income increased over 1997 primarily due to earnings contribution from its commercial finance, merchant banking and asset management operations.

Selected financial information relevant to Dominion Capital is as follows:

Year ended December 31, (millions)	**1999**	1998	1997
Revenue	**$473**	$409	$296
Operating income:			
Financial services	**267**	212	143
Other	**(2)**	(2)	14
Total operating income	**265**	210	157

Operating income increased in 1999 and 1998 primarily due to increased contributions from our financial services businesses. Our mortgage lending volumes were $2.4 billion in 1999, up from $2.1 billion in 1998. Our commercial finance operations portfolio has grown to $2.0 billion at the end of 1999, compared to $1.7 billion at the end of 1998. In addition, assets under management were $4.8 billion and $3.5 billion at December 31, 1999 and 1998, respectively.

Income from investments decreased in 1998 over 1997 primarily due to a valuation adjustment to other investments and higher real estate operating costs.

Corporate

Corporate earnings include transactions for which the segments are not held accountable for internal reporting purposes and other miscellaneous items. Corporate earnings include the effects of the utility operations' write-off of generation-related assets and liabilities as an extraordinary item in 1999 and the impairment of regulatory assets and one-time refund recorded as a result of the settlement of Virginia Power's 1998 Virginia jurisdictional rate proceedings. See Note (C) to the Consolidated Financial Statements.

Other Income and Expense

In 1999, *Other income and expense* decreased as compared to 1998 because of the gain on the sale of East Midlands in 1998. *Other income and expense* increased in 1998 as compared to 1997 primarily due to the gain on the sale of East Midlands in 1998 and the recognition of the windfall profits tax by East Midlands in 1997.

Fixed Charges

Interest charges decreased in 1999 as compared to 1998, primarily due to:

- cancellation of the debt associated with East Midlands which was sold in mid-1998;
- interest paid in 1998 in connection with the settlement of Virginia Power's Virginia jurisdictional rate proceeding; and
- the utility generation operations starting to capitalize interest on construction projects.

These reductions were offset by:

- the issuance of debt to fund DEI's acquisitions of Kincaid Power Station and Dominion Energy Canada, Ltd. in 1998 and
- the increase in funding needs for loan originations at Dominion Capital's financial services businesses.

Interest charges decreased in 1998 as compared to 1997 because of the cancellation of the debt associated with East Midlands which was sold in 1998. The debt cancellation for East Midlands was offset by the issuance of debt to fund DEI's acquisitions.

Provision For Income Taxes

The taxes on the gain on the sale of East Midlands recorded in 1998 were the primary reasons for the decrease in taxes in 1999 as compared to 1998 and the increase in taxes in 1998 as compared to 1997. In 1998, the taxes related to the sale of East Midlands were partially offset by the income tax provisions associated with the effects of Virginia Power's Virginia rate proceeding settlement.

Extraordinary Item, Net of Tax

This extraordinary item was recorded in connection with the passage of new legislation in 1999 establishing a detailed plan to restructure the electric utility industry in Virginia. The legislation's deregulation of generation was an event that required discontinuation of SFAS No. 71 for our utility generation operations. Generation-related assets and liabilities not expected to be recovered through cost-based rates were written off in March 1999, resulting in an after-tax charge to earnings of $255 million. See Note (C) to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Certain activities discussed under Liquidity and Capital Resources are currently evaluated based on existing legal entities rather than the operating segments defined by the new organizational structure. References are made to specific operating segments as appropriate.

Dominion funds its operations and supports the financing needs of its subsidiaries primarily through the issuance of commercial paper, backed by lines of credit and the issuance of debt, preferred or common securities, which is facilitated by the equity plans described below and a $950 million dollar shelf registration, $675 million of which was still available to Dominion as of December 31, 1999.

The proceeds of Dominion's financing activities are provided to its subsidiaries as needed under inter-company agreements.

CNG Merger Financing

In 2000, Dominion initially financed the cash used in the CNG merger with a $3.5 billion commercial paper program backed by a short-term credit facility and $1 billion of short-term, privately placed money market notes. Dominion expects to refinance these amounts with a combination of debt, preferred and convertible securities along with the proceeds from sales of non-core assets, including DEI's interests in Latin American power generation, CNG's foreign investments, Virginia Natural Gas, and Dominion Capital. See *Future Issues—CNG Merger.*

A $4.5 billion shelf registration was filed with the SEC and it became effective on January 6, 2000. The shelf is expected to be used to facilitate the refinancing of the CNG merger.

Immediately before the CNG merger, we concluded a first step transaction in which 33 million shares of Dominion common stock were exchanged for approximately $1.4 billion.

Commercial Paper

Dominion's nonutility subsidiaries may finance their working capital for operations with the proceeds of Dominion commercial paper sales. Dominion sells its commercial paper in regional and national markets and provides the proceeds to the nonutility subsidiaries under the terms of intercompany credit agreements. At the end of 1999, Dominion Resources, Inc. supported these borrowings through bank lines of credit totaling $601 million. The nonutility subsidiaries repay Dominion through cash flow from operations and proceeds from permanent financings. Virginia Power and Dominion Capital also have commercial paper programs as discussed below.

Equity Plans

In 1998 and 1997, Dominion raised $87 million and $176 million, respectively, from the sale of common stock through the Dominion Direct Investment and Employee Savings plans. In 1998, management made the decision that purchases of shares required by the Company's equity plans would be purchased on the open market instead of issuing new shares. However, Dominion continues to have access to capital through the Dominion Direct Investment and the Employee Savings plans in the future.

Virginia Power

Operating activities continue to be a strong source of cash flow, providing $1.1 billion in each of the years 1999, 1998, and 1997. Over the past three years, cash flow from operating activities, after dividend payments, has, on average, covered 120% of Virginia Power's total construction requirements and provided 77% of its total cash requirements. Virginia Power's cash requirements not met by the timing or amount of cash flow from operations are generally satisfied with proceeds from the sale of securities and short-term borrowings.

Cash from (used in) financing activities was as follows:

(millions)	1999	1998	1997
Issuance of long-term debt	**$ 305**	$ 270	$ 270
Repayment of long-term debt	**(345)**	(334)	(311)
Issuance (repayment) of short-term debt	**156**	(4)	(86)
Common dividend payments	**(383)**	(378)	(380)
Other	**(53)**	(53)	(50)
Total	**$(320)**	$(499)	$(557)

Financing activities have represented a net outflow of cash in recent years as strong cash flow from operations has reduced Virginia Power's reliance on debt financing.

During 1999, Virginia Power issued $305 million in aggregate principal of unsecured debt securities. In 1999, Virginia Power issued $150 million in aggregate principal of unsecured Senior Notes, Series 1999-A, with an annual coupon rate of 6.7%, due 2009; and $80 million of Medium-Term Notes, Series G, with an annual coupon rate of 6.3%, due 2001. Virginia Power also issued $75 million in aggregate principal of unsecured Senior Notes, Series 1999-B, with an annual coupon rate of 7.2%, due 2004.

During 1999, Virginia Power retired $321 million in aggregate principal amount of mandatory debt maturities. In 1999, Virginia Power repurchased $24 million in aggregate principal amount of First and Refunding Mortgage Bonds that were made available through the open market.

As of December 31, 1999, Virginia Power has $740 million under effective shelf registration statements with the SEC available for its use to meet capital requirements. Virginia Power also has a commercial paper program that is supported by two revolving credit facilities totaling $500 million. Proceeds from the sale of commercial paper are primarily used to provide working capital. Net borrowings under the program were $378 million at December 31, 1999.

Cash used in investing activities was as follows:

(millions)	1999	1998	1997
Plant and equipment	**$(673)**	$(451)	$(397)
Nuclear fuel	**(64)**	(81)	(85)
Nuclear decommissioning contributions	**(35)**	(37)	(36)
Other	**(3)**	(13)	(28)
Total	**$(775)**	$(582)	$(546)

Plant and equipment expenditures for generation-related projects were approximately $327 million in 1999 and included significant expenditures for additional capacity and environmental upgrades—See *Capital Requirements* below. Transmission and distribution-related projects accounted for approximately $282 million of our total plant and equipment expenditures. These projects included routine capital improvements and expenditures associated with new connections. Remaining plant and equipment expenditures of $64 million reflect general projects and information technology enhancements. These information technology projects include development of remote metering and dispatch technology, and continued implementation of new financial systems.

Capital Requirements

Capacity Virginia Power anticipates that peak demand will grow approximately 2% per year through 2002. Virginia Power will complete construction of four 150-megawatt combustion turbines in Fauquier County, Virginia by mid-2000. Virginia Power will spend an estimated

$190 million on the project of which approximately $145 million has been incurred through December 31, 1999. In January 2000, Virginia Power filed for approval from the Virginia Commission for the construction of two additional combustion turbines. The Virginia Commission has set a hearing date in May 2000 to consider this request. Commercial operation is planned to begin in June 2001. Virginia Power expects that any future additional capacity and energy requirements will be met through a combination of market purchases and company-constructed generation.

Plant and Equipment Virginia Power's construction and nuclear fuel expenditures during 2000, 2001 and 2002 are expected to total $856 million, $822 million and $760 million, respectively. Virginia Power expects these construction and nuclear fuel expenditures to be met through cash flow from operations, sales of securities and short-term borrowings. These projected expenditures include the effects of environmental costs discussed below.

Virginia Power is installing sulfur dioxide (SO_2) emission control equipment at two coal-fired generating units. The total cost for this project is estimated to be $126 million of which $33 million has been incurred as of December 31, 1999. Management believes the installation of scrubbers on these two units will provide the most cost-effective means of complying with the Clean Air Act.

In response to a rule adopted by the EPA in September 1998, Virginia Power plans to install nitrogen oxide (NO_x) reduction equipment on a portion of its generating units at an estimated capital cost of $454 million over the next five years. Whether these costs are actually incurred is dependent on the implementation plans adopted by the states in which Virginia Power operates. No significant costs have been incurred as of December 31, 1999. See *Future Issues—Clean Air Act Compliance.*

Maturities Virginia Power will require $375 million to meet maturities of securities in 2000.

Funding Capital Requirements

Virginia Power expects to meet its capital funding requirements with cash flow from operations and issuance of replacement debt or preferred securities.

DEI

Net cash flow from operating activities was $151 million, $148 million and $162 million in 1999, 1998 and 1997, respectively. During 1999, cash flow from operating activities increased as compared to 1998 primarily due to normal business operations.

Net cash flow provided by operating activities decreased in 1998, as compared to 1997, primarily due to a reduction in ownership of a subsidiary that occurred during the third quarter of 1997.

DEI funds its capital requirements through cash flow from operations, equity contributions by Dominion, an intercompany credit agreement with Dominion, and bank revolving credit agreements. Cash flow from (used in) financing activities was as follows:

(millions)	1999	1998	1997
Contribution from parent	$ 115		
Issuance of long-term debt	14	$455	$ 108
Repayment of debt			(213)
Common dividend payments	(62)	(48)	(48)
Issuance (repayment) of intercompany debt	(10)	1	22
Other	(27)	4	
Total	$ 30	$412	$(131)

During 1999, cash flow from financing activities was $30 million primarily due to an equity contribution from Dominion, net of dividends. Proceeds were used primarily to fund acquisitions which expanded DEI's natural gas exploration, development and production operations. Also, in 1998, DEI borrowed funds to expand and upgrade its independent power plants.

Cash from (used in) investing activities was as follows:

(millions)	1999	1998	1997
Purchase of fixed assets	$ (57)	$ (73)	$(12)
Purchase of natural gas properties	(65)	(35)	(53)
Purchase of electric plant	(92)	(96)	
Sale of business	180	53	123
Acquisition of businesses	(167)	(338)	(28)
Other	(36)	(26)	(20)
Total	$(237)	$(515)	$ 10

During 1999, cash flow was used in investing activities for the following:

- the acquisitions of Remington and interests in certain gas producing properties located in the San Juan Basin of New Mexico and
- expansion and upgrade activities at certain independent power plants, offset by
- proceeds from the sale of DEI's interest in its Latin American subsidiaries in Peru and Belize.

Capital Requirements

DEI and Peoples Energy Corporation plan to expand the capacity at their jointly-owned electric generating peaking facility near Elwood, Illinois. The expansion is expected to be completed in 2001 and will add a combined 600 megawatts of natural gas-fired electric power to the facility's capacity for a total of 1,200 megawatts. The cost of the expansion is estimated at $280 million. DEI and Peoples Energy Corporation will share equally in the construction costs.

In response to a rule adopted by the EPA in 1998, DEI expects to install NO_x reduction equipment at its Kincaid plant at an estimated capital cost of approximately $100 million over the next five years. Whether these costs are actually incurred is dependent on the implementation plans adopted by Illinois and the outcome of litigation regarding this rule. The power purchase agreement with Commonwealth Edison Company provides that DEI will recover a portion of these capital expenditures through monthly reimbursement over the term of the agreement. The agreement also provides that DEI will be reimbursed for operations, maintenance and fuel costs that may be incurred as a result of NO_x emission reduction regulations. For more information, see *Future Issues—Clean Air Act Compliance.* The capital requirements will be funded by cash flow from operations and existing sources of financing.

Dominion Capital

Dominion Capital's net cash flow provided by operations for 1999 increased by $76 million as compared to 1998 due to an increase in mortgage sales and principal collections, net of originations, plus normal operations. Cash flow provided by operations for 1998 increased by $61 million as compared to 1997 primarily due to higher operating income from financial services and liquidation of marketable equity securities.

Dominion Capital funds its capital requirements through cash flow from operations, an intercompany credit agreement with Dominion, equity contributions from Dominion, bank revolving credit agreements, term loans and commercial paper programs. Cash flow from (used in) financing activities was as follows:

(millions)	1999	1998	1997
Contribution from parent	**$ 100**	$ 118	$ 162
Issuance of long-term debt	**5,331**	3,212	3,911
Repayment of long-term debt	**(5,446)**	(2,992)	(3,865)
Common dividend payments	**(71)**	(55)	(43)
Issuance of commercial paper, net	**541**	492	33
Issuance (repayment) of intercompany debt	**(96)**	114	28
Total	**$ 359**	$ 889	$ 226

During 1999, cash flow from financing activities was $359 million and was used primarily to fund loan originations.

Dominion Capital has a senior unsecured 364-day $400 million revolving credit agreement. The credit agreement is used by Dominion Capital for general corporate purposes including providing liquidity to support a $400 million commercial paper program which was established in February 1999. Net borrowings under the agreement were $275 million at December 31, 1999.

Cash used in investing activities was as follows:

(millions)	1999	1998	1997
Loan originations, net	**$(343)**	$(802)	$ (82)
Purchase of securities	**(156)**	(125)	(139)
Other	**(24)**	(4)	(22)
Total	**$(523)**	$(931)	$(243)

During 1999, cash flow used in investing activities decreased chiefly because of an increase in commercial loan syndications, sales and repayments. In addition, Dominion Capital also has an interest in a hydroelectric facility, real estate and other investments. In mid 1999, Dominion Capital sold one half of its interest in its hydroelectric facility for $45 million.

Capital Requirements

Until its divestiture, Dominion Capital will continue to fund the operations of its financial services activities through net cash flows from operations, sales of existing real estate and other assets and borrowings through the intercompany credit agreement and various third party credit sources.

FUTURE ISSUES

This section discusses information that may have an impact on future operating results. The SEC encourages companies to provide forward-looking information because it provides investors with an insight into management's outlook for the future. It should be noted that any forward-looking information is expressly covered by the safe harbor rule for projections. For a more detailed description of some of the uncertainties associated with forward-looking information, please refer to the *Forward-Looking Information* section on page 26.

Three major events occurred in 1999 which will have a significant effect on Dominion's future operations. These events were:

- the announcement of the CNG merger;
- the enactment of law which established a detailed plan to restructure the electric industry in Virginia; and
- the sale of Dominion Energy's interests in Latin American power generation.

CNG Merger

On January 28, 2000, Dominion and CNG closed the merger of CNG into a subsidiary of Dominion. The aggregate purchase price was $6.4 billion. Shareholders of CNG received either Dominion common stock or cash in consideration of their CNG shares. The combination with CNG, based in Pittsburgh, Pa., creates a fully integrated electric and natural gas utility in the Midwest, Northeast and Mid-Atlantic regions of the United States with selective energy businesses located abroad. Immediately before the CNG Merger, we concluded a first step transaction in which 33 million shares of Dominion common stock were exchanged for approximately $1.4 billion.

With the CNG Merger, Dominion has an energy portfolio of almost 20,000 megawatts of domestic power generation and 2.8 trillion cubic feet equivalent in natural gas and oil reserves, producing more than 300 billion cubic feet equivalent annually. Dominion now operates a major interstate gas pipeline system and the largest natural gas storage system in North America and has approximately 6,000 miles of electric transmission lines. Dominion is the eleventh largest independent oil and gas producer in the United States, measured by reserves, and provides integrated energy services to approximately four million retail customers.

As a result of the merger, Dominion is a registered public utility holding company subject to the provisions of the Public Utility Holding Company Act of 1935 (1935 Act). The 1935 Act imposes a number of restrictions on the operations of registered holding company systems. One such restriction limits the ability of a registered holding company to engage in activities unrelated to its utility operations. Consequently, as part of the SEC order approving the merger, Dominion must divest itself of Dominion Capital, its financial services subsidiary. Although a formal plan for divestiture has not been adopted, the SEC allowed three years for this to be accomplished.

During the merger approval process, Dominion and CNG also agreed to divest Virginia Natural Gas, Inc. (VNG), CNG's gas distribution subsidiary located in Virginia Beach, Va. Dominion has one year after the merger is completed to sell VNG to a third party. If the sale of VNG is not completed within one year, VNG will be spun off as an independent company with the common stock distributed to Dominion shareholders. Both deadlines are subject to reasonable extensions, which may be granted by regulatory authorities. For more information on the CNG merger, see Note (X) to the Consolidated Financial Statements.

As part of the merger, Dominion created a subsidiary service company, Dominion Resources Services, Inc. (Services), which will provide certain services to Dominion's operating subsidiaries. Employees of Dominion Resources and Virginia Power who will perform those functions became employees of Services, effective February 1, 2000. CNG also has a service company. The operating subsidiaries may elect to purchase services from either service company; however, service company functions are expected to be centralized into a single service company in 2001.

In addition, our business operations are being reviewed in conjunction with the merger to identify opportunities for operational efficiencies. As a result of the formation of the service company and this operational review, restructuring charges for items such as employee severance and other special termination benefits and the elimination of duplicate facilities are likely to be incurred during 2000 and 2001.

Dominion intends to manage the oil and gas exploration and production operations of CNG and DEI on a combined basis. Dominion also intends to review CNG's local gas distribution companies, Virginia Power's transmission and distribution operations and the related customer services functions on a combined basis.

Virginia Legislation

On March 25, 1999, the Governor of Virginia signed into law legislation establishing a detailed plan to restructure the electric utility industry in Virginia. The legislation will deregulate generation by 2002 with the phase-in of retail customer choice beginning at that time. When customer choice begins, customers will have the right to choose their energy supplier. However, we will continue to transport all energy to customers within Virginia Power's service territory. Under this legislation, Virginia Power's base rates will remain generally unchanged until July 2007 and recovery of generation-related costs will continue to be provided through capped rates. For more information, see Note (C) to the Consolidated Financial Statements and *Competition—Legislative Initiatives* below.

Sale of Interests in Latin American Power Generation

In 1999, DEI reached an agreement to sell its interests in approximately 1,200 megawatts of gross generation capacity located in Latin America. Duke Energy International is purchasing the interests for approximately $405 million. Dominion Energy completed the sale of its interests in Belize and Peru in November 1999 and expects to complete the sale of its interests in Argentina and Bolivia in 2000, following receipt of certain regulatory approvals.

During 1999, DEI recorded a one-time after-tax charge of $21 million related to the sale. For additional information, see Note (V) to the Consolidated Financial Statements and *Future Issues—Dominion Energy.*

Recently Issued Accounting Standards

The Financial Accounting Standards Board (FASB) recently issued SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133,* which defers the effective date of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* As a result, Dominion must adopt SFAS No. 133 no later than January 1, 2001. SFAS No. 133 requires that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at fair value. The statement requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge-accounting criteria are met.

The FASB-sponsored Derivatives Implementation Group is addressing implementation issues related to SFAS No. 133. Dominion does not believe that its long-term purchased power contracts would be subject to SFAS No. 133. Dominion's portfolio of commodity contracts held for trading purposes is currently marked to fair value and would not be affected by this statement. Dominion is in the process of assessing the impact of SFAS No. 133. To the extent that contracts are subject to SFAS No. 133 fair value accounting, implementing appropriate hedging strategies could possibly mitigate the potential impact on earnings volatility.

However, Dominion has not yet quantified the impacts of adopting SFAS No. 133.

Year 2000 Compliance

Dominion experienced a successful transition to the Year 2000. Immediately after the rollover and throughout the rollover weekend, Dominion's transmission and distribution systems and its generating units continued to operate smoothly. Our customers did not lose power as a result of a Year 2000 problem.

We are continuing to monitor systems for any Year 2000 issues, and we will be especially alert to any problems caused by the transition through February 29, 2000. However, as with the rollover to January 1, 2000, no significant problems are expected.

We expect total Year 2000 costs to be approximately $32 million. Actual Year 2000 costs of $30 million had been expended as of December 31, 1999.

We cannot estimate or predict the potential adverse consequences, if any, that could result from a third party's failure to effectively address remaining Year 2000 issues, if any, but believe that any impact would be short-term in nature and would not have a material adverse impact on results of operations.

Dominion Delivery Business and Utility Operations of Dominion Energy

The following discussion is about Virginia Power, Dominion's principal subsidiary, and the environment in which it operates. As previously discussed, Dominion evaluates the operations of Virginia Power in two of its operating segments, Dominion Delivery (regulated electric distribution and transmission operations) and Dominion Energy (utility generation operations).

Competition—General

Dominion has recently seen federal and state developments toward increased competition. Electric utilities have been required to open up their transmission systems for use by potential wholesale competitors. In addition, non-utility power producers now compete with electric utilities in the wholesale generation market. At the federal level, retail competition is under consideration. Some states, including Virginia, Ohio and Pennsylvania, have already enacted legislation requiring the introduction of retail competition.

Today, Dominion faces competition in the wholesale market. There is no general retail competition in Virginia Power's principal service area at this time. However, Virginia enacted a law in 1999 establishing a detailed plan to restructure the electric utility industry in Virginia. Dominion actively supported this restructuring legislation. See *Competition—Retail* and *Competition—Legislative Initiatives* below and Note (C) to the Consolidated Financial Statements.

Dominion has responded to the trend toward competition by cutting costs, re-engineering core business processes, and pursuing innovative approaches to serving traditional markets and future markets. Dominion's strategy also includes the development of non-traditional products and services with an objective of providing growth in future earnings. These products and services include electric energy and capacity in the emerging wholesale market; natural gas and other energy-related products and services; nuclear management and consulting services; power distribution and transmission related services, including engineering and metering; and telecommunication services. In addition, Dominion may from time to time identify and investigate opportunities to expand its markets through strategic alliances with partners whose strengths, market position and strategies complement those of Dominion.

Competition—Wholesale

Virginia Power sells electricity in the wholesale market under its market based sales tariff authorized by FERC, but has agreed not to make wholesale power sales under this tariff to loads located within Virginia Power's service territory. However, Virginia Power expects to file in the first quarter 2000 an application with FERC to make sales under its market-based sales tariff to loads within its service territory to facilitate the retail access pilot program. Also, Virginia Power expects to file in the first

quarter 2000 an application with FERC to amend its open access transmission tariff to accommodate the retail access pilot program. Until such authorization has been granted by FERC, any agreements which allow Virginia Power to sell wholesale power to loads located within its service territory are to be at cost-based rates accepted by FERC.

During 1999, sales to wholesale customers under requirements contracts represented approximately 4 percent of Virginia Power's total revenues from electric sales. Since FERC issued its Order 888 requiring open access to transmission service, Virginia Power has faced increased competitive pressures on sales to wholesale customers served under requirements contracts. In response, Virginia Power has renegotiated long-term contracts with wholesale customers. Virginia Power has also implemented a new arrangement with its largest wholesale customer that provides for a transition from cost-based rates to market-based rates.

Competition — Retail

Currently, Virginia Power has the exclusive right to provide electricity at retail within its assigned service territories in Virginia and North Carolina. As a result, Virginia Power now faces competition for retail sales only if certain of its business customers move into another utility service territory, use other energy sources instead of electric power, or generate their own electricity.

However, in 1998, the Virginia General Assembly passed legislation that established a timeline for deregulation of retail electric service but left the details regarding implementation to future enabling legislation. In March 1999, the Governor of Virginia signed into law new legislation establishing a detailed plan to restructure the electric utility industry in Virginia which will provide for customer choice beginning in 2002. For a discussion of Virginia Power's pilot program for customer choice beginning in 2000, see *Competition — Regulatory Initiatives* below. Under this legislation, Virginia Power's base rates will remain unchanged until July 2007 and recovery of generation-related costs will continue to be provided through capped rates and a wires charge assessed to those customers opting for alternate suppliers. See Note (C) to the Consolidated Financial Statements.

Competition — Legislative Initiatives

Virginia As discussed above, the Governor of Virginia signed into law legislation establishing a detailed plan to restructure the electric utility industry. Under the legislation, the generation portion of Virginia Power's Virginia jurisdictional operations will no longer be subject to cost-based rate regulation beginning in 2002.

A legislative transition task force is charged with specific assignments including the monitoring of possible over- or under-recovery of stranded costs by incumbent utilities. This monitoring begins at the onset of customer choice and the task force will submit annual reports to the Governor and the General Assembly offering recommendations as it deems necessary.

The legislation also addressed divestiture, functional separation and other corporate relationships. Although mandatory divestiture is prohibited by the law, functional separation is required and must be completed by January 1, 2002. Utilities must submit their plans to the Virginia Commission by January 1, 2001, outlining steps to be taken to functionally separate generation, transmission and distribution.

Dominion is currently supporting certain technical amendments to the restructuring legislation being considered by the 2000 General Assembly.

North Carolina The 1997 session of the North Carolina General Assembly created a study commission on the future of electric service in North Carolina. In October 1999, Duke Energy Corp. and Carolina Power and Light Company submitted a proposal to the study commission addressing certain municipal debt issues that must be resolved before a comprehensive restructuring plan can be developed. The North Carolina Commission continues to study the subject of deregulation in anticipation that the 2000 session of the General Assembly may consider the issue when it convenes in May.

Federal The U.S. Congress is expected to consider federal legislation in the near future authorizing or requiring retail competition. Dominion cannot predict what, if any, definitive actions the Congress may take.

Competition — Regulatory Initiatives

Virginia In 1998, the Virginia State Corporation Commission issued an order instructing Virginia Power and American Electric Power (AEP)-Virginia, as the Commonwealth's two largest investor-owned utilities, to design and file retail access pilot programs. Virginia Power filed a report in November 1998 describing the details, objectives and characteristics of its proposed retail access pilot program. In August 1999, the Commission's Hearing Examiner issued a report on interim rules for the introduction of electric and natural gas retail competition in Virginia. In September 1999, Virginia Power, the Virginia Commission Staff and two other parties entered into a stipulated agreement which resolved the size and scope of the proposed pilot program and the methodology for determining the market price of electricity used in calculating the wires charge assessed to those customers opting for alternate suppliers. The pilot program will initially give approximately 35,000 customers the ability to choose their electricity supplier. The scope of the program will be expanded to include approximately 70,000 customers by year end 2000. A Hearing was held in September 1999. The Hearing Examiner's Report was issued in November 1999, recommending certain changes to Virginia Power's pilot plan and a modification of the stipulated market price methodology. Virginia Power filed comments and exceptions in December 1999. A Final Order from the Virginia Commission is anticipated in early 2000.

In March 1998, the Virginia Commission issued an Order Establishing Investigation with regard to independent system operators (ISOs), regional power exchanges (RPXs) and retail access pilot programs. The Order directed all investor-owned electric utilities to begin work, in conjunction with the Virginia Commission Staff and other interested parties, to develop one or more ISOs and RPXs to serve the public interest in Virginia. The Virginia Electric Utility Restructuring Act (Act), signed into law in 1999, requires that Virginia's incumbent electric utilities join or establish regional transmission entities (RTEs) by January 2001, and seek authorization from the Virginia Commission to transfer ownership or operational control of their transmission facilities to such RTE's. In May 1999, the Virginia Commission issued an Order Establishing an Investigation and inviting comments concerning the development of the rules required by the Act. Virginia Power submitted comments in June 1999 and reply comments in July 1999, urging the Virginia Commission to adopt rules and regulations that are identical to FERC's regulations concerning ISOs. In January 2000, the Virginia Commission issued an Order giving notice of, and requesting comments to, the proposed rules and regulations establishing the elements of RTE structures. Under the proposed rules, Virginia Power would be required to seek authorization to transfer operational control of its transmission facilities on or before May 1, 2000. Virginia Power submitted comments on the proposed rules and regulations in February 2000.

Federal Virginia Power maintains major interconnections with Carolina Power and Light Company, AEP, Allegheny Energy (AE) and the utilities in the Pennsylvania-New Jersey-Maryland Power Pool. Through this major transmission network, Virginia Power has arrangements with these utilities for coordinated planning, operation, emergency assistance, and exchanges of capacity and energy.

In June 1999, Virginia Power, together with American Electric Power Services Corporation, Consumers Energy Company, The Detroit Edison Company and First Energy Corporation, on behalf of themselves and their public utility operating company subsidiaries (Alliance Companies), filed with FERC applications under Sections 205 and 203 of the Federal Power Act for approval of the proposed Alliance Regional Transmission Organization (Alliance RTO).

In December 1999, FERC issued an Order under Section 203 of the Federal Power Act granting the application, subject to certain conditions and requirements discussed in the Order, and directing the Alliance Companies to submit a compliance filing as discussed in the Order. In January 2000, the Alliance Companies filed an application seeking a rehearing of certain conditions and requirements of the Order. In February 2000, the Alliance Companies filed amendments to the Alliance RTO documents to comply with certain conditions and requirements of the Order.

In December 1999, FERC issued Order 2000 which amended its regulations to advance the formation of Regional Transmission Organizations (RTOs). The regulations require that each public utility that owns, operates, or controls transmission facilities make certain filings with respect to forming and participating in an RTO. FERC also codified minimum characteristics and functions that a transmission entity must satisfy in order to be considered an RTO. In January 2000, the Alliance Companies filed an application seeking a rehearing of such order.

Competition — Exposure To Potentially Stranded Costs

Under traditional cost-based regulation, utilities have generally had an obligation to serve, supported by an implicit promise of the opportunity to recover prudently incurred costs. The most significant potential impact of transitioning from a regulated to a competitive environment is "stranded costs." Stranded costs are those costs incurred or commitments made by utilities under cost-based regulation that may not be reasonably expected to be recovered in a competitive market. If no recovery mechanism is provided during the transition, the financial position of a utility could be materially adversely affected.

At December 31, 1999, Virginia Power's exposure to potentially stranded costs was comprised of the following:

- long-term purchased power contracts that could ultimately be determined to be above market (see *Purchased Power Contracts,* Note (Q) to the Consolidated Financial Statements);
- generating plants that could possibly become uneconomic in a deregulated environment; and
- unfunded obligations for nuclear plant decommissioning and postretirement benefits not yet recognized in the financial statements (see Notes (F) and (O) to the Consolidated Financial Statements).

Dominion believes the capped rates provided by the 1999 legislation present a reasonable opportunity to recover a substantial portion of our potentially stranded costs. In the absence of capped rates, Virginia Power would otherwise have been exposed, on a pre-tax basis, to an estimated $3.2 billion of potential losses related to long-term power purchase commitments. See Note (C) to the Consolidated Financial Statements. Recovery of potentially stranded costs remains subject to numerous risks including, among others, exposure to long-term power purchase commitment losses, future environmental compliance requirements, changes in tax laws, decommissioning costs, inflation, increased capital costs, and recovery of certain other items.

Rate Matters

In obtaining approval for the CNG Merger in North Carolina, Virginia Power agreed not to request an increase in its North Carolina retail electric base rates until after December 31, 2005, except for certain events that would have a significant financial impact on Dominion.

Virginia Power's fuel rates are still subject to change under the annual fuel cost adjustment proceedings in both Virginia and North Carolina.

Competition — Retail Gas

Gas industry competition at the retail level is receiving increased attention from both regulators and legislators. Governments in three of the states in which Dominion, subsequent to the CNG Merger, operates distribution subsidiaries have enacted or considered legislation regarding deregulation of natural gas at the retail level. In Ohio, a 1996 law established customer choice as a state policy in the supply of natural gas services. Implementation of the law, which allows retail customers to obtain gas from an array of suppliers, is under way. In Pennsylvania, legislation was enacted to unbundle gas utility merchant functions and permit the Pennsylvania Public Utility Commission to certify marketers, in addition to gas utilities, as suppliers of last resort, creating competition in a traditional gas utility function. Virginia is currently operating under a one-year unbundling pilot program, enacted in 1999. The Virginia General Assembly is currently considering legislation to make the program permanent.

Dominion Energy

Dominion Energy's future focus in its domestic power generation business is to acquire and develop additional power generation in the MAIN to Maine region. The MAIN region consists of the Mid-America Interconnected Network. This network includes the range of electric utility service territories that begins in the upper Midwest and covers an area northeastward through Maine. Dominion Energy will benefit from the merger with CNG as it plans to develop natural gas-fired power generation facilities along CNG's natural gas pipeline system. Dominion has identified a number of potential development sites along CNG's natural gas pipeline network in Ohio, Pennsylvania, New York, West Virginia and Virginia.

As indicated above, Dominion Energy's business is increasingly competitive, particularly given the deregulation and consolidation activity the industry is experiencing. In its existing independent power investments, Dominion Energy intends to counter competition by focusing on cost structure, operating efficiencies and actively exercising management control.

Environmental Matters

Dominion Energy is subject to rising costs resulting from a steadily increasing number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. They can result in increased capital, operating and other costs as a result of compliance, remediation, containment and monitoring obligations. Historically, these costs for utility operations could be recovered from customers through utility rates. However, to the extent environmental costs are incurred during the period ending June 30, 2007, in excess of the level currently included in Virginia jurisdictional rates, Dominion's results of operations will decrease. After that date, recovery may be sought for only those environmental costs related to transmission and distribution operations through regulated utility rates.

Environmental Protection and Monitoring Expenditures

Dominion Energy incurred $78 million, $72 million, and $71 million (including depreciation) during 1999, 1998 and 1997, respectively, in connection with the use of environmental protection facilities. Dominion Energy expects these expenses to be $79 million in 2000. In addition, capital expenditures to limit or monitor hazardous substances were $84 million, $22 million, and $25 million for 1999, 1998 and 1997, respectively. The amount estimated for 2000 for these expenditures is $148 million.

Clean Air Act Compliance

The Clean Air Act, as amended in 1990, requires Dominion Energy to reduce its emissions of SO_2 and NO_x which are gaseous by-products of fossil fuel combustion. The Clean Air Act also requires Dominion Energy to obtain operating permits for all major emissions-emitting facilities. Permit applications have been submitted for Dominion Energy's power stations.

The Clean Air Act's SO_2 reduction program is based on the issuance of a limited number of SO_2 emission allowances, each of which may be used as a permit to emit one ton of SO_2 into the atmosphere or may be sold to someone else. The EPA administers the program. Dominion Energy's compliance plans are reviewed periodically and may include switching to lower sulfur coal, purchase of emission allowances, and installation of SO_2 control equipment. In December 1998, Dominion Energy initiated a capital project to install SO_2 control equipment on two units at the Mt. Storm power station at an estimated cost of $126 million. These SO_2 controls are expected to be operational by January 2002. In July 1999, Dominion Energy's Kincaid plant converted to low-sulfur Powder River Basin coal, further reducing SO_2 emissions.

Dominion Energy began complying with Clean Air Act Phase I NO_x limits at eight of its units in Virginia in 1997, three years earlier than otherwise required. As a result, the units will not be subject to more stringent Phase II limits until 2008. Dominion Energy has established a plan to comply with the Phase II limits at remaining coal-fired units subject to the Phase II limits.

In September 1998, EPA adopted a rule requiring 22 states, including states within which we operate, to reduce and cap ozone season (May-September) NO_x emissions beginning in May 2003. The affected states were to submit a compliance plan to EPA by September 1999, but a May 1999 ruling by the U.S. District Court of Appeals in the DC Circuit has granted an indefinite stay of the states' submittal requirements. However, in December 1999, EPA issued a finding in support of petitions filed by several Northeastern states seeking relief from long-range pollutant transport from utility and large industrial sources that essentially enforces the same NO_x emission caps beginning in May 2003. In response to these requirements, Dominion Energy plans to install NO_x reduction equipment at its coal-fired generating facilities at an estimated capital cost of approximately $554 million over the next five years. Whether these costs are actually incurred and the timing of such expenditures are dependent on both the outcome of pending litigation of these rules and on the implementation plans adopted by the states in which Dominion Energy operates.

Evaluation and planning of future projects to comply with SO_2 and NO_x reduction requirements are ongoing and will be influenced by changes in the regulatory environment, availability of SO_2 and NO_x allowances, and emission control technology.

Global Climate Change

In 1993, the United Nation's Global Warming Treaty became effective. The objective of the treaty is the stabilization of greenhouse gas concentrations at a level that would prevent man-made emissions from interfering with the climate system.

As a continuation of the effort to limit man-made greenhouse emissions, an international Protocol was formulated in December 1997 in Kyoto, Japan. This Protocol calls for the United States to reduce greenhouse emissions by 7 percent from 1990 baseline levels by the period 2008-2012. The Protocol has been signed by the United States but will not constitute a binding commitment unless submitted to and approved by the United States Senate. Emission reductions of the magnitude included in the Protocol, if adopted, would likely result in a substantial financial impact on companies that consume or produce fossil fuel-derived electric power, including Dominion.

Dominion E&P

One of Dominion E&P's primary goals in its oil and gas business is to sustain and increase earnings from non-tax credit oil and gas properties. Dominion E&P's operating focus is on cost structure and operating efficiencies. Dominion E&P expects to compete in regional markets by expanding its reserve base through drilling and the acquisition of oil and gas properties.

Dominion E&P will benefit from the merger with CNG through the optimization of the value of the Company's reserve portfolio. This optimization will be achieved through the convergence of the Company's gas and electric products and maximization of gas storage facilities, to achieve the most favorable market conditions when selling energy. In addition, Dominion E&P's oil and gas operations should realize the benefits of sharing past experiences and sound business practices developed over time. This should help improve operational efficiencies and minimize finding, developing, and lifting costs. Additional efficiencies will be achieved by elimination of duplicate administrative functions.

Dominion Capital

Under the SEC's order approving the CNG merger, Dominion must divest itself of Dominion Capital within three years. No formal plan of divestiture has been adopted. However, Dominion has begun identifying suitable buyers. Until Dominion Capital is sold, Dominion will continue to operate these financial services businesses and be subject to their risks.

The financial performance of Dominion Capital's diversified financial services businesses depends to a certain degree on the movement of interest rates, overall economic conditions, and increasing competition. Dominion Capital intends to manage the effect of these issues by maintaining a balanced diversified business approach, maintaining underwriting, credit quality and service, and focusing on specialized markets. Dominion Capital expects continued growth in its existing financial service business units through increased market share, developing new products and services and entering new financial markets.

Business Opportunities

Because Dominion's industry is rapidly changing, especially in the U.S., there are many opportunities for acquisitions of assets and business combinations. We investigate any opportunity we learn about that may increase shareholder value and build on our existing businesses. We have participated in the past and our security holders may assume that at any time Dominion may be participating in bidding or other negotiating processes for such transactions. Such participation may or may not result in a transaction for Dominion. However, any such transaction that does take place may involve consideration in the form of cash, debt or equity securities and may involve payment of a premium over book or market values. Such transactions or payments could affect the market prices and rates for Dominion's securities.

MARKET RATE SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

Dominion is exposed to market risk because it utilizes financial instruments, derivative financial instruments, and derivative commodity instruments. The market risks inherent in these instruments are represented by the potential loss due to adverse changes in commodity prices, equity security prices, interest rates, and foreign currency exchange rates as described below. Interest rate risk generally is related to Dominion and its subsidiaries' outstanding debt as well as their commercial, consumer, and mortgage lending activities. Currency risk exists principally through Dominion E&P's investment in Canada and some debt denominated in European currencies associated with Dominion Energy's investment in Latin America. Dominion is exposed to equity price risk through various portfolios of equity securities. Commodity price risk is experienced in Dominion's power generation and oil and gas businesses, Dominion Energy and Dominion E&P. They are exposed to effects of market shifts in the sales prices they receive and pay for natural gas and electricity.

Dominion has utilized the sensitivity analysis methodology to disclose the quantitative information for the interest rate, commodity price and foreign exchange risks. Sensitivity analysis provides a presentation of the potential loss of future earnings, fair values, or cash flows from market risk-sensitive instruments over a selected time period due to one or more hypothetical changes in interest rates, foreign currency exchange rates, commodity prices, or other similar price changes. The tabular presentation methodology continues to be used to disclose equity price market risk.

Interest Rate Risk Non-Trading Activities

Dominion manages its interest rate risk exposure by maintaining a mix of fixed and variable rate debt. In addition, Dominion enters into interest rate sensitive derivatives. Examples of these derivatives are swaps, forwards and futures contracts.

Dominion's sensitivity analysis estimates the impact of a hypothetical change in interest rates on its variable-rate long-term and short-term financial instruments and interest rate-sensitive derivatives. For financial instruments outstanding at December 31, 1999, a hypothetical 10% increase in market interest rates would decrease annual earnings by approximately $31 million. A similar hypothetical increase in market interest rates, as determined at December 31, 1998, would have resulted in a decrease in annual earnings of $12 million.

Dominion Capital, through subsidiaries, retains ownership in the residual classes of the asset-backed securities utilized to sell home equity loans originated and purchased. At December 31, 1999, these assets are classified as available for sale securities on the balance sheet and total $307 million.

The residual securities represent the net present value of the excess of interest payable on the underlying mortgage collateral, net of interest payments to outstanding bond holders, servicing costs, over-collateralization requirements, and credit losses. Fair value of the residual is analyzed quarterly by Dominion Capital to determine whether prepayment experience, losses and changes in the interest rate environment have had an impact on the valuation. Expected cash flows of the underlying loans sold are reviewed based upon current economic conditions and the type of loans originated and are revised as necessary.

Foreign Exchange Risk Activities

Dominion's exposure to foreign currency exchange rates results from debt which is denominated in a currency different from the company's functional currency, the U.S. dollar. In this situation, the company is subject to gains and losses due to the relative change in the foreign currency rate of the debt versus the U.S. dollar. This risk is mitigated by entering into contracts which are denominated or indexed to the U.S. dollar. In the past, Dominion has also used currency swaps to minimize this exposure. As of December 31, 1999, no currency swaps were outstanding.

Dominion has performed sensitivity analyses to estimate its exposure to foreign-exchange market risk. If the U.S. dollar declines in value by 10% as compared to its value at December 31, 1999, the impact on the fair value of the foreign denominated debt would be insignificant. Comparatively, the same percentage decline of the U.S. dollar at December 31, 1998 would have resulted in an insignificant increase in the fair value of the foreign denominated debt.

Commodity Price Risk Non-Trading Activities

Dominion E&P is exposed to the impact of market fluctuations in the sales price it receives for its produced natural gas and oil. To reduce price risk caused by market fluctuations, Dominion E&P generally follows a policy of hedging a portion of its natural gas and oil sales commitments by selecting derivative commodity instruments whose historical price fluctuations correlate strongly with those of the production being hedged. Dominion E&P enters into options, swaps, and collars to mitigate a loss in revenues, should natural gas or oil prices decline in future production periods. Dominion E&P also mitigates price risk by entering into fixed price sale agreements with physical purchasers of natural gas.

When conducting sensitivity analysis of the change in the fair value of Dominion E&P's oil and gas portfolio which would result from a hypothetical change in the future market price of oil and natural gas, the fair value of the contracts are determined from models which take into account estimated future market prices of oil and natural gas, the volatility of the market prices in each period, as well as the time value factors of the underlying commitments. In most instances, market prices and volatility are determined from quoted prices on the futures exchange.

Dominion has determined a hypothetical change in fair value for its oil and natural gas contracts assuming a 10% unfavorable change in market prices. This hypothetical 10% change in market prices would have resulted in a decrease in fair value of approximately $20 million and $8 million as of December 31, 1999 and December 31, 1998, respectively.

The impact of a change in oil and natural gas commodity prices on Dominion E&P's oil and natural gas contracts at a point in time is not necessarily representative of the results that will be realized when such contracts are ultimately settled.

Commodity Price Risk Trading Activities

As part of its strategy to market energy from owned generation capacity and to manage related risks, Dominion Energy manages a portfolio of derivative commodity contracts held for trading purposes. These contracts are sensitive to changes in the prices of natural gas and electricity. Dominion Energy employs established policies and procedures to manage the risks associated with these price fluctuations and uses various commodity instruments, such as futures, swaps and options, to reduce risk by creating offsetting market positions. In addition, Dominion Energy seeks to use its generation capacity,

when not needed to serve electric utility service customers, to satisfy commitments to sell energy.

Under sensitivity analysis, the fair value of the portfolio is a function of the underlying commodity, contract prices and market prices represented by each derivative commodity contract. For swaps, forward contracts and options, market value reflects our best estimates considering over-the-counter quotations, time value and volatility factors of the underlying commitments. Exchange-traded futures and options are marked to market based on closing exchange prices.

Dominion Energy has determined a hypothetical loss by calculating a hypothetical fair value for each contract assuming a 10% unfavorable change in the market prices of the related commodity and comparing it to the fair value of the contracts based on market prices at December 31, 1999 and 1998. This hypothetical 10% change in commodity prices would have resulted in a hypothetical loss of approximately $5 million and $13 million in the fair value of Dominion Energy's commodity contracts as of December 31, 1999 and 1998, respectively. The commodity contracts' sensitivity to unfavorable price changes decreased in 1999 primarily due to reduced price exposure from options included in the portfolio at December 31, 1999, as compared to December 31, 1998.

The sensitivity analysis does not include the price risks associated with utility operations, including those underlying utility fuel requirements. In the normal course of business, Dominion Energy also faces risks that are either nonfinancial or nonquantifiable. Such risks principally include credit risk, which is not reflected in the sensitivity analysis above.

Equity Price Risk Activities

Dominion is subject to equity price risk due to marketable securities held as investments and in trust funds. Trust funds are maintained by Virginia Power in order to fund certain nuclear decommissioning costs.

In accordance with current accounting standards, the marketable securities are reported on the balance sheet at fair value. The following table presents descriptions of the equity securities, other than trading, held by Dominion at December 31, 1999 and 1998.

	1999		1998	
(millions)	Cost	Fair Value	Cost	Fair Value
Trading:				
Short-term marketable securities	**$1**	**$2**	$1	$1
Other than trading:				
Marketable securities	**$134**	**$126**	$165	$169
Nuclear decommissioning trust investments	**$274**	**$565**	$252	$470

Other Risk Management Factors and Matters

Foreign Risks

Dominion's investment in Corby, a generation project in the United Kingdom, and a significant portion of DEI's operations are located in foreign countries. DEI's foreign operations include interests in Latin American power production included in Dominion Energy and certain Canadian activities included in Dominion E&P. These investments represent primarily investments in affiliates which own energy-related production, generation and transmission facilities. Dominion is exposed to foreign currency risk and sovereignty risk with respect to these investments. Sovereignty risk relates to losses due to actions initiated by foreign governments that preclude actions by Dominion to mitigate such losses. Dominion seeks to manage this risk by limiting its exposure in any single country and by limiting its investments to those countries and regions where it believes these risks are less significant.

The sale of DEI's interests in Belize and Peru in November 1999 and the pending completion of the sale of its interests in Argentina and Bolivia in 2000 will reduce Dominion's exposure to foreign currency and sovereignty risk.

Financial Service Business Risk

Dominion Capital manages a number of risks in its operations in addition to interest rate risk as discussed above. Its lending groups are concerned with credit risks, loan loss reserves, prepayments, and oil and natural gas market fluctuations.

Credit risks are managed by:

- experienced management and effective underwriting policies and procedures;
- controlling the average loan size;
- geographic diversification of the portfolio;
- compensating for risk grade by lowering loan to values and higher interest rates; and
- servicing and quality control efforts.

Commercial credit risks are managed by:

- diversification of clients by industry classification;
- primarily maintaining first position in collateralized assets;
- underwriting by experienced professionals and effective underwriting policies and procedures; and
- portfolio monitoring and credit collection.

Dominion Capital's mortgage investments are adversely impacted by increases in the rate at which home equity loans prepay. Accordingly, Dominion Capital actively manages this risk by:

- including prepayment penalties, when possible, as part of loan structure;
- aggressively enforcing premium recapture provisions with sellers of mortgage loans;
- limiting the acquisition of below market (teaser) start rates on adjustable rate mortgages to those covered by prepayment penalties; and
- constructing prudent valuation assumptions based on historical prepayment rates globally and within the company.

The market price of natural gas assets are monitored and coverages are maintained in the underwriting structures of Dominion Capital's loan assets as well as oil and gas hedges.

Notes to Consolidated Financial Statements

NOTE A: Nature of Operations

General Organization and Legal Description Dominion Resources, Inc. (Dominion or the Company) is a holding company headquartered in Richmond, Va. Its principal subsidiary is Virginia Electric and Power Company (Virginia Power), which is a regulated public utility. Virginia Power is engaged in the generation, transmission, distribution and sale of electric energy within a 30,000 square mile area in Virginia and northeastern North Carolina. It sells electricity to retail customers (including government agencies) and to wholesale customers such as rural electric cooperatives, power marketers and municipalities. The Virginia service area comprises about 65 percent of Virginia's total land area, but accounts for 80 percent of its population. Virginia Power engages in off-system wholesale purchases and sales of electricity and purchases and sales of natural gas beyond the geographic limits of its service territory.

Dominion's subsidiary, Dominion Energy, Inc. (DEI), is engaged in independent power production and oil and gas exploration, development and production. Some of the independent power and natural gas and oil businesses are located in foreign countries. In Latin America, DEI is engaged in power generation. See Note (V) for information about the sale of such interests. In Canada, DEI is engaged in natural gas exploration, production and storage. Including the Latin American power generation assets being sold in 2000, DEI's net investment in foreign operations was approximately $277 million at December 31, 1999.

Dominion Capital, Inc. (Dominion Capital) is Dominion's financial services subsidiary. Dominion Capital's primary business includes commercial lending, merchant banking, asset management and residential mortgage lending.

Dominion's United Kingdom subsidiary, Dominion U.K. Holding, Inc., owns an 80% interest in Corby Power Station (Corby), a 350-megawatt natural gas-fired power station located in Northamptonshire, about 90 miles north of London. Until mid-1998, this subsidiary also owned East Midlands Electricity, plc (East Midlands), an electricity distribution and supply company in the United Kingdom.

Dominion evaluates its businesses along functional lines rather than legal entities. The functional segments include Dominion Delivery (representing the regulated transmission and distribution operations of Virginia Power); Dominion Energy (including the generation-related operations of Virginia Power and DEI); Dominion E&P (representing oil and gas exploration and production activities); Dominion Capital (consistent with legal entity described above); and Corporate Operations (including general corporate items as well as Corby).

In 1999, Dominion announced its merger with Consolidated Natural Gas Company (CNG) which closed on January 28, 2000. As a result, Dominion became a registered holding company under the Public Utility Holding Company Act of 1935 (the 1935 Act). See Note (X) for further discussion.

NOTE B: Significant Accounting Policies

General The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Consolidated Financial Statements include the accounts of Dominion and its subsidiaries. In consolidation, all significant intercompany transactions and accounts have been eliminated.

Accounting for the utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by federal agencies and the commissions of the states in which the utility business operates.

As discussed in Dominion's Form 8-K, filed March 29, 1999, Virginia Power discontinued the application of Statement of Financial Accounting Standards No. 71 (SFAS No. 71), *Accounting for the Effects of Certain Types of Regulation,* to its generation operations. The effect thereof was an after-tax charge of $255 million. See Note (C).

In connection with the discontinuance of SFAS No. 71, for its utility generation operations, Dominion prospectively changed certain of its accounting policies to those used by nonregulated entities. These policy changes primarily relate to the capitalization of interest on and depreciation of generation-related property. Dominion also reevaluated the economic useful life estimates of its generation-related property in light of the scheduled deregulation of the generation business in Virginia. In addition, Dominion no longer provides for the cost of removal in its provision for depreciation of generation-related utility property, as prescribed by regulatory accounting practices. Effective April 1999, such costs are expensed as incurred. Also, Dominion no longer records retirements of generation-related utility property by charging accumulated depreciation. Rather, Dominion records gains and losses upon retirement of such property based upon the difference between proceeds received, if any, and the property's undepreciated basis at the retirement date. The overall impact of these changes was not material to Dominion's results of operations and financial condition.

Earnings per share Basic earnings per common share are calculated by dividing net income by the average number of common shares outstanding during the year. Under Statement of Financial Accounting Standards No. 128, *Earnings Per Share,* and Emerging Issues Task Force (EITF) Topic No. D-72, *Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings Per Share,* diluted earnings per share includes an adjustment to reflect the cost incurred under a total return equity swap associated with Dominion's repurchase of Dominion common stock. The adjustment reduced basic earnings per share by $0.07. For more information on the transaction, see Note (P).

Revenue Revenue is recorded on the basis of services rendered, commodities delivered or contracts settled and include amounts yet to be billed to customers. Revenues from trading activities include realized commodity contract revenues, net of related cost of sales, amortization of option premiums, and unrealized gains and losses resulting from marking to market those commodity contracts not yet settled. Dividend income on securities owned is recognized on the ex-dividend date. Interest income is accrued on the unpaid principal balance.

Fuel, Net Fuel, net includes the cost of fossil fuel and nuclear fuel used in electric generation and purchased energy used to serve electric sales. It also includes the cost of purchased energy associated with power marketing sales subject to cost of service rate regulation.

Approximately 95% of Virginia Power's rate regulated fuel costs are subject to deferral accounting. Deferral accounting provides that the difference between reasonably incurred actual expenses and the level of expenses included in current rates is deferred and matched against future revenues. Fuel, net includes the effect of this deferral accounting and may therefore show expenses that are marginally higher or lower than the actual cost of fuel consumed during the period.

Investments in Affiliates Investments in common stocks of affiliates representing 20% to 50% ownership, and joint ventures and partnerships representing generally 50% or less ownership interests, are accounted for under the equity method.

Dominion also uses the equity method when accounting for its 80% investment in Corby, as the Company believes that Corby's governing agreements give substantive participating rights to the minority shareholder. Corby owns and operates a 350-megawatt gas-fired power station in England. At December 31, 1999, Corby's assets and liabilities were as follows: current assets of $40 million, current liabilities of $31 million, non-current assets of $263 million, and non-current liabilities of $232 million. Corby had total revenues of $137 million and total expenses (including interest and taxes) of $122 million in 1999.

Goodwill Goodwill is the excess of the cost of net assets acquired in business combinations over their fair value. It is amortized on a straight-line basis over periods ranging from 20 to 40 years. Goodwill is evaluated for impairment at least annually.

Property, Plant and Equipment Property, plant and equipment is recorded at original cost, which includes labor, materials, services, and other indirect costs.

The cost of acquisition, exploration and development of natural resource properties is accounted for under the successful efforts method.

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset and is depreciated over the asset's estimated useful life. In 1999, 1998 and 1997, $30 million, $10 million and $4 million of interest cost was capitalized, respectively.

Depreciation, Depletion and Amortization Depreciation of power generation plant (other than nuclear fuel) is computed using the straight-line method based on projected useful service lives. For Virginia Power's transmission and distribution assets, which remain subject to SFAS No. 71, the cost of depreciable utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation. The provision for depreciation applicable to utility operations resulted in a weighted average rate of 3.2% for 1999, 1998 and 1997.

Owned nuclear fuel is amortized on a unit-of-production basis sufficient to amortize fully, over the estimated service life, the cost of the fuel plus permanent storage and disposal costs.

Natural gas properties are depleted using the units-of-production method.

Federal Income Taxes Dominion and its subsidiaries file a consolidated federal income tax return.

Deferred income taxes are provided for all significant temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates in accordance with SFAS No. 109, *Accounting for Income Taxes.* Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in future periods. The regulatory treatment of temporary differences can differ from the requirements of SFAS No. 109. Accordingly, a regulatory asset has been recognized if it is probable that future revenues will be provided for the payment of deferred tax liabilities.

Dominion accounts for investment tax credits related to utility plant subject to cost-based regulation under the "deferral method," which provides for the amortization of these credits over the service lives of the property giving rise to the credits.

Regulatory Assets The financial statements reflect assets and costs in accordance with SFAS No. 71 and related literature. SFAS No. 71 provides that certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets. Regulatory assets represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process. See Notes (C) and (E) for information on regulatory assets and the impact of legislation on continued application of SFAS No. 71.

Foreign Currency Translation Dominion translates foreign currency financial statements by adjusting balance sheet accounts using the exchange rate at the balance sheet date and income statement accounts using the average exchange rate for the year. Translation gains and losses are recorded in shareholders' equity as a component of accumulated other comprehensive income. Gains and losses resulting from the settlement of transactions in a currency other than the functional currency are reflected in income.

Amortization of Debt Issuance Costs Dominion defers and amortizes any expenses incurred in the issuance of long-term debt, including premiums and discounts associated with such debt, over the lives of the respective issues. Any gains or losses resulting from the refinancing of debt allocable to utility operations that are subject to cost-based regulation are also deferred and amortized over the lives of the new issues of long-term debt as permitted by regulatory commissions. In addition, gains or losses resulting from the redemption of debt allocable to utility operations that are subject to cost-based regulation without refinancing are amortized over the remaining lives of the redeemed issues.

Investment Securities Dominion accounts for and classifies investments in equity securities that have readily determinable fair values and for all investments in debt securities based on management's intent. The investments are classified into three categories and accounted for in the following manner: Debt securities which are intended to be held to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities purchased and held with the intent of selling them in the current period are classified as trading securities and are reported at fair value with unrealized gains and losses included in earnings. Debt and equity securities that are neither held-to-maturity or trading are classified as available-for-sale securities. These are reported at fair value with unrealized gains and losses reported in shareholders' equity, as a component of accumulated other comprehensive income, net of tax. However, for a discussion of the treatment for securities held in nuclear decommissioning trusts and classified as available for sale, see Note (H).

Mortgage Investments Mortgage investments at December 31, 1999 consist of subordinated bonds and interest-only strips retained at securitization of the mortgage loans. In accordance with SFAS No. 134, *Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise,* mortgage investments are classified as available for sale as defined by SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* Changes in the fair value of the mortgage investments are reported in accumulated other comprehensive income. Fair value of the residual is analyzed quarterly on a security level stratum, further disaggregated between the fixed rate and adjustable rate pieces of interest-only strips to determine whether prepayment experience, losses and changes in the interest rate environment have had an impact on the valuation. Expected cash flows of the underlying loans sold are reviewed based upon current economic conditions and the type of loans originated and are revised as necessary.

Mortgage Loans in Warehouse Mortgage loans in warehouse consist of mortgage loans secured by single family residential properties. Any price premiums or discounts on mortgage loans, including any capitalized costs or deferred fees on originated loans, are deferred as an adjustment to the cost of the loans and are therefore included in the determination of any gains or losses on sales of the related loans. Mortgage loans in warehouse are carried at the lower of cost or market value.

Loans Receivable, Net and Finance Receivables Held for Sale Loans receivable and finance receivables held for sale are stated at their outstanding principal balance, net of the allowance for credit losses and any deferred fees or costs. Origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield of the related loans receivable.

The allowance for credit losses is established through provisions for credit losses charged against income. Loans and finance receivables deemed to be uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are credited to the allowance. At December 31, 1999 and 1998, the allowance for credit losses for loans receivable, net was $47 million.

Gain on Sale of Loans Gain on sale of loans represents the present value of amounts based on the difference between the interest rate received on the mortgage loans and the interest rate received by the investor in the securities after considering the effects of estimated prepayments, credit losses, costs to service the mortgage loans, and non-refundable fees and premiums on loans sold. Gains on the sale of loans are recognized on the settlement date and are based on the relative fair market value of the portion sold and retained. Concurrently with recognizing such gain on sale, a corresponding asset representing interest-only strips retained at securitization is recorded based on the net present value of the projected cash flows. The asset, which is classified as available for sale, is amortized in proportion to the estimated income received.

Loan Servicing Rights SFAS No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* (SFAS No. 125) requires that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans. Mortgage servicing rights are recorded when purchased or when mortgage loans are originated and subsequently sold or securitized with the servicing rights retained. The total cost of the mortgage loans is allocated to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. The cost of servicing rights is capitalized and amortized in proportion to, and over the period of, estimated future net servicing income.

In order to determine the fair value of the servicing rights, the company uses market prices under comparable servicing sales contracts, or alternatively, it uses a valuation model that calculates the present value of future cash flows.

In accordance with SFAS No. 125, the company assesses the impairment of the capitalized mortgage servicing portfolio based on the fair value of those rights, and any impairment is recognized through a valuation allowance.

Mortgage loans serviced require regular monthly payments from borrowers. Income on loan servicing is generally recorded as payments are collected and is based on a percentage of the principal balance of loans serviced. Loan servicing expenses are charged to operations when incurred.

Derivatives—Other Than Trading Dominion utilizes futures and forward contracts and derivative instruments, including swaps, caps and collars, to manage exposure to fluctuations in interest rates, foreign currency exchange rates, lease payments, and natural gas and electricity prices.

These futures, forwards and derivative instruments are deemed effective hedges when the item being hedged and the underlying financial or commodity instrument show strong historical correlation. Dominion uses deferral accounting to account for futures, forwards and derivative instruments which are designated as hedges. Under this method, gains and losses (including the payment of any premium) related to effective hedges of existing assets and liabilities are recorded on the balance sheet and recognized in earnings in conjunction with earnings of the designated asset or liability. Gains and losses related to effective hedges of firm commitments and anticipated transactions are included in the measurement of the subsequent transaction. Cash flow from derivatives designed as hedges are reported in *Net cash flow from operating activities.*

Derivatives—Trading The fair value method, which is used for those derivative transactions which do not qualify for settlement or deferral accounting, requires that derivatives are carried on the balance sheet at fair value, with changes in that value recognized in earnings or stockholder's equity. As part of Dominion's strategy to market energy from its generation capacity and to manage the risks related thereto, it enters into contracts for the purchase and sale of energy commodities. Dominion uses the fair value method for its trading activities.

Options, swaps and futures contracts are marked to market with resulting gains and losses reported in earnings. Forward contracts, initiated for trading purposes, are also marked to market with resulting gains and losses reported in earnings. For swaps, forward contracts, and options, market value reflects management's best estimates considering over-the-counter quotations, time value and volatility factors of the underlying commitments. Exchange-traded futures and options are marked to market based on closing exchange prices.

Commodity contracts representing unrealized gain positions are reported as *Commodity contract assets;* commodity contracts representing unrealized losses are reported as *Commodity contract liabilities.* In addition, purchased options and options sold are reported as *Commodity contract assets* and *Commodity contract liabilities,* respectively, at estimated market value until exercise or expiration. Realized commodity contract revenues, net of related cost of sales, settlement of futures contracts, amortization of option premiums, and unrealized gains and losses resulting from marking positions to market are included in *Operating revenue and income—Other.* Cash flow from trading activities is reported in *Net cash flow from operating activities.*

Other Derivatives Dominion uses total return swaps to accumulate loans and securities for future sale as collateralized debt obligation securities. Gains and losses from the settlements and sale of total return swaps are recorded as *Operating revenue and income—Other.* Total return swaps are marked to market with the corresponding unrealized gains and losses also recorded in *Operating revenue and income—Other.* Cash flow from total return swaps are reported in *Net cash flow from operating activities.*

Dominion has used total return equity swaps to reacquire shares of its outstanding common stock. Dominion has the option to settle any price fluctuation settlement requirements and fees with the third party counterparty in either cash or shares of common stock. Due to Dominion's ability to issue shares to resolve settlement issues with respect to the swap, Dominion records all amounts received or paid under this arrangement as either increases or decreases to equity.

The net of amounts paid and amounts received under interest rate swaps is reported as interest expense in the Consolidated Statement of Income.

Cash Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 1999 and 1998, accounts payable included the net effect of checks outstanding but not yet presented for payment of $61 million and $58 million, respectively.

For purposes of the Consolidated Statements of Cash Flows, Dominion considers cash and cash equivalents to include cash on hand and temporary investments purchased with a maturity of three months or less.

Reclassification Certain amounts in the 1998 and 1997 Consolidated Financial Statements have been reclassified to conform to the 1999 presentation.

NOTE C: Extraordinary Item and 1998 Rate Settlement

Extraordinary Item—Discontinuance of SFAS No. 71

During its 1998 session, the Virginia legislature passed a law that required a transition to retail competition between January 1, 2002 and January 1, 2004, but left the details as to how that would be accomplished to future enabling legislation.

In March 1999, the Governor of Virginia signed into law legislation establishing a detailed plan to restructure the electric utility industry in Virginia. The major elements of the bill included:

- Phase-in of retail customer choice beginning in 2002 with full retail customer choice by 2004; the schedule is to be determined by the Virginia Commission, which has the authority to accelerate or delay implementation under certain conditions; however, the phase-in of retail customer choice may not be delayed beyond January 1, 2005;
- No mandatory divestiture of generating assets;
- Deregulation of generation in 2002;
- Capped base rates from January 1, 2001 to July 1, 2007;
- Recovery of net stranded costs through capped rates or a wires charge paid by those customers opting, while capped rates are in effect, to purchase energy from a competitive supplier;
- Cost-based recovery of fuel expenses until July 2007;
- Consumer protection safeguards;
- Establishment of default service beginning January 1, 2004; and
- Creation of a Legislative Transition Task Force to oversee the implementation of the statute.

Under this legislation, Virginia Power's base rates will remain unchanged until July 2007 and recovery of generation-related costs will continue to be provided through the capped rates. In addition, under companion legislation enacted by Virginia in 1999, providers of electric service will be subject to corporate income taxes in lieu of gross receipts taxes, effective in 2001.

As discussed in Note (B), Dominion's financial statements reflect regulatory assets and liabilities under cost-based rate regulation in accordance with SFAS No. 71. Rate-regulated companies are required to write off regulatory assets against current earnings whenever changes in facts and circumstances result in those assets no longer satisfying criteria for recognition as defined by SFAS No. 71. The legislation's deregulation of generation was an event that required discontinuation of SFAS No. 71 for utility generation operations. Virginia Power's transmission and distribution operations continue to meet the criteria for recognition of regulatory assets and liabilities as defined by SFAS No. 71. In addition, fuel continues to be subject to deferral accounting.

In order to measure the amount of regulatory assets to be written off, Virginia Power evaluated to what extent recovery of regulatory assets would be provided through the capped rates during the transition period. EITF Issue No. 97-4, "Deregulation of the Pricing of Electricity Issues Related to the Application of FASB Statements No. 71, *Accounting for the Effects of Certain Types of Regulation,* and No. 101, *Regulated Enterprises—Accounting for the Discontinuance of Application of FASB Statement No. 71"* (EITF Issue 97-4), provides guidance about writing off regulatory assets when SFAS No. 71 is discontinued for only a portion of a utility's operations. The provisions of the Virginia legislation provide an opportunity to recover generation-related costs, including certain regulatory assets, through capped rates prior to July 2007. Under EITF Issue 97-4, such generation-related regulatory assets will continue to be recognized until they are recovered through capped rates. Generation-related assets and liabilities that will not be recovered through the capped rates were written off in the first quarter of 1999, resulting in an after-tax charge to earnings of $255 million. This amount also included the write-off of regulatory assets previously assigned to wholesale requirements customers. See Note (E) for further discussion of net regulatory assets at December 31, 1999.

In addition to the write-off of generation-related net regulatory assets, the $255 million charge included a write-off of approximately $18 million, after-tax, of other generation-related assets. Pursuant to EITF Issue 97-4, a corresponding regulatory asset of $23 million, representing the amount expected to be recovered during the transition period related to these assets, was established. The extraordinary item also included the write-off of approximately $38 million, after-tax, of deferred investment tax credits.

The events or changes in circumstances that cause discontinuance of SFAS No. 71, and write-off of regulatory assets, also require a review of utility plant assets and long-term power purchase contracts for possible impairment. This review was based on estimates of possible future market prices, load growth, competition and many other assumptions. Virginia Power evaluated its generation assets in accordance with the provisions of SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* Those evaluations included the effects of nuclear decommissioning and other currently identified environmental expenditures. Based on those analyses which were highly dependent on the underlying assumptions, no plant write-downs were appropriate at that time.

Virginia Power reviewed its long-term power purchase commitments for potential loss in accordance with SFAS No. 5, *Accounting for Contingencies,* and Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing.* Based on projections of possible future market prices for wholesale electricity, the results of the analyses of the Company's long-term power purchase contracts indicated no loss recognition is appropriate at this time. Other projections of possible future market prices indicated a possible loss of $500 million. In the absence of capped rates as provided by the legislation, the potential exposure related to Virginia Power's power purchase contracts would have otherwise been approximately $3.2 billion.

Significant estimates were required in recording the effect of the deregulation legislation, including the resulting impact on the fair value determination of generating facilities and estimated purchases under long-term power purchase contracts. Such projections are highly dependent on customer load projections, generating unit availability, the timing and type of future capacity additions in Virginia Power's market area, and market prices for fuel and electricity. The projections are subject to re-evaluation.

Virginia 1998 Rate Settlement

In 1998, Virginia Power reached a settlement with the Virginia Commission to resolve then outstanding rate proceedings. The settlement provided for the following:

- A two-phased base rate reduction: $100 million per annum beginning March 1, 1998 with one additional $50 million per annum reduction beginning March 1, 1999;
- A base rate freeze through February 28, 2002 unless a change is necessary to protect the legitimate interests of the Company, its shareholder or ratepayers;
- An immediate, one-time refund of approximately $150 million for the period March 1, 1997 through February 28, 1998;
- A discontinuation of deferral accounting for purchased power capacity expenses effective February 28, 1998;
- A write-off of a minimum of $220 million of regulatory assets in addition to normal amortization by February 28, 2002.

Due to the required write-off of a minimum of $220 million of regulatory assets in addition to normal amortization thereof during the rate freeze period, Dominion evaluated regulatory assets for potential impairment under SFAS No. 71. Based on the uncertainty of Virginia Power's earnings potential for regulatory purposes during the rate freeze period, management could no longer conclude that recovery of the $220 million was probable. Previously identified reductions in operating costs of $38 million in 1997 and $27 million in 1996 were used to establish a reserve for potential impairment of regulatory assets. Accordingly, Dominion charged $159 million to second quarter 1998 earnings, which when combined with the reserve for accelerated cost recovery accrued in 1996 and 1997, provided for the impairment of regulatory assets resulting from the settlement.

NOTE D: Taxes

Income before provision for income taxes was as follows:

Year ended December 31, (millions)	1999	1998	1997
U.S.	**$792**	$397	$713
Non-U.S.	**36**	472	(34)
Total	**$828**	$869	$679

The provision for income taxes, classified by the timing and location of payment, was as follows:

At December 31, (millions)	1999	1998	1997
Current:			
U.S.	**$187**	$153	$222
State	**18**	25	9
Non-U.S.	**4**	101	25
Total Current	**209**	279	256
Deferred:			
U.S.	**64**	24	22
State		(3)	
Non-U.S.	**1**	23	(28)
Total Deferred	**65**	44	(6)
Amortization of deferred investment tax credits—net	**(15)**	(17)	(17)
Total Provision	**$259**	$306	$233

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

Year ended December 31,	1999	1998	1997
U.S. statutory rate	**35.0%**	35.0%	35.0%
Utility plant differences	**0.3**	3.0	0.9
Preferred dividends of Virginia Power	**1.6**	1.4	1.5
Amortization of investment tax credits	**(1.8)**	(1.9)	(2.0)
Nonconventional fuel credit	**(4.4)**	(2.8)	(3.0)
UK windfall profits tax	**0.0**	0.0	12.1
Other—benefits and taxes related to foreign operations	**(0.2)**	(0.1)	3.6
State taxes net of federal benefit	**1.5**	1.5	0.7
Other, net	**(0.7)**	(0.9)	(2.2)
Effective tax rate	**31.3%**	35.2%	46.6%

The effective income tax rate includes state and foreign income taxes. The effective income tax rate was higher in 1997 due to the one-time windfall profits tax at East Midlands.

The 1999 United Kingdom corporate income tax rate was 30%, compared to 31% and 33% in 1998 and 1997, respectively. Income tax expense from continuing operations for 1998 has been reduced by $8 million to reflect the decrease in deferred tax liabilities resulting from the 1% decrease in the corporate tax rate. Income tax expense from continuing operations in 1997 has been reduced by $16 million to reflect the decrease in deferred tax liabilities resulting from the 2% decrease in the corporate tax rate.

Dominion's net noncurrent deferred tax liability is attributable to:

At December 31, (millions)	1999	1998
Assets:		
Deferred investment tax credits	**$ 52**	$ 78
Total deferred income tax asset	**52**	78
Liabilities:		
Depreciation method and plant basis differences	**1,485**	1,498
Income taxes recoverable through future rates	**20**	155
Partnership basis differences	**159**	168
Other	**87**	50
Total deferred income tax liability	**1,751**	1,871
Net deferred income tax liability	**$1,699**	$1,793

NOTE E: Regulatory Assets

Regulatory assets included the following:

At December 31, (millions)	1999	1998
Income taxes recoverable through future rates	**$ 57**	$439
Cost of decommissioning DOE uranium enrichment facilities	**55**	62
Deferred losses on reacquired debt, net	**15**	31
Deferred fuel	**63**	28
Other	**31**	60
Total	**$221**	$620

The incurred costs underlying these regulatory assets may represent expenditures by Virginia Power or may represent the recognition of liabilities that ultimately will be settled at some time in the future. See Note (C) for information about the write-off of regulatory assets that resulted from 1999 deregulation legislation and the settlement of Virginia Power's 1998 Virginia rate proceeding.

Income taxes recoverable through future rates represent principally the tax effect of depreciation differences not normalized in earlier years for rate-making purposes. These amounts are amortized as the related temporary differences reverse. Such amounts are net of related regulatory liabilities and $43 million associated with deferred income taxes which were established at rates in excess of the current federal rate and are subject to Internal Revenue Code normalization requirements.

The costs of decommissioning the Department of Energy's (DOE) uranium enrichment facilities represents the unamortized portion of Virginia Power's required contributions to a fund for decommissioning and decontaminating DOE's uranium enrichment facilities. Virginia Power is making such contributions over a 15-year period with escalation for inflation. These costs are currently being recovered in fuel rates.

Where permitted by appropriate regulatory jurisdictions for the portion of Virginia Power's operations that remain subject to cost-based regulation, losses on reacquired debt are deferred and amortized over the lives of the new issues of long-term debt. Gains or losses resulting from the redemption of debt without refinancing are amortized over the remaining lives of the redeemed issues.

Deferred fuel accounting provides that the difference between reasonably incurred actual expenses and the recovery for such costs included in current rates is deferred and matched against future revenue.

NOTE F: Property, Plant and Equipment

Major classes of property, plant and equipment and their respective balances are:

At December 31, (millions)	1999	1998
Utility:		
Production	**$ 7,758**	$ 7,714
Transmission	**1,517**	1,422
Distribution	**4,835**	4,682
Other electric	**901**	941
Plant under construction	**677**	449
Nuclear fuel	**801**	816
Total utility	**16,489**	16,024
Nonutility:		
Natural gas properties	**1,127**	710
Independent power properties	**811**	1,190
Other	**219**	182
Total nonutility	**2,157**	2,082
Total property, plant and equipment	**$18,646**	$18,106

When Virginia Power's nuclear units cease operations, it is obligated to decontaminate or remove radioactive contaminants so that the property will not require Nuclear Regulatory Commission (NRC) oversight. This phase of a nuclear power plant's life cycle is termed decommissioning. While the units are operating, amounts are currently being collected from ratepayers that, when combined with investment earnings, will be used to fund this future obligation. These dollars are deposited into external trusts through which the funds are invested.

The total estimated cost to decommission the four nuclear units is currently estimated at $1.6 billion based on a site-specific study that was completed in 1998. The cost estimate assumes that the method of completing decommissioning activities is prompt dismantlement. This method assumes that dismantlement and other decommissioning activities will begin shortly after cessation of operations, which under current operating unit licenses will begin in 2012, 2013, 2018 and 2020. The balance in the external trusts available for decommissioning was $818 million at December 31, 1999.

The amount being accrued for decommissioning is equal to the amount being collected from ratepayers and is included in depreciation, depletion and amortization expense. The decommissioning collections were $36 million per year for the period 1997 through 1999. However, an additional $10 million was expensed in 1997 based on an expected increase in the decommissioning collections for 1997 as provided in Virginia Power's rate case then pending before the Virginia Commission. Since the Virginia rate case settlement did not include such an increase, the 1998 expense provision was decreased by $10 million. Therefore, the expense levels were $36 million, $26 million and $46 million in 1999, 1998 and 1997, respectively.

Net earnings of the trusts' investments are included in *Other income*. In 1999, 1998 and 1997, net earnings were $17 million, $18 million and $21 million, respectively. The accretion of the decommissioning obligation is equal to the trusts' net earnings and is also recorded in *Other income*.

The accumulated provision for decommissioning, which is included in *Accumulated depreciation, depletion and amortization* in the Consolidated Balance Sheets, includes the accrued expense and accretion described above and any unrealized gains and losses on the trusts' investments. At December 31, 1999, the net unrealized gains were $291 million, which is an increase of $60 million over the December 31, 1998 amount of $231 million. The accumulated provision for decommissioning at December 31, 1999 was $818 million. It was $705 million at December 31, 1998.

The NRC requires nuclear power plant owners to annually update minimum financial assurance amounts for the future decommissioning of the nuclear facilities. Virginia Power's 1999 NRC minimum financial assurance amount, aggregated for the four nuclear units, was $1.0 billion. Financial assurance is provided by a combination of surety bonds and the funds being collected and funded in the external trusts.

The Financial Accounting Standards Board (FASB) is reviewing the accounting for nuclear plant decommissioning. FASB has tentatively determined that the estimated cost of decommissioning should be reported as a liability rather than as accumulated depreciation and that a substantial portion of the decommissioning obligation should be recognized earlier in the operating life of the nuclear unit. During its deliberations, FASB expanded the scope of the project to include similar unavoidable obligations to perform closure and post-closure activities for other long-lived assets, possibly including non-nuclear power plants. Any forthcoming standard may also impact regulated utility plant depreciation practices, the impact of which cannot be determined at this time.

The following information relates to Virginia Power's proportionate share of jointly owned utility plants at December 31, 1999.

	Bath County Pumped Storage Station	North Anna Power Station	Clover Power Station
Ownership interest	**60.0%**	**88.4%**	**50.0%**
(millions)			
Plant in service	**$1,069**	**$1,824**	**$536**
Accumulated depreciation	**274**	**1,066**	**56**
Nuclear fuel		**361**	
Accumulated amortization of nuclear fuel		**334**	
Construction work in progress		**61**	**3**

The co-owners are obligated to pay their share of all future construction expenditures and operating costs of the jointly owned facilities in the same proportions as their respective ownership interest. Such operating costs are classified in the appropriate expense category in the Consolidated Statements of Income.

NOTE G: Short-Term Debt and Credit Agreements

Dominion and its subsidiaries have credit agreements with various expiration dates. Dominion and its subsidiaries pay fees in lieu of compensating balances in connection with these credit agreements. These agreements provided for maximum borrowings of $5.1 billion and $4.6 billion at December 31, 1999 and 1998, respectively. At December 31, 1999 and 1998, $2.3 billion and $1.2 billion, respectively, was borrowed under such agreements.

Dominion and its subsidiaries' credit agreements supported $1.2 billion and $297 million of commercial paper at December 31, 1999 and 1998, respectively. A total of $813 million and $222 million of the commercial paper was classified as short-term in 1999 and 1998, respectively. A significant portion of the commercial paper is supported by credit agreements that have expiration dates extending beyond one year. Therefore, a total of $364 million and $75 million of the commercial paper was classified as long-term in 1999 and 1998, respectively. These borrowings are used primarily to fund operational needs at Dominion and its subsidiaries. For discussion of interim financing associated with the CNG merger, see Note (X).

A summary of the amounts that are classified as short-term debt at December 31 follows:

	1999		1998	
(millions, except percentages)	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Commercial paper	**$813**	**5.3%**	$222	5.4%
Term-notes	**57**	**9.7%**	79	7.8%
Total	**$870**		$301	

NOTE H: Investment Securities

Securities classified as available-for-sale as of December 31 follow:

Security Type (millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
1999				
Equity	**$134**	**$ 2**	**$10**	**$126**
Debt	**$396**		**$10**	**$386**
1998				
Equity	$ 165	$11	$ 7	$ 169
Debt	$ 333		$ 2	$ 331

Debt securities held at December 31, 1999 do not have stated contractual maturities because borrowers have the right to call or repay obligations with or without call or prepayment penalties.

For the years ended December 31, 1999 and 1998, the proceeds from the sales of available-for-sale securities were $35 million and $40 million, respectively. The gross realized gains were $5 million and $3 million for 1999 and 1998, respectively. The gross realized loss for 1998 was $1 million. The basis on which the cost of these securities was determined is specific identification. The changes in net unrealized holding gains and losses on available-for-sale securities have resulted in a decrease in the separate component of shareholders' equity during the years ended December 31, 1999 and 1998 of $17 million, net of tax, and $6 million, net of tax, respectively. The changes in net unrealized holding gains and losses on trading securities increased earnings during the years ended December 31, 1999 and 1998 by $1 million and $9 million, respectively.

For a discussion of investment securities held in nuclear decommissioning trusts, see Note (F).

NOTE I: Fair Value of Financial Instruments

The fair value amounts of Dominion's financial instruments have been determined using available market information and valuation methodologies deemed appropriate in the opinion of management. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market estimation assumptions may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents The carrying amount of these items is a reasonable estimate of their fair value.

	Carrying Amount		Estimated Fair Value	
At December 31, (millions)	**1999**	1998	**1999**	1998
Assets:				
Cash and cash equivalents	**$ 280**	$ 426	**$ 280**	$ 426
Trading securities	**2**	1	**2**	1
Mortgage loans in warehouse	**119**	140	**119**	146
Commodity-based swaps and options, trading	**6**	6	**10**	10
Available-for-sale securities	**512**	500	**512**	500
Loans and notes receivable and finance receivables held for sale	**2,131**	1,722	**2,131**	1,768
Nuclear decommissioning trust funds	**818**	705	**818**	705
Liabilities:				
Short-term debt	**870**	301	**870**	301
Commodity-based swaps and options, trading	**5**	9	**5**	9
Long-term debt	**7,317**	6,719	**7,185**	6,971
Preferred securities of subsidiary trusts	**385**	385	**359**	430
Preferred stock	**180**	180	**181**	186
Loan commitments			**937**	762
Unrecognized financial instruments:				
Forward treasury locks				2
Interest rate-swaps			**(15)**	(6)
Equity—total return swap			**(19)**	
Swaps, collars and futures contracts			**5**	23

Investment Securities and Nuclear Decommissioning Trust Funds The estimated fair value is based on quoted market prices, dealer quotes, and prices obtained from independent pricing sources.

Mortgage Loans in Warehouse The fair value of mortgage loans in warehouse is based on outstanding commitments from investors.

Commodity-Based Swaps and Options, Trading Fair value reflects the Company's best estimates considering over-the-counter quotations, time value and volatility factors of the underlying commitments.

Loans and Notes Receivable and Finance Receivables The carrying value approximates fair value due to the variable rate or term structure.

Short-Term Debt and Long-Term Debt Market values are used to determine the fair value for debt securities for which a market exists. For debt issues that are not quoted on an exchange, interest rates currently available to the company for issuance of debt with similar terms and remaining maturities are used to estimate fair value. The carrying amount of debt issues with short-term maturities and variable rates refinanced at current market rates is a reasonable estimate of their fair value.

Preferred Securities of Subsidiary Trusts The fair value is based on market quotations.

Preferred Stock The fair value of the fixed-rate preferred stock subject to mandatory redemption was estimated by discounting the dividend and principal payments for a representative issue of each series over the average remaining life of the series.

Loan Commitments The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

Total Return and Interest Rate Swaps The fair value is based upon the present value of all estimated net future cash flows, taking into account current interest rates and the creditworthiness of the swap counterparties.

Forward Treasury Lock Contracts Fair value is based on the difference between the yield at December 31, 1998 on the 30-year treasury note and such rates specified in the contracts.

Total Return Equity Swaps The fair value of the total return equity swap is estimated by obtaining quotes from brokers.

Swaps, Collars, and Futures Contracts Derivatives used by the Company to hedge its exposure to interest rate fluctuations and mitigate its exposure to future gas price fluctutations. These instruments are marked to market with any unrealized gains or losses deferred until the hedged item is sold.

NOTE J: Long-Term Debt

At December 31, (millions)	1999 Balance	1999 Interest Rate[6]	1998 Balance	1998 Interest Rate[6]
Virginia Power First and Refunding Mortgage Bonds[1]:				
1989 Series B, due 1999			$ 100	8.9%
1993 Series C, due 2000	**$ 135**	**5.9%**	135	5.9
1993 Series E, due 2001	**100**	**6.0**	100	6.0
1992 Series E, due 2002	**155**	**7.4**	155	7.4
1993 Series F, due 2002	**100**	**6.0**	100	6.0
1993 Series B, due 2003	**200**	**6.6**	200	6.6
Various series, due 2004-2007	**665**	**7.6-8.0**	665	7.6-8.0
Various series, due 2021-2025	**1,101**	**5.4-8.8**	1,125	5.4-8.8
Total First and Refunding Mortgage Bonds	**2,456**		2,580	
Other long-term debt:				
Dominion:				
Commercial paper[2]	**300**		3	
Virginia Power:				
Term notes, fixed interest rate, due 1998-2008	**422**	**5.7-10.0**	563	5.7-10.0
Various series, due 2004-2038	**375**	**6.7-7.1**	150	7.1
Tax exempt financings[3]:				
Money market municipals, due 2007-2027	**489**	**3.3**	489	3.5
Other, due 2022-2024	**29**	**5.4**	29	5.4
Dominion UK:				
Variable rate debt, due 1998-2007	**54**	**5.8**	55	7.6
DEI:				
Secured revolving lines of credit, variable rates, due 2002, 2005	**303**	**5.6-6.0**		
Total other long-term debt	**1,972**		1,289	
Nonrecourse nonutility:				
Dominion:				
Bank loans, due 2005-2008[5]	**18**	**5.8**	19	9.25
DEI:				
Revolving credit agreements, due 2001	**363**	**5.7-6.7**	432	5.4-6.0
Bank loans, due 1998-2024	**39**	**4.5-6.6**	45	4.5-6.6
Senior secured bonds, fixed rate, due 2020	**265**	**7.3**	265	7.3
Bonds, due 2001-2003			60	7.7-8.8
Other	**3**	**5.4**	19	9.7-9.9
Dominion Capital:				
Senior notes[4]:				
Fixed rate, due 2000-2003	**96**	**6.1-7.6**	96	6.1-7.6
Term notes, fixed rate, due 1998-2012	**159**	**6.5-12.1**	175	6.5-12.1
Line of credit, variable rate, due 1998-2000	**48**	**6.2**	118	6.2
Line of credit, fixed rate, due 2000	**44**	**6.2**		
Notes payable, due 2002-2006	**298**	**6.5**	350	6.0
Commercial paper	**64**	**5.6**	72	5.2
Revolving credit agreements	**1,492**	**5.9**	1,200	5.5-6.2
Total nonrecourse—nonutility debt	**2,889**		2,851	
Total debt	**7,317**		6,720	
Less amounts due within one year:				
First and Refunding Mortgage Bonds	**135**		100	
Term notes and Loans	**60**		221	
Nonrecourse—nonutility	**161**		122	
Total amount due within one year	**356**		443	
Less unamortized discount, net of premium	**25**		25	
Total long-term debt	**$6,936**		$6,252	

Notes:

(1) Substantially all of Virginia Power's property is subject to the lien of the mortgage, securing its First and Refunding Mortgage Bonds.

(2) See Note (G).

(3) Certain pollution control equipment at Virginia Power's generating facilities has been pledged or conveyed to secure these financings.

(4) Certain common stock owned by Dominion Capital is pledged as collateral to secure the loan.

(5) Real estate at Dominion is pledged as collateral.

(6) Interest rates are rounded to the nearest one-tenth of one-percent and consist of weighted average interest rates for variable rate debt.

Maturities (including sinking fund obligations) through 2004 are as follows (in millions): 2000-$356; 2001-$623; 2002-$753; 2003-$319; and 2004-$486.

NOTE K: Common Stock

On July 20, 1998, Dominion's Board of Directors authorized the repurchase of up to $650 million of Dominion common stock outstanding. As of December 31, 1999, Dominion had repurchased approximately 11 million shares valued at approximately $503 million. In 2000, Dominion has repurchased approximately 5 million shares of stock through the implementation of a total return swap and accelerated stock repurchase facilities. These shares were repurchased at a cost of approximately $209 million. For additional information on the total return swap, see Note (P).

Immediately before the CNG merger, Dominion concluded a first step transaction in which 33 million shares of Dominion common stock were exchanged for approximately $1.4 billion.

NOTE L: Long-Term Incentive Plan

In 1997, Dominion's Long-Term Incentive Plan (LTIP) expired and was replaced with the Dominion Resources Incentive Compensation Plan (Incentive Plan). At December 31, 1999, 1,113 options remained outstanding under the LTIP. No further awards will be made under the LTIP. The Incentive Plan provides for the granting of stock options, restricted stock and performance shares to employees of Dominion and its affiliates. The aggregate number of shares of common stock that may be issued under the Incentive Plan is 11 million. The changes in restricted share incentives and option awards under the combined plans were as follows:

	Restricted Shares	Weighted Average Price	Stock Options	Weighted Average Price	Shares Exercisable
Balance at December 31, 1996	95,779	$ 41.18	9,626	$ 29.32	9,626
Awards granted—1997	53,884	$ 35.24			
Exercised/distributed/forfeited	(44,399)	$ 39.42	(4,800)	$ 29.25	
Balance at December 31, 1997	105,264	$ 38.88	4,826	$ 29.38	4,826
Awards granted—1998	75,866	$ 39.78			
Exercised/distributed/forfeited	(83,162)	$ 38.37	(2,700)	$ 29.29	
Balance at December 31, 1998	97,968	$ 40.02	2,126	$ 29.49	2,126
Awards granted—1999	**24,758**	**$43.51**	**7,146,383**	**$41.38**	
Exercised/distributed/forfeited	**(94,113)**	**$40.71**	**(1,113)**	**$29.37**	
Balance at December 31, 1999	**28,613**	**$42.29**	**7,147,396**	**$41.37**	**7,147,396**

Under SFAS No. 123, *Accounting for Stock Based Compensation*, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service (or vesting) period. However, as permitted under SFAS No. 123, the company instead measures compensation cost in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. Under this standard, compensation cost is measured as the difference between the market price of the company's common stock and the exercise price of the option at the grant date. Accordingly, no compensation expense has been recognized for the stock option grants.

Had compensation cost associated with the stock options been determined under SFAS No. 123 based on the fair market value of the options at the grant date, such cost, net of related income taxes, would have been approximately $20 million for the year ended December 31, 1999. Basic and diluted earnings per share for the year would have decreased by $0.11 and $0.12, respectively, due to the issuance of the stock options.

The fair value of the options was estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions were used:

- expected dividend yield of 6.25%;
- expected volatility of 15.137%;
- contractual life of 10 years;
- risk-free interest rate of 6.52%; and
- expected lives of six years.

The fair values of each option at the dates of the grants were as follows:

- May 17, 1999 $4.34
- July 12, 1999 $4.59
- September 15, 1999 $4.88
- September 20, 1999 $4.90

The weighted-average fair value of options granted during 1999 was $4.35.

In 2000, Dominion instituted a third-party loan program whereby Dominion officers may borrow funds to increase their investment in the common stock of Dominion. The first subscription in this program involved approximately 1.7 million shares of common stock at a price of $41.22 per share. Dominion officers are responsible for the payment of such loans.

NOTE M: Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts

In December 1997, Dominion established Dominion Resources Capital Trust I (DR Capital Trust). DR Capital Trust sold 250,000 Capital Securities for $250 million, representing preferred beneficial interests and 97% beneficial ownership in the assets held by DR Capital Trust.

Dominion issued $258 million of 7.83% Junior Subordinated Debentures (Debentures) in exchange for the $250 million realized from the sale of the Capital Securities and $8 million of common securities of DR Capital Trust. The common securities represent the remaining 3% beneficial ownership interest in the assets held by DR Capital Trust. The Debentures constitute 100% of DR Capital Trust's assets.

In 1995, Virginia Power established Virginia Power Capital Trust I (VP Capital Trust). VP Capital Trust sold 5 million preferred securities for $135 million, representing preferred beneficial interests and 97% beneficial ownership in the assets held by VP Capital Trust.

Virginia Power issued $139 million of its 1995 Series A, 8.05% Junior Subordinated Notes (the Notes) in exchange for the $135 million realized from the sale of the preferred securities and $4 million of common securities of VP Capital Trust. The common securities represent the remaining 3% beneficial ownership interest in the assets held by VP Capital Trust. The Notes constitute 100% of VP Capital Trust's assets.

NOTE N: Preferred Stock

Dominion is authorized to issue up to 20 million shares of preferred stock; however, no such shares are issued and outstanding.

Virginia Power has authorized 10 million shares of preferred stock, $100 liquidation preference. Upon involuntary liquidation, dissolution or winding-up of Virginia Power, each share is entitled to receive $100 per share plus accrued dividends. Dividends are cumulative. Virginia Power preferred stock subject to mandatory redemption, which is non-callable prior to redemption, at December 31, 1999 was as follows:

Series	Shares Outstanding	Redemption Date
$5.58	**400,000**	**3/1/00**
$6.35	**1,400,000**	**9/1/00**
Total	**1,800,000**	

Dominion has classified the $180 million of preferred stock subject to mandatory redemption in *Securities Due Within One Year.*

There were no redemptions of preferred stock during 1997 through 1999.

As noted above, the 400,000 shares of the $5.58 Series of Preferred Stock matured on March 1, 2000.

At December 31, 1999, Virginia Power preferred stock not subject to mandatory redemption, $100 liquidation preference, is listed in the table below.

Dividend	Issued and Outstanding Shares	Entitled Per Share Upon Redemption
$5.00	**106,677**	**$112.50**
4.04	**12,926**	**102.27**
4.20	**14,797**	**102.50**
4.12	**32,534**	**103.73**
4.80	**73,206**	**101.00**
7.05	**500,000**	**105.00**[1]
6.98	**600,000**	**105.00**[2]
MMP 1/87[3]	**500,000**	**100.00**
MMP 6/87[3]	**750,000**	**100.00**
MMP 10/88[3]	**750,000**	**100.00**
MMP 6/89[3]	**750,000**	**100.00**
MMP 9/92 series A[3]	**500,000**	**100.00**
MMP 9/92 series B[3]	**500,000**	**100.00**
Total	**5,090,140**	

[1] Through 7/31/03 and thereafter to amounts declining in steps to $100.00 after 7/31/13.

[2] Through 8/31/03 and thereafter to amounts declining in steps to $100.00 after 8/31/13.

[3] Money Market Preferred (MMP) dividend rates are variable and are set every 49 days via an auction. The weighted average rates for these series in 1999, 1998, and 1997, including fees for broker/dealer agreements, were 4.82%, 4.49%, and 4.48%, respectively.

NOTE O: Retirement Plan, Postretirement Benefits and Other Benefits

In 1999 and 1998, Dominion Resources' Retirement Plan covered virtually all employees of Dominion except the majority of the employees of Dominion's U.K.-based subsidiary, East Midlands Electricity, who were covered by a separate multi-employer plan administered on behalf of the U.K. electricity industry. The Retirement Plan benefits are based on years of service and the employee's compensation. Dominion's funding policy is to contribute annually an amount that is in accordance with the provisions of the Employment Retirement Income Security Act of 1974. For the years 1998 and 1997, non-U.S. activity refers to the pension plan of East Midlands. East Midlands was sold in July 1998. Dominion and its subsidiaries, except for U.K.-based subsidiaries, provide retiree health care and life insurance benefits through insurance companies with annual premiums based on benefits paid during the year. Retiree health benefits in the United Kingdom are generally provided by the state. From time to time in the past, Dominion and its subsidiaries have changed benefits. Some of these changes have reduced benefits. Under the terms of their benefit plans, the companies reserve the right to change, modify or terminate the plans.

The components of the provision for net periodic benefit cost were as follows:

	Pension Benefits					Other Benefits		
	1999	1998		1997		**1999**	1998	1997
Year ending December 31, (millions)	U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.			
Service cost	**$ 40**	$ 32	$ 10	$ 28	$ 23	**$ 17**	$ 12	$ 13
Interest cost	**76**	71	44	64	83	**28**	24	25
Expected return on plan assets	**(93)**	(80)	(49)	(69)	(95)	**(20)**	(16)	(12)
Amortization of transition obligation						**12**	12	12
Net amortization and deferral		(1)		(1)			(1)	
Net periodic benefit cost	**$ 23**	$ 22	$ 5	$ 22	$ 11	**$ 37**	$ 31	$ 38

	Pension Benefits		Other Benefits	
	1999	1998	**1999**	1998
Change in plan assets:				
Fair value of plan assets at beginning of year	**$1,094**	$ 966	**$ 212**	$ 177
Actual return on plan assets	**232**	149	**45**	24
Contributions	**22**	22	**16**	11
Benefits paid from plan assets	**(43)**	(43)	**(1)**	
Fair value of plan assets at end of year	**1,305**	1,094	**272**	212
Expected benefit obligation at beginning of year	**1,126**	945	**377**	365
Actuarial (gain)/loss during prior period	**(13)**	(4)	**26**	(42)
Actual benefit obligation at beginning of year	**1,113**	941	**403**	323
Service cost	**40**	32	**17**	12
Interest cost	**76**	71	**28**	24
Benefits paid	**(43)**	(43)	**(18)**	(16)
Actuarial (gain)/loss during the year	**(89)**	125	**(29)**	34
Expected benefit obligation at end of year	**1,097**	1,126	**401**	377
Funded status	**208**	(32)	**(129)**	(165)
Unrecognized net actuarial (gain)/loss	**(177)**	66	**(45)**	(17)
Unamortized prior service cost	**3**	3		
Unrecognized net transition (asset)/obligation	**(12)**	(15)	**158**	170
Prepaid (accrued) benefit costs	**$ 22**	$ 22	**$ (16)**	$ (12)

Significant assumptions used in determining net periodic pension cost, the projected benefit obligation, and postretirement benefit obligations were:

	Pension Benefits			Other Benefits	
	1999	1998		**1999**	1998
	U.S.	U.S.	Non-U.S		
Discount rates	**7.50%**	7.00%	6.75%	**7.50%**	7.00%
Expected return on plan assets	**9.50%**	9.50%	7.00%	**9.00%**	9.00%
Rate of increase for compensation income	**5.00%**	5.00%	4.75%	**5.00%**	5.00%
Medical cost trend rate				**4.75%**	5% for first year 4.75% second year 4.75% thereafter

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Other Postretirement Benefits (millions)	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components for 1999	$ 6	$ (5)
Effect on postretirement benefit obligation at 12/31/99	$40	$(33)

The funds collected for other postretirement benefits in Virginia Power's regulated utility rates, in excess of other postretirement benefits actually paid during the year, are contributed to external benefit trusts. See Note (C) for a discussion of legislation that provides for the restructuring of the electric utility industry in Virginia.

NOTE P: Derivative Transactions

Dominion uses derivative financial instruments for the purposes of managing interest rate, natural gas price and foreign currency risks.

Interest Rate Risk Dominion Capital's mortgage business enters into forward delivery contracts, financial futures, options contracts, and interest rate swap agreements for the purpose of reducing exposure to the effects of changes in interest rates on mortgage loans which the company has funded or has committed to fund as well as residual interests retained. Gains and losses on such contracts relating to mortgage loans are recognized when the loans are sold. If the counterparties to the hedging transactions are unable to perform according to the terms of the contracts, Dominion Capital may incur losses upon selling the mortgage loans at prevailing prices. As of December 31, 1999 and 1998, Dominion Capital's mortgage business has outstanding liabilities related to its hedging positions with certain counterparties based on notional amounts of $3.7 billion and $1.3 billion, respectively. The deferred hedging losses, net, at December 31, 1999, 1998 and 1997 were immaterial.

Commodity Price Risk DEI enters into natural gas options, collars, and swaps as hedges against fluctuations in natural gas prices for future production periods. DEI addresses market risk by selecting natural gas-based financial instruments with historical value fluctuations that correlate strongly with those of the item being hedged. Revenues received from such contracts held until expiration are recognized in the corresponding production month for the contract. DEI has some risk, since the price received for the underlying production may exceed the reference price included in the hedging transaction. As of December 31, 1999, DEI has entered into various natural gas put options, collars, and swap contracts as hedges expiring on various dates until October 2002 on approximately 42 Bcf of natural gas. The weighted average put price per MMBTU of natural gas was $2.40. At December 31, 1998, DEI had entered into natural gas put option contracts as hedges extending through October 1999 on approximately 18 Bcf of natural gas. The weighted average put price per MMBTU of natural gas was $2.08.

In addition, as part of Dominion's strategy to market energy and to manage related risks, it manages a portfolio of derivative commodity contracts held for trading purposes. During 1999 and 1998, the portfolio included some derivative financial instruments in the form of commodity-based swaps and options. Such contracts were not material at December 31, 1999 and 1998.

Other Derivatives In 1998, Dominion entered into total return swap agreements with swap counterparties. The notional amount of the swaps is based on the purchase price of the securities to be acquired by the swap counterparties. At December 31, 1999 and 1998, the notional amounts were $249 million and $756 million, respectively. The gains or losses from the sale, settlement or mark to market of the total return swaps are recorded in *Operating revenue and income—Other* in the income statement. Earnings due to swap transactions were $18 million and $8 million in 1999 and 1998, respectively. Total return swap transactions require additional funding of or return of cash collateral resulting from decreases or increases in the fair market value of the swap position. Total return swap cash collateral is included in cash and cash equivalents on the balance sheet. Such cash collateral was $59 million at December 31, 1999, and $71 million at December 31, 1998.

During the fourth quarter of 1999, Dominion entered into a total return equity swap facility agreement (Agreement). The Agreement gave Dominion the right to direct the counterparty to purchase shares of Dominion common stock during the term of the Agreement. In addition, Dominion paid the counterparty a carrying cost equal to a LIBOR-based rate on the counterparty's cost of acquiring the shares from the date of such acquisitions until the date of settlement. Due to Dominion's ability to issue shares to settle periodic price fluctuations and fees under the Agreement, Dominion recorded all amounts received and paid as equity. As of December 31, 1999, the counterparty had acquired 3,236,805 shares of Dominion common stock under this Agreement at an aggregate cost that was approximately $19 million more than the fair market value of the shares at December 31, 1999. On February 3, 2000, Dominion settled all transactions under the Agreement and received the 3,236,805 shares at a cost of $146 million.

NOTE Q: Commitments and Contingencies

As the result of issues generated in the course of daily business, Dominion and its subsidiaries are involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies, some of which involve substantial amounts of money. Management believes that the final disposition of these proceedings will not have an adverse material effect on its operations or the financial position, liquidity or results from operations.

Utility Rate Regulation As discussed in Note (C), the Governor of Virginia signed into law legislation establishing a detailed plan to restructure the electric utility industry in Virginia. Under this legislation, Virginia Power's base rates will remain unchanged until July 2007 and recovery of generation-related costs will continue to be provided through capped rates. The legislation's deregulation of generation was an event that required discontinuation of SFAS No. 71 for Virginia Power's generation operations in the first quarter of 1999.

Virginia Power remains exposed to numerous risks, including, among others, exposure to potentially stranded costs, future environmental compliance requirements, changes in tax laws, inflation, and increased capital costs. At December 31, 1999, Virginia Power's exposure to potentially stranded costs was comprised of the following:

- long-term purchased power contracts that could ultimately be determined to be above market—See *Purchased Power Contracts* below;
- generating plants that could possibly become uneconomic in a deregulated environment; and
- unfunded obligations for nuclear plant decommissioning and postretirement benefits not yet recognized in the financial statements—See Notes (F) and (O).

Construction Program Virginia Power has made substantial commitments in connection with its construction program and nuclear fuel expenditures. Those expenditures are estimated to total approximately $856 million (excluding capitalized interest) for 2000. Virginia Power presently estimates that 2000 construction expenditures, including nuclear fuel, will be met through cash flow from operations and through a combination of sales of securities and short-term borrowing.

Purchased Power Contracts Virginia Power has entered into contracts for the long-term purchase of capacity and energy from other utilities, qualifying facilities and independent power producers. Virginia Power has 56 non-utility purchase contracts with a combined dependable summer capacity of 3,273 megawatts.

The table below reflects Virginia Power's minimum commitments as of December 31, 1999, for power purchases from utility and non-utility suppliers.

	Commitment	
Year (millions)	Capacity	Other
2000	$ 765	$ 45
2001	770	36
2002	771	32
2003	731	33
2004	731	31
Later years	7,890	227
Total	$11,658	$404
Present value of the total	$ 6,218	$215

In addition to the minimum purchase commitments in the table above, under some of these contracts Virginia Power may purchase, at its option, additional power as needed. Purchased power expenditures, subject to cost of service rate regulation, (including economy, emergency, limited term, short-term and long-term purchases) for the years 1999, 1998 and 1997 were $1.2 billion, $1.1 billion and $1.4 billion, respectively.

See Note (C) for an evaluation of the company's potential exposure under its long-term purchased power commitments.

Fuel Purchase Commitments Virginia Power's estimated fuel purchase commitments for the next five years for system generation are as follows: 2000—$334 million; 2001—$277 million; 2002—$156 million; 2003—$145 million; and 2004—$143 million.

Sales of Power Virginia Power enters into agreements with other utilities and with other parties to purchase and sell capacity and energy. These agreements may cover current and future periods. The volume of these transactions varies from day to day, based on the market conditions, Virginia Power's current and anticipated load, and other factors. The combined amounts of sales and purchases range from 3,000 megawatts to 15,000 megawatts at various times during a given year. These operations are closely monitored from a risk-management perspective.

Environmental Matters Dominion is subject to rising costs resulting from a steadily increasing number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. These laws and regulations can result in increased capital, operating and other costs as a result of compliance, remediation, containment and monitoring obligations of Dominion. Historically, Dominion recovered such costs from customers through utility rates. However, to the extent environmental costs are incurred during the period ending June 30, 2007, in excess of the level currently included in Virginia jurisdictional rates, Dominion's results of operations will decrease. After that date, Virginia Power may seek recovery from customers through utility rates of only those environmental costs related to transmission and distribution operations. At December 31, 1999, the environmental matters discussed below are related to the operations of Virginia Power.

In 1987, the Environmental Protection Agency (EPA) identified Virginia Power and several other entities as Potentially Responsible Parties (PRPs) at two Superfund sites located in Kentucky and Pennsylvania. Current cost studies estimate total remediation costs for the sites to range from $106 million to $156 million. Virginia Power's proportionate share of the total cost is expected to be in the range of $2 million to $3 million, based upon allocation formulas and the volume of waste shipped to the sites. Virginia Power has accrued a reserve of $2 million to meet its obligations at these two sites. Based on a financial assessment of PRPs involved at these sites, Virginia Power has determined that it is probable that the PRPs will fully pay the costs apportioned to them.

Virginia Power generally seeks to recover its costs associated with environmental remediation from third-party insurers. Any pending or possible claims were not recognized as an asset or offset against such obligations of Virginia Power.

In 1999, Virginia Power was notified by the Department of Justice of alleged noncompliance with EPA's oil spill prevention, control and countermeasures (SPCC) plans and facility response plan (FRP) requirements at one of Virginia Power's power stations. If, in a legal proceeding, such instances of noncompliance are deemed to have occurred, Virginia Power may be required to remedy any alleged deficiencies and pay civil penalties. Settlement of this matter is currently in negotiation and is not expected to have a material impact on Virginia Power's financial condition or results of operations.

In 1999, Virginia Power identified matters at certain other power stations that EPA might view as not in compliance with the SPCC and FRP requirements. Virginia Power reported these matters to the EPA

and in December 1999 submitted revised FRP and SPCC plans. Presently, the EPA has not assessed any penalties against Virginia Power, pending its review of Virginia Power's disclosure information. Future resolution of these matters is not expected to have a material impact on Virginia Power's financial condition or results of operations.

On November 8, 1999 and September 21, 1999, Virginia Power received notices from the Attorneys General of Connecticut and New York, respectively, of their intention to file suit against Virginia Power for alleged violations of the Clean Air Act. The notices question whether modifications at certain Virginia Power generating facilities were properly permitted under the Clean Air Act and allege that emissions from these facilities have contributed to damage to public health and the environment in the Northeast. To date, no suits have been filed. Dominion believes that it is one of a number of companies with fossil fuel power generating stations in the southeast and central U.S. to have received such notifications. Virginia Power believes that it has obtained the permits necessary in connection with its generating facilities and that the outcome of the suits, if any, filed by the Attorney Generals would not have a material adverse effect on Dominion's financial condition or results of operations.

Nuclear Insurance The Price-Anderson Act limits the public liability of an owner of a nuclear power plant to $9.5 billion for a single nuclear incident. The Price-Anderson Act Amendment of 1988 allows for an inflationary provision adjustment every five years. Virginia Power has purchased $200 million of coverage from the commercial insurance pools, with the remainder provided through a mandatory industry risk sharing program. In the event of a nuclear incident at any licensed nuclear reactor in the United States, Virginia Power could be assessed up to $91 million for each of its four licensed reactors not to exceed $10 million per year per reactor. There is no limit to the number of incidents for which this retrospective premium can be assessed.

Virginia Power's current level of property insurance coverage ($2.55 billion for North Anna and $2.4 billion for Surry) exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per reactor site and includes coverage for premature decommissioning and functional total loss. The NRC requires that the proceeds from this insurance be used first to return the reactor to and maintain it in a safe and stable condition, then to decontaminate the reactor and station site in accordance with a plan approved by the NRC. Virginia Power's nuclear property insurance is provided by Nuclear Electric Insurance Limited (NEIL), a mutual insurance company, and is subject to retrospective premium assessments in any policy year in which losses exceed the funds available to the insurance company. The maximum assessment for the current policy period is $29 million. Based on the severity of the incident, the board of directors of Virginia Power's nuclear insurer has the discretion to lower or eliminate the maximum retrospective premium assessment. For any losses that exceed the limits or for which insurance proceeds are not available because they must first be used for stabilization and decontamination, Virginia Power has the financial responsibility for these losses.

Virginia Power purchases insurance from NEIL to cover the cost of replacement power during the prolonged outage of a nuclear unit due to direct physical damage of the unit. Under this program, Virginia Power is subject to a retrospective premium assessment for any policy year in which losses exceed funds available to NEIL. The current policy period's maximum assessment is $7 million.

Under several of Virginia Power's nuclear insurance policies, it is subject to retrospective premium assessments in any policy year in which losses exceed the funds available to these insurance companies.

As part owner of the North Anna Power Station, Old Dominion Electric Cooperative is responsible for its share of the nuclear decommissioning obligation and insurance premiums applicable to that station, including any retrospective premium assessments and any losses not covered by insurance.

Dominion

Dominion has issued guarantees to various third party creditors in relation to the repayment of debt by certain of its subsidiaries. At December 31, 1999, Dominion had issued $751 million of guarantees, and the subsidiaries' debt subject to such guarantees totaled $406 million.

DEI

Subsidiaries of DEI have general partnership interests in certain of its energy ventures. These subsidiaries may be required to fund future operations of these investments, if operating cash flow is insufficient.

Dominion Capital

At December 31, 1999, Dominion Capital had commitments to fund loans of approximately $937 million.

NOTE R: Business Segments

Under SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information*, Dominion has defined segments based on product, geographic location and regulatory environment.

In preparation for the transition to competition for electric generation in Virginia, Dominion is evaluating the operating results across Virginia Power's and DEI's current business lines. Although the employees and assets involved remain with their respective legal entities, Dominion currently evaluates the operations of DEI and Virginia Power in the following business segments:

- generation-related operations of both Virginia Power and DEI (referred to as Dominion Energy);
- regulated electric transmission and distribution services (referred to as Dominion Delivery); and
- oil and gas operations of DEI (referred to as Dominion E&P).

In addition to the business segments mentioned above, Dominion reviews the following as business segments:

- the financial services of Dominion Capital;
- Dominion UK (East Midlands) which was sold by Dominion in 1998; and
- Corporate Operations:
  - — corporate costs of Dominion's holding company;
  - — Corby operations;
  - — intercompany eliminations;
  - — impact of the impairment of regulatory assets and one-time refund recorded as a result of the settlement of the 1998 Virginia jurisdictional rate proceedings; and
  - — extraordinary item recorded in the first quarter of 1999.

Business segment financial information follows for each of the three years in the period ended December 31, 1999. Corporate includes intersegment eliminations.

(millions, except total assets)	Dominion Delivery	Dominion Capital	Dominion Energy	Dominion UK	Dominion E&P	Corporate Operations	Total Consolidated
1999							
Revenue	**$1,166**	**$473**	**$3,593**		**$256**	**$ 32**	**$5,520**
Interest income			**12**		**4**	**7**	**23**
Interest expense	**141**	**152**	**173**		**39**	**2**	**507**
Operating income	**431**	**265**	**624**		**27**	**(36)**	**1,311**
Depreciation	**246**	**32**	**313**		**93**	**32**	**716**
Unusual items						**(255)**	**(255)**
Equity income		**4**	**14**		**5**	**10**	**33**
Income tax expense (benefit)	**109**	**35**	**161**		**(29)**	**(17)**	**259**
Net income	**175**	**78**	**271**		**43**	**(271)**	**296**
Equity investments		**166**	**186**		**23**	**31**	**406**
Capital expenditures	**317**	**9**	**461**		**86**	**21**	**894**
Total assets (billions)	**4.6**	**3.6**	**7.4**		**1.2**	**0.9**	**17.7**
1998							
Revenue	1,111	409	3,510	$1,009	164	(122)	6,081
Interest income			12		2	15	29
Interest expense	145	121	179	102	19	17	583
Operating income	424	210	615	142	12	(317)	1,086
Depreciation	237	25	337	75	60		734
Unusual items				332			332
Equity income		21	14		4	2	41
Income tax expense (benefit)	104	31	157	133	(26)	(93)	306
Net income	168	59	262	227	22	(202)	536
Equity investments		203	122		18	39	382
Capital expenditures	282	6	260	92	50	65	755
Total assets (billions)	4.6	3.1	7.5		0.8	1.5	17.5
1997							
Revenue	1,098	296	3,749	1,970	158	(8)	7,263
Interest income			9	8	1	1	19
Interest expense	134	92	192	189	13	7	627
Operating income	442	157	645	246	28	(46)	1,472
Depreciation	237	18	374	131	58	1	819
Unusual items				(157)			(157)
Equity income		16	13		1		30
Income tax expense (benefit)	111	20	119	21	(18)	(20)	233
Net income	193	45	275	(110)	35	(39)	399

Geographic Areas

Revenue (millions)		International				
Year	Domestic	United Kingdom	Latin America	Other	Total International	Consolidated
1999	**$5,295**		**$106**	**$119**	**$ 225**	**$5,520**
1998	4,913	$1,009	133	26	1,168	6,081
1997	5,130	1,970	163		2,133	7,263

Long-Lived Assets (billions)		International				
Year	Domestic	United Kingdom	Latin America	Other	Total International	Consolidated
1999	**$10.6**	**$0.1**	**$0.4**	**$0.6**	**$1.1**	**$11.7**
1998	10.6	0.1	0.7	0.2	1.0	11.6

NOTE S: Loan Servicing Portfolio

As of December 31, 1999 and 1998 Dominion Capital serviced a portfolio consisting of loans in all 50 states. In addition to servicing loans of its mortgage lending subsidiary, Saxon Mortgage, Inc. (SMI), Dominion Capital's customers are Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Dynex Capital, Inc. (Dynex). The loan-servicing portfolios as of December 31, 1999 and 1998 are summarized below:

	1999		1998	
(millions, except number of loans)	Number Of Loans	Principal Balance	Number Of Loans	Principal Balance
SMI	**42,071**	**$4,136**	26,760	$2,773
GNMA	**1,491**	**48**	1,758	60
FNMA	**634**	**16**	798	20
FHLMC	**124**	**6**	155	8
Dynex	**2,586**	**308**	3,707	470
Other	**150**	**47**	1,265	58
	47,056	**$4,561**	34,443	$3,389

Activity related to capitalized loan servicing rights during 1999 and 1998 was as follows:

For the Years Ended December 31, (millions)	1999	1998
Balance, beginning of year	**$52**	$ 23
Loan servicing rights purchased	**48**	39
Amortization	**(20)**	(10)
Balance, end of year	**$80**	$ 52

NOTE T: Collateralized Debt Obligation Investments

Dominion manages financial assets held in three collateralized debt obligations (CDO). In addition to the management of the debt, Dominion holds an investment in the subordinated debt of each CDO. The total investment in the CDOs were $58 million and $24 million at December 31, 1999 and 1998, respectively. The total assets under management in the CDOs were approximately $2.3 billion and $1.0 billion at December 31, 1999 and 1998, respectively.

NOTE U: Leases

Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of December 31, 1999 are 2000-$25 million, 2001-$20 million, 2002-$18 million, 2003-$15 million, 2004-$11 million and years after 2004-$46 million. Rent on leases, which have been charged to operations expense, were $31 million, $27 million, and $20 million for 1999, 1998 and 1997, respectively.

NOTE V: Acquisitions and Divestitures

Acquisitions

In 1999, DEI acquired interests in certain gas producing properties located in the San Juan Basin of New Mexico for approximately $115 million. In addition, DEI completed its purchase of all of the issued and outstanding shares of Remington Energy Ltd., (Remington), a publicly traded natural gas exploration and production company headquartered in Calgary, Alberta, Canada. DEI paid $33 million and assumed $260 million of Remington's debt and liabilities.

In April 1998, DEI purchased Dominion Energy Canada, Ltd., a natural gas and oil exploration and production company. DEI paid $119 million and assumed debt of $26 million. The transaction has been recorded using the purchase method of accounting.

Divestitures

In 1999, DEI reached an agreement to sell its interests in approximately 1,200 megawatts of gross generation capacity located in Latin America. Duke Energy International is purchasing the interests for approximately $405 million. DEI completed the sale of its interests in Belize and Peru in November 1999 and expects to complete the sale of its interests in Argentina and Bolivia in 2000, following receipt of certain regulatory approvals.

The assets and liabilities of the unsold interests amounts to $446 million and $178 million, respectively, and continues to be reflected in Dominion's Consolidated Balance Sheets.

During 1999, DEI adjusted the carrying amount of the Latin American interests to be sold and recognized an impairment loss of $21 million, including the effect of applicable income taxes. The pretax loss of $17 million was recorded in *Other operation and maintenance* and the income tax effect of $4 million was recorded in *Provision for income taxes* in Dominion's Consolidated Statements of Income.

In 1998, Dominion sold East Midlands to PowerGen, an electricity generator and supplier in the United Kingdom. East Midlands is principally an electricity supply and distribution company serving 2.3 million homes and businesses in the East Midlands region of the United Kingdom. PowerGen acquired 100% of DR Investments in a transaction valued at $3.2 billion. DR Investments is the holding company for DR Investments (UK) PLC and East Midlands. Dominion recorded an after-tax gain of $201 million or $1.03 per share.

NOTE W: Quarterly Financial and Common Stock Data (unaudited)

The following amounts reflect all adjustments, consisting of only normal recurring accruals (except as disclosed below), necessary in the opinion of Dominion Resources' management for a fair statement of the results for the interim periods.

Quarterly Financial and Common Stock Data—Unaudited

(millions, except per share amounts)	1999	1998
Operating revenue and income		
First Quarter	**$1,293**	$1,774
Second Quarter	**1,315**	1,585
Third Quarter	**1,663**	1,549
Fourth Quarter	**1,249**	1,173
Year	**$5,520**	$6,081
Income from operations		
First Quarter	**$ 313**	$ 381
Second Quarter	**296**	67
Third Quarter	**487**	436
Fourth Quarter	**215**	202
Year	**$1,311**	$1,086
Income (loss) before provision for income taxes, minority interests and extraordinary item		
First Quarter	**$ 211**	$ 217
Second Quarter	**175**	(108)
Third Quarter	**357**	666
Fourth Quarter	**85**	94
Year	**$ 828**	$ 869
Net income (loss)		
First Quarter	**$ (116)**	$ 140
Second Quarter	**117**	(83)
Third Quarter	**232**	425
Fourth Quarter	**63**	54
Year	**$ 296**	$ 536
Earnings (loss) per share		
First Quarter	**$ (0.60)**	$ 0.72
Second Quarter	**0.61**	(0.42)
Third Quarter	**1.21**	2.17
Fourth Quarter	**0.33**	0.28
Year	**$ 1.55**	$ 2.75
Dividends per share		
First Quarter	**$0.645**	$0.645
Second Quarter	**0.645**	0.645
Third Quarter	**0.645**	0.645
Fourth Quarter	**0.645**	0.645
Year	**$ 2.58**	$ 2.58
Stock price range		
First Quarter	**47 1/16 -36 7/8**	42 15/16-39 3/8
Second Quarter	**44 13/16-36 9/16**	42 1/16 -37 13/16
Third Quarter	**47 3/16 -43**	44 15/16-39 5/16
Fourth Quarter	**49 3/8 -39 1/4**	48 15/16-44 3/8
Year	**49 3/8 -36 9/16**	48 15/16-37 13/16

Certain accruals recorded in 1999 and 1998 were not ordinary, recurring adjustments.

Extraordinary Item In the first quarter of 1999, Dominion recorded an after-tax charge to net income of $255 million or $1.33 per share. The charge reflects the write-off of assets and liabilities that will not be recovered through base rates capped by Virginia legislation enacted into law on March 25, 1999. This legislation establishes a detailed plan to restructure the electric utility industry in Virginia. The after-tax charge was recorded as an extraordinary item on Dominion Resources' Consolidated Statements of Income.

Sale of Interests in Latin American Power Generation In 1999, Dominion recorded a one-time after-tax charge of $21 million, or $0.11 per share, related to the sale of its interests in its Latin American power generation.

Rate Refund Dominion recognized a provision for rate refund of $154 million or $0.79 per share and related interest expense of $11 million and other taxes of $4 million in the second quarter of 1998 as a result of the settlement of its rate proceeding in Virginia.

Impairment of Regulatory Assets Dominion charged $159 million to second quarter 1998 earnings or $0.82 per share as a provision for the impairment of regulatory assets resulting from the settlement of Virginia Power's rate proceeding in Virginia.

Depreciation and Amortization Dominion recorded adjustments of $27 million in the second quarter of 1998 decreasing the year-to-date provision for depreciation and decommissioning expenses to reflect terms of the settlement of Virginia Power's Virginia rate proceedings. For more information, see Note (C).

Sale of East Midlands In the third quarter of 1998, Dominion Resources recorded an after-tax gain of $201 million or $1.03 per share to reflect the sale of East Midlands to PowerGen.

NOTE X: Subsequent Event

Merger

On January 28, 2000, Dominion acquired the outstanding shares of CNG's common stock. The aggregate purchase price was $6.4 billion. The purchase price was paid in a combination of cash and Dominion stock. The acquisition was accomplished in a two-step transaction. In the first step, a wholly owned subsidiary of Dominion merged (First Merger) with and into Dominion, the surviving corporation. The second step involved the merger (Second Merger) of CNG and a subsidiary of Dominion in which the Dominion subsidiary is the surviving corporation.

In the first merger, Dominion shareholders exchanged approximately 33 million shares of Dominion common stock for approximately $1.4 billion. In the second merger, CNG shareholders received approximately 87 million shares of Dominion common stock and approximately $2.9 billion in exchange for all of the outstanding shares of CNG common stock.

In 2000, Dominion initially financed the cash used in the CNG merger with a $3.5 billion commercial paper program backed by a short-term credit facility and $1 billion of short-term, privately placed money market notes. Dominion expects to refinance these amounts with a combination of debt, preferred and convertible securities, and proceeds from sales of non-core assets, including DEI's interests in Latin American power generation, CNG's foreign investments, Virginia Natural Gas and Dominion Capital.

For accounting purposes, the First Merger is treated as a reorganization with no changes in the recorded amount of Dominion's assets and liabilities. The Second Merger will be accounted for under the purchase method of accounting.

In the Second Merger, Dominion has registered as a holding company under the 1935 Act. The 1935 Act imposes a number of restrictions on the operations of registered holding company systems. One such restriction is it limits the ability of registered holding companies to engage in activities unrelated to their utility operations. Consequently, as part of the SEC order approving the merger, Dominion must divest itself of Dominion Capital, its financial services subsidiary. Although a formal plan for divestiture has not been adopted, the SEC allowed three years for this to be accomplished.

During the merger approval process, Dominion and CNG also agreed to divest Virginia Natural Gas, Inc. (VNG), CNG's gas distribution subsidiary located in Virginia Beach, Va., under an agreement with the Virginia Commission. The companies have also agreed with the Federal Trade Commission (FTC) to divest VNG. Dominion has one year after the merger is completed to sell VNG to a third party. If the sale of VNG is not completed within the timeframe of one year, VNG will be spun off as an independent company with the common stock distributed to Dominion shareholders. Both deadlines are subject to reasonable extensions, which may be granted by the regulatory authorities.

After the CNG Merger, Dominion has an energy portfolio of almost 20,000 megawatts of domestic power generation and 2.8 trillion cubic feet equivalent in natural gas and oil reserves producing more than 300 billion cubic feet equivalent annually. Dominion now operates a major interstate gas pipeline system and the largest natural gas storage system in North America and has approximately 6,000 miles of electric transmission lines. Dominion is the eleventh largest independent oil and gas producer in the United States, measured by reserves, and provides integrated energy services to approximately four million retail customers.

Report of Management's Responsibilities

The management of Dominion Resources, Inc. is responsible for all information and representations contained in the Consolidated Financial Statements and other sections of the annual report. The Consolidated Financial Statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that Dominion's and its subsidiaries' assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed and recorded in accordance with established procedures. Management recognizes the inherent limitations of any system of internal accounting control, and therefore cannot provide absolute assurance that the objectives of the established internal accounting controls will be met.

This system includes written policies, an organizational structure designed to ensure appropriate segregation of responsibilities, careful selection and training of qualified personnel, and internal audits. Management believes that during 1999 the system of internal control was adequate to accomplish the intended objectives.

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, independent auditors, who were designated by the Board. Their audits were conducted in accordance with generally accepted auditing standards and include a review of Dominion's and its subsidiaries' accounting systems, procedures and internal controls, and the performance of tests and other auditing procedures sufficient to provide reasonable assurance that the Consolidated Financial Statements are not materially misleading and do not contain material errors.

The Audit Committees of the Boards, composed entirely of directors who are not officers or employees of Dominion or its subsidiaries, meet periodically with independent auditors, the internal auditors and management to discuss auditing, internal accounting control and financial reporting matters and to ensure that each is properly discharged. Both independent auditors and the internal auditors periodically meet alone with the Audit Committees and have free access to the Committees at any time.

Management recognizes its responsibility for fostering a strong ethical climate so that Dominion's affairs are conducted according to the highest standards of personal corporate conduct. This responsibility is characterized and reflected in Dominion Resources' Code of Ethics, which addresses potential conflicts of interest, compliance with all domestic and foreign laws, the confidentiality of proprietary information, and full disclosure of public information.

Dominion Resources, Inc.

Thos. E. Capps
President and
Chief Executive Officer

James L. Trueheart
Group Vice President and
Controller

Report of Independent Auditors

To the Shareholders and Board of Directors of Dominion Resources, Inc.

We have audited the accompanying consolidated balance sheets of Dominion Resources, Inc. and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Dominion Resources, Inc. and subsidiaries as of December 31, 1999 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Richmond, Virginia
January 28, 2000

Directors and Officers

Dominion Resources, Inc.

Directors

George A. Davidson, Jr., 61
Chairman of the Board of Directors

Thos. E. Capps, 64
Vice Chairman, President and Chief Executive Officer

William S. Barrack, Jr., 70
Former Senior Vice President, Texaco, Inc., New Canaan, Connecticut

John B. Bernhardt, 70
Managing Director, Bernhardt/Gibson Financial Opportunities, Newport News, Virginia

Raymond E. Galvin, 68
Former President, Chevron USA Production Company, Houston, Texas

Ray J. Groves, 64
Chairman, Legg Mason Merchant Banking, Inc., New York, New York

John W. Harris, 52
President, Lincoln Harris, LLC, Charlotte, North Carolina

Benjamin J. Lambert, III, 63
Optometrist, Richmond, Virginia

Richard L. Leatherwood, 60
Former President and Chief Executive Officer, CSX Equipment, Baltimore, Maryland

Paul E. Lego, 69
Former Chairman and Chief Executive Officer, Westinghouse Electric Corporation, Pittsburgh, Pennsylvania

Margaret A. McKenna, 54
President, Lesley College, Cambridge, Massachusetts

Steven A. Minter, 61
President and Executive Director, The Cleveland Foundation, Cleveland, Ohio

Kenneth A. Randall, 72
Corporate director of various companies, Williamsburg, Virginia

Frank S. Royal, M.D., 60
Physician, Richmond, Virginia

S. Dallas Simmons, 60
Chairman, President and Chief Executive Officer, Dallas Simmons & Associates, Inc., Richmond, Virginia

Robert H. Spilman, 72
President, Spilman Properties, Bassett, Virginia

David A. Wollard, 62
Chairman of the Board, Exempla Healthcare, Denver, Colorado

Officers

Thomas F. Farrell, II, 45
Executive Vice President (Chief Executive Officer of Dominion Energy)

David L. Heavenridge, 53
Executive Vice President (Chief Executive Officer of Dominion Capital)

H. Patrick Riley, 62
Executive Vice President (Chief Executive Officer and President of Dominion Exploration & Production)

Edgar M. Roach, Jr., 51
Executive Vice President (Chief Executive Officer of Dominion Delivery)

Thomas N. Chewning, 54
Executive Vice President and Chief Financial Officer

James P. O'Hanlon, 56
Executive Vice President (President and Chief Operating Officer of Dominion Energy)

Robert E. Rigsby, 50
Executive Vice President (President and Chief Operating Officer of Dominion Delivery)

James L. Trueheart, 48
Group Vice President, Controller and Principal Accounting Officer

G. Scott Hetzer, 43
Senior Vice President and Treasurer

James L. Sanderlin, 58
Senior Vice President — Law

Eva S. Teig, 55
Senior Vice President — External Affairs & Corporate Communications

William C. Hall, Jr., 46
Vice President — External Affairs & Corporate Communications

Simon C. Hodges, 38
Vice President — Financial Planning

Karen E. Hunter, 45
Vice President — Tax

James F. Stutts, 55
Vice President and General Counsel

Patricia A. Wilkerson, 44
Vice President and Corporate Secretary

Virginia Electric and Power Company Nonemployee Directors

Jean E. Clary, 56
President, Century 21 Clary and Associates, Inc., South Hill, Virginia

William G. Thomas, 60
Partner, Reed Smith Hazel & Thomas, LLP, Falls Church, Virginia

Selected Consolidated Financial Data

(dollars in millions, except per share amounts)	1999	1998	1997	1996	1995	1994
Operating revenue and income	**$ 5,520**	$ 6,081	$ 7,263	$ 4,815	$ 4,633	$ 4,491
Net income	**$ 296**	$ 536	$ 399	$ 472	$ 425	$ 478
Total assets	**$17,747**	$17,517	$20,165	$14,896	$13,903	$13,562
Long-term debt, preferred stock subject to mandatory redemption and preferred securities of a subsidiary trust[1]	**$ 7,321**	$ 6,817	$ 7,761	$ 5,362	$ 4,927	$ 4,934
Common stock data:						
Earnings per share	**$ 1.55**	$ 2.75	$ 2.15	$ 2.65	$ 2.45	$ 2.81
Dividends paid per share	**$ 2.58**	$ 2.58	$ 2.58	$ 2.58	$ 2.58	$ 2.55
Common stock price range (dollars)	**49¾-36 9/16**	48 15/16-37 13/16	42⅞-33¼	44⅜-36⅞	41⅝-34⅞	45⅜-34⅞
Market value per share (year-end)	**$ 39.25**	$ 46.75	$ 42.56	$ 38.50	$ 41.25	$ 36.00
Book value per share (year-end)	**$ 25.50**	$ 27.33	$ 26.84	$ 27.13	$ 26.88	$ 26.60
Market to book value (year-end)	**153.9%**	171.1%	158.6%	141.9%	153.5%	135.3%
Return on average common equity	**5.9%**	10.1%	8.0%	9.8%	9.2%	10.6%
Payout ratio	**166.5%**	93.8%	120.0%	97.4%	105.3%	90.7%
Price/earnings ratio (year-end)	**25.3**	17.0	19.8	14.5	16.8	12.8
Outstanding shares of common stock (millions)						
—average	**191.4**	194.9	185.2	178.3	173.8	170.3
—actual (year-end)	**186.3**	194.5	187.8	181.2	176.4	172.4
Capitalization:						
Debt and capital lease obligations	**$ 8,193**	$ 7,012	$ 9,194	$ 5,857	$ 5,271	$ 5,257
Preferred securities	**385**	385	385	135	135	
Preferred stock	**689**	689	689	689	689	816
Common equity	**4,752**	5,316	5,041	4,915	4,742	4,586
Total capitalization	**$14,019**	$13,402	$15,309	$11,596	$10,837	$10,659
Capitalization ratios						
Debt and capital lease obligations	**58%**	52%	60%	51%	49%	49%
Preferred securities of subsidiary trust	**3%**	3%	3%	1%	1%	
Preferred stock	**5%**	5%	4%	6%	6%	8%
Common equity	**34%**	40%	33%	42%	44%	43%

(1) In 1999, preferred stock subject to mandatory redemption is included in *Securities due within one year* and is excluded from this amount.

Shareholder Information

Dominion Resources, Inc. is the transfer agent and registrar for its common stock. Shareholder Administration provides personal assistance for any inquiries Monday through Friday from 9:00 a.m. to 4:00 p.m. (ET). In addition, our voice response system provides the daily closing price and gives you the option of self-service 24 hours a day.

1-800-552-4034 (toll free)
1-804-775-2500

Buy Stock Directly
You may buy Dominion common stock directly from the company through Dominion Direct Investment with no brokerage fees.

Please contact Shareholder Administration for a prospectus and enrollment form or visit our website at www.domres.com.

Common Stock Listing
New York Stock Exchange
Trading symbol: D

Common Stock Price Range

	1999		1998	
	High	**Low**	High	Low
First Quarter	**47 1/16**	**36 7/8**	42 15/16	39 3/8
Second Quarter	**44 13/16**	**36 9/16**	42 1/16	37 13/16
Third Quarter	**47 3/16**	**43**	44 15/16	39 5/16
Fourth Quarter	**49 3/8**	**39 1/4**	48 15/16	44 3/8
Year	**49 3/8**	**36 9/16**	48 15/16	37 13/16

Dividends on Dominion common stock are paid as declared by the board. Dividends are typically paid on the 20th of March, June, September and December. Dividends can be paid by check or electronic deposit, or may be reinvested.

Annual Meeting
The 2000 Annual Meeting of Shareholders of Dominion Resources, Inc. will be held Friday, April 28, at 9:30 a.m. at The Westin William Penn, 530 William Penn Place, Pittsburgh, Pa.

Corporate Street Address
Dominion Resources, Inc.
120 Tredegar Street
Richmond, Virginia 23219

Mailing Address
Dominion Resources, Inc.
P. O. Box 26532
Richmond, Virginia 23261-6532

Website and E-mail Address
www.domres.com
Shareholder_Administration@domres.com

Independent Auditors
Deloitte & Touche LLP
Richmond, Virginia

Additional Information
Dominion will provide, without charge, a copy of any of the following items:

- 1999 SEC Form 10-K (excluding exhibits)
- 1999 Statistical Summary and Financial Forecast

Requests for these items should be made by writing to:

Investor Relations Department
Dominion Resources, Inc.
P. O. Box 26532
Richmond, Virginia 23261-6532

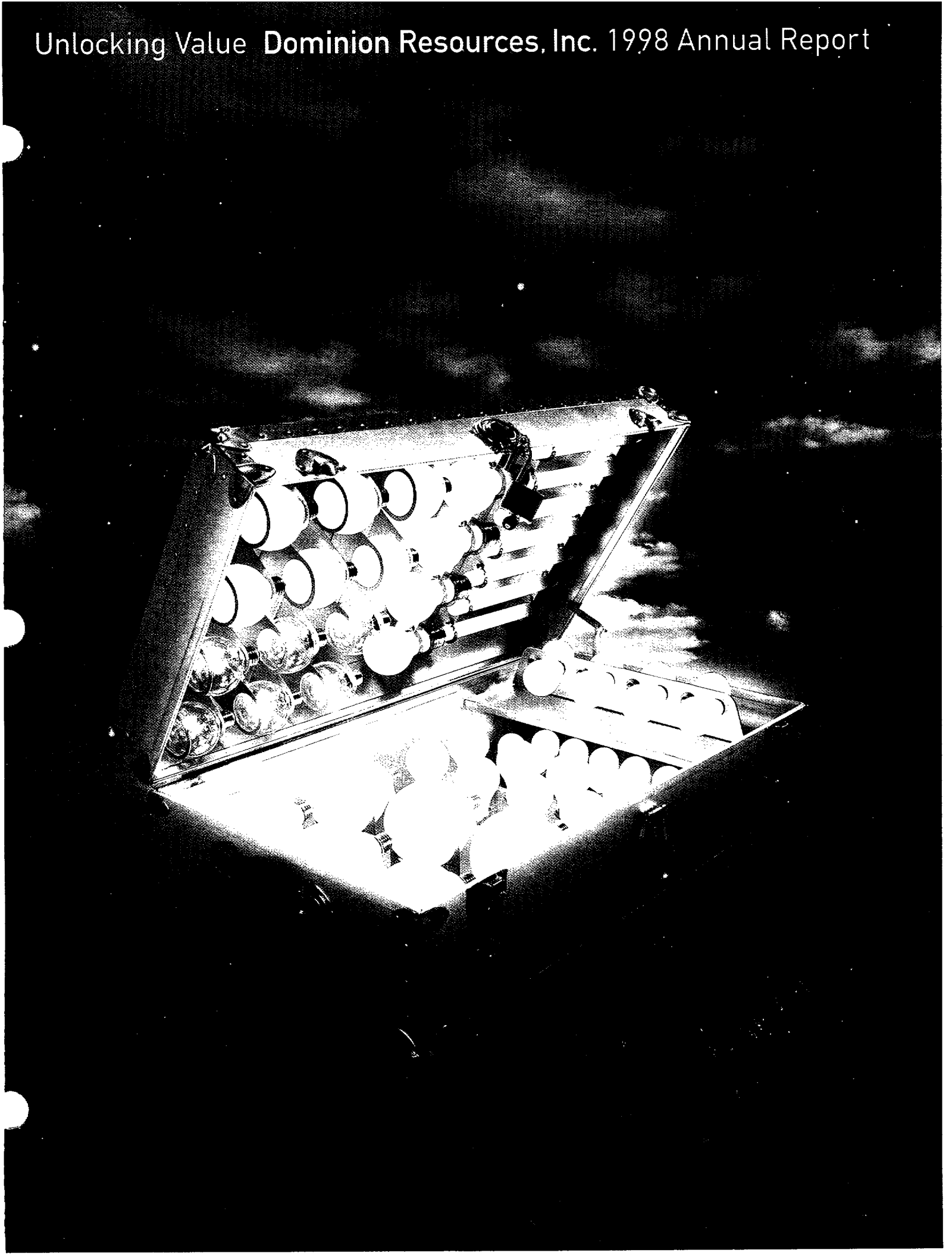
Or by e-mail to:

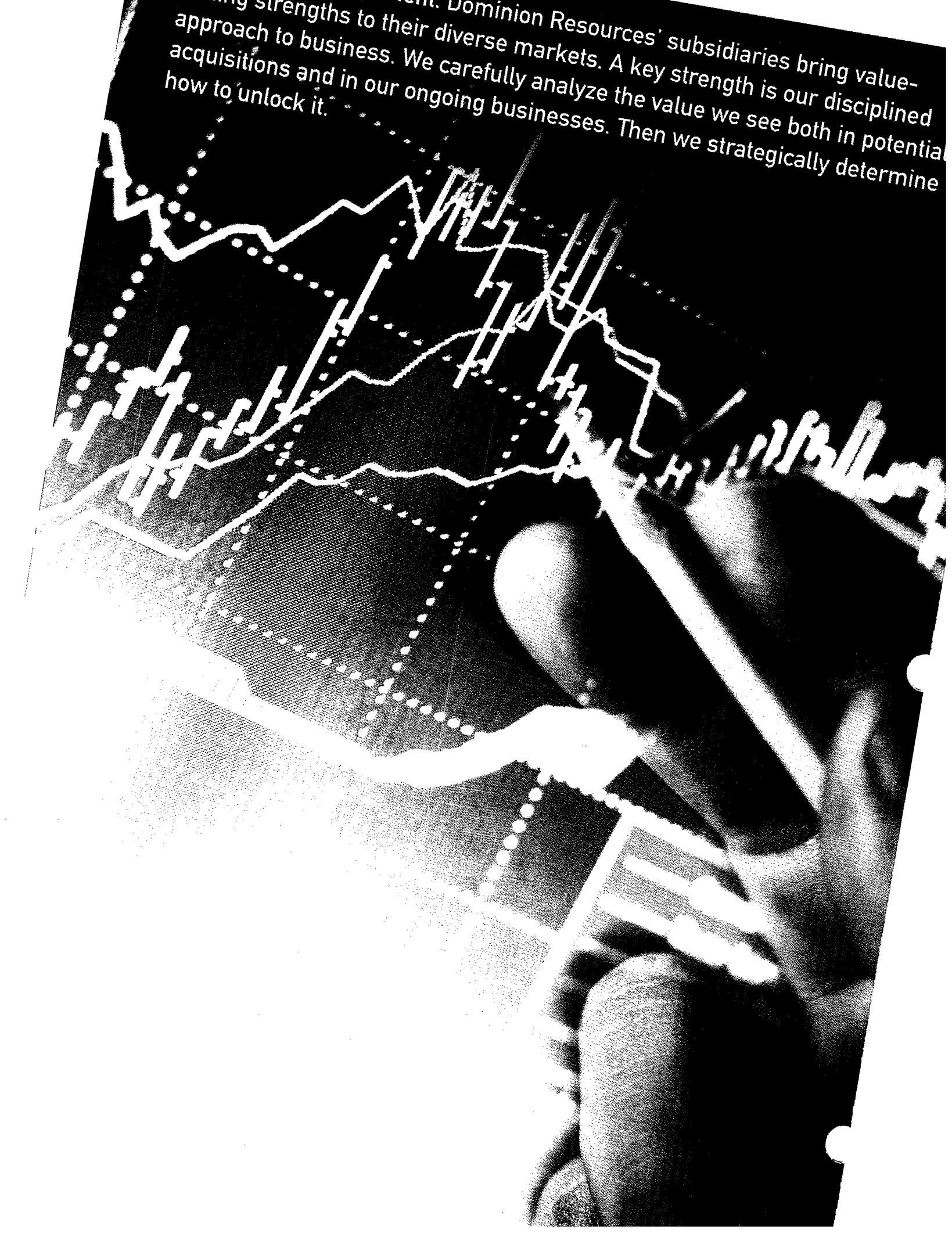
Dominion_Resources@domres.com

Design: The Graphic Expression, Inc., New York
This annual report is printed on recycled paper.

Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

Unlocking Value Dominion Resources, Inc. 1998 Annual Report

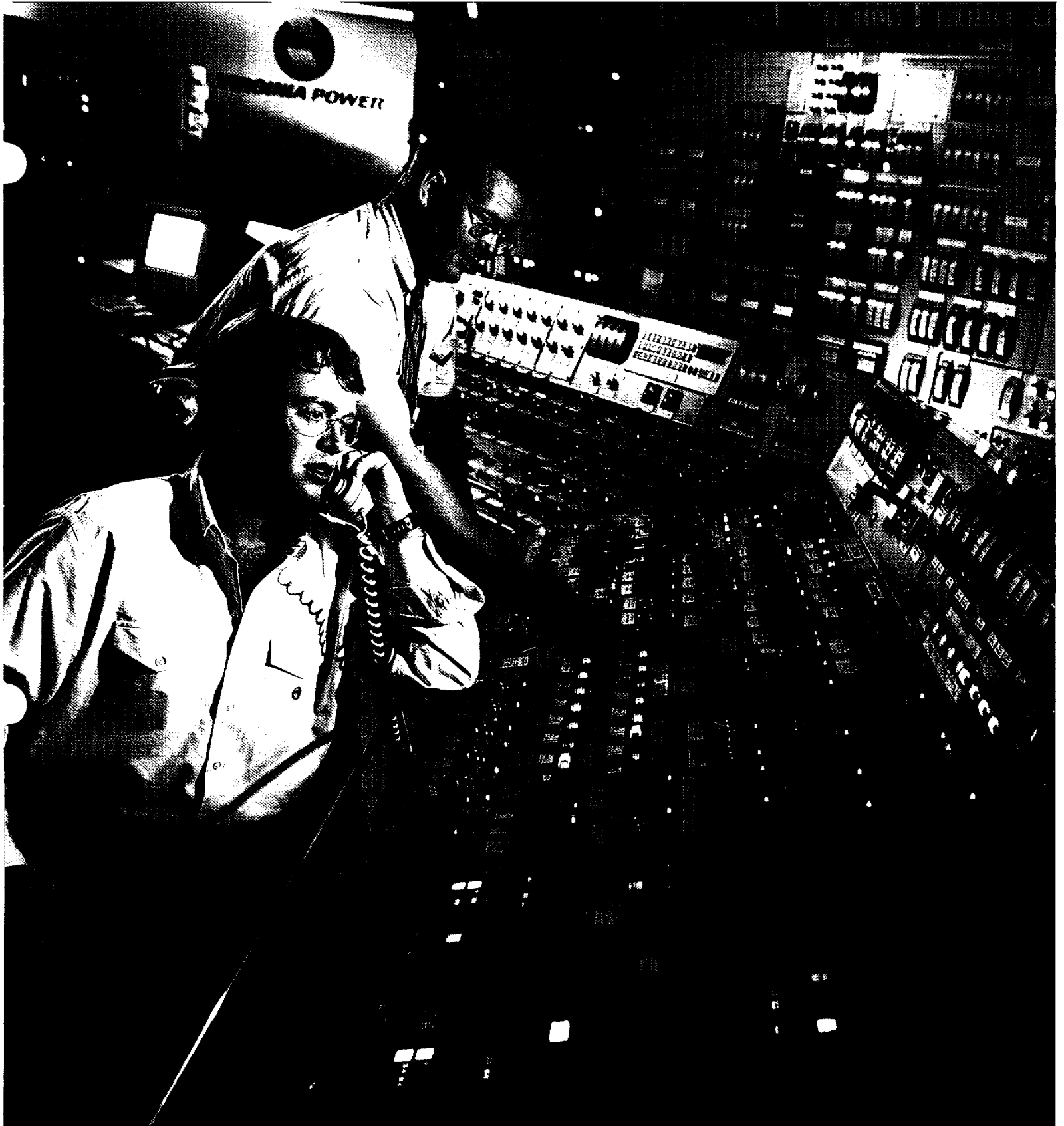




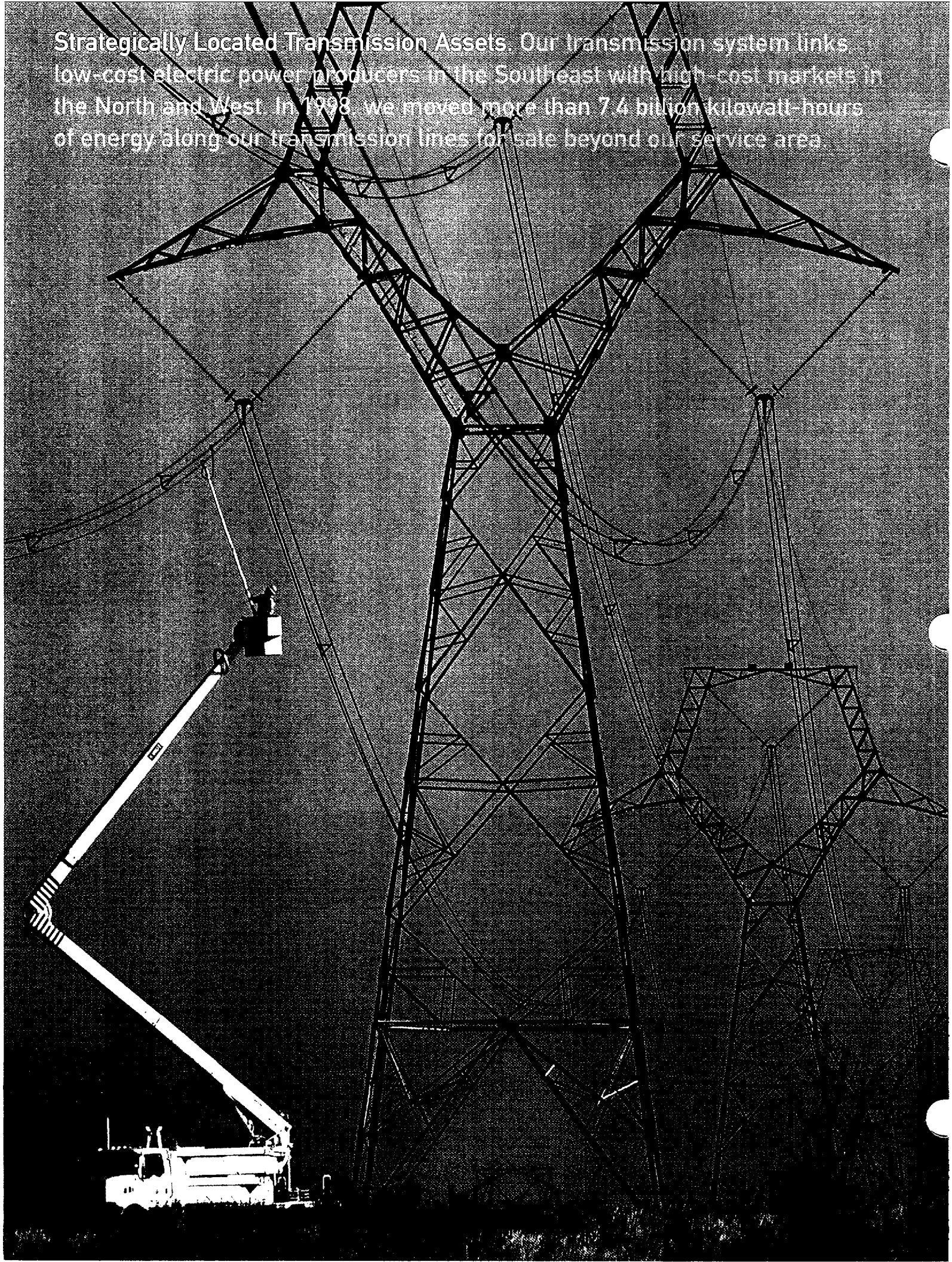
...ent. Dominion Resources' subsidiaries bring value-
...ing strengths to their diverse markets. A key strength is our disciplined
approach to business. We carefully analyze the value we see both in potential
acquisitions and in our ongoing businesses. Then we strategically determine
how to unlock it.

A Focus on Selected Markets. The Midwest-to-Northeast quadrant of the U.S. is home to 40 percent of the nation's energy consumption. At Dominion Energy, we're focusing our domestic power and natural gas resources to meet growing demand in this strategic region. Our Kincaid Power Station in central Illinois provides power to one of the area's largest utilities. It's already contributing to our bottom line.

Investment in Technology. With a growing customer base of 2 million and counting, superior service is more important than ever at Virginia Power. A $100 million investment in cutting-edge technology will help us meet customer needs more quickly and efficiently. Satisfied customers are key to unlocking value. We want to find and serve even more.



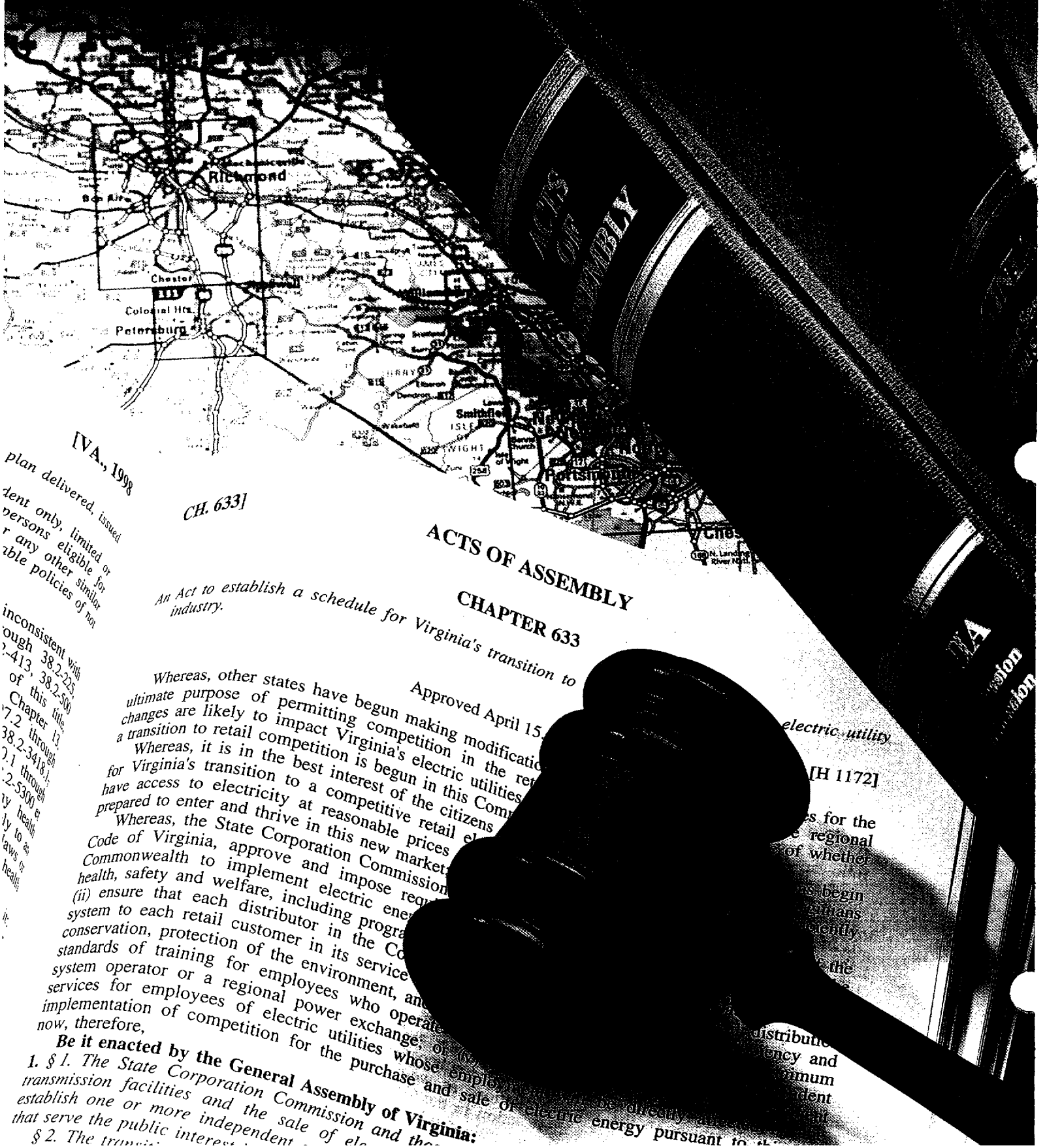
World-Class Nuclear Facilities. Our nuclear program is second to none. Virginia Power's North Anna and Surry facilities were ranked the first and third lowest-cost nuclear generators in the nation. According to most recent data, production costs at the stations—which account for nearly a third of our generation—bested the industry by more than 50 percent.

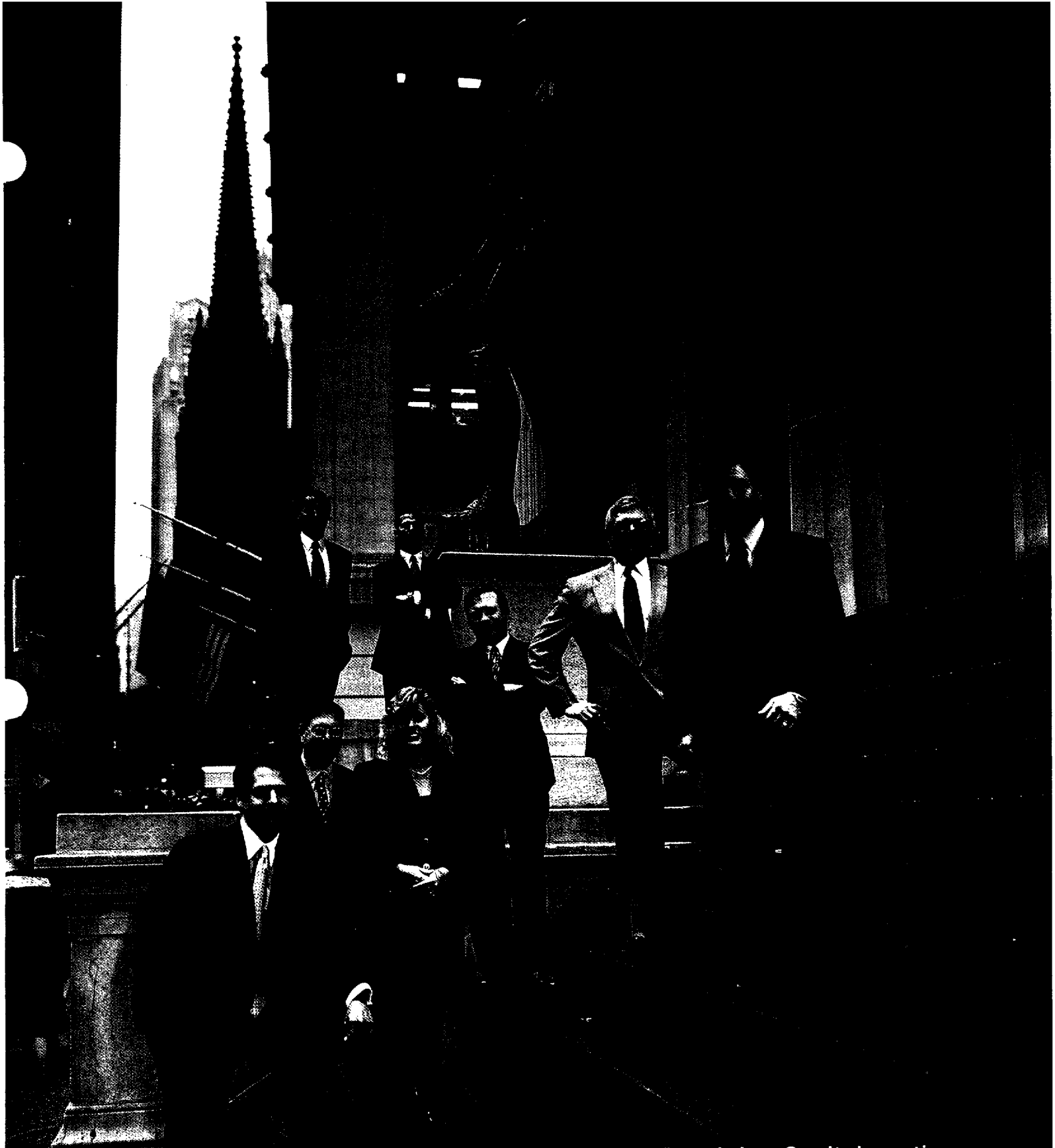


Strategically Located Transmission Assets. Our transmission system links low-cost electric power producers in the Southeast with high-cost markets in the North and West. In 1998, we moved more than 7.4 billion kilowatt-hours of energy along our transmission lines for sale beyond our service area.

Thriving Economic Region. Our geographic location also brings economic advantage. A vibrant economy is fueling growth in Virginia Power's diverse base of residential and industrial customers. Chaparral Steel recently announced plans to construct a $400 million manufacturing facility in the heart of our service area.

Sound Policies in Place. Looking ahead, we can realize the full potential of our many strengths only with a timeline to open our electric franchise to competition and policies that create a marketplace that treats all players fairly. In 1998, Virginia lawmakers set both, creating a needed roadmap to the competitive future.

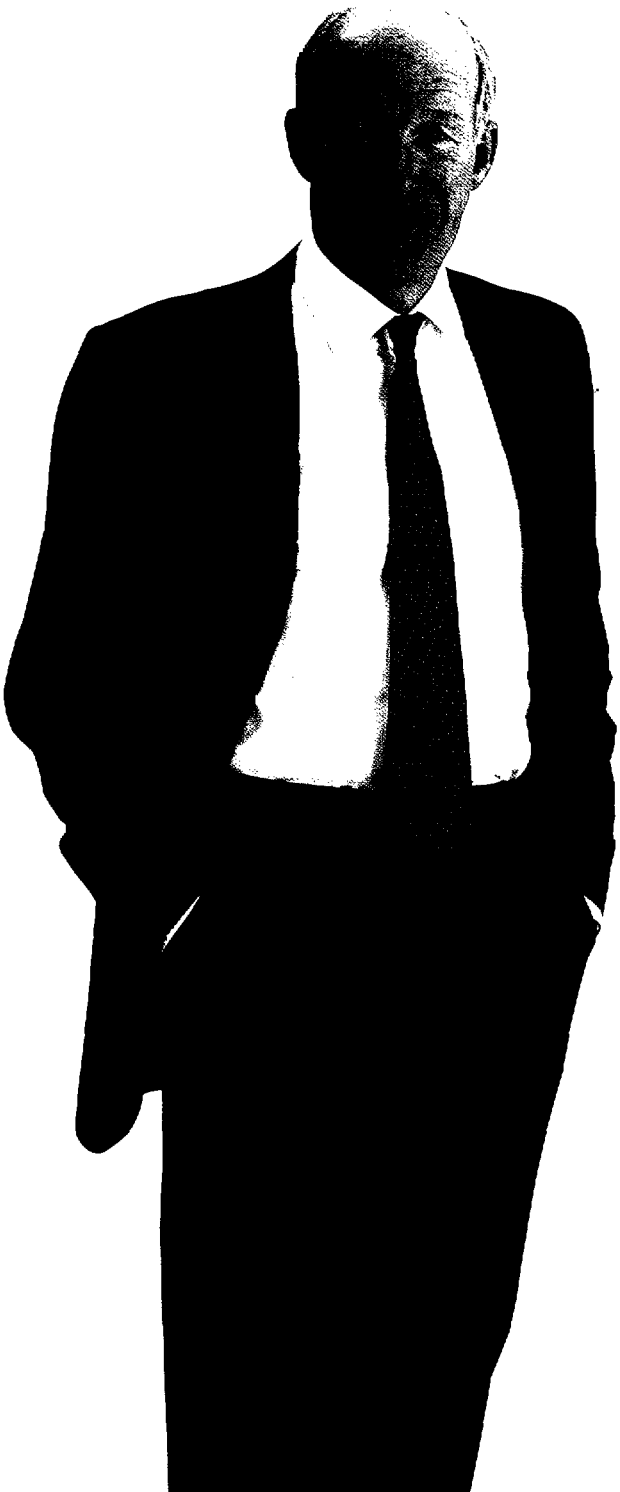




Increased Earnings from Diversified Businesses. Dominion Capital continues to add shareholder value by diversifying the company's asset base into profitable financial services. It's a strategy that works because it's a business we know. We're well into our second decade, with 30 percent annualized earnings growth over the last five years.

Dear Fellow Shareholders:

To unlock value in today's energy marketplace, you need a map to guide you to the treasure and a key to open it. Your company has both.



As I write, we're embarking on our most exciting and rewarding venture ever—combining the abundant strengths of Dominion Resources and Consolidated Natural Gas.

Dominion Resources will emerge an energy giant, the nation's fourth-largest integrated electric power and natural gas company. Our utilities alone will serve nearly 4 million customers in five states. Combined assets will total about $24 billion. Total generation will be more than 20,000 megawatts. Natural gas reserves and production will average more than 2.4 trillion cubic feet equivalent and 300 billion cubic feet equivalent respectively each year.

Size does matter—size in customer base, size in sales volume, size of savings through combined operations. And size matters all the more as electric power and natural gas markets converge in North America, ushering in an enormous $300 billion supermarket for BTUs.

Dominion Resources will enter this emerging market not only bigger, but better equipped. Our merger with CNG will be the first time in industry history that a fully integrated electric utility has joined with a fully integrated natural gas company. Our strategic combination will enhance value at all stages across the energy production and delivery system—from the origin at the wellhead to our customer's kitchen stove, whether it's gas or electric.

Consider wholesale and retail sales, the bread-and-butter businesses that both companies have pursued profitably for decades. As one company, we'll be positioned to cross-sell electricity to gas customers and gas to electricity customers. With the capability to store gas, sell it, or use it to generate power, we'll be able to produce and sell BTUs in their most economical form. And we'll have the flexibility to arbitrage gas and electric wholesale trading more effectively.

We're uniting two of the largest, most efficient operators and well-respected brand names in U.S. energy. Our incumbent market presence promises significant competitive advantage. Contiguous service areas hold strong potential for seamless integration, and deregulation—an essential catalyst for competition—is progressing more quickly in our combined regions than in any others in the U.S.

Bigger *is* better. The new Dominion Resources will have the scale, the scope and

Thos. E. Capps
Chairman, President and
Chief Executive Officer

In short, your company's position is excellent.

the skills to be a preeminent leader in the competitive, converged energy marketplace.

We anticipate regulatory approvals in about 12 months.

And now to your existing businesses:

In 1998, lawmakers set the stage for Virginia Power to realize the full potential of its existing strengths. They also set a timeline to open its franchise to competition and established policies that create a marketplace that treats all players fairly—thanks to their foresight, the cooperation of all involved and the dedicated men and women of our company who worked in the field, on the phones and in the legislative chambers. A new law sets the transition to competition beginning the first day of 2002. Full retail competition will be in place two years later. At the very hour this letter went to press in late February, 1999, the General Assembly finalized the rules. Its bill awaits the governor's signature.

Important Questions Answered

Parallel to our efforts with legislators, we worked with our regulators and resolved important regulatory questions that had recently pressured our share price in the wrong direction.

At issue were the allowed rates at Virginia Power between now and 2002, the start-up year for competition in Virginia. Also in question was the treatment of certain costs under regulation that we may not fully recover in a competitive market—what we call "transition costs." Under a plan negotiated last summer, Virginia Power agreed to lower rates over the entire four-year period. The agreement lowered revenues at our principal subsidiary by 5.6 percent and required a $150 million refund to customers in Virginia. We also wrote off $220 million in transition costs.

Our share price rose.

That may seem ironic, but this agreement eliminated the kind of uncertainty that makes investors uneasy. And it established incentives to find new revenues and even less costly, more efficient ways of doing business. We acted swiftly. We're already investing to achieve additional growth in revenues and efficiency.

Now we can—and will—take the financial benefits to our bottom line. Moreover, the legislation awaiting the governor's signature should resolve further uncertainties.

In short, your company's position is excellent.

Before one-time charges, Virginia Power's operating earnings in 1998 were $2.03 per share, down 31 cents from $2.34 per share in 1997. As shareholders, you don't pay me to shrink operating earnings. I don't sleep well when operating earnings drop for any reason. Neither does my senior management. In 1998, temporary factors contributed to the decline. Unusually mild weather reduced sales. Two unusual storms created extraordinary clean-up and restoration costs. Beyond the influence of Mother Nature, revenues are also lower under the reduced rate structure, above and beyond the one-time refund.

But in 1999 and 2000, we expect Virginia Power's operating earnings to improve substantially. Normal weather will return, as it always does. We're now positioned for additional cost efficiencies to benefit shareholders under our new regulatory compact. More customer growth will occur. And, as I'll tell you in this letter, Virginia Power has made remarkable improvements in customer service, operating performance and preparation for competition, a tribute to all of its men and women.

Record Earnings from Non-Utility Businesses

At Dominion Energy's competitive power and natural gas businesses and Dominion Capital's financial services businesses, earnings reached record levels in 1998. The companies contributed 59 cents per share to consolidated earnings—more than $115 million in net income—achieving annual earnings per share growth of nearly 23 percent in 1998 and exceeding their annual earnings goals of 15 percent for the third consecutive year. We're targeting strong annual earnings growth going forward for our non-utility businesses.

A Disciplined Approach Brings Results

Through hard work and good fortune, our subsidiary businesses clearly bring strengths to their diverse markets. A key strength is our disciplined approach to business. We carefully analyze the value we see both in potential acquisitions and in our ongoing businesses, then strategically determine how to unlock it.

One example is the use of $647 million in after-tax proceeds created by our sale of East Midlands Electricity, the distribution utility in the United Kingdom. While we were pleased with our investment, one of the U.K.'s major

national generating companies made us an offer that we could not refuse—one that generated substantial shareholder value. With cash from the sale now in hand, we're carefully analyzing other investment opportunities that would earn returns higher than our cost of capital. And we're using proceeds to fund a share buyback program. At year's end, we had invested more than $98 million to buy back nearly 2.3 million shares of common stock.

Share repurchase is a low-risk way to add to shareholder value. As we analyze investment opportunities, the prospective investments must compete for capital against the share repurchase option.

With rate uncertainty behind us at Virginia Power during the transition to a competitive marketplace, a timeline in place to move to competition, and increased growth in our diversified businesses, our shares yielded a total return of 15.9 percent in 1998. This compares to total returns of 15.0 percent by the Standard & Poor's Electric Companies Index and 18.4 percent by the Dow Jones Utilities Index.

11,000 Motivated People—Poised and Ready

More than 11,000 good reasons inform, enliven and sustain my confidence every day that we'll do even better and capitalize on opportunities to build our strengths and unlock value. They are the men and women who work at Virginia Power, Dominion Energy and Dominion Capital.

Our people are also our shareholders—they've got more than $300 million of their own hard-earned money invested in Dominion Resources stock—and that makes me proud. In fact, the value of our officers' and directors' compensation is directly linked to the value of our stock. Our increasingly diverse workforce strives to serve our customers not only from businesses in Virginia, but throughout the United States, plus Canada, Great Britain, Argentina, Bolivia, Peru and the tiny Central American nation of Belize.

The Nation's Lowest-Cost Producer

Thanks to our employees, Virginia Power's North Anna and Surry nuclear stations were ranked in *Nucleonics Week* data as the nation's first and third lowest-cost nuclear generators on a three-year average basis. Production costs at the two facilities—which account for a third of our generation—undercut the most recent industry average by more than 50 percent. Our North Anna employees set a world record refueling Unit 1. They completed it safely and in the shortest time ever—25 days. It was not surprising when the Koeberg nuclear station near Capetown, South Africa, asked us to help train its nuclear personnel.

In an ocean of change, some things never do, including the high standards of the people who maintain and operate our fossil and hydroelectric operations. Our coal-fired stations again outperformed the most recent national averages in availability—88.5 percent compared to 83.4 percent nationwide. In fact, our entire fleet of fossil and hydroelectric stations increased total megawatt-hour generation by nearly 14 percent over the preceding year.

Seeking New Customers

Customers are key to unlocking value. Like any business, we want to find and serve new ones. That's why we're proposing a merger with CNG.

It's a good time. Never in industry history have so many regions of the United States—indeed, the entire world—presented as many possibilities. Power companies are divesting generating facilities. Like Virginia, other states are mapping out plans to open up their power markets. Globally, fast-growing nations are privatizing state-run utilities or inviting companies to build new generating stations. In a few instances, foreign utilities are even trying to buy U.S. companies.

Dozens of headlines celebrate bold investments by other companies planting their corporate flags in Asia, Africa and India. It's tempting to be among them. But we can't be in all places all of the time and effectively grow shareholder value.

Instead, we've focused our activity. As it makes sense, we'll keep on building or acquiring businesses in the Midwest-to-Northeast quadrant of the United States, where 40 percent of the nation's energy is consumed. Internationally, we'll remain in selected Latin American countries where demand for energy is high, where open wholesale markets operate under clearly articulated,

With rate uncertainty behind us at Virginia Power during the transition to a competitive marketplace, a timeline in place to move to competition, and increased growth in our diversified businesses, our shares yielded a total return of 15.9 percent in 1998.

enforceable rules, and where there are credible prospects for long-term political and economic stability.

Coming of Age

Domestically, 1998 was the year Dominion Energy came of age in the Midwest.

We purchased and began running the largest generating business we've ever acquired. The Kincaid Power Station is an 1,108-megawatt coal-fired facility that will provide power to Commonwealth Edison under a 15-year contract. It's already a substantial contributor to Dominion Energy's profits. Our purchase demonstrates our value-focused, disciplined investment approach. We acquired Kincaid at half to one-third the prices our competitors are paying for similar assets today.

Illinois regulators also gave the nod to a Dominion Energy joint venture now building a new facility near the village of Elwood, about 60 miles southwest of Chicago. Working with a subsidiary of our partner, People's Energy, of Chicago, we've already started constructing 600 megawatts of capacity to meet peak summertime demand in 1999. We've also received regulatory approval to expand the plant up to 3,100 megawatts—five times its initial size—as market conditions require. Our Elwood facility has the potential to be one of the nation's largest natural gas facilities.

In Bolivia and Peru, a $135 million expansion at our existing power businesses proceeds. Our Latin American power portfolio, which serves competitive wholesale markets in selected nations, remains a profitable contributor to our bottom line.

"One of the World's 300 Best Small Companies"

Forbes Global named EGENOR, our competitive power business in Peru, one of the world's 300 best small companies. The magazine called the 300 the "sharpest, fastest, supplest little firms on the planet."

Institutional Investor magazine named a first-of-its-kind bond financing initiative at Dominion Energy's Kincaid power station one of its "Deals of the Year." For the first time in the history of investment-grade financing, industry investors loaned money to a facility scheduled to sell power into competitive wholesale markets at the end of its 15-year power-purchase agreement.

Since the early 1990s, Dominion Energy has carefully built a portfolio of natural gas development and production businesses strategically positioned to serve the Midwest and Northeast. We've had excellent returns in our natural gas business and tenfold growth since 1990.

In early 1998, Dominion Energy increased its oil and natural gas production and expanded its natural gas reserves with the purchase of Archer Resources of Alberta, Canada. That company joined our family of businesses under a new name—Dominion Energy Canada.

We know how to produce a BTU and how to deliver it efficiently, reliably and with a smile. Our competitors are good; we respect them and don't underestimate them. But I'm very confident of our future. We intend to win most business battles we wage with competitors.

Economic Growth in Virginia Continues

We're fortunate that Virginia Power serves a growing number of customers who live in a region characterized by a consistently strong economy.

Virginia did have a couple of blips on the economic screen last year. The proposed merger of Exxon and Mobil might take away several hundred white collar jobs in Northern Virginia. And Motorola delayed a planned $3 billion semiconductor investment until its worldwide sales volume picks up.

Still, our service area economy reminds me of that pink bunny pounding on its drum: it just keeps on going.

Good News...

The good news is that in 1998 MCI WorldCom announced a $200 million investment in Northern Virginia. The information technology operations and other business units will operate on a planned campus covering 1.3 million square feet. Up to 4,000 new jobs will be created by 2001. In Chesapeake, MCI WorldCom is investing an additional $10 million in a call-service center. It's expected to employ 1,100 people by the third quarter of 1999.

Dominion Energy has carefully built a portfolio of natural gas development and production businesses strategically positioned to serve the Midwest and Northeast. We've had excellent returns in our natural gas business and tenfold growth since 1990.

Customers are key to unlocking value. Like any business, we want to find and serve new ones.

We're fortunate that Virginia Power serves a growing number of customers who live in a region characterized by a consistently strong economy.

More proof that Virginia is making good on its reputation as a national technology leader came as White Oak Semiconductor, a $1.5 billion joint venture between Motorola and Siemens AG, went on line in 1998.

Heavy industry added its vote of confidence in Virginia's economy, too. Chaparral Steel, a subsidiary of Texas Industries, announced construction of a $400 million plant to build "I-beams." Virginia is expecting 340 new jobs.

Orbital Sciences Corporation, an existing corporate neighbor, announced that it will expand its satellite manufacturing and operations facilities in Northern Virginia—a $50 million investment expected to create 1,500 jobs over the next three years. Good news also arrived from Japan: Yupo Corporation announced completion of its $100 million synthetic paper manufacturing plant in eastern Virginia.

If you're an avid fisherman like I am, you may know that the makers of the well-known Orca 37 stand-up fishing boat are leaving Fort Lauderdale and relocating to Chesapeake. Orca will initially bring 110 jobs, a work force expected to nearly triple by 2001.

Partners in Growth

Each of these businesses and thousands of others have unique needs.

We constantly look for opportunities to offer products and services to help them meet their energy needs when it can create value for our customers and shareholders. For example, Virginia Power designed and built an electric substation tailored to the specific needs of Chaparral Steel. This is one of many examples where Virginia Power is leveraging core competencies to deliver value to our customers and earnings to the bottom line.

2 Million Customers

In total, Virginia Power hooked up more than 50,000 customers in 1998—not just big ones but apartments, mobile homes, mansions, about every kind of dwelling you can think of.

Retail sales grew another 3.8 percent. And in May we reached a significant milestone—the connection of customer number 2 million.

Location, Location, Location

Our location brings not only economic, but strategic advantage. Our transmission system links low-cost Southeastern producers, including Virginia Power, with the higher-cost markets to the North and West. In 1998, we moved more than 7.4 billion kilowatt-hours of energy through our transmission system for sale beyond our service area.

Backing Up Great People with Great Technology

Our $100 million investment in new technologies is already paying off after a dramatic start in 1998.

Both technology and training carried the day when Hurricane Bonnie struck the Virginia coast in late August. More than 460,000 homes and businesses lost power in the wake of her destruction.

It was the worst hit we'd ever experienced in that region.

In the old days, when our system could handle only 10,000 calls per hour, most people would have gotten a busy signal during a heavy call volume time like Hurricane Bonnie. But, thanks to computerized telephone technology, we can now handle 100,000 calls an hour—10 times what was once considered "state-of-the-art." Today, Virginia Power handles 5 million to 6 million telephone calls per year. We answer 92 percent of them in less than 20 seconds, and our average response time is less than eight seconds.

Bonnie was the first—and most significant—test of our new system. Once, a team of employees would have painstakingly analyzed outage patterns, set priorities and relayed urgent instructions to their repair crews, all under crisis pressure. But when Bonnie hit, our new telephone and automated analysis systems effectively and efficiently rose to her challenges. It quickly set priorities for work orders, helping us pinpoint the locations of major outages. Virginia Power employees completed the restoration in record time at efficient cost.

I remember the disaster clearly. I was there at the very moment the lights came back on in one neighborhood in Norfolk. Residents applauded. People standing along the street cheered our men and women as their big red and gray trucks moved ahead to their next mission.

Customers were thankful for our employees' speedy response.

"Brought to Our Knees"

"We were brought to our knees by Bonnie," wrote John and Virginia Palomares of Norfolk. "We sometimes take so much for granted, like the air conditioning and lights. We are very grateful for all employees who worked so hard and continue to work for our community."

Our transmission system links low-cost Southeastern producers, including Virginia Power, with the higher-cost markets to the North and West. In 1998, we moved more than 7.4 billion kilowatt-hours of energy through our transmission system for sale beyond our service area.

I'm proud to see how the determined, disciplined execution of our strategy is producing results today and positioning us for the future.

Bonnie was not our only test. In the last week of 1998, beginning the day before Christmas, severe ice storms tested the commitment, strength and ability of our front-line people. Ice broke down an uncountable number of trees, limbs and power lines. More than 440,000 homes and businesses lost power—thousands in need of individual attention. There is no computer known to man that is capable of pulling ice-laden debris off a downed power line, maneuvering a truck or a ladder to restore the wire and hooking it up safely, night or day. Every available Virginia Power crew worked a grueling schedule of restoration, beginning on Christmas Eve and continuing into the New Year.

"We've been inundated with cookies," reported Virginia Power's Joe Murphy, construction team leader, several days into the crisis. "Cookies by the pound, by the box, by the bag, by the sack, satchel, plate, pitcher and handful. We've never been treated like this before. It's been amazing."

Combine great employees and great technology—and give your customers a reason to say "thanks." It's a strategy that works.

Growth in Financial Services

I've long felt that your company can—and should—add value to shareholders by having part of its asset base diversified. In 1998, our financial services company contributed 30 cents per share to our consolidated bottom line, a contribution in excess of $58 million. That continues 30 percent annualized earnings growth over the last five years.

First Source Financial, our Chicago-based middle-market lender, increased outstanding loan commitments by 40 percent over 1997.

At the end of its first year of operations, First Dominion Capital, our merchant bank and asset management business in New York City, had nearly $2.1 billion under management.

Hard work from our team at Saxon Mortgage paid off recently when Merrill Lynch identified our mortgage lending business in its top tier of the 15 strongest industry players. Since we acquired the company in 1996, Saxon has made more than $4.1 billion in loans, most of which have been securitized.

Small- and mid-sized oil and natural gas producers are the target market for Cambrian Capital, our joint venture commercial lender in Houston. In 1998, new loan commitments and net income doubled over the previous year.

Going forward, Dominion Capital will remain focused on a national platform that allows us to participate broadly in both commercial and consumer lending. We'll work to expand that platform by expanding market share, developing new products and services, and entering new market segments. But we'll do it only when we can profitably apply the same strict risk-management practices that govern all of our ventures. We understand that credit markets can be volatile and that we must conduct all subsidiary lending under strict underwriting guidelines and close home-office oversight. Moreover, lending activities are diversified through many business sectors.

Optimistic Looking Forward

I'm proud to see how the determined, disciplined execution of our strategy is producing results today and positioning us for the future.

The job of building new businesses and unlocking still more value from existing lines is a very human, very exciting saga. It has both dramatic and mundane moments. A given year represents only one chapter.

Our thanks to our board of directors, our employees, our customers and our shareholders for helping us write the next chapter, mindful of lessons from the past and fully confident in our future.

I also thank you for taking time to read this letter. As a fellow shareholder, I encourage you to read on. The financial statements, with accompanying notes, and "Management's Discussion and Analysis" will give you important details.

Sincerely,

Thos. E. Capps

Thos. E. Capps

Chairman, President and Chief Executive Officer

About the Company

Dominion Resources trades on the New York Stock Exchange under the symbol "D."

Headquartered in Richmond, Virginia, the company has $18 billion in assets, more than 11,000 employees, and more than 330,000 direct or indirect shareholders. It owns three operating subsidiaries active in regulated and unregulated electric power, natural gas development and financial services.

Virginia Power/North Carolina Power, its principal subsidiary, is one of the nation's most efficient electric utilities. It is also ranked among the industry's 10 largest. Virginia Power serves more than 2 million homes and businesses in an economically strong service area reaching from the populous Northern Virginia suburbs of our nation's capital through metropolitan Richmond, Norfolk, and Virginia Beach to the historic barrier islands of northeastern North Carolina. Virginia Power is active nationally in wholesale power sales and energy services.

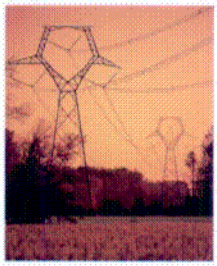
Dominion Energy is the independent power and natural gas subsidiary. It has ownership and operating interests in 24 generating facilities in five U.S. states, Argentina, Belize, Bolivia and Peru. The company has about 715 billion cubic feet equivalent of proven reserves in key gas-producing regions of the United States and Canada. Daily production exceeds 235 million cubic feet equivalent. Dominion Energy is ranked among the nation's 40 largest independent natural gas companies and among the largest competitive power producers.

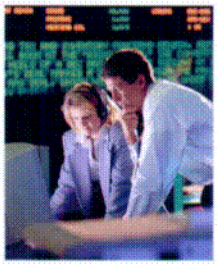
Dominion Capital is the specialty financial services subsidiary. Through its commercial and consumer lending entities, it manages a variety of commercial and mortgage lending activities and debt and equity investments.

Dominion Resources also owns and operates a natural gas-fired generating facility in the United Kingdom.

C2

Virginia Power



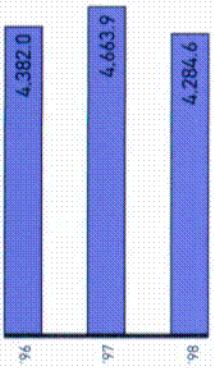


1998 Highlights

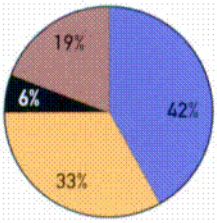
In preparation for competition in its service area and beyond, Virginia Power intensified its efforts to reduce costs while maintaining world-class generating unit performance. Investments in new technologies brought improved service to customers and productivity gains to the company. Legislation passed by the Virginia legislature set a timetable for introducing competition and deregulating generation. Virginia Power is working with lawmakers in 1999 to address important restructuring issues. A major rate case settlement will provide rate certainty during the transition to competition and an opportunity to grow earnings under incentive provisions.

Total Operating Revenues and Income

(dollars in millions)



System Energy Output



- Purchased Power
- Coal
- Nuclear
- Other

Energy

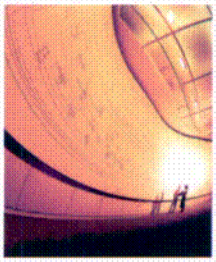
- North Anna and Surry nuclear units among industry's top performers
  - ranked in *Nucleonics Week* data as first and third in nation for production costs over three-year period
  - 91.7% capacity factor
- Fossil & Hydro units increase generation by 13.6%
- Coal units improve availability by 2.4%
- Wholesale megawatt-hour sales nearly triple 1997 levels
- Advanced customer service phone centers handle 100,000 calls per hour during emergencies

Transmission

- Continued reliability upgrades to bulk power system
- System maintenance costs drop by 13%
- Chaparral Steel linked to transmission system
- Continued efforts to create regional transmission organization in preparation for competition
- Profitably served other utilities by moving power across transmission system
- Maximized use of assets, e.g., renting tower space for communication antennae

Distribution

- Continued service reliability improvements
- Introduced new technologies to enhance customer service
- Connected 50,000 new customers to system in record time and cost
- Responded successfully to Hurricane Bonnie and the company's most destructive ice storm ever

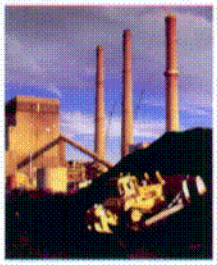


- Installed an automated work management system to manage new customer work orders
- Implemented a spatial mapping system, called the Geographic Information System, to replace 11,000 existing paper grid maps with a seamless computer map

Metering

- Installed more than 422,000 automated meters to improve service and productivity
- Developed capabilities to read gas and water meters
- Grew meter reading for others by 10%
- Deployed a Mobile Data Dispatch system that can automatically dispatch service orders to more than 200 mobile units

Dominion Energy

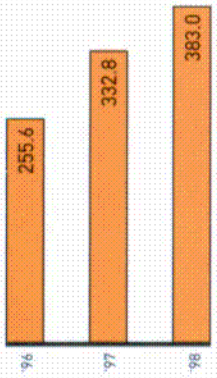


1998 Highlights

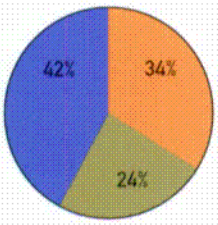
Dominion Energy expanded its competitive power development activities in Illinois in 1998 and continued a construction program to increase the production capability of existing competitive electric businesses in Peru and Bolivia. Its natural gas development and production arm increased its reserves and production capability with the successful acquisition of a Canadian natural gas company. Dominion Energy continues to evaluate additional acquisitions in the high-demand Midwest-to-Northeast quadrant of the United States and in selected Latin American markets with high demand, open wholesale markets and economic stability.

Total Operating Revenues and Income

(dollars in millions)



Percentage of Total Assets



- Oil and Gas
- Domestic Power Generation
- Foreign Power Generation

Domestic Power

- Increased generation by 17.6% over 1997–from 3,745 million to 4,404 million megawatt-hours
- Completed acquisition of 1,108-megawatt Kincaid Power Station in Illinois, its first wholly-owned station; major efficiency upgrade proceeded on schedule
- Received regulatory approval to construct up to 3,100-megawatt power station in Illinois; construction on first 600 megawatts began
- Completed first-of-its-kind bond financing at Kincaid Power Station, which was later named "Deal of the Year" by *Institutional Investor* magazine
- Generated proceeds from sale of Texas and California power businesses for redeployment to strategic Midwest-to-Northeast quadrant

International Power

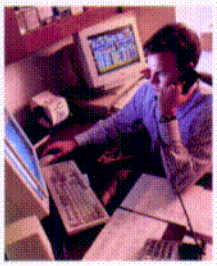
- Continued $135 million expansion program to meet growing demand for power in Bolivia and Peru
- Recognized by *Forbes Global* magazine as one of the world's 300 best small companies at our Peruvian generation business

Natural Gas

- Increased production by 17% over 1997
- Increased reserves by 34% over 1997
- Completed the acquisition of Archer Resources Ltd., a major Canadian producer
- Began program to expand capacity by 40% at Alberta Hub to meet growing demand for natural gas storage services
- Completed acquisition of Phoenix Energy Sales, a production aggregation firm active in the Appalachian Basin

C4

Dominion Capital

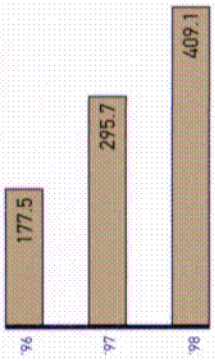


1998 Highlights

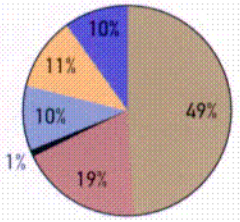
Dominion Capital provided profitable business growth in financial services in 1998 from a national platform of commercial and consumer lending businesses. Dominion Capital will work to expand market share, while developing additional products and services for new and existing markets. Well into its second decade of operations, the company continues to broaden its client base and expand its reputation as a customer-focused lender of choice.

Total Operating Revenues and Income

(dollars in millions)



Percentage of Total Assets



- First Source
- Saxon
- Other Diversified Investments
- Other Financial Services
- First Dominion Capital
- Cambrian

First Source Financial

- Chicago-based provider of cash-flow and asset-based financing to middle-market companies
- Increased outstanding loan commitments by 40% over 1997

First Dominion Capital

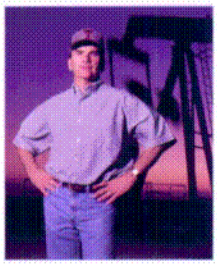
- New merchant bank and asset management business in New York City
- Built $2.1 billion managed portfolio by end of first year

Saxon Mortgage

- Home equity mortgage lender headquartered in Richmond, Virginia
- Made $4.1 billion in loans since acquisition in 1996, most of which have been securitized
- Named by Merrill Lynch in its top tier of the 15 strongest industry players

Cambrian Capital

- Houston-based commercial lender to small- and mid-sized oil and natural gas producers
- Doubled new loan commitments and net income over 1997



C5

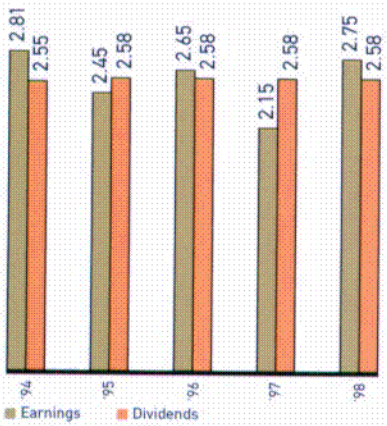
Consolidated Financial Highlights

For The Years Ended December 31,	1998	1997	% Change
Operating Results (millions)			
Operating revenues and income	$ 6,086.2	$ 7,262.5	(16.2)
Operating income	1,091.2	1,472.4	(25.9)
Net income	535.6	399.2	34.2
Data Per Common Share			
Earnings	$ 2.75	$ 2.15	27.9
Dividends paid	2.58	2.58	0.0
Market value (year-end)	46.75	42.56	9.8
Book value (year-end)	27.33	26.84	1.8
Financial Position at December 31			
Assets (millions)	$17,517.0	$20,164.5	
Capitalization (millions)	10,250.9	13,270.8	
Capitalization ratios*			
Long-term debt and capital lease obligations	37%	54%	
Preferred securities of subsidiary trust	4%	3%	
Preferred stock	7%	5%	
Common equity	52%	38%	
Other Statistics			
Return on average common equity	10.1%	8.0%	
Market to book value (year-end)	171.1%	158.6%	
Common stock price range	48 15/16-37 13/16	42 7/8-33 1/4	
Outstanding shares of common stock (thousands)			
— average	194,886	185,169	
— actual (year-end)	194,458	187,799	
Number of registered common shareholders (year-end)	201,553	215,685	
Number of full-time employees	11,033	15,458	
Retail electric sales (MWh-thousands)	64,323	61,997	
Independent power generation (MWh-thousands)	7,231	6,104	
Natural gas production (billion cubic feet equivalent)	69.0	59.0	

* Excludes nonrecourse-nonutility financing and short-term debt.

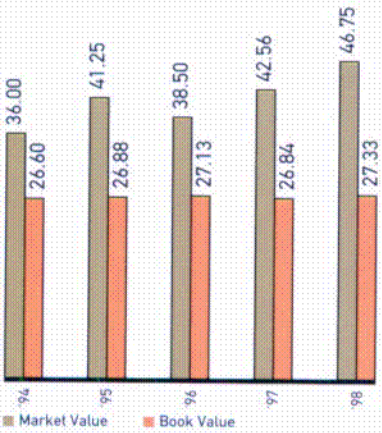
Earnings and Dividends

(dollars per share)



Market and Book Value

(dollars per share at year-end)



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Consolidated Statements of Income

For The Years Ended December 31, (millions, except per share amounts)	1998	1997	1996
Operating revenues and income:			
Virginia Power	$4,284.6	$4,663.9	$4,382.0
East Midlands (Note C)	1,009.5	1,970.1	
Nonutility	792.1	628.5	433.1
Total operating revenues and income	6,086.2	7,262.5	4,815.1
Operating expenses:			
Fuel, net	953.5	1,204.2	979.3
Purchased power capacity, net	806.0	717.5	700.6
Supply and distribution—East Midlands (Note C)	654.9	1,466.1	
Impairment of regulatory assets (Note R)	158.6	38.4	26.7
Restructuring (Note Q)		18.4	64.9
Other operation and maintenance	1,381.2	1,243.7	1,053.8
Depreciation, depletion and amortization	734.2	819.3	615.2
Other taxes	306.6	282.5	275.0
Total operating expenses	4,995.0	5,790.1	3,715.5
Operating income	1,091.2	1,472.4	1,099.6
Other income and expense:			
Gain on sale of East Midlands (Note C)	332.3		
Windfall profits tax—East Midlands (Notes D and Y)		(156.6)	
Other	93.2	38.3	34.8
Total other income and expense	425.5	(118.3)	34.8
Income before fixed charges and income taxes	1,516.7	1,354.1	1,134.4
Fixed charges:			
Interest charges	582.7	627.4	387.0
Distributions—preferred securities of subsidiary trusts	29.3	12.2	10.9
Preferred dividends of Virginia Power	35.8	35.7	35.5
Total fixed charges	647.8	675.3	433.4
Income before provision for income taxes and minority interests	868.9	678.8	701.0
Provision for income taxes (Note D)	306.0	233.0	219.3
Minority interests	27.3	46.6	9.6
Net income	$ 535.6	$ 399.2	$ 472.1
Earnings per common share	$ 2.75	$ 2.15	$ 2.65
Dividends paid per common share	$ 2.58	$ 2.58	$ 2.58
Average common shares outstanding	194.9	185.2	178.3

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

Consolidated Balance Sheets

Assets

At December 31, (millions)	1998	1997
Current assets:		
Cash and cash equivalents (Notes B and I)	$ 425.6	$ 321.6
Trading securities (Notes B, H and I)	0.7	240.7
Customer accounts receivable (less allowances for doubtful accounts $5.4 in 1998 and $2.4 in 1997)	777.8	880.8
Other accounts receivable	256.5	299.0
Materials and supplies at average cost or less:		
Plant and general	142.0	163.3
Fossil fuel	95.0	67.4
Mortgage loans in warehouse (Notes B and I)	140.3	88.2
Commodity contract assets	179.8	40.6
Other	267.6	209.2
	2,285.3	2,310.8
Investments:		
Investments in affiliates (Note B)	382.1	404.0
Available-for-sale securities (Notes B, H and I)	500.0	190.8
Nuclear decommissioning trust funds (Notes B and I)	705.1	569.1
Loans receivable, net (Notes B and I)	1,686.5	959.0
Investments in real estate	93.9	101.5
Other	263.0	193.4
	3,630.6	2,417.8
Property, plant and equipment (Note B):		
(includes plant under construction of $449.3 [1997-$240.9])	18,106.0	19,565.1
Less accumulated depreciation, depletion and amortization	7,469.4	7,004.4
	10,636.6	12,560.7
Deferred charges and other assets:		
Goodwill (Note B)	150.0	1,932.0
Regulatory assets (Note E)	620.0	757.4
Other	194.5	185.8
	964.5	2,875.2
Total assets	$17,517.0	$20,164.5

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

Liabilities and Shareholders' Equity

At December 31, (millions)	1998	1997
Current liabilities:		
Securities due within one year (Notes I and J)	$ 1,623.3	$ 1,613.6
Short-term debt (Notes G and I)	300.8	375.1
Accounts payable, trade	698.5	702.2
Accrued interest	109.1	185.1
Accrued payroll	79.0	77.5
Accrued taxes	175.3	125.4
Commodity contract liabilities	265.8	52.9
Other	266.8	504.7
	3,518.6	3,636.5
Long-term debt (Notes I and J):		
Virginia Power	3,464.7	3,514.6
Nonrecourse-nonutility	1,547.5	707.8
Dominion UK	55.6	2,673.6
Other	3.1	300.0
	5,070.9	7,196.0
Deferred credits and other liabilities:		
Deferred income taxes (Notes B and D)	1,792.5	2,018.4
Investment tax credits (Notes B and D)	221.4	238.4
Other	212.8	557.8
	2,226.7	2,814.6
Total liabilities	10,816.2	13,647.1
Minority interest	310.9	402.9
Commitments and contingencies (Note T)		
Virginia Power and Dominion Resources obligated mandatorily redeemable preferred securities of subsidiary trusts* (Notes I and N)	385.0	385.0
Preferred stock (Notes I and O):		
Virginia Power stock subject to mandatory redemption	180.0	180.0
Virginia Power stock not subject to mandatory redemption	509.0	509.0
Common shareholders' equity:		
Common stock—no par authorized 300.0 shares, outstanding—194.5 shares at 1998 and 187.8 shares at 1997 (Note K)	3,933.4	3,673.6
Retained earnings	1,386.4	1,354.0
Accumulated other comprehensive income	(20.1)	(3.3)
Other paid-in capital	16.2	16.2
	5,315.9	5,040.5
Total liabilities and shareholders' equity	$17,517.0	$20,164.5

* As described in Note N, the 7.83% and 8.05% Junior Subordinated Notes totaling $257.7 and $139.2 million principal amounts constitute 100% of the Trusts' assets.

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

Consolidated Statements of Shareholders' Equity

(millions)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Paid-In Capital	Total
Balance at January 1, 1998	187.8	$3,673.6	$1,354.0	$ (3.3)	$16.2	$5,040.5
Issuance of stock through public offering	6.8	267.8				267.8
Issuance of stock through employee and customer plans	2.1	86.6				86.6
Stock repurchase and retirement	(2.3)	(98.5)				(98.5)
Other common stock activity	0.1	3.9				3.9
Comprehensive income			535.6	(16.8)		518.8
Dividends and other adjustments			(503.2)			(503.2)
Balance at December 31, 1998	194.5	$3,933.4	$1,386.4	$(20.1)	$16.2	$5,315.9
Balance at January 1, 1997	181.2	$3,471.4	$1,437.9	$(10.3)	$16.2	$4,915.2
Issuance of stock through employee and customer plans	4.6	176.2				176.2
Other common stock activity	2.0	26.0				26.0
Comprehensive income			399.2	7.0		406.2
Dividends and other adjustments			(483.1)			(483.1)
Balance at December 31, 1997	187.8	$3,673.6	$1,354.0	$ (3.3)	$16.2	$5,040.5
Balance at January 1, 1996	176.4	$3,303.5	$1,427.6	$ (6.7)	$17.6	$4,742.0
Issuance of stock through employee and customer plans	4.8	169.7				169.7
Other common stock activity	0.1	3.7				3.7
Stock repurchase and retirement	(0.1)	(5.5)			(1.4)	(6.9)
Comprehensive income			472.1	(3.6)		468.5
Dividends and other adjustments			(461.8)			(461.8)
Balance at December 31, 1996	181.2	$3,471.4	$1,437.9	$(10.3)	$16.2	$4,915.2

Consolidated Statements of Comprehensive Income

	1998	1997	1996
Comprehensive income			
Net income	$535.6	$399.2	$472.1
Other comprehensive income, net of tax			
Unrealized gains (losses) on investment securities	(5.6)	8.5	5.6
Foreign currency translation adjustment	(11.2)	(1.5)	(9.2)
Other comprehensive income	(16.8)	7.0	(3.6)
Comprehensive income	$518.8	$406.2	$468.5

Consolidated Statements of Cash Flows

For The Years Ended December 31, (millions)	1998	1997	1996
Cash flows from (used in) operating activities:			
Net income	$ 535.6	$ 399.2	$ 472.1
Adjustments to reconcile net income to net cash:			
Depreciation, depletion and amortization	826.2	904.8	694.4
Gain on sale of East Midlands	(332.3)		
Deferred income taxes	22.5	13.0	84.1
Investment tax credits, net	(16.9)	(16.9)	(16.9)
Deferred fuel expense	(34.4)	9.6	(54.4)
Deferred capacity expense	(16.2)	(41.2)	(9.2)
Restructuring expense		12.5	29.6
Impairment of regulatory assets	158.6	38.4	26.7
Purchase and origination of mortgages	(2,502.6)	(1,695.1)	(769.2)
Proceeds from sale and principal collections of mortgages	2,450.4	1,672.6	703.4
Changes in current assets and liabilities:			
Accounts receivable	(89.8)	(176.2)	(29.4)
Commodity contract assets and liabilities	66.0	13.9	
Materials and supplies	(24.2)	15.9	6.0
Accounts payable, trade	64.7	113.1	73.8
Accrued interest and taxes	100.0	118.6	(17.5)
Other changes	(0.8)	(70.4)	(161.3)
Net cash flows from operating activities	1,206.8	1,311.8	1,032.2
Cash flows from (used in) financing activities:			
Issuance of common stock	354.3	176.2	169.7
Repurchase of common stock	(98.5)		
Preferred securities of subsidiary trust		250.0	
Issuance of long-term debt:			
Virginia Power	270.0	270.0	24.5
Dominion UK		1,898.5	342.5
Nonrecourse-nonutility	3,667.4	4,146.5	434.5
Issuance of short-term debt	574.6		143.4
Repayment of short-term debt	(4.5)	(99.5)	(8.9)
Repayment of long-term debt	(4,622.0)	(4,376.0)	(336.5)
Common dividend payments	(504.2)	(478.0)	(460.1)
Other	(90.4)	41.9	(4.5)
Net cash flows from (used in) financing activities	(453.3)	1,829.6	304.6
Cash flows from (used in) investing activities:			
Utility capital expenditures	(624.1)	(648.7)	(484.0)
Acquisition of natural gas and independent power properties	(131.1)	(52.6)	(271.2)
Loan originations	(2,580.0)	(1,147.2)	
Repayments of loan originations	1,777.8	1,065.0	
Purchase of East Midlands		(1,901.5)	(342.5)
Proceeds from sale of East Midlands	1,409.4		
Sale of businesses	52.7	123.3	
Purchase of fixed assets	(79.6)	(124.4)	(34.8)
Purchase of equity securities	(23.7)	(0.1)	(8.8)
Sale of marketable securities	70.0	117.1	
Purchase of debt securities	(119.7)	(138.4)	(58.3)
Acquisitions of businesses	(338.4)	(144.5)	(19.5)
Other investments	(62.8)	(78.6)	(73.6)
Net cash flows used in investing activities	(649.5)	(2,930.6)	(1,292.7)
Increase in cash and cash equivalents	$ 104.0	$ 210.8	$ 44.1
Cash and cash equivalents at beginning of the year	321.6	110.8	66.7
Cash and cash equivalents at end of the year	$ 425.6	$ 321.6	$ 110.8

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

Management's Discussion and Analysis of Operations

(unaudited)

Introduction

In Management's Discussion and Analysis (MD&A), we explain the general financial condition and the results of operations for Dominion Resources and its subsidiaries. As you read this section, it will be helpful to refer to our consolidated financial statements and notes. It is important to consider MD&A when making investment decisions about Dominion Resources.

In the period covered by this discussion, Dominion Resources operated through four business segments: Virginia Electric and Power Company (Virginia Power), Dominion Energy, Inc. (Dominion Energy), Dominion Capital, Inc. (Dominion Capital), and Dominion U.K. Virginia Power, a regulated public utility, is engaged in generation, transmission, distribution and sale of electric energy within a 30,000 square mile area in Virginia and northeastern North Carolina. Dominion Energy is engaged in independent power production and the acquisition and sale of natural gas and oil reserves. Dominion Capital's primary business is financial services which includes commercial lending, merchant banking and residential mortgage lending. Dominion U.K. owned East Midlands Electricity plc (East Midlands) which is an electricity distribution and supply company located in the East Midlands region of the United Kingdom. We have also provided certain information on "Corporate". Corporate consists of the corporate holding company activities of Dominion Resources.

Two important events impacted the 1998 results of Dominion Resources. The first event was the sale of East Midlands on July 27, 1998. Dominion Resources sold East Midlands to PowerGen plc (PowerGen), an electricity generator and supplier in the United Kingdom. PowerGen acquired 100 percent of DR Investments in a transaction valued at $3.2 billion. DR Investments is the holding company of East Midlands. The sale enabled Dominion Resources to record an immediate one-time after-tax gain of $200.7 million or $1.03 per share and eliminated the need to issue additional common stock to complete the permanent financing of East Midlands.

The second event was the settlement of Virginia Power's rate proceeding before the Virginia State Corporation Commission (Virginia Commission). The Virginia Commission adopted the settlement between Virginia Power, the Staff of the Virginia Commission, the office of the Virginia Attorney General, the Virginia Committee for Fair Utility Rates and the Apartment and Office Building Association of Metropolitan Washington. Rate refunds and the write-off of regulatory assets as a result of the order reduced after-tax earnings by $201 million or $1.03 cents per share. See Note R. This settlement is part of a two-pronged strategy of both legislative and regulatory agendas initiated by Virginia Power in 1998. Virginia Power was the principal advocate of a bill passed in 1998 by the Virginia General Assembly that provides a roadmap for competition. The legislation sets a timetable for the transition to competition and the deregulation of generation. It also establishes a policy that just and reasonable net stranded costs should be recoverable. For additional information, see "Future Issues—Virginia Power" under Management's Discussion and Analysis of Operations.

Overview

Dominion Resources achieved earnings of $535.6 million in 1998 or $2.75 per average common share, compared with earnings of $399.2 million in 1997 or $2.15 per share. The comparative earnings have been impacted by the following significant one-time events:

- the gain on the sale of East Midlands in July 1998 offset by the impact of Virginia Power's rate case settlement in the second quarter of 1998;
- the recognition of the windfall profits tax by East Midlands in the third quarter of 1997.

Earnings decreased $72.9 million in 1997 as compared to 1996 primarily due to the recognition of the windfall profits tax in 1997 offset by earnings from normal operations at Virginia Power, Dominion Energy and Dominion Capital.

Below we have provided a comparison of net income and earnings per share contributions by segment and for Corporate.

Net Income

(millions)	1998	Change	1997	Change	1996
Virginia Power	$ 395.1	(8.8)%	$ 433.4	2.8%	$421.8
Dominion Energy	57.1	26.9%	45.0	38.5%	32.5
Dominion Capital	58.7	30.2%	45.1	58.2%	28.5
Dominion UK	26.5	(43.5)%	46.9		
Corporate	(1.5)	89.7%	(14.6)	(36.4)%	(10.7)
Consolidated	535.9	(3.6)%	555.8	17.7%	$472.1
East Midlands:					
Sale of Company	200.7				
Windfall Profits Tax			(156.6)		
Virginia Power:					
Rate case settlement	(201.0)				
Consolidated	$ 535.6	34.2%	$ 399.2	(15.4)%	$472.1
Average Shares	194.9	5.2%	185.2	3.9%	178.3

Earnings Per Share

	1998	Change	1997	Change	1996
Virginia Power	$ 2.03	(13.2)%	$2.34	(1.3)%	$2.37
Dominion Energy	0.29	20.8%	0.24	33.3%	0.18
Dominion Capital	0.30	25.0%	0.24	50.0%	0.16
Dominion UK	0.14	(44.0)%	0.25		
Corporate	(0.01)	85.7%	(0.07)	(16.7)%	(0.06)
Consolidated	$ 2.75	(8.3)%	$3.00	13.2%	$2.65
East Midlands:					
Sale of Company	1.03				
Windfall Profits Tax			(0.85)		
Virginia Power:					
Rate case settlement	(1.03)				
Consolidated	$ 2.75	27.9%	$2.15	(18.9)%	$2.65

The following information gives you a more detailed explanation by segment of the factors that led to the increase in net income from 1997 to 1998.

Virginia Power

Earnings were impacted by:

- settlement of the Virginia rate proceedings which resulted in a base rate reduction and refund, a write-off of regulatory assets, discontinuance of deferral accounting for purchased power capacity expenses and adjustments to the provision for depreciation and decommissioning;
- higher operation and maintenance costs due to 1998 storm damage caused by December ice storms and Hurricane Bonnie; and
- continued customer growth in Virginia and North Carolina service areas.

Dominion Energy

Earnings were impacted by:

- increased earnings in its domestic power business primarily due to the addition of the Kincaid Power Station;
- increased production in its oil and gas business, offset by lower gas prices.

Dominion Capital

Earnings were impacted by:

- the strong performance from its financial services businesses, primarily the commercial finance businesses;
- a full year of operations of First Dominion Capital, the merchant banking and asset management business;
- increased volume in the mortgage lending business offset by the impact of prepayment speeds and securitization spreads; and
- a valuation adjustment to other investments and higher real estate operating costs.

Dominion UK

Earnings were impacted by:

- the sale of East Midlands in July 1998. Dominion Resources had a partial year benefit from the earnings of East Midlands, consequently, net income, revenues, operating expenses, etc. are less than the corresponding amounts recorded in the full year of operations in 1997.

Virginia Power

Results of Operations

Virginia Power's balance available for common stock for 1998 decreased by $239.3 million when compared to 1997. Earnings were impacted by the 1998 settlement of the Virginia rate proceedings. The principal effects were a one-time rate refund of $150 million, a base rate reduction, and a write-off of $220 million of regulatory assets in addition to normal amortization. See Note R.

Virginia Power's balance available for common stock for 1997 amounted to $433.4 million as compared to $421.8 million in 1996. Earnings were impacted by customer growth and lower restructuring expenses, partially offset by higher depreciation and amortization expenses and the provision of a reserve for potential adjustments to regulatory assets. Virginia Power's contribution to earnings per share in 1997 amounted to $2.34 compared to $2.37 in 1996 due to the dilutive impact of common stock issuances by Dominion Resources during 1997.

(millions)	1998	Change	1997	Change	1996
Operating revenues	$4,284.6	(8.1)%	$4,663.9	6.4%	$4,382.0
Operating expenses:					
Fuel, net	953.5	(20.8)%	1,204.2	23.0%	979.3
Purchase power capacity, net	806.0	12.3%	717.5	2.4%	700.6
Other operation and maintenance	854.3	4.3%	818.7	0.9%	811.7
Impairment of regulatory assets	158.6	313.0%	38.4	43.8%	26.7
Restructuring			18.4	(71.6)%	64.9
Depreciation and amortization	536.4	(8.2)%	584.3	8.9%	536.4
Other taxes	290.0	8.3%	267.7	1.9%	262.6
Operating income	685.8	(32.4)%	1,014.7	1.5%	999.8
Other income	18.0	(4.3)%	18.8	10.6%	17.0
Fixed charges, including preferred dividends	352.4	0.5%	350.8	(1.1)%	354.8
Income taxes	157.3	(36.9)%	249.3	3.8%	240.2
Balance available for common stock	$ 194.1	(55.2)%	$ 433.4	2.8%	$ 421.8

At Virginia Power, operating revenues include electric service revenues and other revenues. Electric service revenue consists of retail sales to customers in Virginia Power's service territory and wholesale sales to cooperatives, and municipalities. The Virginia Commission and the North Carolina Utilities Commission establish the rates that Virginia Power charges its retail customers. The Federal Energy Regulatory Commission (FERC) authorizes the wholesale rates. The primary factors affecting electric service revenue in 1998 were a base rate refund and rate reduction arising from the settlement of Virginia Power's rate proceedings before the Virginia Commission and adjustments to annual fuel rates. Customer growth also affected electric service revenue as new customer connections increased revenue by $50.1 million in 1998 as compared to 1997. Lower fuel rates went into effect in December 1997 and March and May 1998. The rate changes decreased fuel revenues by approximately $120.9 million when compared to 1997.

Operating revenues also include sales of electricity beyond Virginia Power's service territory and sales of natural gas, net of the related cost of purchased commodities. These revenues decreased in 1998 as compared to 1997 due to electricity trading revenues being reported net of purchased energy for the entirety of 1998 and only for the last four months of 1997. These revenues were reported gross until September 1997 because they were subject to cost of service regulation until that time.

Operating revenues were higher in 1997 as compared to 1996 primarily due to an increase in other revenues. The increase was due mostly to Virginia Power's marketing electricity beyond its service territory. Electric service revenues increased slightly in spite of mild weather due to new customer connections and an increase in fuel rates. The increase in fuel revenues was mainly attributable to higher fuel rates which went into effect in December 1996, increasing recovery of fuel costs by approximately $48.2 million.

Operating Revenues

(millions)	Increase (decrease) from prior year 1998	1997
Revenues—electric service		
Customer growth	$ 50.1	$ 55.8
Weather	(7.0)	(111.1)
Base rate variance	(226.3)	(18.7)
Fuel rate variance	(120.9)	44.1
Other retail, net	93.2	47.7
Total retail	(210.9)	17.8
Other electric service	(6.3)	9.8
Total electric service	(217.2)	27.6
Revenues—Other	(162.1)	254.3
Total revenues	$(379.3)	$ 281.9

Degree-Days Chart

	1998	1997	Normal
Cooling degree days	1,640	1,349	1,564
Percentage change compared to prior year	21.6%	(1.2)%	
Heating degree days	3,197	3,787	3,753
Percentage change compared to prior year	(15.6)%	(8.3)%	

Fuel, net decreased in 1998, as compared to 1997, mostly due to the inclusion of the cost of power marketing purchases for the first eight months of 1997. However, the cost of power marketing purchases for the last four months of 1997 and the entirety of 1998 is being reported net of related revenues in Operating revenues and income—Virginia Power. Prior to September 1997, this activity was subject to cost of service rate regulation.

Fuel, net increased in 1997 as compared to 1996, primarily due to the cost of the increased purchases of energy from other wholesale power suppliers associated with power marketing.

Purchased power capacity, net increased in 1998 as compared to 1997 chiefly because of increased expenses associated with the restructuring of certain contracts and the discontinuance of deferral accounting for such expenses. See Note R.

Impairment of regulatory assets in 1998 is a write-down of regulatory assets as a result of Virginia Power's settlement of the rate proceeding before the Virginia Commission. See Note R. The 1996 and 1997 amounts represent a reserve for potential adjustments to regulatory assets.

Other operations and maintenance increased in 1998 as compared to 1997 primarily due to (1) costs to repair storm damage caused by December 1998 ice storms and by Hurricane Bonnie in the third quarter of 1998 and (2) the cost of preparing Virginia Power's computer systems for year 2000. See "Future Issues—Year 2000 Compliance."

Restructuring expenses decreased in 1998 as compared to 1997. Although Virginia Power is continuing to evaluate its operations in anticipation of the restructuring of the electric industry, no significant restructuring expenses were incurred in 1998. See Note Q.

Restructuring expenses decreased in 1997 as compared to 1996 due to lower expenses from Virginia Power's strategic initiatives in anticipation of industry restructuring. Charges for restructuring primarily include employee severance costs, costs to restructure agreements to purchase power from third parties and, when necessary, to negotiate settlement and termination of these contracts and other costs.

Depreciation and amortization decreased in 1998 as compared to 1997, mainly because of adjustments to the provision for depreciation and decommissioning expenses to reflect terms of Virginia Power's settlement of the Virginia rate proceeding. See Note R.

Depreciation and amortization increased in 1997, as compared to 1996, due to the recognition of additional depreciation and nuclear decommissioning expense to reflect adjustments expected to be made in the Virginia rate proceeding. In addition, higher depreciation expense was incurred relating to Clover Unit 2, which began operations in March 1996.

Taxes other than income increased in 1998 as compared to 1997 due to increased taxes associated with Virginia Power's wholesale power and natural gas marketing activities.

Dominion Energy

Acquisitions and Dispositions

Dominion Energy expanded its oil and natural gas business with the acquisition of Archer Resources, Ltd. on April 22, 1998 for $119 million plus $26 million of assumed debt. Archer Resources, Ltd., (subsequently renamed Dominion Energy Canada, Ltd.) is a natural gas and oil exploration and production company headquartered in Calgary, Alberta.

Dominion Energy expanded its domestic power generation in the first quarter of 1998 with the acquisition of the Kincaid Power Station, an 1,108-megawatt facility located in Illinois. In addition, Dominion Energy expanded its foreign power generation businesses in 1998 with the acquisition of an additional 39% interest in Hidroelectrica Cerros Colorados S.A., increasing its ownership interest to 98%.

On March 31, 1998, Dominion Cogen, Inc., a wholly-owned subsidiary of Dominion Energy, sold its 50% interest in Texas Cogeneration Company and related assets to its partner in the business for $109.5 million. Texas Cogeneration Company owns two natural gas-fired, combined-cycle cogeneration units in Texas.

Results of Operations

Dominion Energy's 1998 net income was $57.1 million as compared to $45 million in 1997. The earnings change was due to:

- increased earnings in its domestic power business primarily due to the addition of the Kincaid Power Station; and
- increased production in its oil and gas businesses primarily due to the addition of Dominion Energy Canada, Ltd., offset by lower gas prices.

In 1997, Dominion Energy's net income increased by $12.5 million as compared to 1996 mainly due to:

- net income from power generation assets in Peru acquired in August 1996;
- higher natural gas prices; and
- greater production volumes due to the acquisitions of natural gas properties in the Gulf Coast area in March 1996 and in Michigan in January 1997.

Operating Income

(millions)	1998	Change	1997	Change	1996
Operating income:					
Oil and gas(1)	$ 44.1	(16.5)%	$ 52.8	42.3%	$ 37.1
Domestic power generation	44.9	1,347.2%	(3.6)	(139.1)%	9.2
Foreign power generation	47.5	(7.4)%	51.3	61.8%	31.7
Corporate(2)	(22.3)	(486.8)%	(3.8)	74.5%	(14.9)
Adjustments(1)	(24.6)	2.8%	(25.3)	4.5%	(26.5)
Total operating income	$ 89.6	25.5%	$ 71.4	95.1%	$ 36.6

(1) Oil and gas Operating income includes Nonconventional Fuels Tax Credits. Such credits are reversed on the Adjustments line as they are not ordinarily reported as a component of Operating income.

(2) Represents corporate overhead charges.

Oil and gas operating income decreased by $8.7 million for 1998 and increased by $15.7 million for 1997. During 1997 and 1998 oil and gas production increased significantly due to the development and acquisition of properties. Natural gas production rose to 69 billion cubic feet equivalent (Bcfe) in 1998, compared to 59 Bcfe in 1997, a 17 percent increase. At December 31, 1998, proved gas reserves totaled 616 Bcfe, an increase of 157 Bcfe (34%) over 1997. The 1998 increase resulted primarily from the development of existing acreage and the acquisition of Dominion Energy Canada, Ltd. The improved production results for 1998 were offset by a $0.38 reduction in average sales price per thousand cubic feet (Mcfe), from $2.44 in 1997 to $2.06 in 1998. The production results for 1997 reflect a $2.44 average gas sales price per Mcfe, compared to $2.32 per Mcfe in 1996. The 1998 decreases in gas prices are the results of a combination of shifting geographic production mix and lower overall market price.

In 1998, domestic power generation operating income increased when compared to 1997 primarily due to the addition of Kincaid Power Station. Domestic power generation operating income decreased in 1997 when compared to 1996 primarily due to the write-down of Dominion Energy's investment in two of its California projects.

Foreign power generation operating income decreased $3.8 million in 1998 when compared to 1997 primarily due to lower than normal water flows at hydro plants and lower average prices. 1997 foreign power generation operating income increased when compared to 1996 as a result of strong water flows at hydro plants and the acquisition of an interest in EGENOR, a Peruvian power generation business, in August 1996.

Dominion Capital

Results of Operations

Dominion Capital's net income increased over the past two years primarily due to the strong performance from its financial services businesses. The 1998 increase over 1997 net income was chiefly due to earnings contribution from its merchant banking and middle market loan businesses at First Dominion Capital and First Source Financial, respectively. The $16.6 million increase in net income in 1997 over 1996 was primarily due to residential mortgages originated and securitized by Saxon Mortgage and the funded loans at First Source Financial.

(millions)	1998	Change	1997	Change	1996
Operating income:					
Financial services	$212.1	47.8%	$143.5	98.8%	$72.2
Vidalia, real estate and other	(1.6)	(111.8)%	13.6	40.2%	9.7
Total operating income	$210.5	34.0%	$157.1	91.8%	$81.9

Operating Income

Financial services operating income increased by $68.6 million and $71.3 million in the 1998 and 1997 periods, respectively. Loan volumes at Saxon were $2.1 billion in 1998, up from $1.8 billion in 1997. Funded loans at First Source Financial have grown to $1.5 billion at the end of 1998, compared to $932 million at the end of 1997. Funded merchant banking loans at First Dominion Capital in 1998 were $205 million and assets under management were $2.1 billion. First Dominion Capital was formed in late 1997.

Dominion Capital also has an interest in a hydroelectric facility (Vidalia), real estate and other investments. Vidalia, real estate and other operating income decreased in 1998 over 1997 by $15.2 million primarily due to a valuation adjustment to other investments and higher real estate operating costs. Vidalia, real estate and other operating income increased in 1997 over 1996 by $3.9 million due to higher water flow and improved real estate operations.

Nonoperating Income and Expenses

Other Income and Expense

Other income and expense increased in 1998 as compared to 1997 primarily due to the gain on the sale of East Midlands in the third quarter of 1998 and the recognition of the windfall profits tax by East Midlands in the third quarter of 1997. Other income and expense decreased in 1997 as compared to 1996 primarily from the recognition of the windfall profits tax in 1997.

Fixed Charges

Interest charges decreased in 1998 as compared to 1997 because of the cancellation of the debt associated with East Midlands which was sold in July 1998. The debt cancellation for East Midlands was offset by the issuance of debt to fund Dominion Energy's acquisitions of Kincaid Power Station and Dominion Energy Canada, Ltd.

Interest charges increased in 1997 over 1996 as a result of the additional debt associated with the $2.2 billion acquisition of East Midlands in early 1997.

Provision for Income Taxes

The provision for income taxes increased for 1998 as compared to 1997 primarily due to the taxes on the gain on the sale of East Midlands. The taxes related to the sale of East Midlands were offset by the income tax provisions associated with the effects of Virginia Power's Virginia rate proceeding settlement.

Future Issues

This section discusses information that may have an impact on future operating results. The Securities and Exchange Commission encourages companies to provide forward-looking information because it provides investors with an insight into management's outlook for the future. It should be noted that any forward-looking information is expressly covered by the safe harbor rule for projections. For a more detailed description of some of the uncertainties associated with forward-looking information, please refer to the "Forward-Looking Information" section on page 35.

Virginia Power

Competition in the Electric Industry—General

For most of this century, the structure of the electric industry in Virginia and throughout the United States has been relatively stable. We have recently seen, however, federal and state developments toward increased competition. Electric utilities have been required to open up their transmission systems for use by potential wholesale competitors. In addition, non-utility power producers now compete with electric utilities in the wholesale generation market. At the federal level, retail competition is under consideration. Some states, including Virginia, have enacted legislation requiring the introduction of retail competition.

Today, Virginia Power faces competition in the wholesale market. There is no general retail competition in Virginia Power's principal service area at this time. However, during its 1998 session, the Virginia General Assembly passed a law that requires a transition to retail competition between January 1, 2002 and January 1, 2004. The legislation established the principle that just and reasonable net stranded costs would be recoverable, but it left the details as to how that would be accomplished to future enabling legislation.

At the time of this report, the General Assembly of Virginia is in session and is considering proposed legislation that would establish a detailed plan to restructure the electric utility industry in Virginia. Virginia Power is actively supporting restructuring legislation, which would provide the necessary details to implement the legislation passed in 1998. See "Competition—Retail" and "Competition—Legislative Initiatives" below.

In addition to its legislative activity, Virginia Power has responded to the trend toward competition by renegotiating long-term contracts with wholesale and large federal government customers. It has obtained regulatory approval of innovative pricing proposals for large industrial customers. Rate concessions resulting from these contract negotiations and innovative pricing proposals are expected to reduce Virginia Power's 1999 revenue by approximately $45 million as compared to the amounts that would have been billed prior to such measures.

Virginia Power has also responded to the trend toward competition by cutting its costs, re-engineering its core business processes, and pursuing innovative approaches to serving traditional markets and future markets. Virginia Power's strategy also includes the development of non-traditional products and services with an objective of providing growth in future earnings. These products and services include electric energy and capacity in the emerging wholesale market; natural gas and other energy-related products and services; nuclear management and consulting services; power distribution and transmission related services, including engineering and metering; and telecommunication services. In addition, Virginia Power may from time to time, identify and investigate opportunities to expand its markets through strategic alliances with partners whose strengths, market position and strategies complement those of Virginia Power.

Competition—Wholesale

On September 11, 1997 FERC authorized Virginia Power to make wholesale power sales under the company's Market-Based Sales Tariff, but set a hearing to consider the effect of transmission constraints on Virginia Power's ability to exercise generation market power in localized areas within its service territory. In connection with such proceeding, the participants filed a formal Offer of Settlement that was accepted by FERC in January 1999. Under the Offer of Settlement Virginia Power agreed that it would not make wholesale power sales under its Market-Based Sales Tariff to loads located within its service territory. This settlement did not preclude Virginia Power from requesting FERC authorization of such sales in the future, but until such authorization has been granted by FERC, agreements by Virginia Power to sell wholesale power to loads located within its service territory are to be at cost-based rates accepted by FERC.

During 1998, sales to wholesale customers under requirements contracts represented approximately 4% of Virginia Power's total revenues from electric sales. Since FERC issued its Order 888 requiring open access to transmission service, Virginia Power has faced increased competitive pressures on sales to wholesale customers served under requirements contracts. In response, Virginia Power has renegotiated long-term contracts with wholesale customers. Virginia Power has implemented a new arrangement with its largest wholesale customer that provides for a transition from cost-based rates to market-based rates. The reduced rates, offset in part by other revenues which may be earned under the agreement, are expected to decrease net income by approximately $21 million during the period 1999 through 2005.

As a result of the increased competitive pressures on sales to wholesale customers, Virginia Power is reevaluating the recoverability of regulatory assets previously assigned to its wholesale customers from such customers or by reallocation to its retail customers. Based on the principles included in the settlement of Virginia Power's Virginia rate proceedings in 1998 and the restructuring legislation now before the Virginia General Assembly, recovery of these costs from Virginia Power's Virginia retail customers would be unlikely. Furthermore, although future federal legislation may ultimately address the restructuring of the electric utility industry, Virginia Power does not believe it would provide for the recovery of regulatory assets from its wholesale customers. See "Competition—SFAS No. 71."

Competition—Retail

Currently, Virginia Power has the exclusive right to provide electricity at retail within its assigned service territories in Virginia and North Carolina. As a result, Virginia Power now faces competition for retail sales only if certain of its business customers move into another utility service territory, use other energy sources instead of electric power, or generate their own electricity.

However, the 1998 Virginia General Assembly passed House Bill No. 1172 (HB1172) which established the principles and a schedule for Virginia's transition to retail competition in the electric utility industry. The new law, which became effective on July 1, 1998, requires the following:

- establishment of one or more independent system operators (ISO) and one or more regional power exchanges (RPX) for Virginia by January 1, 2001;
- deregulation of generating facilities beginning January 1, 2002;
- transition to retail competition to begin on January 1, 2002, with full retail competition to be completed on January 1, 2004;
- recovery of just and reasonable net stranded costs; and
- appropriate consumer safeguards related to stranded costs and consideration of stranded benefits.

This legislation established a timeline for deregulation of retail electric service but left the details regarding implementation to future enabling legislation. Such legislation is now under consideration by the Virginia General Assembly. See "Competition—Legislative Initiatives" below.

North Carolina is also considering implementing retail competition.

Competition—Legislative Initiatives

Virginia Virginia Power actively supported HB1172 during the 1998 General Assembly session and currently supports the comprehensive restructuring legislation being considered by the 1999 General Assembly. A special joint legislative subcommittee, which has been proactively examining electric industry restructuring for the past three years, has drafted and presented a bill to the Senate for consideration during the 1999 session of the General Assembly. The major elements of the bill, which is supported by a broad coalition of consumer groups and utilities, include:

- phase-in of retail customer choice beginning in 2002 with full retail customer choice by 2004; the schedule is to be determined by the Virginia Commission, which has the authority to accelerate or delay implementation under certain conditions; however, the phase-in of retail customer choice may not be delayed beyond January 1, 2005;
- no mandatory divestiture of generating assets;
- deregulation of generation in 2002;
- capped base rates from January 1, 2001 to July 1, 2007;
- recovery of net stranded costs through capped rates or a wires charge paid by those customers opting, while capped rates are in effect, to purchase energy from a competitive supplier;
- consumer protection safeguards;
- establishment of default service beginning January 1, 2004; and
- creation of a Legislative Transition Task Force to oversee the implementation of the statute.

Under this proposed legislation, Virginia Power's base rates would remain unchanged until July 2007. If this legislation is enacted, the generation portion of Virginia Power's Virginia jurisdictional operations would no longer be subject to cost-based rate regulation beginning in 2002, although recovery of generation-related costs would continue to be provided through the capped rates until July 2007.

The Senate approved this legislation in Senate Bill No. 1269 on February 9, 1999 (the Senate Bill). Whether all of the provisions of the Senate Bill will ultimately be included in enacted legislation is uncertain. Virginia Power believes passage of Virginia restructuring legislation is likely in 1999 but cannot predict what provisions would be included, if restructuring legislation is ultimately enacted. See "Competition—Exposure to Potentially Stranded Costs and Competition—SFAS No. 71."

Federal The U. S. Congress is expected to consider federal legislation in the near future authorizing or requiring retail competition. Virginia Power cannot predict what, if any, definitive actions the Congress may take.

North Carolina The 1997 Session of the North Carolina General Assembly created a Study Commission on the Future of Electric Service in North Carolina. The North Carolina Commission received and published comments from interested parties in May 1998. An interim report was expected in 1998 but has not yet been issued.

Competition—Regulatory Initiatives

The Virginia Commission has been actively interested in industry restructuring and competition, as illustrated by its establishment of several generic and utility-specific restructuring related proceedings since 1995.

On March 20, 1998, the Virginia Commission issued an Order regarding the establishment of independent system operators (ISOs), regional power exchanges (RPXs) and retail access pilot programs. In direct response to that Order, Virginia Power filed a report on November 2, 1998, describing the details, objectives and characteristics of its proposed retail access pilot program. Virginia Power is also complying with the Order by filing reports on a regular basis on activities concerning Virginia Power's efforts to establish an ISO and RPX.

Virginia Power's proposed retail access pilot program envisions retail customer choice being available to 24,000 customers, or about 1% of Virginia Power's retail load under the jurisdiction of the Virginia Commission. The Virginia Commission created a generic proceeding to address issues common to both electric and gas retail access pilot programs throughout the Commonwealth of Virginia. On December 3, 1998, the Virginia Commission issued an Order setting Virginia Power's retail access pilot program proposal for hearing on June 29, 1999, to consider the remaining issues and details. It is anticipated that the regulatory proceedings will take much of 1999 to complete and delivery of competitively procured electricity under Virginia Power's pilot program will not occur until mid-2000.

Competition—Exposure to Potentially Stranded Costs

Under traditional cost-based regulation, utilities have generally had an obligation to serve, supported by an implicit promise of the opportunity to recover prudently incurred costs. The most significant potential impact of transitioning from a regulated to a competitive environment is "stranded costs." Stranded costs are those costs incurred or commitments made by utilities under cost-based regulation that may not be reasonably expected to be recovered in a competitive market. If no recovery mechanism is provided during the transition, the financial position of a utility could be materially adversely affected.

Virginia Power's exposure to stranded costs is comprised of the following:

- long-term purchased power contracts that may be above-market (see Note T);
- costs pertaining to certain generating plants that may become uneconomic in a deregulated environment;
- regulatory assets for items such as income tax benefits previously flowed-through to customers, deferred losses on reacquired debt and other costs (see Note E); and

- unfunded obligations for nuclear plant decommissioning and postretirement benefits not yet recognized in the financial statements (see Notes B and P).

As previously discussed under "Competition — Legislative Initiatives," any recovery of potentially stranded costs from Virginia retail customers under the Senate Bill, would occur during the rate freeze period. See "Competition—SFAS No. 71." If such legislation is enacted, the extent of Virginia Power's recovery of these costs would depend on many factors, including, but not limited to, weather, sales and load growth, future power station performance and unanticipated expenses (e.g., equipment failures and storm damage).

Competition—SFAS No. 71

Virginia Power's financial statements reflect assets and costs under cost-based rate regulation in accordance with Statement of Financial Accounting Standards No. 71 (SFAS No. 71), "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides that certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets. Regulatory assets represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process. The presence of increasing competition that limits the utility's ability to charge rates that recover its costs, or a change in the method of regulation with the same effect, could result in the discontinued applicability of SFAS No. 71.

Rate-regulated companies are required to write off regulatory assets against earnings whenever those assets no longer meet the criteria for recognition as defined by SFAS No. 71. In addition, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires a review of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Thus, events or changes in circumstances that cause the discontinuance of SFAS No. 71, and write-off of regulatory assets, would also require a review of utility plant assets for possible impairment. If such review indicates utility plant assets are impaired, the carrying amount of the affected assets would be written down. See Note B. This would result in a loss being charged to earnings, unless recovery of the loss is provided through operations that remain regulated. It would also be appropriate to review long-term purchase commitments for potential impairment in accordance with SFAS No. 5, "Accounting for Contingencies." See Note T.

At December 31, 1998, Virginia Power's regulated operations satisfied SFAS No. 71 requirements for continued recognition of regulatory assets. However, if the Senate Bill is enacted, the generation portion of Virginia Power's Virginia jurisdictional operations would no longer be subject to cost-based regulation beginning in 2002, although recovery of generation-related costs would continue to be provided through the capped rates until July 2007. When enacted legislation provides sufficient details about the transition to deregulation of generation, Virginia Power would discontinue the application of SFAS No. 71 for the generation portion of its Virginia jurisdictional operations and determine the amount of regulatory assets to be written off.

In order to measure the amount of regulatory assets to be written off, Virginia Power must evaluate to what extent recovery of regulatory assets would be provided through cost-based rates. Virginia Power would not be required to write off regulatory assets for which recovery would be provided by either cost-based rates or a separate, stranded cost recovery mechanism. Emerging Issues Task Force (EITF) Issue No. 97-4, "Deregulation of the Pricing of Electricity—Issues Related to the Application of FASB Statements No. 71, 'Accounting for the Effects of Certain Types of Regulation,' and No. 101, 'Regulated Enterprises—Accounting for the Discontinuance of Application of FASB Statement No. 71'" (EITF 97-4), provides guidance about writing off regulatory assets when SFAS No. 71 is discontinued for only a portion of a utility's operations. However, until the final provisions of the Virginia legislation are known, Virginia Power believes the measurement of regulatory assets to be written off under SFAS No. 71 and EITF 97-4 is uncertain. If a write-off of regulatory assets is required, such write-off could materially affect Virginia Power's financial position and results of operations. See Note E. At the time of this report, Virginia Power believes passage of the Virginia restructuring legislation is likely in 1999, but cannot predict what provisions would be included, if restructuring legislation is ultimately enacted.

Virginia Power believes the stable rates that would be provided until July 2007 by the Senate Bill coupled with the opportunity to pursue further reductions in Virginia Power's operating costs, would present a reasonable opportunity to recover a substantial portion of Virginia Power's potentially stranded costs. However, as discussed above, if the application of SFAS No. 71 is discontinued for any part of utility operations, Virginia Power would also perform an impairment evaluation with respect to property, plant and equipment as well as long-term power purchase commitments. The impairment assessment may be required on a disaggregated basis rather than as an aggregate portfolio. Thus, the recognition of impairments, if any, could potentially not be mitigated by other assets or contracts with estimated values in excess of respective carrying amounts or contract payments. If Virginia Power's evaluation concludes that an impairment exists, an additional loss would be charged to earnings. Because the impairment evaluation has not been completed, Virginia Power cannot estimate the amount of loss, if any, that would be recognized. However, such amount could materially affect Virginia Power's financial position and results of operations.

Environmental Matters

Virginia Power is subject to rising costs resulting from a steadily increasing number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations can result in increased capital, operating and other costs as a result of compliance, remediation, containment and monitoring obligations of Virginia Power. These costs have been historically recovered through the rate making process. However, see "Competition — Legislative Initiatives" for a discussion of legislation that, if enacted, would provide a transition from cost-based to competitive pricing in Virginia.

Virginia Power incurred expenses of $71.9 million, $70.4 million, and $71.1 million (including depreciation) during 1998, 1997, and 1996, respectively, in connection with the use of environmental protection facilities and expects these expenses to be $71.1 million in 1999. In addition, capital expenditures to limit or monitor hazardous substances were $22.2 million, $24.6 million, and $22.4 million for 1998, 1997, and 1996, respectively. The amount estimated for 1999 for these expenditures is $106.9 million.

The Clean Air Act, as amended in 1990, requires Virginia Power to reduce its emissions of sulfur dioxide (SO_2) and nitrogen oxides (NOx). NOx and SO_2 are gaseous by-products of fossil fuel combustion. The Clean Air Act's SO_2 reduction program is based on the issuance of a limited number of SO_2 emission allowances, each of which may be used as a permit to emit one ton of SO_2 into the atmosphere or may be sold to someone else. Virginia Power's compliance plans may include switching to lower sulfur coal, purchasing emission allowances and installing SO_2 control equipment. In December 1998, Virginia Power initiated a capital project to install SO_2 control equipment on two units at its Mt. Storm Power Station at an estimated cost of $115 million.

Virginia Power began complying with Clean Air Act Phase I NOx limits at eight of its units in Virginia in 1997, three years earlier than otherwise required. As a result, the units will not be subject to more stringent Phase II limits until 2008.

However, in September 1998, the Environmental Protection Agency (EPA) adopted a rule which requires 22 states, including Virginia, North Carolina and West Virginia, to reduce and cap emissions of NOx beginning in 2003. The rule allows each state to determine how to achieve the required reduction in emissions. By September 1999, each affected state must develop and submit a plan to the EPA that details how the state will achieve its emission cap. If states adopt the approach suggested by the EPA, it is probable Virginia Power will incur major capital expenditures, presently expected to be in the range of $500 million, to install additional emission control equipment. These expenditures would satisfy the Clean Air Act Phase II standards for NOx, thereby eliminating the need under existing law to make additional investment beginning in 2008 for that purpose. Virginia Power will closely monitor the development of NOx emission cap plans by the various states.

Evaluation and planning on future projects to comply with the SO_2 and NOx reduction requirements are ongoing and will be influenced by changes in the regulatory environment, availability of allowances, and emission control technology.

Global Climate Change

In 1993, the United Nation's Global Warming Treaty became effective. The objective of the treaty is the stabilization of greenhouse gas concentrations at a level that would prevent man-made emissions from interfering with the climate system. To further this objective, an international Protocol was formulated on December 10, 1997 in Kyoto, Japan. This Protocol calls for the United States to reduce greenhouse emissions by 7% from 1990 baseline levels by the period 2008-2012. The Protocol will not constitute a binding commitment unless submitted to and approved by the United States Senate. Emission reductions of the magnitude included in the Protocol, if adopted, would likely result in a substantial financial impact on companies that consume or produce fossil fuel-derived electric power.

NRC Nuclear Decommissioning Rule

Effective November 23, 1998, the Nuclear Regulatory Commission (NRC) amended its nuclear decommissioning financial assurance requirements. In particular, the NRC limited the use of the sinking fund method to only that portion of a licensee's collections for decommissioning that is recovered through either traditional cost of service rate regulation or through non-bypassable charges. The majority of Virginia Power's decommissioning collections are currently recovered through cost of service rate regulation. However, a portion of decommissioning collections are recovered through contracted rates, and Virginia Power has established a parent company guarantee to satisfy the NRC's revised requirements. Other methods are available and may be used in the future.

Further, Virginia Power will evaluate the implications on its method of satisfying the NRC financial assurance requirements that may result from enactment of the legislation currently before the Virginia General Assembly. See "Future Issues, Competition—Legislative Initiatives."

Dominion Energy

One of Dominion Energy's primary goals in its oil and gas business is to sustain and increase earnings from non-tax credit oil and gas properties. Dominion Energy's operating focus is on cost structure and operating efficiencies. Dominion Energy expects to compete in regional markets by expanding its reserve base through drilling and the acquisition of oil and gas properties.

In its foreign power businesses, Dominion Energy has commitments to add generating capacity in Peru and Bolivia. Dominion Energy may expand and acquire additional power generation in Latin America. Dominion Energy plans to consider the acquisition of controlling interests in generating assets through a selective and conservative bidding process. Dominion Energy intends to mitigate the political and economic risks in its foreign operations by setting limits on its investments in any one country and operating in areas where it believes these risks are less significant.

Dominion Energy's future focus in its domestic power generation business is to acquire and develop additional power generation in the MAIN to Maine region. The MAIN region consists of the Mid America Interconnected Network. This network includes the range of electric utility service territories that begins in the United States upper mid west and covers an area north eastward through Maine.

Dominion Energy's business is increasingly competitive. In its existing independent power investments, Dominion Energy intends to counter competition by focusing on cost structure, operating efficiencies and actively exercising management control. Dominion Energy expansion is planned to be in areas where it has existing gas reserves and power generation presence. The focus for potential acquisitions will be targeted at low-cost producers and utility generation divestitures.

Dominion Capital

The financial performance of Dominion Capital's diversified financial services business depends to a certain degree on the movement of interest rates, overall economic conditions, and increasing competition. Dominion Capital intends to manage the effect of these issues by maintaining a balanced diversified business approach, maintaining underwriting and credit quality, and focusing on specialized markets. Dominion Capital plans to grow its existing financial service business units through increased market share, developing new products and services and entering new financial markets.

Recently Issued Accounting Standards

In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers Disclosure about Pensions and Other Postretirement Benefits." Dominion Resources adopted SFAS No. 132 in 1998. This new standard revises employers' disclosure about pension and other postretirement benefit plans. It does not

change the measurement or recognition of those plans. This statement is effective for fiscal years beginning after December 15, 1997.

In June 1998, FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The statement requires that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at fair value. The statement requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

Dominion Resources currently plans to adopt SFAS No. 133 in its 2000 financial statements. We are currently in the process of quantifying the effect of adopting SFAS No. 133 on our financial statements. Since the impact is a function of market prices and other measures of fair value, any quantification will be subject to change. The adoption of the statement could increase volatility in earnings and other comprehensive income.

In October 1998, FASB issued SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained After the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." This new statement allows residual interests retained after securitization to be classified as available for sale.

In November 1998, the EITF reached consensus on Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 98-10). Dominion Resources will adopt EITF 98-10 in 1999. EITF 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet with the changes in fair value included in earnings. The effects of the initial application of EITF 98-10 will be reported as a cumulative effect of a change in accounting principle.

Virginia Power manages a portfolio of energy contracts which are currently recorded at fair value on the balance sheet with the changes in fair value included in earnings as required by EITF 98-10. However, we have not yet completed our review of other energy-related contracts held by Dominion Resources that could possibly be subject to EITF 98-10. Until our contract review is complete, we will not be in a position to quantify the impact of adopting EITF 98-10.

Year 2000 Compliance

Dominion Resources is preparing its computer systems and computer-driven equipment and devices for the year 2000. Virtually every computer operation could be affected in some way by the rollover of the two-digit year value from 99 to 00. Systems or devices that do not properly recognize date-sensitive information when the year changes to 2000 could generate erroneous data or fail. The year 2000 problem could affect traditional information systems, embedded systems and specialized computers used to control, monitor, or assist the operations of equipment. It could also affect software or computer applications that use, store, transmit or receive information involving dates.

If not properly addressed, the year 2000 problem could result in computer and other equipment failures at the company and our suppliers and customers. Because of the extensive use of computers and embedded systems throughout our business and the businesses of our suppliers and customers, if failures occur, they could have a material impact on our business.

Dominion Resources' objective is to be year 2000 ready. "Year 2000 ready" means that critical systems, devices, applications and business relationships have been evaluated and are expected to be suitable for continued use into and beyond the year 2000. Dominion Resources and its subsidiaries have organized formal year 2000 project teams to identify, correct or reprogram and test its systems for year 2000 readiness. These teams are addressing all critical aspects of our business, including information systems, embedded systems and external relationships with business partners. The teams are overseen by an executive who reports regularly to management and the Boards of Directors.

Our year 2000 remediation program involves completing four major phases: (1) inventorying of computer systems and embedded systems that could potentially be affected by the year 2000 problem; (2) screening to determine date sensitivity within the inventoried systems; (3) impact assessment; and (4) remediation and testing. We have completed our internal inventory and screening process. The following tables summarize our status and projected timetable for preparing our company for year 2000.

Percent of Critical Systems Year 2000 Ready

	Actual	Planned	
	12/31/98	7/31/99	10/31/99
Virginia Power	93	99	99*
Dominion Resources	10	100	100
Dominion Energy	45	73	100
Dominion Capital	85	100	100

*100% planned to be ready before 12/31/99

In addition to these internal efforts, Dominion Resources is assessing the state of readiness of its critical suppliers and service providers. We have implemented initiatives to prevent future procurement of non-year 2000 compliant technology. Additionally, Virginia Power is participating in industry groups and sharing information with other utilities to ensure continuity of service to its customers. Dominion Energy's representatives are making inquiries of appropriate authorities in countries where the transmission network used for delivery of energy is operated by the local government. Virginia Power is also meeting with the nonutility power producers that supply it with energy under power purchase contracts to share information about year 2000 readiness.

Based on our efforts to date, we expect year 2000 costs to be within the range of $35 million to $45 million dollars, of which $12.8 million (including $10.8 million for Virginia Power) has been expended to date. Of this amount, $30 million to $40 million is for Virginia Power. Year 2000 costs at our other subsidiaries are not expected to be material. These ranges are a function of Dominion Resources' ongoing evaluation as to whether certain systems and equipment will be corrected or replaced, which is dependent on information which is still being obtained from suppliers and other external sources. The current projection is a downward revision of an earlier one of $45 million to $55 million which is due in part to completion of the assessment phase at Virginia Power, progress made on remediation and testing, and an increase in information from significant external relationships.

Maintenance and modification costs will be expensed as incurred, while the costs of new software and hardware will be capitalized and amortized over the asset's useful life. These costs do not include

capital expenditures for major information systems (hardware and software) that were initiated for normal business reasons without regard to year 2000 issues.

Of primary importance to Dominion Resources' energy businesses is the reliability of the transmission network for delivery of energy to its customers. This reliability is achieved by participation of many utilities in the supply to, and control of, their individually owned portions of the network. Failure of an individual utility to successfully manage its transmission network could affect this reliability which could have a material adverse affect on the total operations of Dominion Resources.

Congress has directed the Department of Energy (DOE) to ascertain the readiness of all electric utilities for year 2000. The DOE is working with the North American Reliability Council (NERC) to coordinate and monitor year 2000 activities of the electric utility industry to ensure continued supply of energy to all customers. NERC is comprised of ten regional councils whose members represent the major bulk power suppliers of the electric industry. Virginia Power is actively participating with other NERC members, including its local council, the Southeastern Electric Reliability Council (SERC).

Dominion Resources is also in the process of contingency planning to ensure continuous operation of its businesses. Contingency planning involves an ongoing evaluation of our internal efforts as well as the efforts of critical third-parties to successfully address the year 2000 issue. Virginia Power is on schedule to complete its contingency planning by June 30, 1999. Dominion Resources intends to have all contingency plans identified and tested prior to year-end 1999. Virginia Power and the U.S. electric utility industry already have extensive contingency plans in place for many events such as extreme heat, storms and equipment failures. Its year 2000 contingency planning is an extension of these existing plans. It is also coordinating with SERC and NERC and will participate in at least two nationwide drills planned for 1999.

As part of its year 2000 process, Dominion Resources must consider and evaluate the most reasonably likely worst case scenarios and their impact on continuous operations of its businesses. Based on our preliminary evaluations, which include SERC and NERC efforts to date, the most reasonably likely worst case scenarios could include:

- minor variations in voltage or frequency with no significant effect on electric service;
- temporary loss of a portion of generation capacity including possibly non-utility generation; however, such loss is not expected to be sufficient to adversely affect electric supplies;
- temporary loss of some telecommunications functionality and other services with no impact expected on electric service; and
- temporary loss of a small portion of commercial and industrial customer loads.

Dominion Resources cannot estimate or predict the potential adverse consequences, if any, that could result from a third party's failure to effectively address the year 2000 issue, but believes that any impact would be short-term in nature and would not have a material adverse impact on results of operations. Based on Dominion Resources' and industry analyses to date, we do not believe the most reasonably likely worst case scenarios identified above, if they were to occur, would have a material adverse affect on Dominion Resources' businesses or results of operations.

Market Rate Sensitive Instruments and Risk Management

Dominion Resources is exposed to market risk because it utilizes financial instruments, derivative financial instruments and derivative commodity instruments. The market risks inherent in these instruments are represented by the potential loss due to adverse changes in commodity prices, equity security prices, interest rates and foreign currency exchange rates as described below. Interest rate risk generally is related to Dominion Resources and its subsidiaries' outstanding debt as well as their commercial, consumer, and mortgage lending activities. Currency risk exists principally through Dominion Energy's investment in Canada and some debt denominated in European currencies associated with Dominion Energy's investment in South America. Dominion Resources is exposed to equity price risk through various portfolios of equity securities. Commodity price risk is experienced in Dominion Resources' subsidiaries Dominion Energy and Virginia Power. They are exposed to effects of market shifts in the sales prices they receive and pay for natural gas and electricity.

For the current annual report, Dominion Resources has utilized the Sensitivity Analysis methodology to disclose the quantitative information for the interest rate, commodity price and foreign exchange risks. Sensitivity analysis provides a presentation of the potential loss of future earnings, fair values, or cash flows from market risk sensitive instruments over a selected time period due to one or more hypothetical changes in interest rates, foreign currency exchange rates, commodity prices, or other similar price changes. The Tabular Presentation methodology continues to be used to disclose equity price market risk in 1998. Tabular presentation of summarized information requires disclosure of key terms and information for market risk sensitive instruments.

In the 1997 Annual Report, Dominion Resources adopted the Tabular Presentation methodology to disclose quantitative information concerning interest rate risk (non-trading), foreign exchange risk and equity price risk activities. In 1998, the change was made to Sensitivity Analysis because we believe it will better assist the reader in understanding the exposure Dominion Resources has to various market risks. Commodity price risk related to non-trading activities was considered immaterial in 1997. Consequently, its effect was not disclosed in the 1997 Annual Report. In 1997, Dominion Resources used the Sensitivity Analysis method to disclose quantitative information regarding interest rate risk in trading activities.

Interest Rate Risk Non-Trading Activities

Dominion Resources manages its interest rate risk exposure by maintaining a mix of fixed and variable rate debt. In addition, Dominion Resources enters into interest rate sensitive derivatives. Examples of these derivatives are swaps, forwards and futures contracts.

If interest rates in 1999 are 10% higher than the rates reported at the end of 1998, Dominion Resources' interest expense, after considering the effects of the derivative financial instruments would increase by approximately $10 million before considering the effect of income taxes. If the same situation had occurred in the previous year, Dominion Resources' interest expense after considering the effects of the swap, forward and futures agreements would have increased by approximately $25 million prior to the effect of income taxes. This amount has been determined by considering the impact of the hypothetical interest rates on Dominion Resources' financial instruments.

Dominion Capital, through its indirectly owned subsidiary Saxon Mortgage, Inc., retains ownership in the residual classes of the asset-backed securities utilized to sell home equity loans originated and purchased by Saxon Mortgage. At December 31, 1998, these assets are classified as available for sale securities on the balance sheet and total $266.1 million.

The residual securities represent the net present value of the excess of the interest payments upon the underlying mortgage collateral net of interest payments to outstanding bond holders, servicing costs, over-collateralization requirements, and credit losses. Fair value of the residual is analyzed quarterly by Saxon Mortgage to determine whether prepayment experience, losses and changes in the interest rate environment have had an impact on the valuation. Expected cash flows of the underlying loans sold are reviewed based upon current economic conditions and the type of loans originated and are revised as necessary.

Foreign Exchange Risk Activities

Dominion Resources' exposure to foreign currency exchange rates results from debt which is denominated in a currency different from the company's functional currency, the U.S. dollar. In this situation, the company is subject to gains and losses due to the relative change in the foreign currency rate of the debt versus the U.S. dollar. This risk is mitigated by entering into contracts which are denominated or indexed to the U.S. dollar. In the past, the company has used currency swaps to minimize this exposure. As of December 31, 1998, no cross currency swaps were outstanding.

Dominion Resources has performed sensitivity analyses to estimate its exposure to foreign-exchange market risk. If the U.S. dollar declines in value by 10% in 1999 when compared to 1998, the impact on the fair value of the foreign denominated debt would be insignificant. Comparatively, in 1998, the same percentage decline of the U.S. dollar over 1997 would have resulted in an $87 million increase in the fair value of the foreign denominated debt. The decrease in Dominion Resources foreign currency exposure in 1998 is due to the absence after July 1998 of the debt associated with East Midlands. This debt was subject to foreign currency risk in 1997.

Commodity Price Risk Non-Trading Activities

Dominion Energy is exposed to the impact of market fluctuations in the sales price Dominion Energy receives for its produced natural gas. To reduce price risk caused by market fluctuations, Dominion Energy generally follows a policy of hedging a portion of its natural gas sales commitments by selecting derivative commodity instruments whose historical price fluctuations correlate strongly with those of the production being hedged. Dominion Energy enters into options, swaps, and collars to mitigate a loss in revenues, should natural gas prices decline in future production periods. Dominion Energy also mitigates price risk by entering into fixed price sale agreements with physical purchasers of natural gas. The impact of a change in price on Dominion Energy's financial condition at a point in time is not necessarily representative of the effect of price movements during the year.

When conducting sensitivity analysis of the change in the fair value of Dominion Energy's gas portfolio which would result from a hypothetical change in the future market price of natural gas, the fair value of the portfolios are determined from option pricing models which take into account the market prices of natural gas in future periods, the volatility of the market prices in each period, as well as the time value factors of the underlying commitments. In most instances, market prices and volatility are determined from quoted prices on the futures exchange.

If natural gas prices increase 10% in 1999 over their value in 1998, the change in the fair value of Dominion Energy's natural gas portfolio would be immaterial. Similarly, if a 10% change had occurred in the price of natural gas in 1998 over 1997, the change in the fair value of Dominion Energy's portfolio at December 31, 1997 would also have been immaterial.

Commodity Price Risk Trading Activities

As part of Virginia Power's strategy to market energy from its generation capacity and to manage related risks, it enters into contracts for the purchase and sale of energy commodities. Virginia Power manages a portfolio of derivative commodity contracts held for trading purposes. These contracts are sensitive to changes in the prices of natural gas and electricity. Virginia Power employs established policies and procedures to manage its risks associated with these price fluctuations and uses various commodity instruments, such as futures, swaps and options, to reduce risk by creating offsetting market positions. In addition, Virginia Power seeks to use its generation capacity, not needed to serve customers in its service territory, to satisfy commitments to sell energy.

When conducting sensitivity analysis of the fair value of the portfolio, we take into account the underlying commodity, contract prices and market prices represented by each derivative commodity contract. For exchange-for-physical contracts, basis swaps, fixed price forward contracts and options which require physical delivery of the underlying commodity, market value reflects management's best estimates considering over-the-counter quotations, time value and volatility factors of the underlying commitments. Exchange-traded futures and options are marked to market based on closing exchange prices.

Virginia Power has determined a hypothetical loss by calculating a hypothetical fair value for each of its contracts assuming a 10% unfavorable change in the market prices of the related commodity and comparing it to the fair value of the contracts based on market prices at December 31, 1998 and 1997. This hypothetical 10% change in commodity prices would have resulted in a hypothetical loss of approximately $13.5 million and $2.5 million in the fair value of Virginia Power's contracts as of December 31, 1998 and 1997, respectively. The commodity contracts' sensitivity to unfavorable price changes increased in 1998 as compared to 1997 primarily due to the increased volume of contracts and associated commodities.

The sensitivity analysis does not include the price risks associated with utility operations, including those underlying utility fuel requirements. In the normal course of business, Virginia Power also faces risks that are either nonfinancial or nonquantifiable. Such risks principally include credit risk, which is not reflected in the sensitivity analysis above.

Equity Price Risk Activities

Dominion Resources is subject to equity price risk due to its investment in marketable securities and trust funds. Trust funds are maintained by Virginia Power in order to fund certain nuclear decommissioning costs. Because nuclear decommissioning costs have been recovered through Virginia Power's rates, fluctuations in equity prices have not affected the earnings of Dominion Resources. See "Future Issues—NRC Nuclear Decommissioning Rule."

The following table presents descriptions of the equity securities that are held by the company at December 31, 1998. In accordance with current accounting standards, the marketable securities are reported on the balance sheet at fair value.

(millions)	1998 Cost	1998 Fair Value	1997 Cost	1997 Fair Value
Trading:				
Short-term marketable securities	$ 0.7	$ 0.7	$240.7	$240.7
Other than trading:				
Marketable securities	$164.6	$169.1	$185.3	$190.8
Nuclear decommissioning trust investments	$252.4	$470.3	$219.4	$360.4

Other Risk Management Factors and Matters

Dominion Energy A significant portion of the company's operations are located in foreign countries. These investments represent primarily investments in affiliates which own energy-related production, generation and transmission facilities.

The company is exposed to foreign currency risk and sovereignty risk with respect to these. How the company manages foreign currency risk is explained in the previous section, "Foreign Exchange Risk Activities." Sovereignty risk relates to losses due to actions initiated by foreign governments that preclude performance by the company to mitigate these losses. Dominion Energy seeks to manage this risk by limiting its exposure in any single country and by limiting its investments to those countries and regions where the company believes these risks are less significant.

Dominion Capital Dominion Capital manages a number of risks in its operations in addition to interest rate risk as discussed above. Its lending groups are concerned with credit risks, loan loss reserves, prepayments, and oil and natural gas market fluctuations.

Consumer credit risks are managed in the following ways:

- experienced management and effective underwriting policies and procedures;
- controlling the average loan size;
- geographic diversification of the portfolio;
- compensating for risk grade by lowering loan to values and higher interest rates;
- servicing and quality control efforts.

Commercial credit risks are managed in these ways:

- diversification of clients by geography and industry classification;
- primarily maintaining first position in collateralized assets;
- underwriting by experienced professionals and effective underwriting policies and procedures; and
- portfolio monitoring and credit collection.

Dominion Capital's mortgage investments are adversely impacted by increases in the rate at which home equity loans prepay. Accordingly, Dominion Capital actively manages this risk by:

- including prepayment penalties, when possible, as part of loan structure;
- aggressively enforcing premium recapture provisions with sellers of mortgage loans;
- limiting the acquisition of below market (teaser) start rates on adjustable rate mortgages to those covered by prepayment penalties; and
- constructing prudent valuation assumptions based on historical prepayment speeds globally and within the company.

Dominion Capital's loan loss reserves are set based on the nature of its assets and the prevailing economic outlooks affecting the sectors in which the companies operate. Reserves also reflect historical experience within the operating entities. Loss reserves are imbedded within the securitization structures and are reflected in residual values.

The market price of natural gas assets are monitored and coverages are maintained in the underwriting structures of Dominion Capital's loan assets as well as oil and gas hedges.

Business Opportunities

Because our industry is rapidly changing, especially in the U.S., there are many opportunities for acquisitions of assets and business combinations. We investigate any of the opportunities we learn about that may increase shareholder value or build on our existing businesses. Any acquisitions or combinations may result in transactions involving cash, debt or equity securities, and may involve payment of a premium over book and market values. Such transactions or payments could dilute the interests of holders of common stock.

Forward-Looking Information

As we have pointed out earlier in this annual report, we have included certain information about the future for us and our subsidiaries. We have talked about our expectations and plans and, when we felt we were able to make reasonable predictions, tried to estimate the impact of known trends and uncertainties that our businesses are subject to. None of our statements about the future, also referred to as "forward-looking statements," are guarantees of future results or outcomes. Any statement of this type necessarily involves assumptions and uncertainties which could cause actual results or outcomes to be substantially different from those we have suggested. In many cases, the matter will be outside of our control. In addition to specific issues discussed in other parts of this report, some of the factors that could make a significant difference in the forward-looking statements we have made include: legislative and regulatory actions, both domestic and international; deregulation and increased competition in our industry; our operation of nuclear power facilities and related decommissioning costs; our acquisition or disposition of assets or facilities; outcomes in legal proceedings, including rate proceedings; changes in environmental requirements and costs of compliance; unanticipated changes in operating expenses and capital expenditures; development project delays or changes in project costs; and competition for new energy development opportunities. We are also influenced by more general economic and geographic factors such as: weather conditions and catastrophic weather related damage; political and economic risks (particularly those associated with international development and operations, including currency fluctuations); the ability of the company, its suppliers, and its customers to successfully address Year 2000 compliance issues, pricing and transportation costs of commodities; the level of market demand for energy; inflation; capital market conditions; and interest rates.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.

Management's Discussion and Analysis of Cash Flows and Financial Condition

(unaudited)

Introduction

In Management's Discussion and Analysis of Cash Flows and Financial Condition, Dominion Resources' and its subsidiaries' general financial condition and changes in financial condition are discussed by addressing the following topics:

- what our capital expenditures were for the year 1998 and what we project them to be for the year 1999. In addition, we will disclose trends that may have a material effect on our financial condition over the next few years.
- the sources of funds utilized to pay for the expenditures incurred during 1998 and the anticipated future capital expenditures.

Corporate Financing Activity

Dominion Resources funds its operations and supports the financing needs of its subsidiaries primarily through:

- the issuance of commercial paper, backed by lines of credit; and
- the issuance of debt, preferred or common securities, which is facilitated by the equity plans described below and a $950 million dollar shelf registration, $675 million of which was still available to Dominion Resources as of December 31, 1998. During 1998 Dominion Resources issued approximately 6.8 million shares of common stock at a value of $267.8 million.

The proceeds of the Dominion Resources' financing activities are provided to its subsidiaries as needed under inter-company agreements.

Commercial Paper

Dominion Resources' nonutility subsidiaries may finance their working capital for operations from the proceeds of Dominion Resources commercial paper sales. Dominion Resources sells its commercial paper in regional and national markets and provides the proceeds to the nonutility subsidiaries under the terms of intercompany credit agreements. At the end of 1998, Dominion Resources supported these borrowings through bank lines of credit totaling $500.8 million. The nonutility subsidiaries repay Dominion Resources through cash flows from operations and proceeds from permanent financings. Virginia Power has a commercial paper program with a limit of $500 million. The program is supported by $500 million of revolving credit facilities and is used primarily to finance working capital for operations.

Equity Plans

Until mid-1998, Dominion Resources has also raised additional capital from the sale of common stock through the following equity plans:

- Dominion Direct Investment and
- Employee Savings Plan.

On July 8, 1996, the company established Dominion Direct Investment. Dominion Direct Investment continues and expands the Automatic Dividend Reinvestment and Stock Purchase Plan. Proceeds from all these equity plans were (in millions): 1998-$86.6; 1997-$176.2; and 1996-$169.7.

In nine of the last ten years, Dominion Resources has raised over $100 million from sales through these plans. Effective August 1, 1998, management made the decision that purchases of shares required by the company's equity plans would be purchased on the open market instead of issuing new shares. Therefore, these plans are currently not a source of capital to the company. However, Dominion Resources continues to have access to capital through the Dominion Direct Investment and the Employee Savings Plans in the future.

Sale of East Midlands—Financial Benefits

Due to the sale of East Midlands, Dominion Resources has attained certain financial benefits. Dominion Resources received an immediate gain of $200.7 million. In addition, the sale has eliminated the need to issue an additional $400 million in Dominion Resources common stock required to complete the permanent financing for East Midlands. Finally, Dominion Resources retained $647 million in after-tax cash proceeds from the sale. The proceeds provide Dominion Resources with the financial strength and flexibility to either repurchase shares of Dominion Resources common stock or take advantage of investment opportunities. On July 20, 1998, the Dominion Resources Board of Directors authorized the repurchase of up to $650 million (approximately 8%) of Dominion Resources common stock outstanding. Since July 1998, Dominion Resources repurchased approximately 2.3 million shares at a cost of approximately $98 million. Dominion Resources plans to buy back between $100 and $200 million of common stock over the next year, depending on market conditions.

Virginia Power

Liquidity and Capital Resources

Operating activities continue to be a strong source of cash flow, providing $1,094 million in 1998 compared to $1,091 million in 1997. Over the past three years, cash flow from operating activities has, on average, covered 137% of Virginia Power's total construction requirements and provided 83% of its total cash requirements. Virginia Power's remaining cash needs are met generally with proceeds from the sale of securities and short-term borrowings.

Cash from (used in) financing activities was as follows:

(millions)	1998	1997	1996
Issuance of long-term debt	$ 270.0	$ 270.0	$ 24.5
Repayment of long-term debt	(333.5)	(311.3)	(284.1)
Issuance (repayment) of short-term debt	(4.5)	(86.2)	143.4
Common dividend payments	(377.7)	(379.9)	(385.8)
Other	(52.9)	(49.2)	(48.8)
Total	$(498.6)	$(556.6)	$(550.8)

Financing activities have represented a net outflow of cash in recent years as strong cash flow from operations and the absence of major construction programs have reduced Virginia Power's reliance on debt financing.

Virginia Power has continued to take advantage of declining interest rates by issuing new debt at lower rates as higher-rate debt has matured. In 1998, $333.5 million of Virginia Power's long-term debt securities matured with an average effective rate of 8.36%. As a partial replacement for this maturing debt, Virginia Power issued $270 million of long-term debt securities during the year with an average effective rate of 6.71%.

Virginia Power currently has three shelf registration statements effective with the Securities and Exchange Commission from which it can obtain additional debt capital: $400 million of Junior Subordinated Debentures; $375 million of Debt Securities, including First and Refunding Mortgage Bonds, Senior Notes and Senior Subordinated Notes; and $200 million of Medium-Term Notes, Series F. The remaining principal amount of debt that can be issued under these registrations totals $645 million. An additional capital resource of $100 million in preferred stock is also registered with the Securities and Exchange Commission.

Virginia Power has a commercial paper program that is supported by two credit facilities totaling $500 million. Proceeds from the sale of commercial paper are primarily used to provide working capital. Net borrowings under the program were $221.7 million at December 31, 1998.

Cash used in investing activities was as follows:

(millions)	1998	1997	1996
Plant and equipment	$(450.8)	$(397.0)	$(393.8)
Nuclear fuel	(80.9)	(84.8)	(90.2)
Nuclear decommissioning contributions	(37.5)	(36.2)	(36.2)
Purchase of assets		(19.8)	(13.7)
Other	(12.7)	(8.3)	(12.5)
Total	$(581.9)	$(546.1)	$(546.4)

Investing activities in 1998 resulted in a net cash outflow of $581.9 million, mostly due to $450.8 million of construction expenditures and $80.9 million of nuclear fuel expenditures. The construction expenditures included approximately $281.8 million for transmission and distribution projects, $80.5 million for production projects, $57.9 million for information technology projects and $30.6 million for other projects.

Capital Requirements

Capacity Virginia Power anticipates that kilowatt-hour sales will grow approximately 3.0% a year through 2001. In addition, Virginia Power has long-term purchase agreements which will expire on December 31, 1999. To meet these requirements, Virginia Power has developed plans to construct four 150-megawatt combustion turbines in Fauquier County, Virginia by midyear 2000 at a projected cost of $175 million to $190 million. However, on January 14, 1999, the Virginia Commission issued an Order directing Virginia Power to solicit bids from independent suppliers to determine if a lower overall cost option is available.

Fixed Assets Virginia Power's construction and nuclear fuel expenditures during 1999, 2000 and 2001 are expected to total $802.5 million, $756.7 million and $762.7 million, respectively. Virginia Power expects 1999 construction and nuclear fuel expenditures to be met through cash flow from operations, sales of securities and short-term borrowings.

Virginia Power also plans to install SO_2 emission control equipment at two coal-fired generating units. This will require a $115 million investment over the next four years. Management believes the installation of scrubbers on these two units will provide the most cost-effective means of complying with the Clean Air Act.

In response to a rule adopted by the EPA in September 1998, Virginia Power plans to install NOx reduction equipment at its coal-fired generating stations at an estimated capital cost of $500 million over the next five years. Whether these costs are actually incurred is dependent on the implementation plans adopted by the states in which Virginia Power operates. See "Future Issues—Environmental Matters."

Long-Term Debt Virginia Power will require $321million to meet maturities of long-term debt in 1999, which it expects to meet with cash flow from operations and issuance of replacement debt securities. Other capital requirements will be met through a combination of sales of securities and short-term borrowings.

Dominion Energy

Liquidity and Capital Resources

Dominion Energy funds its capital requirements through cash from operations, equity contributions by Dominion Resources, an intercompany credit agreement with Dominion Resources and bank revolving credit agreements.

During 1998, cash flows from operating activities decreased by $14.8 million as compared to 1997 primarily due to a reduction in ownership of a subsidiary that occurred during the third quarter of 1997.

Net cash provided by operating activities increased by $56.9 million in 1997, as compared to 1996, primarily due to:

- net income from power generation assets in Peru acquired in August 1996;
- generally higher natural gas prices; and
- greater production volumes due to the acquisition of natural gas properties in the Gulf Coast area in March 1996 and in Michigan in January 1997.

Cash from (used in) financing activities was as follows:

(millions)	1998	1997	1996
Contribution from parent			$ 75.0
Issuance of long-term debt	$ 455.4	$ 107.9	221.7
Repayment of debt		(212.7)	(8.9)
Common dividend payments	(47.9)	(48.3)	(43.3)
Issuance (repayment) of intercompany debt	1.2	21.9	19.7
Other	3.0	0.2	10.0
Total	$ 411.7	$(131.0)	$274.2

During 1998, cash flows from financing activities were $411.7 million primarily due to the issuance of long-term debt to fund the acquisitions of the Kincaid Power Station and Dominion Energy Canada, Ltd. as well as to fund the expansion of EGENOR.

Cash from (used in) investing activities was as follows:

(millions)	1998	1997	1996
Purchase of fixed assets	$ (72.8)	$ (11.7)	$ (15.8)
Purchase of natural gas properties	(35.4)	(52.6)	(93.3)
Purchase of electric plant	(95.7)		
Sale of business	52.7	123.3	
Acquisition of business	(338.4)	(28.0)	(228.2)
Other	(25.9)	(21.2)	(16.7)
Total	$(515.5)	$ 9.8	$(354.0)

During 1998, the major uses of cash flows used in investing activities were:

- the acquisition of Kincaid and Dominion Energy Canada, Ltd.;
- expansion of various electric plant facilities;
- investments in natural gas and power generation assets;
  offset by,
- proceeds from the sale of Dominion Energy's interest in Texas Cogeneration Company.

Capital Requirements

Dominion Energy and Peoples Energy Corporation plan to develop and operate a jointly-owned electric generating peaking facility near Elwood, Illinois. The facility will have the capacity to generate 600 megawatts of natural gas-fired electric power. The plant is expected to begin operation in early June 1999. The cost of the Elwood facility is estimated at $200 million. Dominion Energy and Peoples Energy Corporation will share equally in the facility's construction costs.

Dominion Energy's 1999 capital requirements for the Kincaid Power Station are $57.2 million. Dominion Energy will contribute $46.6 million to the project. The remaining capital requirements will be funded by cash flows from operations and existing financing.

In response to a rule adopted by the EPA in September 1998, Dominion Energy plans to install NOx reduction equipment at its Kincaid plant at an estimated capital cost of approximately $100 million over the next 5 years. The Power Purchase Agreement between Commonwealth Edison Company and Kincaid provides that Kincaid will recover a portion of the capital expenditure through monthly reimbursement over the term of the Power Purchase Agreement. The Power Purchase Agreement also provides that Kincaid will be reimbursed for operations, maintenance and fuel costs that may be incurred as a result of NOx emission reduction regulations.

Dominion Capital

Liquidity and Capital Resources

Dominion Capital funds its capital requirements through cash from operations, an intercompany credit agreement with Dominion Resources, equity contributions from Dominion Resources, bank revolving credit agreements, term loans and commercial paper programs.

On November 3, 1998, Dominion Capital entered into a senior unsecured 364-day $400 million revolving credit agreement. The credit agreement will be used by Dominion Capital for general corporate purposes including providing liquidity to support a commercial paper program planned for 1999.

Cash flows provided by operations for 1998 increased by $42.2 million as compared to 1997 primarily due to higher net income from financial services, liquidation of marketable equity securities, and establishment of loan loss provisions partially offset by net mortgage loan activity.

Cash flows from operating activities increased by $188.2 million in 1997 as compared to 1996, primarily due to a decrease in the net cash outflow of mortgage loan activity for Saxon Mortgage.

Cash from (used in) financing activities was as follows:

(millions)	1998	1997	1996
Contribution from parent	$ 118.1	$ 162.0	$ 85.0
Issuance of long-term debt	3,212.0	3,910.7	104.7
Repayment of long-term debt	(2,992.3)	(3,865.3)	(52.4)
Common dividend payments	(54.6)	(43.1)	(30.7)
Issuance of commercial paper, net	491.5	32.7	
Issuance (repayment) of intercompany debt	114.5	29.0	79.6
Other	0.1		(0.4)
Total	$ 889.3	$ 226.0	$185.8

During 1998, cash flows from financing activities were $889.3 million, primarily due to the funding needs for loan originations during the period. Cash from (used in) investing activities was as follows:

(millions)	1998	1997	1996
Investments in affiliates	$ 1.9	$ (96.1)	$(19.5)
Loan originations, net	(802.2)	(82.2)	
Other	(111.8)	(65.2)	(23.9)
Total	$(912.1)	$(243.5)	$(43.4)

During 1998, cash flows used in investing activities increased chiefly because of an increase in loan originations.

Capital Requirements

Dominion Capital's principal focus is on growing its financial services companies. First Source Financial intends to increase its loan portfolio from $1.5 billion to approximately $1.8 billion in 1999. Saxon Mortgage plans to generate over $2.6 billion in loan originations primarily in the sub-prime credit arena during 1999. Cambrian Capital, a merchant banking enterprise for emerging independent oil and natural gas producers, plans to expand its loan portfolio to approximately $164 million in 1999. To finance these expansion plans in 1999, Dominion Capital plans to utilize approximately $100 million in new equity and intercompany debt. The remaining capital requirements will come from the reinvestment of cash from operations, harvesting capital from existing real estate and other assets, and various third party credit sources.

Notes to Consolidated Financial Statements

Note A: Nature of Operations

Dominion Resources is a holding company headquartered in Richmond, Virginia. Dominion Resources' principal business is Virginia Power, a regulated public utility. Virginia Power is engaged in the generation, transmission, distribution and sale of electric energy within a 30,000 square mile area in Virginia and northeastern North Carolina. It sells electricity to retail customers (including government agencies) and to wholesale customers such as rural electric cooperatives, power marketers and municipalities. The Virginia service area comprises about 65% of Virginia's total land area, but accounts for 80 percent of its population. Virginia Power engages in off-system wholesale purchases and sales of electricity and purchases and sales of natural gas beyond the geographic limits of Virginia Power's service territory.

Dominion Resources' subsidiary Dominion Energy is engaged in independent power production and the acquisition and sale of natural gas and oil reserves. Some of the independent power and natural gas and oil businesses are located in foreign countries. In Latin America, Dominion Energy is engaged in power generation. In Canada, Dominion Energy is engaged in natural gas exploration, production and storage. Dominion Energy's net investment in foreign operations is approximately $401.9 million.

Dominion Capital is Dominion Resources' financial services subsidiary. Dominion Capital's primary business is financial services which includes commercial lending, merchant banking and residential mortgage lending.

Dominion Resources' United Kingdom electricity distribution and supply company, East Midlands, was sold on July 27,1998. East Midlands provides electricity to approximately 2.3 million homes and businesses in the East Midlands region of the United Kingdom. For more information on the sale of East Midlands, see Note C.

Effective December 31, 1998, Dominion Resources adopted SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." Dominion Resources' management has defined Dominion Resources' segments based on product, geographic location and regulatory environment. Dominion Resources' principal business segment is Virginia Power.

The other reportable business segments are Dominion Energy, Dominion Capital, and Dominion U.K. A description of these segments' products and services are provided above.

A Corporate category includes the corporate costs of Dominion Resources' holding company plus intercompany eliminations.

Note B: Significant Accounting Policies

General The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Dominion Resources is currently exempt from regulation as a registered holding company under the Public Utility Holding Company Act of 1935.

Accounting for the utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by federal agencies and the commissions of the states in which the utility business operates.

The Consolidated Financial Statements include the accounts of Dominion Resources and its subsidiaries. In consolidation, all significant intercompany transactions and accounts have been eliminated.

Operating Revenues and Income Utility revenues are recorded on the basis of services rendered, commodities delivered or contracts settled and include amounts yet to be billed to customers. At Virginia Power, revenues from trading activities include realized commodity contract revenues, net of related cost of sales, amortization of option premiums and unrealized gains and losses resulting from marking to market those commodity contracts not yet settled. Dividend income on securities owned is recognized on the ex-dividend date. Interest income is accrued on the unpaid principal balance.

Fuel, Net At Virginia Power, fuel, net includes the cost of fossil fuel, nuclear fuel and purchased energy used to serve electric sales. It also includes the cost of purchased energy associated with power marketing sales subject to cost of service rate regulation.

Approximately 90% of Virginia Power's rate regulated fuel costs are subject to deferral accounting. Deferral accounting provides that the difference between reasonably incurred actual expenses and the level of expenses included in current rates is deferred and matched against future revenues. Fuel, net includes the effect of this deferral accounting and may therefore show expenses that are marginally higher or lower than the actual cost of fuel consumed during the period.

Investments in Affiliates Investments in common stocks of affiliates representing 20% to 50% ownership, and joint ventures and partnerships representing generally 50% or less ownership interests, are accounted for under the equity method.

Dominion Resources also uses the equity method when accounting for its 80% investment in Corby Power Ltd. (Corby) as the company believes that Corby's governing agreements give substantive participating rights to the minority shareholder. Corby owns and operates a 350-megawatt gas-fired power station in England.

At December 31, 1998, Corby's assets and liabilities were as follows: Current assets $50.3 million, Current liabilities $21.7 million, Non-current assets $275.1 million, Non-current liabilities $254.0 million. Corby had total revenues of $152.5 million and total expenses (including interest and tax) of $139.6 million for the year.

Costs in excess of net assets acquired from equity investments are amortized over periods not to exceed 40 years.

Gain on Sale of Loans Gain on sale of loans represents the present value of the difference between the interest rate received on the mortgage loans and the interest rate received by the investor in the securities after considering the effects of estimated prepayments, credit losses, costs to service the mortgage loans and non-refundable fees and premiums on loans sold. These gains on the sale of loans are recognized on the settlement date and are based on the relative fair market value of the portion sold and retained. Concurrently with recognizing such gain on sale, a corresponding asset representing interest-only strips retained at securitization is recorded on the balance sheet in an initial amount equal to the net present value of the projected cash flows. The asset recorded, which is classified as available for sale, is amortized in proportion to the income estimated to be received.

Property, Plant and Equipment Property, plant and equipment at Virginia Power in 1998 and 1997 and East Midlands in 1997 is recorded at original cost, which includes labor, materials, services, and other indirect costs.

The cost of acquisition, exploration and development of natural resource properties is accounted for under the successful efforts method.

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 1998, 1997 and 1996, $9.7 million, $3.5 million and $6.3 million of interest cost was capitalized, respectively.

Major classes of property, plant and equipment and their respective balances are:

At December 31, (millions)	1998	1997
Utility:		
Production	$ 7,714.2	$ 7,973.9
Transmission	1,421.4	1,415.7
Distribution	4,682.3	6,210.7
Other electric	940.4	1,199.3
Plant under construction	449.3	240.9
Nuclear fuel	816.0	854.3
Total utility	16,023.6	17,894.8
Nonutility:		
Natural gas properties	710.7	521.8
Independent power properties	1,189.8	920.3
Other	181.9	228.2
Total nonutility	2,082.4	1,670.3
Total property, plant and equipment	$18,106.0	$19,565.1

Depreciation, Depletion and Amortization Depreciation of utility plant (other than nuclear fuel) is computed using the straight-line method based on projected useful service lives. The cost of depreciable utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation. The provision for depreciation provides for the recovery of the cost of assets and the estimated cost of removal, net of salvage, and is based on the weighted average depreciable plant using a rate of 3.2% for 1998, 1997 and 1996.

Owned nuclear fuel is amortized on a unit-of-production basis sufficient to amortize fully, over the estimated service life, the cost of the fuel plus permanent storage and disposal costs.

	Surry		North Anna	
	Unit 1	Unit 2	Unit 1	Unit 2
NRC license expiration year	2012	2013	2018	2020
(millions)				
Current cost estimate (1998) dollars	$410.6	$413.1	$400.5	$388.0
External trusts balance at December 31, 1998	194.1	189.1	165.5	156.4
1998 contribution to external trusts*	10.6	10.8	7.6	7.2

*Excludes an additional $1.3 million deposited into the trusts prior to the settlement of the Virginia rate case, which will be considered as a partial prepayment for calendar year 1999 contributions.

When Virginia Power's nuclear units cease operations, it is obligated to decontaminate or remove radioactive contaminants so that the property will not require NRC oversight. This phase of a nuclear power plant's life cycle is termed decommissioning. While the units are operating, amounts are currently being collected from ratepayers that, when combined with investment earnings, will be used to fund this future obligation. These dollars are deposited into external trusts through which the funds are invested.

The amount being accrued for decommissioning is equal to the amount being collected from ratepayers and is included in depreciation, depletion and amortization expense. The decommissioning collections were $36.2 million per year for the period 1996 through 1998. However, an additional $9.6 million was expensed in 1997 based on an expected increase in the decommissioning collections for 1997 as provided in Virginia Power's rate case then pending before the Virginia Commission. Since the Virginia rate case settlement did not include such an increase, the 1998 expense provision was decreased by $9.6 million. Therefore, the expense levels were $26.6 million, $45.8 million and $36.2 million in 1998, 1997 and 1996, respectively.

Net earnings of the trusts' investments are included in Other income. In 1998, 1997 and 1996, net earnings were $17.5 million, $20.5 million and $16 million, respectively. The accretion of the decommissioning obligation is equal to the trusts' net earnings and is also recorded in Other income.

The accumulated provision for decommissioning, which is included in accumulated depreciation, depletion and amortization in the company's Consolidated Balance Sheets, includes the accrued expense and accretion described above and any unrealized gains and losses on the trusts' investments. At December 31, 1998, the net unrealized gains were $230.5 million, which is an increase of $81 million over the December 31, 1997 amount of $149.5 million. The accumulated provision for decommissioning at December 31, 1998 was $703.9 million. It was $578.7 million at December 31, 1997.

The total estimated cost to decommission Virginia Power's four nuclear units is $1.6 billion based upon a site-specific study that was completed in 1998. The cost estimate assumes that the method of completing decommissioning activities is prompt dismantlement. This method assumes that dismantlement and other decommissioning activities will begin shortly after cessation of operations, which under current operating licenses will begin in 2012 as detailed in the table above.

FASB is reviewing the accounting for nuclear plant decommissioning. In 1996, FASB tentatively determined that the estimated cost of decommissioning should be reported as a liability rather than as accumulated depreciation and that a substantial portion of the decommissioning obligation should be recognized earlier in the operating life of the nuclear unit. If the industry's accounting were changed to reflect FASB's tentative proposal, the annual provisions for nuclear decommissioning would also increase. During its deliberations, FASB expanded the scope of the project to include similar unavoidable obligations to perform closure and post-closure activities for other long-lived assets, including for non-nuclear power plants. Therefore, any forthcoming standard may also change industry plant depreciation practices. Any impact related to other company assets cannot be determined at this time.

Independent power properties are depreciated using the straight-line method based on estimated useful lives ranging from 30 to 40 years. Natural gas properties are depleted using the units-of-production method.

Federal Income Taxes Dominion Resources and its subsidiaries file a consolidated federal income tax return.

Deferred income taxes are provided for all significant temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates in accordance with SFAS No. 109, "Accounting for Income Taxes." Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in future periods. The regulatory treatment of temporary differences can differ from the requirements of SFAS No. 109. Accordingly, Virginia Power recognizes a regulatory asset if it is probable that future revenues will be provided for the payment of those deferred tax liabilities. Similarly, in the event a deferred tax liability is reduced to reflect changes in tax rates, a regulatory liability is established if it is probable that a future reduction in revenue will result.

Due to regulatory requirements, Virginia Power accounts for investment tax credits under the "deferral method" which provides for the amortization of these credits over the service lives of the property giving rise to the credits.

Regulatory Assets Virginia Power's financial statements reflect assets and costs in accordance with SFAS No. 71. SFAS No. 71 provides that certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets. Regulatory assets represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process. See Notes E and T for information on Virginia Power's regulatory assets and the potential impact of legislation on continued application of SFAS No. 71.

Foreign Currency Translation Dominion Resources translates foreign currency financial statements by adjusting balance sheet accounts using the exchange rate at the balance sheet date and income statement accounts using the average exchange rate for the year. Translation gains and losses are recorded in shareholder's equity as a component of accumulated other comprehensive income. Gains and losses resulting from the settlement of transactions in a currency other than the functional currency are reflected in income.

Goodwill Goodwill is the excess of the cost of net assets acquired in business combinations over their fair value. It is amortized on a straight-line basis over periods ranging from 20 to 40 years. The company evaluates goodwill for impairment at least annually.

Amortization of Debt Issuance Costs Dominion Resources defers and amortizes any expenses incurred in the issuance of long-term debt including premiums and discounts associated with such debt over the lives of the respective issues. Any gains or losses resulting from the refinancing of Virginia Power debt are also deferred and amortized over the lives of the new issues of long-term debt as permitted by the appropriate regulatory commission. At Virginia Power, gains or losses resulting from the redemption of debt without refinancing are amortized over the remaining lives of the redeemed issues.

Investment Securities Dominion Resources accounts for and classifies investments in equity securities that have readily determinable fair values and for all investments in debt securities based on management's intent. The investments are classified into three categories and accounted for in the following manner:

Debt securities which are intended to be held to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities purchased and held with the intent of selling them in the current period are classified as trading securities. They are reported at fair value and unrealized gains and losses are included in earnings. Debt and equity securities that are neither held-to-maturity or trading are classified as available-for-sale securities. These are reported at fair value with unrealized gains and losses reported in shareholders' equity, as a component of accumulated other comprehensive income, net of tax.

Mortgage Loans in Warehouse Mortgage loans in warehouse consist of mortgage loans secured by single family residential properties. Any price premiums or discounts on mortgage loans including any capitalized costs or deferred fees on originated loans are deferred as an adjustment to the cost of the loans and are therefore included in the determination of any gains or losses on sales of the related loans. Mortgage loans in warehouse are carried at the lower of cost or market value.

Loans Receivable, Net Loans receivable are stated at their outstanding principal balance net of the allowance for credit losses and any deferred fees or costs. Origination fees net of certain direct origination costs are deferred and recognized as an adjustment of the yield of the related loans receivable.

The allowance for credit losses is established through provisions for credit losses charged against income. Loans deemed to be uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are credited to the allowance. At December 31, 1998 and 1997, the allowances for credit losses were $46.9 million and $17.5 million, respectively.

Mortgage Investments In accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," mortgage investments were reclassified as available for sale as defined by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Prior to 1998, such investments were classified as trading securities. In 1998, mortgage investments were reclassified as available for sale securities as allowed by SFAS No. 134. Changes in the fair value of the mortgage investments are reported in accumulated other comprehensive income.

Nonrecourse-Nonutility Financings Dominion Resources' nonutility subsidiaries issue debt to finance their operations and obtain financings that generally are secured by the assets of the nonutility subsidiaries. However, Dominion Resources may be required to provide contingent equity support or to maintain a minimum net worth at the nonutility subsidiaries. These financings have been segregated on the accompanying financial statements to distinguish their nonrecourse nature.

Derivatives and Futures-Other than Trading Dominion Resources utilizes futures and forward contracts and derivative instruments, including swaps, caps and collars, to manage exposure to fluctuations in interest rates, foreign currency exchange rates, credit risk, lease payments and natural gas and electricity prices.

These futures, forwards and derivative instruments are deemed effective hedges when the item being hedged and the underlying financial or commodity instrument show strong historical correlation. Dominion Resources uses deferral accounting to account for futures, forwards and derivative instruments which are designated as hedges. Under this method, gains and losses (including the payment of any premium) related to effective hedges of existing assets and liabilities

are recorded on the balance sheet and recognized in earnings in conjunction with earnings of the designated asset or liability. Gains and losses related to effective hedges of firm commitments and anticipated transactions are included in the measurement of the subsequent transaction. Cash flows from derivatives designed as hedges are reported in Net Cash Flows from Operating Activities.

Derivatives and Futures-Trading The fair value method, which is used for those derivative transactions which do not qualify for settlement or deferral accounting, requires that derivatives are carried on the balance sheet at fair value with changes in that value recognized in earnings or stockholder's equity. As part of Virginia Power's strategy to market energy from its generation capacity and to manage the risks related thereto, it enters into contracts for the purchase and sale of energy commodities. Virginia Power uses the fair value method for its trading activities.

Options, exchange-for-physical contracts, basis swaps and futures contracts are marked to market with resulting gains and losses reported in earnings. Fixed price forward contracts, initiated for trading purposes, are also marked to market with resulting gains and losses reported in earnings. For exchange-for-physical contracts, basis swaps, fixed price forward contracts, and options which require physical delivery of the underlying commodity, market value reflects management's best estimates considering over-the-counter quotations, time value and volatility factors of the underlying commitments. Exchange-traded futures and options are marked to market based on closing exchange prices. No commodity contracts were designated as hedges.

Commodity contracts representing unrealized gain positions are reported as Commodity contract assets; commodity contracts representing unrealized losses are reported as Commodity contract liabilities. In addition, purchased options and options sold are reported as Commodity contract assets and Commodity contract liabilities, respectively, at estimated market value until exercise or expiration. Realized commodity contract revenues, net of related cost of sales, settlement of futures contracts, amortization of option premiums and unrealized gains and losses resulting from marking positions to market are included in Operating revenues and income—Virginia Power. Cash flows from trading activities are reported in Net Cash Flow from Operating Activities.

Other Derivatives Dominion Resources uses total return swaps to accumulate securities for future sale into a collateralized loan obligation. Gains and losses from the settlements and sale of total return swaps are recorded as Operating revenues and income—Nonutility. Total return swaps are marked to market with the corresponding unrealized gains and losses recorded in Operating revenues and income—Nonutility. Cash flows from total return swaps are reported in Net cash flows from operating activities.

Cash Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 1998 and 1997, the company's accounts payable included the net effect of checks outstanding but not yet presented for payment of $58 million and $62.3 million, respectively.

For purposes of the Consolidated Statements of Cash Flows, Dominion Resources considers cash and cash equivalents to include cash on hand and temporary investments purchased with a maturity of three months or less.

Supplementary Cash Flows Information:

(millions)	1998	1997	1996
Cash paid during the year for:			
Interest (reduced for net costs of borrowed funds capitalized)	$474.0	$439.6	$373.0
Federal income taxes	182.9	190.0	169.8
Non-cash transactions from investing and financing activities:			
Note issued in acquisition of business		18.4	47.5
Exchange of securities	11.9	51.9	12.1
Equity contribution for Wolverine acquisition		21.4	

Reclassification Certain amounts in the 1997 and 1996 Consolidated Financial Statements have been reclassified to conform to the 1998 presentation. In addition, in the fourth quarter of 1998, Virginia Power changed the way it reports energy commodity contracts. Prior to the fourth quarter, the gross amount of revenue and expense generated from these contracts were reported in Operating revenues and income—Virginia Power and Fuel, net, respectively. In the fourth quarter, the revenue and expense are combined and reported net in Operating revenues and income—Virginia Power.

Note C: Gain on Sale of DR Investments

On July 27, 1998, Dominion Resources sold East Midlands to PowerGen, an electricity generator and supplier in the United Kingdom. East Midlands is principally an electricity supply and distribution company serving 2.3 million homes and businesses in the East Midlands region of the United Kingdom.

PowerGen acquired 100% of DR Investments in a transaction valued at $3.2 billion. DR Investments is the holding company for DR Investments (UK) PLC and East Midlands. Dominion Resources recorded an after-tax gain of $200.7 million or $1.03 cents per share.

Dominion Resources continues to retain an 80% ownership interest in the Corby Power Station located in Northamptonshire.

Note D: Taxes

Income before provision for income taxes, classified by source of income, before minority interests was as follows:

(millions)	1998	1997	1996
U.S.	$397.4	$712.7	$683.5
Non-U.S.	471.5	(33.9)	17.5
Total	$868.9	$678.8	$701.0

The provision for income taxes, classified by the timing and location of payment, was as follows:

(millions)	1998	1997	1996
Current			
U.S.	$153.6	$221.9	$153.7
State	25.0	9.1	3.0
Non-U.S.	100.8	24.7	4.3
Total Current	279.4	255.7	161.0
Deferred			
U.S.	24.4	22.1	71.9
State	(3.4)	0.1	3.3
Non-U.S.	22.5	(28.0)	
Total Deferred	43.5	(5.8)	75.2
Amortization of deferred investment tax credits — net	(16.9)	(16.9)	(16.9)
Total Provision	$306.0	$233.0	$219.3

The components of deferred income tax expense are as follows:

(millions)	1998	1997	1996
Liberalized depreciation	$ 28.2	$ 4.1	$ 53.8
Indirect construction costs	5.3	4.9	3.4
Other plant related items	0.4	5.1	12.6
Deferred fuel	12.0	(3.3)	19.1
Separation costs	4.9	6.5	(2.6)
Mortgage-backed securities basis differences	20.3	24.6	
Deferred capacity	(16.6)	14.4	3.2
Contingent claims	14.2	(25.9)	(0.1)
Tax rate change	(8.3)	(16.6)	
Deferred state taxes	(3.4)	0.1	3.3
Reacquired debt	(18.6)	(2.1)	(2.7)
Partnership basis differences	4.7	(2.2)	8.8
Other, net	0.4	(15.4)	(23.6)
Total	$ 43.5	$ (5.8)	$ 75.2

The statutory U.S. Federal income tax rate reconciles to the effective income tax rates as follows:

	1998	1997	1996
U.S. statutory rate	35%	35%	35%
Plant differences	3.0	0.9	0.8
Preferred dividends of Virginia Power	1.4	1.5	1.8
Amortization of investment tax credits	(1.9)	(2.0)	(2.4)
Nonconventional fuel credit	(2.8)	(3.0)	(3.8)
UK windfall profits tax		12.1	
Other—benefits and taxes related to foreign operations	(0.1)	3.6	0.2
State taxes net of federal benefit	1.5	0.7	0.6
Other, net	(0.9)	(2.2)	(0.9)
Effective tax rate	35.2%	46.6%	31.3%

The effective income tax rate includes state and foreign income taxes. The effective income tax rate was higher in 1997 due to the one-time windfall profits tax at East Midlands.

United States Federal income taxes have not been provided on substantially all the unremitted earnings of company's subsidiaries in Argentina, Bolivia, and Peru, since it is management's practice and intent to reinvest such earnings in the foreign country. The total amount of the net unremitted foreign earnings was approximately $95 million at December 31, 1998. It is not practicable to determine the amount of U.S. income tax which would be payable if such unremitted earnings were repatriated since the tax liability depends on circumstances existing when a remittance occurs and it may be offset, at least in part, by a U.S. foreign tax credit. U.S. income taxes have been provided on the unremitted earnings of the company's subsidiaries in the United Kingdom, Canada and Belize.

The 1998 budget of the Labour government in the United Kingdom reduced the corporate income tax rate to 30% effective April 1, 1999. Income tax expense from continuing operations for 1998 has been reduced by $8.3 million to reflect the decrease in deferred tax liabilities resulting from the 1% decrease in the corporate tax rate. The 1997 budget of the Labour government in the United Kingdom reduced the corporate income tax rate to 31% effective April 1, 1997. Income tax expense from continuing operations in 1997 has been reduced by $16.6 million to reflect the decrease in deferred tax liabilities resulting from the 2% decrease in the corporate tax rate.

Dominion Resources' net noncurrent deferred tax liability is attributable to:

(millions)	1998	1997
Assets:		
Deferred investment tax credits	$ 78.3	$ 84.4
Other		192.3
Total deferred income tax asset	78.3	276.7
Liabilities:		
Depreciation method and plant basis differences	1,497.9	1,924.2
Income taxes recoverable through future rates	155.1	169.5
Partnership basis differences	167.8	126.4
Other	50.0	75.0
Total deferred income tax liability	1,870.8	2,295.1
Net deferred income tax liability	$1,792.5	$2,018.4

Note E: Regulatory Assets

Virginia Power's regulatory assets included the following:

At December 31, (millions)	1998	1997
Income taxes recoverable through future rates	$438.8	$478.9
Cost of decommissioning DOE uranium enrichment facilities	61.8	67.6
Deferred losses on reacquired debt, net	31.2	85.4
Nuclear design basis documentation cost	20.9	45.9
North Anna Unit 3 project termination costs	9.8	42.3
Other	57.5	102.4
Reserve for impairment of regulatory assets		(65.1)
Total	$620.0	$757.4

Income taxes recoverable through future rates represent principally the tax effect of depreciation differences not normalized in earlier years for rate making purposes. These amounts are amortized as the related temporary differences reverse. Such amounts are net of related regulatory liabilities and $109 million associated with deferred income taxes which were established at rates in excess of the current federal rate and are subject to Internal Revenue Code normalization requirements.

The costs of decommissioning the Department of Energy's (DOE) uranium enrichment facilities represents the unamortized portion of Virginia Power's required contributions to a fund for decommissioning and decontaminating the DOE's uranium enrichment facilities. Virginia Power is making such contributions over a 15-year period with escalation for inflation. These costs are currently being recovered in fuel rates.

The cost of preparing detailed design documentation of Virginia Power's nuclear power stations required by the Nuclear Regulatory Commission has been deferred and is currently being recovered through rates over the life of the respective power stations.

The construction of North Anna Unit 3 was terminated in November 1982. All retail jurisdictions have permitted recovery of the incurred costs. For Virginia and FERC jurisdictional customers, the amounts deferred are currently being amortized from the date termination costs were first includible in rates. The recovery of these costs will be completed in 1999.

The incurred costs underlying these regulatory assets may represent expenditures by Virginia Power or may represent the recognition of liabilities that ultimately will be settled at some time in the future. Virginia Power does not earn a return on $15.4 million of regulatory assets, effectively excluded from rate base, to be recovered over various recovery periods up to 20 years, depending on the nature of the deferred costs.

For information about the settlement of Virginia Power's Virginia rate case proceedings and its impact on regulatory assets, see Note R. Also, see Note T for the potential impact on regulatory assets that may result from legislation now being considered by the Virginia General Assembly.

Note F: Jointly Owned Plants

The following information relates to Virginia Power's proportionate share of jointly owned plants at December 31, 1998.

	Bath County Pumped Storage Station	North Anna Power Station	Clover Power Station
Ownership interest	60.0%	88.4%	50.0%
(millions)			
Plant in service	$1,073.1	$1,809.9	$535.6
Accumulated depreciation	249.4	852.1	39.6
Nuclear fuel		402.7	
Accumulated amortization of nuclear fuel		334.4	
Construction work in progress	0.3	72.1	2.3

The co-owners are obligated to pay their share of all future construction expenditures and operating costs of the jointly owned facilities in the same proportions as their respective ownership interest. Virginia Power's share of operating costs is classified in the appropriate expense category in the Consolidated Statements of Income.

Note G: Short-Term Debt

Dominion Resources and its subsidiaries have credit agreements with various expiration dates. These agreements provided for maximum borrowings of $4,627.6 million and $5,402.6 million at December 31, 1998 and 1997, respectively. At December 31, 1998 and 1997, $1,160 million and $1,907.3 million, respectively, was borrowed under such agreements and classified as long-term debt.

Dominion Resources credit agreements supported $3.1 million and $403.4 million of Dominion Resources commercial paper at December 31, 1998 and 1997, respectively.

Virginia Power has an established commercial paper program with a maximum borrowing capacity of $500 million which is supported by two credit facilities. One is a $300 million, five-year credit facility that expires in June 2001. The other is a $200 million credit facility that originated in June 1996 and is renewed annually. The total amount of Virginia Power's commercial paper outstanding was $221.7 million and $226.2 million at December 31, 1998 and 1997, respectively.

A subsidiary of Dominion Capital also had $71.9 million and $85.5 million of nonrecourse commercial paper outstanding at December 31, 1998 and 1997, respectively. A total of $75 million and $385.5 million of the commercial paper was classified as long-term debt at December 31, 1998 and 1997, respectively. The commercial paper is supported by revolving credit agreements that have expiration dates extending beyond one year. Dominion Resources and its subsidiaries pay fees in lieu of compensating balances in connection with these credit agreements. A summary of short-term debt outstanding at December 31 follows:

(millions, except percentages)	Amount Outstanding	Weighted Average Interest Rate
1998		
Commercial paper	$221.7	5.38%
Term-notes	79.1	7.82%
Total	$300.8	
1997		
Commercial paper	$329.6	5.8%
Term-notes	45.5	7.3%
Total	$375.1	

Note H: Investment Securities

Securities classified as available-for-sale as of December 31 follow:

Security Type (millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
1998				
Equity	$164.6	$11.3	$ 6.8	$169.1
Debt	$332.5	$ 0.4	$ 2.0	$330.9
1997				
Equity	$185.3	$10.9	$ 5.4	$190.8

Debt securities held at December 31, 1998 do not have stated contractual maturities because borrowers have the right to call or repay obligations with or without call or prepayment penalties.

For the years ended December 31, 1998 and 1997, the proceeds from the sales of available-for-sale securities were $40.2 million and $122.2 million, respectively. The gross realized gains and losses were $3.4 million and $1.0 million for 1998 and $12.8 million and $0.5 million for 1997, respectively. The basis on which the cost of these securities was determined is specific identification. The changes in net unrealized holding gain or loss on available-for-sale securities has resulted in an increase in the separate component of shareholders equity during the years ended December 31, 1998 and 1997 of $5 million, net of tax, and $8.4 million, net of tax, respectively. The changes in net unrealized holding gain or loss on trading securities increased earnings during the years ended December 31, 1998 and 1997 by $9 million and $0.6 million, respectively.

Note I: Fair Value of Financial Instruments

The fair value amounts of Dominion Resources' financial instruments have been determined using available market information and valuation methodologies deemed appropriate in the opinion of management. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the company could realize in a current market exchange. The use of different market assumptions and/or estimation assumptions may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents The carrying amount of these items is a reasonable estimate of their fair value.

	Carrying Amount		Estimated Fair Value	
December 31, (millions)	1998	1997	1998	1997
Assets:				
Cash and cash equivalents	$ 425.6	$ 321.6	$ 425.6	$ 321.6
Trading securities	0.7	240.7	0.7	240.7
Mortgage loans in warehouse	140.3	88.2	146.0	91.4
Available-for-sale securities	500.0	190.8	500.0	190.8
Loans and notes receivable	1,721.9	959.0	1,768.4	987.3
Nuclear decommissioning trust funds	705.1	569.1	705.1	569.1
Liabilities:				
Short-term debt	300.8	375.1	300.8	375.1
Long-term debt	6,719.2	8,835.7	6,970.6	9,177.1
Preferred securities of subsidiary trusts	385.0	385.0	430.2	387.7
Preferred stock	180.0	180.0	186.2	186.6
Loan commitments			761.5	675.9
Derivatives:				
Foreign currency risk				(26.8)

Investment Securities and Nuclear Decommissioning Trust Funds The estimated fair value is determined based on quoted market prices, dealer quotes, and prices obtained from independent pricing sources.

Mortgage Loans in Warehouse The fair value of mortgage loans in warehouse is based on outstanding commitments from investors.

Loans and Notes Receivable The carrying value approximates fair value due to the variable rate or term structure of the notes receivable.

Short-Term Debt and Long-Term Debt Market values are used to determine the fair value for debt securities for which a market exists. For debt issues that are not quoted on an exchange, interest rates currently available to the company for issuance of debt with similar terms and remaining maturities are used to estimate fair value. The carrying amount of debt issues with short-term maturities and variable rates that are refinanced at current market rates is a reasonable estimate of their fair value.

Preferred Securities of Subsidiary Trusts The fair value is based on market quotations.

Preferred Stock The fair value of the fixed-rate preferred stock subject to mandatory redemption was estimated by discounting the dividend and principal payments for a representative issue of each series over the average remaining life of the series.

Loan Commitments The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

Foreign Currency Contracts The fair value of foreign currency contracts is estimated by obtaining quotes from brokers.

Interest Rate Swaps The fair value of interest rate swaps (used for hedging purposes) is the estimated amount that the company would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. Net market value at December 31, 1998 and 1997 was immaterial.

Futures Contracts Derivatives used as hedging instruments are off-balance sheet items marked to market with any unrealized gains or losses deferred until the related loans are securitized or sold. Net market value at December 31, 1998 and 1997 was immaterial.

Note J: Long-Term Debt

At December 31, (millions)	1998	1997
Virginia Power First and Refunding Mortgage Bonds(1):		
1988 Series A, 9.375%, due 1998		$ 150.0
1992 Series F, 6.25%, due 1998		75.0
1989 Series B, 8.875%, due 1999	$ 100.0	100.0
1993 Series C, 5.875%, due 2000	135.0	135.0
1993 Series E, 6.0%, due 2001	100.0	100.0
1992 Series E, 7.375%, due 2002	155.0	155.0
1993 Series F, 6.0%, due 2002	100.0	100.0
Various series, 6.625%-8.0%, due 2003-2007	865.0	865.0
Various series, 5.45%-8.75%, due 2021-2025	1,144.5	1,144.5
Total First and Refunding Mortgage Bonds	2,599.5	2,824.5
Other long-term debt:		
Dominion Resources:		
Commercial paper(2)	3.1	300.0
Virginia Power:		
Term notes, fixed interest rate, 5.73%-10%, due 1998-2008	562.6	551.1
1998 Series A, Senior Notes, 7.15%, due 2038	150.0	
Tax exempt financings(3):		
Money market municipals, due 2007-2027(4)	488.6	488.6
Convertible interest rate bonds, due 2022	10.0	10.0
Dominion UK:		
Eurobonds and Senior notes, fixed rates, 7.10%-12%, due 2002-2016		1,465.8
Variable rate debt, due 1998-2007(5)	55.6	1,532.7
Total other long-term debt	1,269.9	4,348.2
Nonrecourse—nonutility:		
Dominion Resources:		
Bank loans, 9.25%, due 2008	18.6	19.7
Dominion Energy:		
Revolving credit agreement, due 2001(6)	290.0	255.0
Term loan, fixed rate, 5.445%, due 1998		15.0
Bank loans, fixed rate, 9.70%-9.92%, due 2005	17.5	20.0
Bank loans, 4.5%-6.64%, due 1997-2024	45.2	45.2
Term loan, due 2002(7)		8.0
Senior secured bonds, fixed rate, 7.33%, due 2020	265.0	
Bonds, 7.6875%-8.75%, due 2001-2003	60.0	
Revolving credit agreement, 5.43%-5.46%, due 2002	141.6	
Other	0.6	

(continued)

At December 31, (millions)	1998	1997
Dominion Capital:		
Senior notes(8):		
Fixed rate, 6.12%, due 2000	$ 50.0	$ 50.0
Fixed rate, 7.60%, due 2003	46.0	46.0
Term note, fixed rate, 12.1%, due 2006	44.8	44.6
Line of Credit, due 1998(9)	118.1	57.7
Note payable, fixed rate, 6.04%, due 2002		50.0
Note payable, due 2002(10)	350.0	
Commercial paper(11)	71.9	85.5
Term loan, fixed rate, 6.5%, due 2001	19.0	38.0
Medium term notes, fixed rates, 4.93%-6.25%, due 1997-1998		134.0
Term loan, fixed rates, 6.5%-11.25%, due 1997-2001	10.6	13.0
Term loan, due 2008(12)	100.0	99.2
Revolving credit agreement(13)	20.5	6.8
Revolving credit agreement(14)	1,180.4	675.3
Total—nonutility debt	2,849.8	1,663.0
Total debt	6,719.2	8,835.7
Less amounts due within one year:		
First and Refunding Mortgage Bonds	100.0	225.0
Term notes and Loans	221.0	433.4
Nonrecourse—nonutility	1,302.3	955.2
Total amount due within one year	1,623.3	1,613.6
Less unamortized discount, net of premium	25.0	26.1
Total long-term debt	$5,070.9	$7,196.0

Notes:

(1) Substantially all of Virginia Power's property is subject to the lien of the mortgage, securing its First and Refunding Mortgage Bonds.

(2) See Note G to the Consolidated Financial Statements.

(3) Certain pollution control equipment at Virginia Power's generating facilities has been pledged or conveyed to secure these financings.

(4) Interest rates vary based on short-term tax-exempt market rates. For 1998 and 1997, the weighted average daily interest rates were 3.49% and 3.74%, respectively. Although these bonds are re-marketed within a one year period, they are classified as long-term debt because Virginia Power intends to maintain the debt, and it is supported by long-term bank commitments.

(5) The weighted average interest rates were 7.64% and 6.68% during 1998 and 1997, respectively.

(6) The weighted average interest rates during 1998 and 1997 were 6.01% and 6.06%, respectively.

(7) The weighted average interest rate during 1997 was 3.94%.

(8) The Rincon Securities common stock owned by Dominion Capital is pledged as collateral to secure the loan.

(9) The weighted average interest rates during 1998 and 1997 were 6.26% and 6.24%, respectively.

(10) The weighted average interest rate during 1998 was 5.96%.

(11) The weighted average interest rates during 1998 and 1997 were 5.21% and 5.57%, respectively.

(12) The weighted average interest rates were 7.67% and 7.67% during 1998 and 1997, respectively.

(13) The weighted average interest rates were 5.53% and 5.63% during 1998 and 1997, respectively.

(14) The weighted average interest rates were 6.19% and 6.19% during 1998 and 1997, respectively.

Maturities (including sinking fund obligations) through 2003 are as follows (in millions): 1999-$1,623.3; 2000-$339.3; 2001-$493.8; 2002-$840.4; and 2003-$341.1.

Note K: Common Stock

During 1998, Dominion Resources issued 6.8 million shares of common stock valued at $267.8 million. On July 20, 1998, the Dominion Resources Board of Directors authorized the repurchase of up to $650 million (approximately 8%) of Dominion Resources common stock outstanding. Dominion Resources currently plans to buy back between $100 and $200 million of common stock over the next year, depending upon market conditions and other investment opportunities. As of December 31, 1998, Dominion Resources had repurchased approximately 2.3 million shares valued at approximately $98 million. During 1996, the company purchased on the open market and retired 136,800 shares of common stock for an aggregate price of $5.5 million. On July 8, 1996, the company established Dominion Direct Investment which continues and expands the Automatic Dividend Reinvestment and Stock Purchase Plan.

Note L: Comprehensive Income

	1998			1997			1996		
	Before-Tax Amount	(Expense) or Benefit	Net-of-Tax Amount	Before-Tax Amount	(Expense) or Benefit	Net-of-Tax Amount	Before-Tax Amount	(Expense) or Benefit	Net-of-Tax Amount
(millions)									
Foreign currency translation adjustments	$(11.2)		$(11.2)	$(1.5)		$(1.5)	$(9.2)		$(9.2)
Unrealized gains on securities:									
Unrealized holding gains arising during a period	(0.3)	$(2.5)	(2.8)	7.5	$1.0	8.5	7.1	$(1.5)	5.6
Less: reclassification adjustment for gains realized in net income	3.7	(0.9)	2.8						
Net realized gains	(4.0)	(1.6)	(5.6)	7.5	1.0	8.5	7.1	(1.5)	5.6
Other comprehensive income	$(15.2)	$(1.6)	$(16.8)	$ 6.0	$1.0	$ 7.0	$(2.1)	$(1.5)	$(3.6)

The following schedule reflects the activity in the accumulated other comprehensive income account for the years ended December 31:

	1998			1997			1996		
	Foreign Currency Items	Unrealized Gains on Securities	Accumulated Other Comprehensive Income	Foreign Currency Items	Unrealized Gains on Securities	Accumulated Other Comprehensive Income	Foreign Currency Items	Unrealized Gains on Securities	Accumulated Other Comprehensive Income
(millions)									
Beginning balance	$(10.7)	$ 7.4	$ (3.3)	$ (9.2)	$(1.1)	$(10.3)		$(6.7)	$ (6.7)
Current period change	(11.2)	(5.6)	(16.8)	(1.5)	8.5	7.0	$(9.2)	5.6	(3.6)
Ending balance	$(21.9)	$ 1.8	$(20.1)	$(10.7)	$ 7.4	$ (3.3)	$(9.2)	$(1.1)	$(10.3)

Note M: Long-Term Incentive Plan

In 1997, Dominion Resources' Long-Term Incentive plan (LTIP) expired and was replaced with the Dominion Resources Incentive Compensation Plan (Incentive Plan). At December 31, 1998, remaining options outstanding under the LTIP totaled 2,126 shares, all of which were exercisable. No further awards will be made under the LTIP. The Incentive Plan provides for the granting of stock options, restricted stock and performance shares to employees of Dominion Resources and its affiliates. The aggregate number of shares of common stock that may be issued pursuant to the Plan is 3 million. The changes in restricted share incentives and option awards under the combined plans were as follows:

	Restricted Shares	Weighted Average Price	Stock Options	Weighted Average Price	Shares Exercisable
Balance at December 31, 1995	44,930	$40.92	10,101	$29.33	10,101
Awards granted—1996	79,784	$41.76			
Exercised/distributed	(29,433)	$41.32	(475)	$29.63	
Balance at December 31, 1996	95,281	$41.19	9,626	$29.32	9,626
Awards granted—1997	53,884	$35.24			
Exercised/distributed/forfeited	(44,399)	$39.42	(4,800)	$29.25	
Balance at December 31, 1997	104,766	$38.88	4,826	$29.38	4,826
Awards granted—1998	75,866	$39.78			
Exercised/distributed/forfeited	(83,162)	$38.37	(2,700)	$29.29	
Balance at December 31, 1998	97,470	$40.02	2,126	$29.49	2,126

In 1995, FASB issued SFAS No. 123, "Accounting for Stock Based Compensation." However, the company continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for the plan. Accordingly, no compensation expense has been recognized for stock options awarded. Had compensation cost for the company's plan been determined consistent with the methodology prescribed under SFAS No. 123 there would have been no significant impact on the company's operations for the years ended December 31, 1998 and 1997.

Note N: Obligated Mandatorily Redeemable Preferred Securities of Dominion Resources and Virginia Power Subsidiary Trusts

In December 1997, Dominion Resources established Dominion Resources Capital Trust I (DR Capital Trust). DR Capital Trust sold 250,000 shares of capital securities for $250 million, representing preferred beneficial interests and 97% beneficial ownership in the assets held by DR Capital Trust.

Dominion Resources issued $257.7 million of 7.83% Junior Subordinated Debentures (Debentures) in exchange for the $250 million realized from the sale of the Capital Securities and $7.7 million of common securities of DR Capital Trust. The common securities represent the remaining 3% beneficial ownership interest in the assets held by DR Capital Trust. The Debentures constitute 100% of DR Capital Trust's assets.

In 1995, Virginia Power established Virginia Power Capital Trust I (VP Capital Trust). VP Capital Trust sold 5,400,000 shares of preferred securities for $135 million, representing preferred beneficial interests and 97% beneficial ownership in the assets held by VP Capital Trust.

Virginia Power issued $139.2 million of its 1995 Series A, 8.05% Junior Subordinated Notes (the Notes) in exchange for the $135 million realized from the sale of the preferred securities and $4.2 million of common securities of VP Capital Trust. The common securities represent the remaining 3% beneficial ownership interest in the assets held by VP Capital Trust. The Notes constitute 100% of VP Capital Trust's assets.

Note O: Preferred Stock

Dominion Resources is authorized to issue up to 20,000,000 shares of preferred stock; however, no such shares are issued and outstanding.

Virginia Power has authorized 10,000,000 shares of preferred stock, $100 liquidation preference. Upon involuntary liquidation, dissolution or winding-up of Virginia Power, each share is entitled to receive $100 per share plus accrued dividends. Dividends are cumulative. Virginia Power preferred stock subject to mandatory redemption at December 31, 1998 was as follows:

Series	Shares Outstanding(1)
$5.58	400,000(2)
$6.35	1,400,000(3)
Total	1,800,000

(1) Shares are non-callable prior to redemption.

(2) All shares to be redeemed on 3/1/00.

(3) All shares to be redeemed on 9/1/00.

There were no redemptions of preferred stock during 1996 through 1998.

At December 31, 1998, Virginia Power preferred stock not subject to mandatory redemption, $100 liquidation preference, is listed in the table below.

Dividend	Issued and Outstanding Shares	Entitled Per Share Upon Redemption
$5.00	106,677	$112.50
4.04	12,926	102.27
4.20	14,797	102.50
4.12	32,534	103.73
4.80	73,206	101.00
7.05	500,000	105.00(1)
6.98	600,000	105.00(2)
MMP 1/87(3)	500,000	100.00
MMP 6/87(3)	750,000	100.00
MMP 10/88(3)	750,000	100.00
MMP 6/89(3)	750,000	100.00
MMP 9/92 series A(3)	500,000	100.00
MMP 9/92 series B(3)	500,000	100.00
Total	5,090,140	

(1) Through 7/31/03 and thereafter to amounts declining in steps to $100.00 after 7/31/13.

(2) Through 8/31/03 and thereafter to amounts declining in steps to $100.00 after 8/31/13.

(3) Money Market Preferred (MMP) dividend rates are variable and are set every 49 days via an auction. The weighted average rates for these series in 1998, 1997, and 1996, including fees for broker/dealer agreements, were 4.6%, 4.71%, and 4.48%, respectively.

Note P: Retirement Plan, Postretirement Benefits and Other Benefits

In 1998 and 1997, Dominion Resources' Retirement Plan covered virtually all employees of Dominion Resources and its subsidiaries. The majority of the employees of Dominion's U.K.-based subsidiary, East Midlands Electricity were covered by a separate multi-employer plan administered on behalf of the U.K. electricity industry. The benefits are based on years of service and the employee's compensation. Dominion Resources funding policy is to contribute annually an amount that is in accordance with the provisions of the Employment Retirement Income Security Act of 1974. In 1997, the Non U.S. plan is the pension plan

activity of East Midlands. East Midlands was sold in July 1998. Dominion Resources and its subsidiaries, except for U.K.-based subsidiaries, provide retiree health care and life insurance benefits through insurance companies with annual premiums based on benefits paid during the year. Retiree health benefits in the U.K. are generally provided by the state. From time to time in the past, Dominion Resources and its subsidiaries have changed benefits. Some of these changes have reduced benefits. Under the terms of their benefit plans, the companies reserve the right to change, modify or terminate the plans.

The components of the provision for net periodic benefit costs were as follows:

	Pension Benefits					Other Benefits		
	1998		1997		1996	1998	1997	1996
Year ending December 31, (millions)	U.S.	Non U.S.	U.S.	Non U.S.				
Service costs	$ 32.2	$ 10.4	$ 27.5	$ 22.6	$ 26.7	$ 12.3	$ 12.7	$ 12.3
Interest costs	71.3	43.8	64.2	83.0	61.1	24.3	25.4	24.2
Actual return on plan assets	(80.6)	(49.4)	(69.6)	(94.9)	(92.9)	(16.2)	(11.9)	(9.4)
Amortization of transition obligation						12.1	12.1	12.1
Net amortization and deferral	(1.2)		(0.6)		30.6	(1.2)		
Net periodic benefit cost	$ 21.7	$ 4.8	$ 21.5	$ 10.7	$ 25.5	$ 31.3	$ 38.3	$ 39.2

	Pension Benefits			Other Benefits	
	1998	1997		1998	1997
Change in plan assets	U.S.	U.S.	Non U.S.		
Fair value of plan assets at beginning of year	$ 966.4	$844.4	$1,161.6	$ 176.6	$ 133.0
Actual return on plan assets	149.3	136.1	195.6	24.0	25.3
Contributions	21.7	27.9	19.6	11.2	18.3
Benefits paid from plan assets	(42.9)	(42.0)	(57.1)		
Fair value of plan assets at end of year	1,094.5	966.4	1,319.7	211.8	176.6
Expected benefit obligation at beginning of year	945.3	852.2		364.9	327.7
Actuarial (gain)/loss during prior period	(4.3)	(29.9)		(41.9)	(1.5)
Actual benefit obligation at beginning of year	941.0	822.3	1,090.2	323.0	326.2
Service cost	32.2	27.5	20.6	12.3	12.7
Interest cost	71.3	64.2	82.3	24.3	25.4
Benefits paid	(42.9)	(42.0)	(51.8)	(15.8)	(15.9)
Actuarial (gain)/loss during the year	124.9	73.3	9.5	33.1	16.5
Expected benefit obligation at end of year	1,126.5	945.3	1,150.8	376.9	364.9
Funded status	(32.0)	21.1	168.9	(165.1)	(188.3)
Unrecognized net actuarial (gain)/loss	66.1	15.8	(91.8)	(16.9)	(1.5)
Unamortized prior service cost	3.5	4.1		0.2	0.2
Unrecognized net transition (asset)/obligation	(15.1)	(18.5)		169.8	181.9
Prepaid (accrued) benefit costs	$ 22.5	$ 22.5	$ 77.1	$ (12.0)	$ (7.7)

Significant assumptions used in determining net periodic pension cost, the projected benefit obligation, and postretirement benefit obligations were:

	Pension Benefits				Other Benefits	
	1998		1997		1998	1997
	U.S.	Non U.S.	U.S.	Non U.S		
Discount rates	7.00%	6.75%	7.75%	6.75%	7.00%	7.75%
Expected return on plan assets	9.50%	7.00%	9.50%	7.00%	9.00%	9.00%
Rate of increase for compensation income	5.00%	4.75%	5.00%	4.75%	5.00%	5.00%
Medical cost trend rate					5% for first year 4.75% second year 4.75% thereafter	6% for first year 5% second year Scaling down to 4.75% beginning in the year 2000

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Other Postretirement Benefits

(millions)	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components for 1998	$ 5.3	$ (3.3)
Effect on postretirement benefit obligation at 12/31/98	$42.0	$(33.8)

Virginia Power is presently recovering these costs in rates on an accrual basis in all material respects, in all jurisdictions. However, see Note T for a discussion of legislation that, if enacted, would provide the necessary details about the restructuring of the electric utility industry in Virginia. The funds collected for other postretirement benefits in rates, in excess of other postretirement benefits actually paid during the year, are contributed to external benefit trusts under Virginia Power's current funding policy.

Note Q: Restructuring

Virginia Power announced a program in anticipation of industry restructuring in March 1995. This program has resulted in outsourcing, decentralization, reorganization and downsizing for portions of Virginia Power's operations.

Restructuring charges of $18.4 million and $64.9 million were recorded in 1997 and 1996, respectively. These charges included severance costs, purchased power contract restructuring and negotiated settlement costs and other costs. Virginia Power established a comprehensive involuntary severance package for salaried employees who may no longer be employed as a result of these initiatives. The package provides for severance to be paid over a period of twenty months or less. Virginia Power is recognizing the cost associated with employee terminations in accordance with EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" as management identifies the positions to be eliminated. The recognition of severance costs resulted in charges to operations of $1.8 million, $12.5 million and $49.2 million in 1998, 1997 and 1996, respectively. At December 31, 1998, management had identified 1,932 positions to be eliminated, of which 1,810 employees had been terminated and severance payments totaling $89 million had been paid. The 1998 severance costs were charged to operations and maintenance expense.

Note R: Virginia Rates

On June 8, 1998, Virginia Power, the Staff of the Virginia Commission, the office of the Virginia Attorney General, the Virginia Committee for Fair Utility Rates and the Apartment and Office Building Association of Metropolitan Washington joined in a proposed agreement to settle Virginia Power's outstanding base rate proceedings. The Virginia Commission approved the settlement by Order dated August 7, 1998.

The settlement defines a new regulatory framework for Virginia Power's transition to electric competition. The major provisions of the settlement are as follows:

- a two-phased base rate reduction: $100 million per annum beginning March 1, 1998 with one additional $50 million per annum reduction beginning March 1, 1999;
- a base rate freeze through February 28, 2002 unless a change is necessary to protect the legitimate interests of Virginia Power, its shareholders or ratepayers;
- an immediate, one-time refund of $150 million for the period March 1, 1997 through February 28, 1998;
- a discontinuation of deferral accounting for purchased power capacity expenses effective February 28, 1998;
- a write-off of a minimum of $220 million of regulatory assets in addition to normal amortization thereof during the base rate freeze period; and
- an incentive mechanism until March 1, 2002 for earnings above the following return on equity (ROE) benchmarks: 1998 -10.5%; after 1998—30-year Treasury bond rates plus 450 basis points. For rate incentive mechanism purposes, all earnings up to the ROE benchmark would benefit Virginia Power's shareholder. Any earnings above the benchmark would be allocated one-third to Virginia Power's shareholder and two-thirds to the $220 million write-off of regulatory assets; except that all earnings above the ROE benchmark plus 270 basis points (initially 13.2%), would be allocated to the write-off of regulatory assets.

Due to the required write-off of a minimum of $220 million of regulatory assets in addition to normal amortization thereof during the rate freeze period, Virginia Power evaluated its regulatory assets for potential impairment under SFAS No. 71. Based on the uncertainty of Virginia Power's earnings potential during the rate freeze period, management could no longer conclude that recovery of the $220 million is probable, i.e., that earnings above its authorized rate of return would be available to offset the $220 million write-off of regulatory assets. Virginia Power had previously identified reductions in operating costs of $38.4 million in 1997 and $26.7 million in 1996, which were used to establish a reserve for potential impairment of regulatory assets. Accordingly, Virginia Power charged $158.6 million to second quarter 1998 earnings, which when combined with the reserve for accelerated cost recovery accrued in 1996 and 1997, provides for the impairment of regulatory assets resulting from the settlement.

Note S: Derivative Transactions

Dominion Resources uses derivative financial instruments for the purposes of managing interest rate, natural gas price and foreign currency risks.

Interest Rate Risks Saxon Mortgage, enters into forward delivery contracts, financial futures, options contracts and interest rate swap agreements for the purpose of reducing exposure to the effects of changes in interest rates on mortgage loans which the company has funded or has committed to fund as well as residual interest retained. Gains and losses on such contracts relating to mortgage loans are recognized when the loans are sold. If the counterparties to the hedging transactions are unable to perform according to the terms of the contracts, the company may incur losses upon selling the mortgage loans at prevailing prices. As of December 31, 1998 and 1997, Saxon has outstanding liabilities related to its hedging positions with certain counter parties and notional amounts of $1,298.1 million and $552.9 million, respectively. The deferred hedging losses, net, at December 31, 1998, 1997 and 1996 were immaterial.

Other Derivatives In 1998, First Dominion entered into total return swap agreements with swap counter-parties. The notional amount of the swaps is based on the purchase price of the securities which are acquired by the swap counter-parties. At December 31, 1998, the notional amount is $756 million. The gains or losses from the sale, settlement or mark to market of the total return swaps are recorded in Other revenues and income—Nonutility in the income statement. The net amount of the adjustment to earnings due to the swap transactions was $7.9 million in 1998. Total return swap transactions require additional funding of or return of cash collateral resulting from decreases or increases in the fair market value of the swap position. Total return swap cash collateral is included in cash and cash equivalents on the balance sheet. Such cash collateral was $71.4 million at December 31, 1998.

Note T: Commitments and Contingencies

As the result of issues generated in the course of daily business, the company is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies, some of which involve substantial amounts of money. Except as described below under "Virginia Power—Utility Rate Regulation," management believes that the final disposition of these proceedings will not have an adverse material effect on operations or the financial position, liquidity or results from operations of the company.

Virginia Power

Utility Rate Regulation The current session of the General Assembly of Virginia is scheduled to end in late February 1999. The legislators are considering proposed legislation that would establish a detailed plan to restructure the electric utility industry in Virginia. The Senate approved restructuring legislation in Senate Bill No. 1269 on February 9, 1999 (the Senate Bill). If enacted, it would provide the necessary details to implement legislation passed in 1998 which established a timeline for the transition to retail competition in Virginia. Virginia Power is actively supporting the Senate Bill. Whether all of the provisions of the Senate Bill will ultimately be included in enacted legislation is uncertain. Virginia Power currently believes passage of Virginia restructuring legislation is likely in 1999 but cannot predict what provisions would be included, if restructuring legislation is ultimately enacted. Under the Senate Bill, Virginia Power's base rates would remain unchanged until July 2007.

If the Senate Bill is enacted, the generation portion of Virginia Power's Virginia jurisdictional operations would no longer be subject to cost-based regulation beginning in 2002, although recovery of generation-related costs would continue to be provided through the capped rates until July 2007. When enacted legislation provides sufficient details about the transition to deregulation of generation, Virginia Power would discontinue the application of SFAS No. 71 for the generation portion of its Virginia jurisdictional operations and determine the amount of regulatory assets to be written off.

In order to measure the amount of regulatory assets to be written off, Virginia Power must evaluate to what extent recovery of regulatory assets would be provided through cost-based rates. Virginia Power would not be required to write off regulatory assets for which recovery would be provided by either cost-based rates or a separate, stranded cost recovery mechanism. Emerging Issues Task Force Issue No. 97-4, "Deregulation of the Pricing of Electricity — Issues Related to the Application of FASB Statements No. 71, 'Accounting for the Effects of Certain Types of Regulation,' and No. 101, 'Regulated Enterprises — Accounting for the Discontinuance of Application of FASB Statement No. 71'" (EITF 97-4), provides guidance about writing off regulatory assets when SFAS No. 71 is discontinued for only a portion of a utility's operations. However, until the final provisions of the Virginia legislation are known, Virginia Power believes the measurement of regulatory assets to be written off under SFAS 71 and EITF 97-4 is uncertain. If a write-off of regulatory assets is required, such write-off could materially affect Virginia Power's financial position and results of operations. See Note E.

Virginia Power believes the stable rates that would be provided through July 2007 by the Senate Bill, coupled with the opportunity to pursue further reductions in Virginia Power's operating costs, would present a reasonable opportunity to recover a substantial portion of Virginia Power's potentially stranded costs. However, as discussed above, if the application of SFAS No. 71 is discontinued for any part of utility operations, Virginia Power would also perform an impairment evaluation with respect to property, plant and equipment as well as long-term power purchase commitments. See Note B and "Purchased Power Contracts" below. The impairment assessment may be required on a disaggregated basis rather than as an aggregate portfolio. Thus, the recognition of impairments, if any, could potentially not be mitigated by other assets or contracts with estimated values in excess of respective carrying amounts or contract payments. If Virginia Power's evaluation concludes that an impairment exists, an additional loss would be charged to earnings. Because the impairment evaluation has not been completed, Virginia Power cannot estimate the amount of loss, if any, that would be recognized. However, such amount could materially affect Virginia Power's financial position and results of operations.

Construction Program Virginia Power has made substantial commitments in connection with its construction program and nuclear fuel expenditures, which are estimated to total $802.5 million for 1999. Virginia Power presently estimates that all of its 1999 construction expenditures, including nuclear fuel, will be met through cash flow from operations and through a combination of sales of securities and short-term borrowing.

Purchased Power Contracts Virginia Power has entered into contracts for the long-term purchase of capacity and energy from other utilities, qualifying facilities and independent power producers. As of December 31, 1998, Virginia Power has 55 nonutility purchase contracts with a combined dependable summer capacity of 3,285 megawatts. The following table shows the minimum commitments as of December 31, 1998 for power purchases from utility and nonutility suppliers.

	Commitments	
(millions)	Capacity	Other
1999	$ 836.7	$133.1
2000	760.1	47.9
2001	757.5	37.2
2002	757.7	32.8
2003	717.2	34.3
After 2003	8,573.6	301.0
Total	$12,402.8	$586.3
Present value of the total	$ 5,389.7	$269.2

In addition to the commitments listed above, under some contracts, Virginia Power may purchase, at its option, additional power as needed. Purchased power expenditures, subject to cost of service rate regulation (including economy, emergency, limited-term, short-term, and long-term purchases), for the years 1998, 1997, and 1996 were $1,137 million, $1,381 million and $1,183 million, respectively.

Fuel Purchase Commitments Virginia Power's estimated fuel purchase commitments for the next five years for system generation are as follows (millions): 1999-$328; 2000-$248; 2001-$205; 2002-$115; and 2003-$118.

Sales of Power Virginia Power enters into agreements with other utilities and with other parties to purchase and sell capacity and energy. These agreements may cover current and future periods ("forward positions"). The volume of these transactions varies from day to day based on the market conditions, our current and anticipated load, and other factors. The combined amounts of sales and purchases range from 3,000 megawatts to 15,000 megawatts at various times during a given year. These operations are closely monitored from a risk management perspective.

Environmental Matters Environmental costs have been historically recovered through the rate making process. However, see "Utility Rate Regulation" above for a discussion of legislation that, if enacted, would restructure the electric utility industry in Virginia. If material costs are incurred and not recovered through rates, Virginia Power's results of operations and financial position could be adversely impacted.

The EPA has identified Virginia Power and several other entities as Potentially Responsible Parties (PRPs) at two Superfund sites located in Kentucky and Pennsylvania. The estimated future remediation costs for the sites are in the range of $61.8 million to $69.5 million. Virginia Power's proportionate share of the costs is expected to be in the range of $1.6 million to $2.2 million, based upon allocation formulas and the volume of waste shipped to the sites. As of December 31, 1998, Virginia Power had accrued a reserve of $1.7 million to meet its obligations at these two sites. Based on a financial assessment of the PRPs involved at these sites, Virginia Power has determined that it is probable that the PRPs will fully pay the costs apportioned to them.

Virginia Power generally seeks to recover its costs associated with environmental remediation from third-party insurers. At December 31, 1998 pending claims were not recognized as an asset or offset against such obligations.

Nuclear Insurance The Price-Anderson Act limits the public liability of an owner of a nuclear power plant to $9.7 billion for a single nuclear incident. The Price-Anderson Act Amendment of 1988 allows for an inflationary provision adjustment every five years. Virginia Power has purchased $200 million of coverage from commercial insurance pools with the remainder provided through a mandatory industry risk-sharing program. In the event of a nuclear incident at any licensed nuclear reactor in the United States, Virginia Power could be assessed up to $90.7 million (including a 3% insurance premium tax for Virginia) for each of its four licensed reactors not to exceed $10.3 million (including a 3% insurance premium tax for Virginia) per year per reactor. There is no limit to the number of incidents for which this retrospective premium can be assessed.

Virginia Power's current level of property insurance coverage ($2.55 billion for North Anna and $2.4 billion for Surry) exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per reactor site, and includes coverage for premature decommissioning and functional total loss. The NRC requires that the proceeds from this insurance be used first to return the reactor to and maintain it in a safe and stable condition, and second to decontaminate the reactor and station site in accordance with a plan approved by the NRC. Virginia Power's nuclear property insurance is provided by Nuclear Electric Insurance Limited (NEIL), a mutual insurance company, and is subject to retrospective premium assessments in any policy year in which losses exceed the funds available to the insurance company. The maximum assessment for the current policy period is $28.8 million. Based on the severity of the incident, the boards of directors of Virginia Power's nuclear insurers have the discretion to lower or eliminate the maximum retrospective premium assessment. For any losses that exceed the limits, or for which insurance proceeds are not available because they must first be used for stabilization and decontamination, Virginia Power has the financial responsibility.

Virginia Power purchases insurance from NEIL to cover the cost of replacement power during the prolonged outage of a nuclear unit due to direct physical damage of the unit. Under this program, Virginia Power is subject to a retrospective premium assessment for any policy year in which losses exceed funds available to NEIL. The current policy period's maximum assessment is $6.8 million.

As a joint owner of the North Anna Power Station, ODEC is responsible for its proportionate share (11.6%) of the insurance premiums applicable to that station, including any retrospective premium assessments and any losses not covered by insurance.

Dominion Resources

On October 30, 1998, DR Group Holdings entered into a revolving credit agreement with Bayerische Landesbank Girozentrale. The total commitment and outstanding balance of the agreement is 33.5 million pounds sterling ($56.1 million). The term of the agreement is five years. This agreement replaces the short-term and five-year credit agreements with Bayerische Landesbank Girozentrale and National Westminister Bank which also totaled 33.5 million pounds sterling. Dominion Resources is guarantor to DR Group Holdings for this revolving credit agreement.

Dominion Energy

Subsidiaries of Dominion Energy have general partnership interests in certain of its energy ventures. These subsidiaries may be required to fund future operations of these investments, if operating cash flow is insufficient.

Under an agreement related to the acquisition of the Kincaid Power Station, Dominion Energy's wholly-owned subsidiary, Dominion Energy Construction Company (DECCO), must make certain improvements to the facility. Dominion Energy has provided a guarantee of DECCO's financial obligations under this agreement. Also, until the improvements are completed, Dominion Energy must fund up to approximately $130 million, less cash generated, in additional equity that may be required by Kincaid Generation LLC (KGL), the owner of the Kincaid Power Station. Dominion Resources has guaranteed Dominion Energy's obligation to make such equity infusions to KGL.

Dominion Capital

At December 31, 1998, Dominion Capital had commitments to fund loans of approximately $761.5 million.

Note U: Business Segments

Business segment financial information follows for each of the three years in the period ended December 31, 1998. Corporate includes intersegment eliminations.

(millions, except total assets)	Virginia Power	Dominion Capital	Dominion Energy	Dominion UK	Corporate Operations	Total Consolidated
1998						
Revenues	$4,284.6	$409.1	$383.0	$1,009.5		$6,086.2
Interest income			14.1		$ 14.7	28.8
Interest expense	305.7	121.1	46.8	102.4	6.7	582.7
Operating income	685.8	210.5	89.6	141.6	(36.3)	1,091.2
Depreciation	536.4	25.2	90.8	75.3	6.5	734.2
Unusual items				332.3		332.3
Equity: income		21.1	18.0		2.4	41.5
investment		203.3	140.3		38.5	382.1
Income tax expense (benefit)	157.3	30.6	(12.7)	133.1	(2.3)	306.0
Net income	194.1	58.7	57.1	227.2	(1.5)	535.6
Capital expenditures	531.7	6.2	203.9	92.4	0.6	834.8
Total assets (billions)	12.0	3.1	2.2	0.2		17.5
1997						
Revenues	4,663.9	295.7	332.8	1,970.1		7,262.5
Interest income			9.9	8.5	0.8	19.2
Interest expense	304.2	91.7	34.9	189.4	7.2	627.4
Operating income	1,014.7	157.1	71.4	246.6	(17.4)	1,472.4
Depreciation	584.3	17.5	85.0	131.3	1.2	819.3
Unusual items				(156.6)		(156.6)
Equity: income		16.1	14.2			30.3
investment		189.3	211.0	3.7		404.0
Income tax expense (benefit)	249.3	20.2	(50.6)	21.2	(7.1)	233.0
Net income	433.4	45.1	45.0	(109.7)	(14.6)	399.2
Capital expenditures	481.8	7.8	64.3	234.2	17.7	805.8
Total assets (billions)	12.0	2.1	1.6	4.4	0.1	20.2
1996						
Revenues	4,382.0	177.5	255.6			4,815.1
Interest income			7.4		0.7	8.1
Interest expense	308.4	44.5	29.9		4.2	387.0
Operating income	999.8	81.9	36.6		(18.7)	1,099.6
Depreciation	536.4	6.8	69.9		2.1	615.2
Unusual items						
Equity: income		26.0	9.7			35.7
investment		242.8	214.7			457.5
Income tax expense (benefit)	240.2	8.9	(23.9)		(5.9)	219.3
Net income	421.8	28.5	32.5		(10.7)	472.1
Capital expenditures	484.0	17.7	109.1		1.3	612.1
Total assets (billions)	11.8	1.1	1.6		0.4	14.9

Geographic Areas

Revenues (millions)		International				
Year	Domestic	United Kingdom	Latin America	Other	Total International	Consolidated
1998	$4,918.2	$1,009.5	$132.5	$26.0	$1,168.0	$6,086.2
1997	5,129.8	1,970.1	162.6		2,132.7	7,262.5
1996	4,707.4		107.7		107.7	4,815.1

Long-Lived Assets (billions)		International				
Year	Domestic	United Kingdom	Latin America	Other	Total International	Consolidated
1998	$10.6	$0.1	$0.7	$0.2	$1.0	$11.6
1997	10.5	4.0	0.8		4.8	15.3

Note V: Leases

Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of December 31, 1998 are 1999-$28.9 million, 2000-$30.2 million, 2001-$14.2 million, 2002-$11.7 million, 2003-$10.5 million and years after 2003-$25 million. Rent on leases, which have been charged to operations expense, were $21.6 million, $20.3 million, and $18.1 million for 1998, 1997 and 1996, respectively.

Note W: Acquisitions

Dominion Energy

In February 1998, Dominion Energy completed its purchase of Kincaid Power Station from Commonwealth Edison Company of Chicago. The purchase price was $186 million and the transaction has been recorded using the purchase method of accounting.

In April 1998, Dominion Energy purchased Archer Resources, Ltd., a natural gas and oil exploration and production company. The purchase price of Archer Resources, Ltd. was $119 million plus the assumption of debt amounting to $26 million. The transaction has been recorded using the purchase method of accounting.

Note X: Subsequent Events

Dominion Resources

On February 22, 1999, Dominion Resources announced its agreement to merge with Consolidated Natural Gas Company (CNG). The merged company will form the nation's fourth largest electric and gas utility with operations focused primarily in the East. Under the terms of the merger agreement, Dominion Resources will acquire all of the shares of CNG in exchange for approximately $6.3 billion in Dominion Resources common stock.

The transaction is conditioned, among other things, upon:

- approvals of shareholders of both companies;
- opinions of counsel on the tax-free nature of the transaction;
- reports of independent accountants that the transaction will qualify as a pooling of interests for accounting purposes;
- approvals of various federal regulatory agencies; and
- completion of regulatory processes in the states where the combined company will operate.

Closing of the transaction is expected to take place in approximately one year.

Dominion Energy

In January 1999, Dominion Energy announced that it acquired San Juan Partners L.L.C., a natural gas investment company. The acquisition more than doubles Dominion Energy's existing production and reserves in the Rocky Mountain region and increases its total base in North America to approximately 715 billion cubic feet equivalent.

Dominion Capital

In February 1999, Dominion Capital established a $400 million commercial paper program. Borrowings from the program will be used to fund operating needs of Dominion Capital.

Note Y: Quarterly Financial and Common Stock Data

(unaudited)

The following amounts reflect all adjustments, consisting of only normal recurring accruals (except as disclosed below), necessary in the opinion of Dominion Resources' management for a fair statement of the results for the interim periods.

Quarterly Financial and Common Stock Data—Unaudited

(millions, except per share amounts)	1998	1997
Revenues and income		
First Quarter	$1,773.5	$1,850.0
Second Quarter	1,585.1	1,633.5
Third Quarter	1,549.4	2,040.6
Fourth Quarter	1,178.2	1,738.4
Year	$6,086.2	$7,262.5
Income (loss) before provision for income taxes and minority interests		
First Quarter	$ 217.5	$ 253.5
Second Quarter	(107.9)	124.1
Third Quarter	665.5	152.1
Fourth Quarter	93.8	149.1
Year	$ 868.9	$ 678.8
Net income (loss)		
First Quarter	$ 139.5	$ 169.9
Second Quarter	(82.7)	79.1
Third Quarter	424.5	50.4
Fourth Quarter	54.3	99.8
Year	$ 535.6	$ 399.2
Earnings (loss) per share		
First Quarter	$ 0.72	$ 0.92
Second Quarter	(0.42)	0.43
Third Quarter	2.17	0.27
Fourth Quarter	0.28	0.53
Year	$ 2.75	$ 2.15
Dividends per share		
First Quarter	$ 0.645	$ 0.645
Second Quarter	0.645	0.645
Third Quarter	0.645	0.645
Fourth Quarter	0.645	0.645
Year	$ 2.58	$ 2.58
Stock price range		
First Quarter	42 15/16-39 3/8	41 3/8-35 1/2
Second Quarter	42 1/16-37 13/16	36 3/4-33 1/4
Third Quarter	44 15/16-39 5/16	38 1/4-35 5/16
Fourth Quarter	48 15/16-44 3/8	42 7/8-34 7/8
Year	48 15/16-37 13/16	42 7/8-33 1/4

In the second quarter of 1998, Virginia Power had an after-tax charge to net income of $201.0 million or $1.03 cents per share. The charge reflects the settlement of the rate proceedings before the Virginia Commission. For more information, see Note R. In the third quarter of 1998, Dominion Resources recorded an after-tax gain of $200.7 million or $1.03 cents per share to reflect the sale of East Midlands to PowerGen.

In the third quarter of 1997, East Midlands recorded a liability of approximately $157 million to reflect the anticipated one-time windfall tax levied by the U.K. government. The tax was levied on regional electric companies in the United Kingdom and is based on the privatized utilities' excess profits. East Midlands paid one-half of the tax levy in December 1997.

Certain accruals recorded in 1998 and 1997 were not ordinary, recurring adjustments. These adjustments included (1) the impact resulting from the 1998 settlement of Virginia Power's Virginia rate proceeding and (2) 1997 restructuring costs.

Rate Refund Virginia Power recognized a $153.7 million provision for rate refund and related interest expense of $10.7 million and other taxes of $3.9 million in the second quarter of 1998 as a result of the settlement of its rate proceeding in Virginia. See Note R.

Impairment of Regulatory Assets Virginia Power charged $158.6 million to second quarter 1998 earnings to provide for the impairment of regulatory assets resulting from the settlement of its rate proceeding in Virginia. Virginia Power accrued $2.8 million, $28.3 million and $7.3 million during the second, third and fourth quarters of 1997, respectively, to provide for impairment of regulatory assets. See Note R.

Restructuring Virginia Power expensed $6.3 million, $1.4 million and $10.7 million during the second, third and fourth quarters of 1997, respectively. See Note Q.

Depreciation and Amortization Virginia Power recorded adjustments of $27.6 million in the second quarter of 1998 decreasing the year-to-date provision for depreciation and decommissioning expenses to reflect terms of the settlement of its Virginia rate proceedings. See Note R.

Charges for the rate refund and the impairment of regulatory assets, offset by the adjustments to depreciation and decommissioning expenses reduced Balance Available for Common Stock by $201 million in the second quarter of 1998. Charges to provide for impairment of regulatory assets and for restructuring expenses reduced Balance Available for Common Stock by $5.9 million, $19.3 million, and $11.7 million in the second, third, and fourth quarters of 1997, respectively.

Report of Management's Responsibilities

The management of Dominion Resources, Inc. is responsible for all information and representations contained in the Consolidated Financial Statements and other sections of the annual report. The Consolidated Financial Statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that Dominion Resources' and its subsidiaries' assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed and recorded in accordance with established procedures. Management recognizes the inherent limitations of any system of internal accounting control, and therefore cannot provide absolute assurance that the objectives of the established internal accounting controls will be met.

This system includes written policies, an organizational structure designed to ensure appropriate segregation of responsibilities, careful selection and training of qualified personnel, and internal audits. Management believes that during 1998 the system of internal control was adequate to accomplish the intended objectives.

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, independent auditors, whose designation by the Board of Directors was ratified by the shareholders. Their audits were conducted in accordance with generally accepted auditing standards and include a review of Dominion Resources' and its subsidiaries' accounting systems, procedures and internal controls, and the performance of tests and other auditing procedures sufficient to provide reasonable assurance that the Consolidated Financial Statements are not materially misleading and do not contain material errors.

The Audit Committees of the Boards of Directors, composed entirely of directors who are not officers or employees of Dominion Resources or its subsidiaries, meet periodically with independent auditors, the internal auditors and management to discuss auditing, internal accounting control and financial reporting matters and to ensure that each is properly discharged. Both independent auditors and the internal auditors periodically meet alone with the Audit Committees and have free access to the Committees at any time.

Management recognizes its responsibility for fostering a strong ethical climate so that Dominion Resources' affairs are conducted according to the highest standards of personal corporate conduct. This responsibility is characterized and reflected in Dominion Resources' Code of Ethics, which addresses potential conflicts of interest, compliance with all domestic and foreign laws, the confidentiality of proprietary information, and full disclosure of public information.

Dominion Resources, Inc.

Thos. E. Capps
Chairman, President and
Chief Executive Officer

James L. Trueheart
Senior Vice President and
Controller

Report of Independent Auditors

To the Shareholders and Board of Directors of
Dominion Resources, Inc.

We have audited the accompanying consolidated balance sheets of Dominion Resources, Inc. and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income, of cash flows, shareholders' equity and comprehensive income for each of the three years in the period ended December 31, 1998. These Consolidated Financial Statements are the responsibility of the company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

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

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Dominion Resources, Inc. and subsidiaries as of December 31, 1998 and 1997 and the results of their operations and their cash flows and shareholders' equity for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Richmond, Virginia
February 8, 1999
(February 22, 1999 as to Note X)

Directors and Officers

Outside Directors

John B. Adams, Jr., 54 (DRI/VP)
President & Chief Executive Officer of Bowman Companies, manufacturer and bottler of alcohol beverages, Fredericksburg, Virginia.
Director since 1987.
2 2

John B. Bernhardt, 69 (DRI/VP/DCI)
Managing Director, Bernhardt/Gibson Financial Opportunities, financial services, Newport News, Virginia.
Director since 1981.
3 3

James F. Betts, 66 (VP)
Former Chairman of the Board and President, The Life Insurance Company of Virginia, Richmond, Virginia.
Director since 1978.
2

Jean E. Clary, 55 (VP)
President, Century 21, Clary and Associates, Inc. South Hill, Virginia.
Director since 1996.
1

John W. Harris, 51 (VP/DCI)
President, Lincoln Harris, LLC, a consulting and real estate development firm, Charlotte, North Carolina.
Director since 1994.
2

Benjamin J. Lambert, III, 62 (DRI/VP)
Optometrist, Richmond, Virginia
Director since 1992.
2 2

Richard L. Leatherwood, 59 (DRI/VP/DEI)
Former President and Chief Executive Officer, CSX Equipment, Baltimore, Maryland.
Director since 1994.
3 3

Harvey L. Lindsay, Jr., 69 (DRI/VP)
Chairman & Chief Executive Officer, Harvey Lindsay Commercial Real Estate, LLC. Norfolk, Virginia.
Director since 1986.
1 1

Kenneth A. Randall, 71 (DRI/VP/DEI)
Corporate director for various financial companies, Williamsburg, Virginia.
Director since 1971.
3 3

William T. Roos, 71 (DRI/VP/DCI)
Retired President of Penn Luggage, Inc., retail specialty stores, Hampton, Virginia.
Director since 1975.
1 1

Frank S. Royal, M.D., 59 (DRI/VP/DCI)
Physician, Richmond, Virginia.
Director since 1994.
3 3

S. Dallas Simmons, 59 (DRI/VP/DCI)
President, Virginia Union University, Richmond, Virginia.
Director since 1992.
1 1

Robert H. Spilman, 71 (DRI/VP/DEI)
President, Spilman Properties, Inc. Bassett, Virginia.
Director since 1994.
3 3

William G. Thomas, 59 (VP)
President, Hazel & Thomas, a law firm, Alexandria, Virginia.
Director since 1987.
3

Judith B. Warrick, 50 (DRI/VP/DEI)
Senior Advisor, Morgan Stanley & Co., Inc., an investment banking firm, New York, New York.
Director since 1989.
2 2

David A. Wollard, 61 (VP/DCI)
Chairman, Board of Directors, Exempla Healthcare, Denver, Colorado.
Director since 1994.
1

Companies:
DRI Dominion Resources, Inc.
VP Virginia Power
DEI Dominion Energy, Inc.
DCI Dominion Capital, Inc.

Dominion Resources Committees:
1 Audit
2 Finance
3 Organization, Compensation and Nominating

Virginia Power Committees:
1 Audit
2 Finance
3 Organization, Compensation and Nominating

Inside Directors and Subsidiary Presidents

Thos. E. Capps, 63 (DRI/VP/DEI/DCI)
Chairman of the Board, President & Chief Executive Officer of Dominion Resources; Chairman of the Board of all wholly-owned subsidiaries. Director since 1986.
14 years of service.

Norman Askew, 56 (VP)
President & Chief Executive Officer of Virginia Power & Executive Vice President of Dominion Resources.
2 years of service.

Thomas N. Chewning, 53 (DEI/DCI)
President of Dominion Energy & Executive Vice President of Dominion Resources.
11 years of service.

David L. Heavenridge, 52 (DEI/DCI)
President of Dominion Capital & Executive Vice President of Dominion Resources.
24 years of service.

Dominion Resources Officers

Edgar M. Roach, Jr., 50
Executive Vice President & Chief Financial Officer.
5 years of service.

Thomas F. Farrell, II, 44
Senior Vice President—Corporate Affairs.
4 years of service.

James L. Trueheart, 47
Senior Vice President & Controller.
21 years of service.

G. Scott Hetzer, 42
Vice President and Treasurer.
2 years of service.

William S. Mistr, 51
Vice President.
29 years of service.

James F. Stutts, 54
Vice President and General Counsel.
2 years of service.

William C. Hall, Jr., 45
Assistant Vice President—Corporate Communications.
15 years of service.

Karen E. Hunter, 44
Assistant Vice President—Financial Planning.
11 years of service.

Patricia A. Wilkerson, 43
Corporate Secretary.
21 years of service.

Virginia Power Senior Officers and Treasurer

Thomas F. Farrell, II, 44
Executive Vice President, General Counsel and Corporate Secretary.
4 years of service.

Robert E. Rigsby, 49
Executive Vice President.
27 years of service.

William R. Cartwright, 56
Senior Vice President—Fossil & Hydro.
33 years of service.

Larry M. Girvin, 55
Senior Vice President—Commercial Operations.
28 years of service.

James P. O'Hanlon, 55
Senior Vice President—Nuclear.
9 years of service.

John A. Shaw, 51
Senior Vice President, Treasurer & Chief Financial Officer.
1 year of service.

Eva S. Teig, 54
Senior Vice President—External Affairs & Corporate Communications.
9 years of service.

James A. White, 55
Senior Vice President—Human Resources.
1 year of service.

Said Ziai, 44
Senior Vice President—Corporate Strategy.
2 years of service.

Dominion Energy Senior Officers and Treasurer

Mark T. Cox, IV, 56
Senior Vice President—International Business Development.
7 years of service

E. Wayne Harrell, 52
Senior Vice President—Power Generation.
29 years of service

Godfrey E. Lake, Jr., 44
Senior Vice President—Oil & Gas Operations.
16 years of service

Fred G. Wood, III, 35
Vice President, Treasurer & Chief Financial Officer.
13 years of service

Dominion Capital Senior Officers and Treasurer

Charles E. Coudriet, 52
Senior Vice President.
3 years of service.

Hayden D. McMillian, 43
Senior Vice President and Chief Financial Officer.
4 years of service.

Randolph W. Wyckoff, 51
Senior Vice President.
2 years of service.

Dennis W. Hedgepeth, 46
Vice President and Treasurer.
19 years of service.

Selected Consolidated Financial Data

(dollars in millions, except per share amounts)	1998	1997	1996	1995	1994	1993
Revenues and Income	$ 6,086.2	$ 7,262.5	$ 4,815.1	$ 4,633.1	$ 4,491.1	$ 4,433.9
Net income	$ 535.6	$ 399.2	$ 472.1	$ 425.0	$ 478.2	$ 516.6
Total assets	$17,517.0	$20,164.5	$14,896.4	$13,903.3	$13,562.2	$13,349.5
Long-term debt, preferred stock subject to mandatory redemption and preferred securities of a subsidiary trust	$ 5,635.9	$ 7,761.0	$ 5,362.3	$ 4,926.9	$ 4,934.2	$ 4,976.7
Common stock data:						
Earnings per share	$ 2.75	$ 2.15	$ 2.65	$ 2.45	$ 2.81	$ 3.12
Dividends paid per share	$ 2.58	$ 2.58	$ 2.58	$ 2.58	$ 2.55	$ 2.48
Common stock price range (dollars)	48 15/16-37 13/16	42 7/8-33 1/4	44 3/8-36 7/8	41 5/8-34 7/8	45 3/8-34 7/8	49 1/2-38 1/4
Market value per share (year-end)	$ 46.75	$ 42.56	$ 38.50	$ 41.25	$ 36.00	$ 45.38
Book value per share (year-end)	$ 27.33	$ 26.84	$ 27.13	$ 26.88	$ 26.60	$ 26.38
Market to book value (year-end)	171.1%	158.6%	141.9%	153.5%	135.3%	172.0%
Return on average common equity	10.1%	8.0%	9.8%	9.2%	10.6%	12.2%
Payout ratio	93.8%	120.0%	97.4%	105.3%	90.7%	79.5%
Price/earnings ratio (year-end)	17.0	19.8	14.5	16.8	12.8	14.5
Outstanding shares of common stock (millions)						
—average	194.9	185.2	178.3	173.8	170.3	165.7
—actual (year-end)	194.5	187.8	181.2	176.4	172.4	168.1
Capitalization:*						
Long-term debt	$ 3,861.0	$ 7,156.3	$ 4,533.4	$ 4,348.9	$ 4,384.1	$ 4,219.5
Preferred securities	385.0	385.0	135.0	135.0		
Preferred stock	689.0	689.0	689.0	689.0	816.1	819.5
Common equity	5,315.9	5,040.5	4,915.2	4,742.0	4,586.1	4,435.9
Total capitalization	$10,250.9	$13,270.8	$10,272.6	$ 9,914.9	$ 9,786.3	$ 9,474.9
*Capitalization excludes:						
Nonrecourse-nonutility financing	$ 2,849.7	$ 1,663.0	$ 945.1	$ 684.7	$ 727.1	$ 726.8
Short-term debt	$ 300.8	$ 375.1	$ 378.2	$ 236.6	$ 146.0	$ 262.8
Capitalization ratios (1)						
Long-term debt and capital lease obligations	37%	54%	44%	44%	45%	44%
Preferred securities of subsidiary trust	4%	3%	1%	1%		
Preferred stock	7%	5%	7%	7%	8%	9%
Common equity	52%	38%	48%	48%	47%	47%
Other statistics:						
Number of registered common shareholders (year-end)	201,553	215,685	248,929	233,496	235,062	223,668
Number of full-time employees	11,033	15,458	10,943	11,230	10,789	12,057
Retail electric sales (MWh-thousands)	64,323	61,997	62,298	60,865	58,607	58,183
Independent power generation (MWh-thousands)	7,231	6,104	5,749	5,189	5,325	5,628
Natural gas production (billion cubic feet equivalent)	69.0	59.0	50.2	36.1	36.3	33.4

(1) Excludes nonrecourse-nonutility financing and short-term debt

Shareholder Information

Dominion Resources, Inc. is the transfer agent and registrar for its common stock. Shareholder Administration provides personal assistance for any inquiries Monday through Friday from 9:00 a.m. to 4:00 p.m. (ET). In addition, our voice response system provides the daily closing price and gives you the option of self-service 24 hours a day.

1-800-552-4034 (toll free)
1-804-775-2500

Buy Stock Directly

You may buy Dominion Resources common stock directly from the company through Dominion Direct Investment® with no brokerage fees.

Please contact Shareholder Administration for a prospectus and enrollment form or visit our website at www.domres.com.

Common Stock Listing

New York Stock Exchange
Trading symbol: D
Newspaper listing: DominRes, DomRs

Common Stock Price Range

	1998		1997	
	High	Low	High	Low
First Quarter	42 15/16	39 3/8	41 3/8	35 1/2
Second Quarter	42 1/16	37 13/16	36 3/4	33 1/4
Third Quarter	44 15/16	39 5/16	38 1/4	35 5/16
Fourth Quarter	48 15/16	44 3/8	42 7/8	34 7/8
Year	48 15/16	37 13/16	42 7/8	33 1/4

Dividends on Dominion Resources common stock are paid as declared by the Board of Directors. Dividends are typically paid on the 20th of March, June, September and December. Dividends can be paid by check or electronic deposit, or may be reinvested.

Annual Meeting

The 1999 Annual Meeting of Shareholders of Dominion Resources, Inc. will be held Friday, April 16, at 9:30 a.m. at the Roanoke Island Festival Park Auditorium, One Festival Park, Manteo, NC.

Corporate Street Address

Dominion Resources, Inc.
120 Tredegar Street
Richmond, Virginia 23219

Mailing Address

Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

Website and E-mail Address

www.domres.com
Shareholder_Administration@domres.com.

Independent Auditors

Deloitte & Touche LLP
Richmond, Virginia

Additional Information

Dominion Resources will provide, without charge, a copy of any of the following items:

- 1998 SEC Form 10-K (excluding exhibits).
- 1998 Statistical Summary and Financial Forecast.

Requests for these items should be made by writing to:

Investor Relations Department
Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

Or by e-mail to:
Dominion_Resources@domres.com

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Dominion Resources

P.O. Box 26532
Richmond, Virginia 23261

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DOMINION RESOURCES, INC.

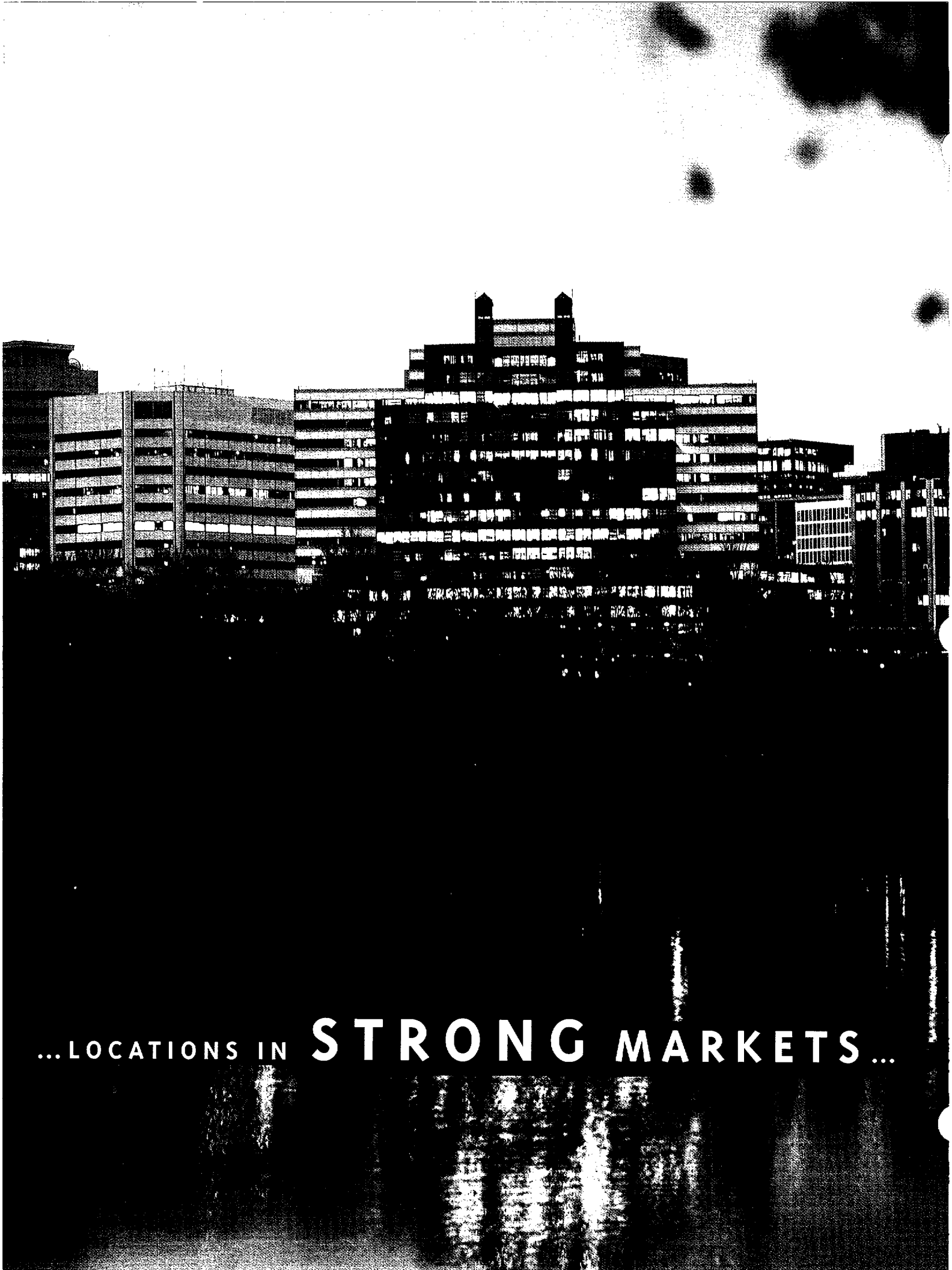
19
ANNUAL REPORT
97

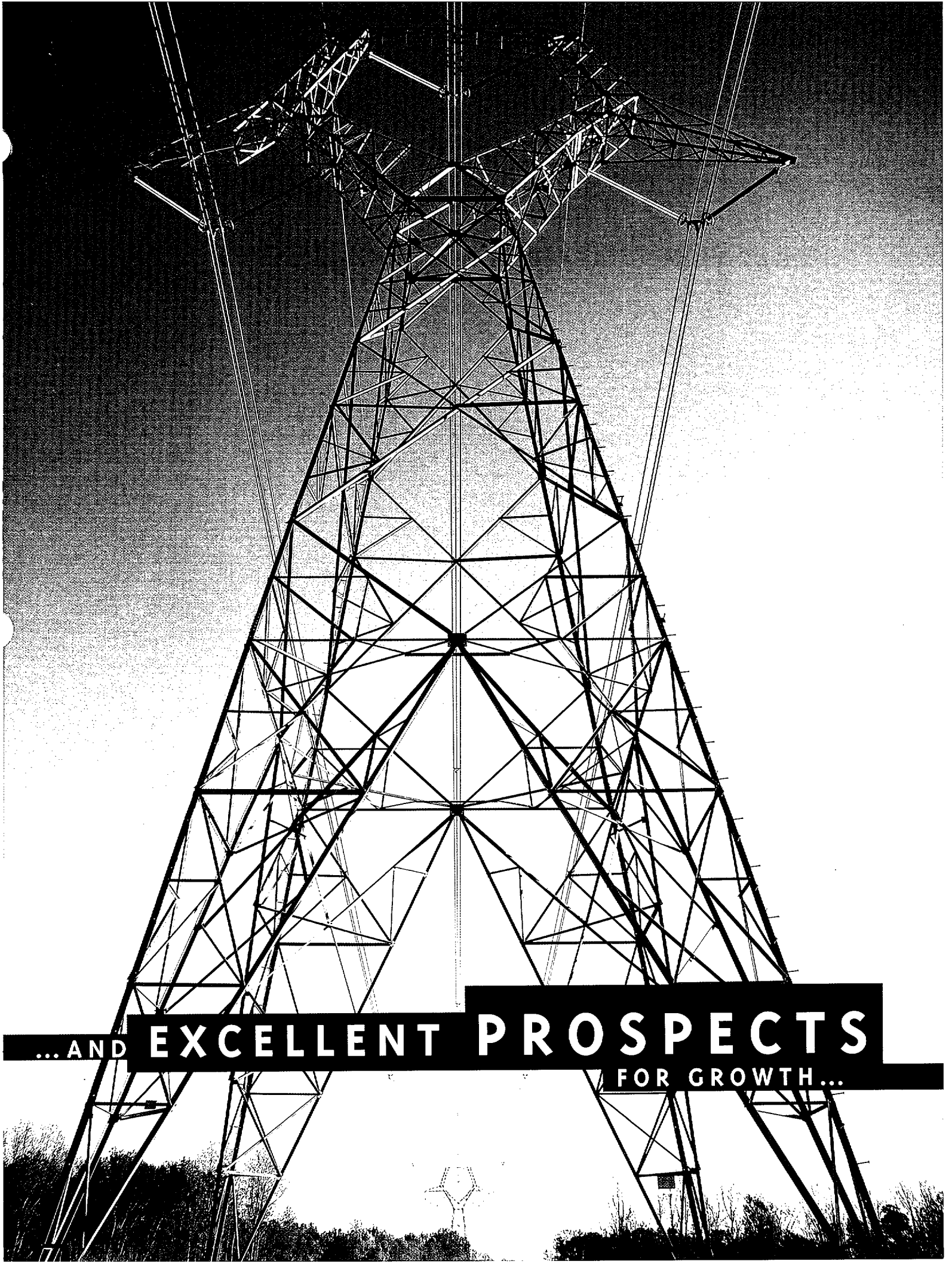
WE HAVE THE RIGHT FUNDAMENTALS FOR THE FUTURE...

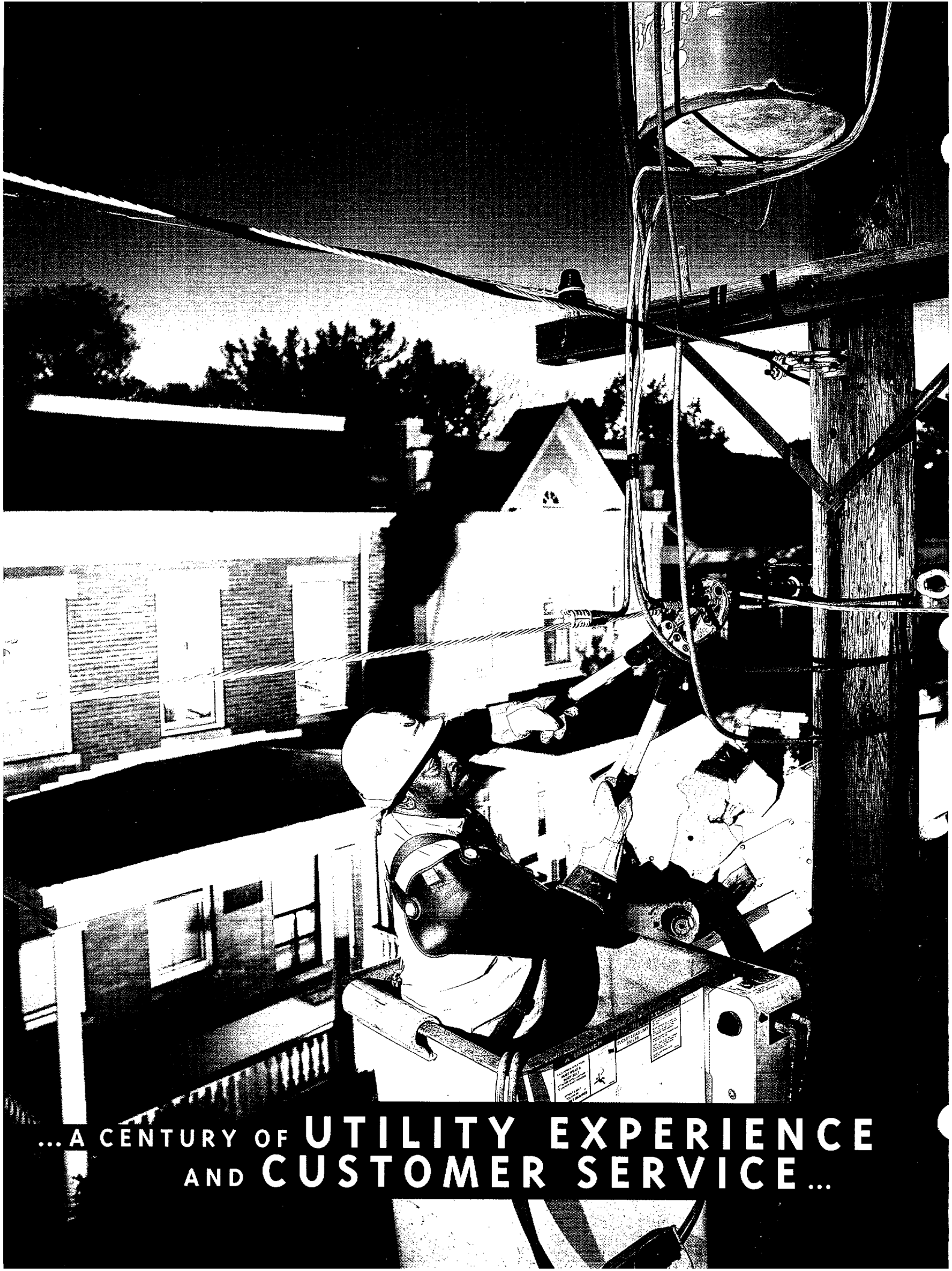
C7


...MORE THAN 15,000 MEGAWATTS OF
EFFICIENT GENERATION...

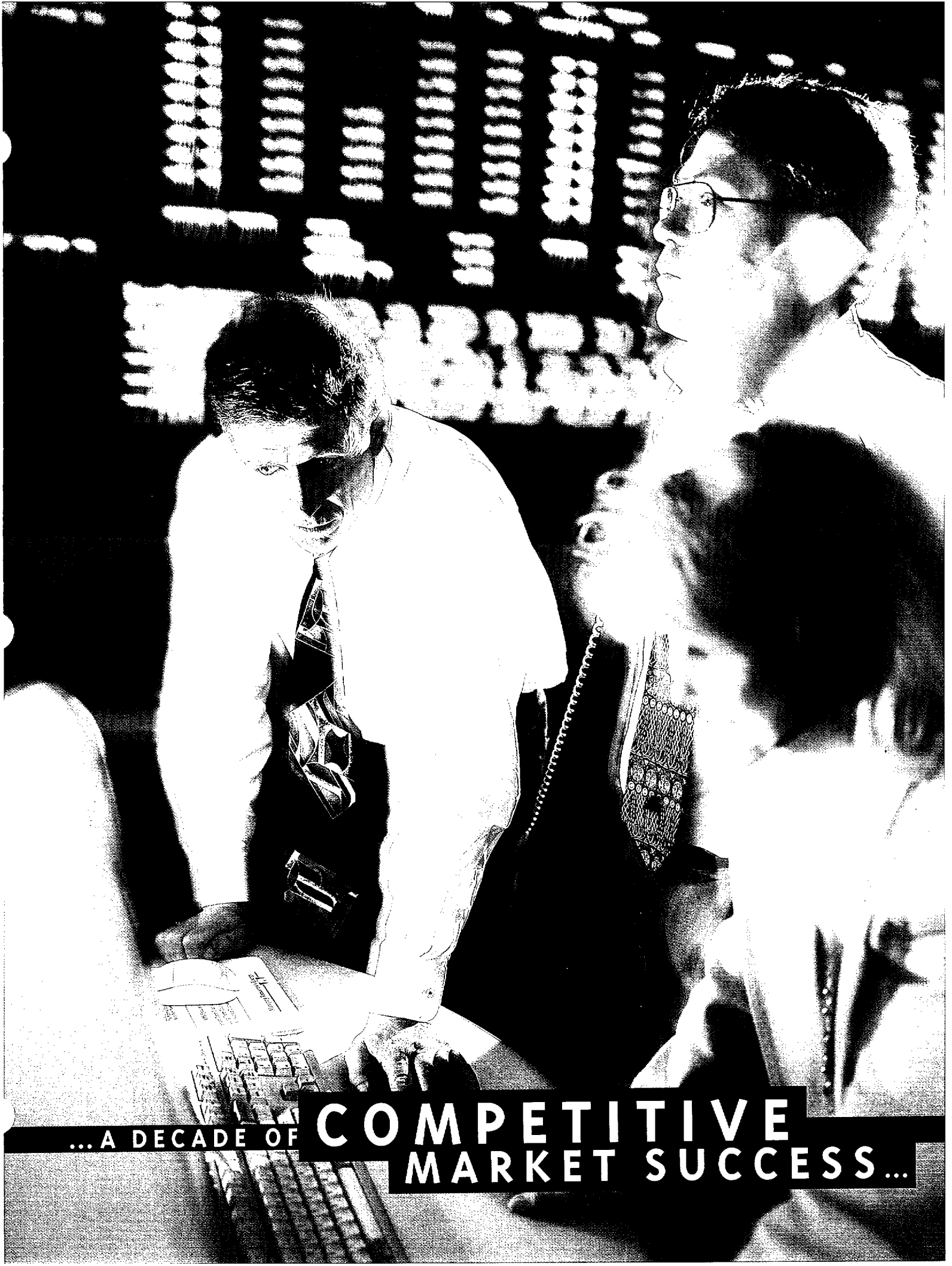

...OVER 460 BILLION CU. FT. OF
NATURAL GAS RESERVES...

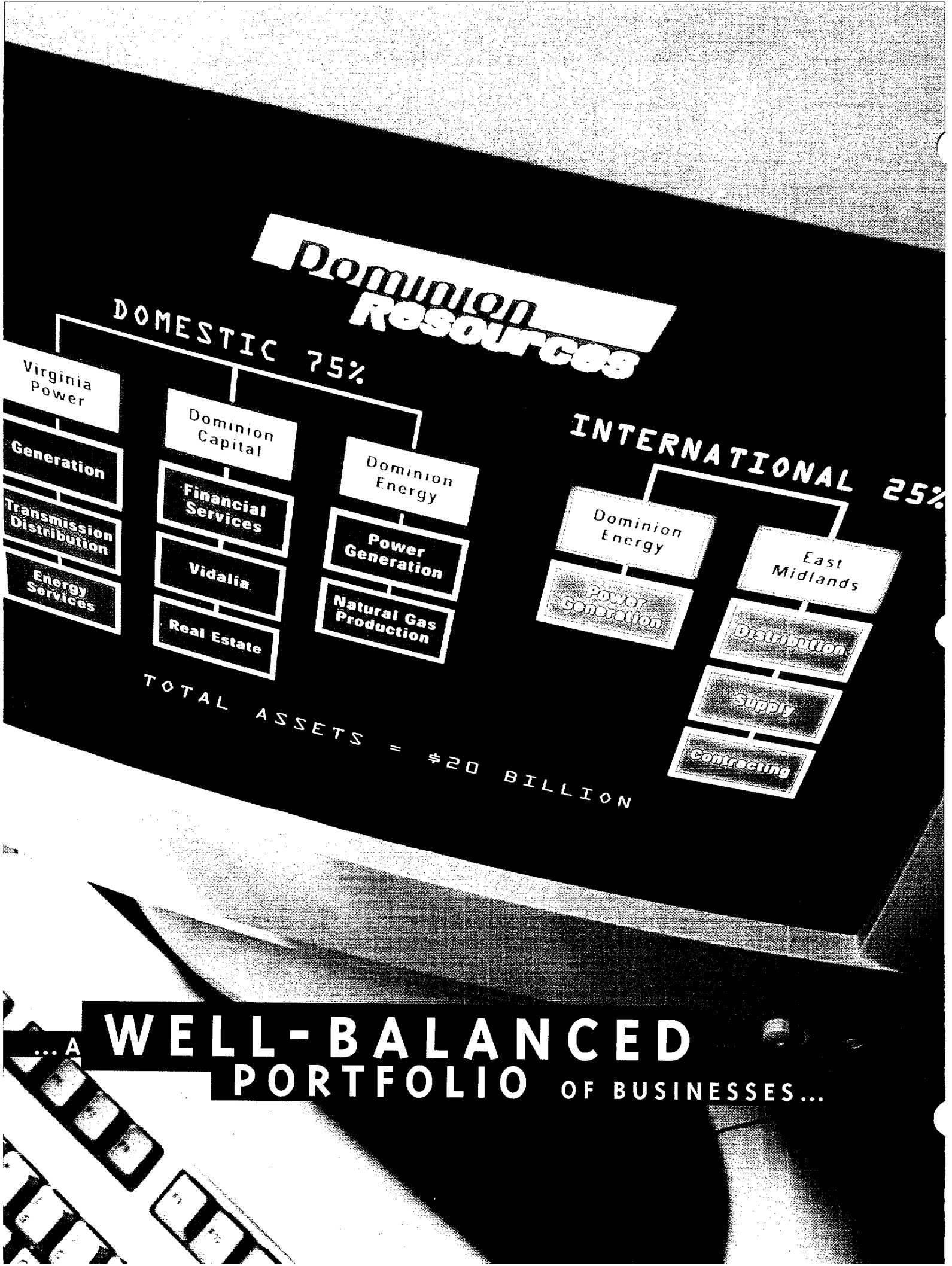

...LOCATIONS IN STRONG MARKETS...


...AND EXCELLENT PROSPECTS
FOR GROWTH...

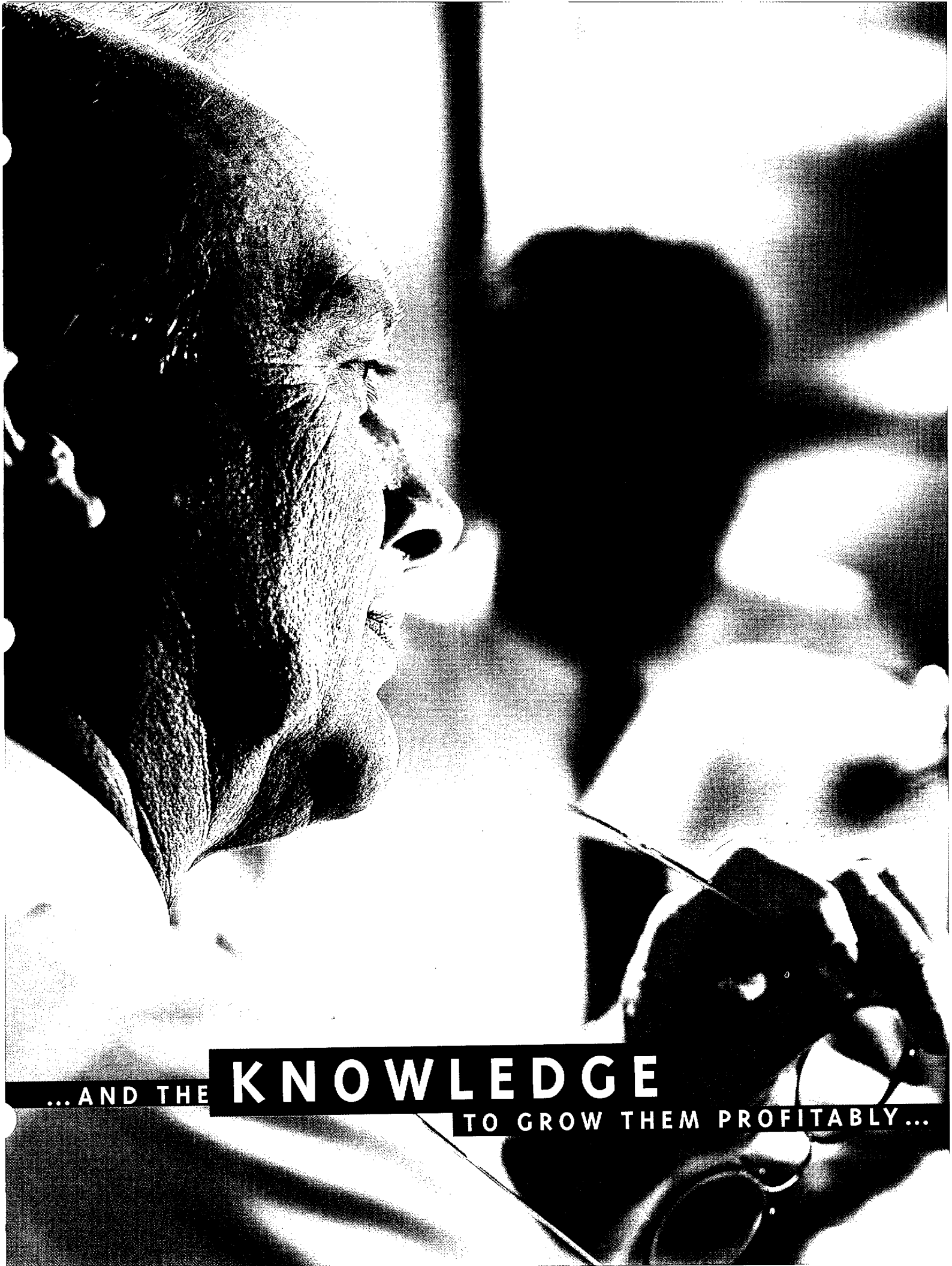


...A CENTURY OF UTILITY EXPERIENCE AND CUSTOMER SERVICE...


...A DECADE OF COMPETITIVE
MARKET SUCCESS...



...A WELL-BALANCED PORTFOLIO OF BUSINESSES...


...AND THE KNOWLEDGE
TO GROW THEM PROFITABLY...

Clockwise from front:
THOS. E. CAPPS
ROBERT I. DAVIES
NORMAN ASKEW
DAVID L. HEAVENRIDGE
THOMAS N. CHEWNING

Dear Fellow Shareholders: Your company holds an excellent hand as the electric power industry deregulates.

Our fundamentals are strong at all four of our operating subsidiaries, thanks to the dedicated, hard work of more than 15,000 employees. Our people represent our single largest group of shareholders—about 4 percent—a vote of confidence that makes me proud.

Support for our strong long-term position also comes from our valuable customers, management foresight, and the good fortune of a home base in the vibrant mid-Atlantic region.

MEETING OUR INTERNAL BENCHMARKS

In late 1996, we announced the beginning of our $2.2 billion acquisition of East Midlands Electricity, a strong power distribution and supply company serving 2.3 million homes and businesses in the United Kingdom. In 1997, we completed the purchase.

In 1996, the chief executive officers of Dominion Energy and Dominion Capital, our nonutility companies, told analysts in New York that their companies would grow cash flow and net income by more than 15 percent. In 1997, they exceeded the goal.

And in 1997 Virginia Power refined already superior operations and made good on a goal of increased internal cash flows stated at that same analyst meeting in 1996. The company also expanded its core operations into new markets.

WE CAN STILL DO BETTER

When I look back on our consolidated financial performance in 1997, however, I'm not fully satisfied.

Our reported earnings dropped to $2.15 per share in 1997 from $2.65 the year before because we recognized the anticipated one-time windfall profits tax in the United Kingdom. Excluding this one-time tax, earnings increased from $2.65 to $3.00 per share. Income from our nonutility companies and new contributions from East Midlands are responsible for the increase. Although Virginia Power's reported earnings in 1997 were flat, we had an excellent year in operations and will continue to take the necessary steps in our transition to competition in the energy business.

Our shares had a total return of 18.4 percent in 1997—that's a combination of share price appreciation plus your full year of dividends. However, this didn't keep pace with last year's bull market or with the better total returns logged by the standard utility indices that track our industry. We attribute our lag to our flat utility earnings and an uncertain legislative and regulatory environment in Virginia.

PLANNING SINCE 1983 FOR THE COMPETITIVE FUTURE

Fortunately, we remain in a good position to change our financial performance. Since 1983, when we first began diversifying, we've been acting on and refining a strategy which anticipated changing times and prepares for a future that has yet to sort out the when, the where or even the how of utility deregulation. Looking back, I'm pleased with the steps we took last year to advance that strategy. We're continuing to strengthen our position for long-term growth. Looking ahead, I'm optimistic.

HOME IN THE "SILICON DOMINION"

I'll begin with Virginia Power, a national leader in low-cost generation that we're fortunate to call our principal subsidiary. We serve nearly 2 million homes and businesses in an economically vibrant region spanning most of Virginia—the "Silicon Dominion," in the words of former Governor George Allen—and the equally healthy northeastern region of North Carolina.

We're lucky to serve such an economically robust region. Your company is proud to play an important role in promoting our home state's economic growth. This in turn promotes our own economic growth. Last year alone, our strong regional economy yielded nearly 51,000 new customers who joined our system. That's up 14 percent from the year before. In fact, it's the largest number of new connections Virginia Power has recorded since 1990.

THE GOVERNOR MADE US SWELL WITH PRIDE

Last year Motorola announced a $3 billion investment in one of the world's largest semiconductor manufacturing facilities, which is being built in the heart of our service area. In another major economic development milestone, Motorola and Siemens AG put the finishing touches on White Oak Semiconductor, a $1.5 billion joint venture near Richmond. And IBM and Toshiba America Electronic Components finished a $1.7 billion semiconductor facility in northern Virginia.

We swelled with pride when Governor Allen said Virginia Power's competitive electric rates helped him attract such heavy hitters of high-tech industry to our state.

OUR FUNDAMENTALS ARE STRONG AT ALL FOUR OF OUR OPERATING SUBSIDIARIES, THANKS TO THE DEDICATED, HARD WORK OF MORE THAN 15,000 EMPLOYEES.

OUR SURRY AND NORTH ANNA POWER STATIONS WERE RANKED BY THE UTILITY DATA INSTITUTE AS THE NATION'S FIRST AND SECOND LOWEST-COST NUCLEAR PRODUCERS IN 1996, THE MOST RECENT RANKING.

OUR ACE IN THE HOLE

Our ability to produce power at low cost is our ace in the hole. Our Surry and North Anna power stations were ranked by the Utility Data Institute as the nation's first and second lowest-cost nuclear producers in 1996, the most recent ranking. For the period from 1993 to 1996, North Anna came in first among the nation's 72 nuclear plants. Surry was ranked fifth.

Our nuclear stations operated at 91 percent of their maximum potential capacity in 1997. This topped the 1996 company record of 88 percent. Their combined $12.05 megawatt-hour production cost was almost 40 percent below an industry-wide average of $19.25 in the most recent surveys.

Likewise, our fossil fuel and hydroelectric power operators continued to keep costs down and performance high. Our coal-fired stations again outperformed the most recent national averages in efficiency and availability—86.4 percent compared to 83.4 percent. Total megawatt-hour generation increased by 10 percent over the preceding year.

Customers are benefitting, too. The fuel component of customer bills in 1998 will decline by about $75 million—money that goes right back into the pockets of our customers. Since 1992, Virginia Power has driven fuel costs down 18 percent while holding base rates steady, despite a 14 percent rise in inflation during the same period.

GROWING SALES IN WHOLESALE POWER

Three years ago we set out to become a full-service wholesale energy provider with complete fuel and risk-management capability. Last year, in trades with other utilities, power marketers and municipalities, our wholesale

power group sold about 20 million megawatt-hours, of which about 5 million came from our own low-cost generating stations. Trading revenues from electricity sales exceeded $540 million, more than doubling 1996 levels.

And the group's gas traders produced upwards of $250 million in revenues during its first full year of operations. We've developed that kind of market expertise as an outgrowth of our low-cost, competitive position.

COMPETITIVE COSTS ON BOTH SIDES OF THE ATLANTIC

We've been successfully driving down costs and improving efficiencies on both sides of the Atlantic, and will continue to focus on this fundamental requirement for success in a competitive future. By doing so, we are positioning ourselves to be the low-cost supplier of choice.

INVESTING FOR FUTURE SUCCESS

In each of the past three years, our internal cash flows at Virginia Power have yielded funds available to reinvest. Today, we're utilizing that cash to make essential investments, such as new technology that will continue to improve our customer service.

A WAY OF LIFE

We know our customers are satisfied with their service, but we don't intend to take that for granted. Customer service that exceeds expectations is now a way of life at Virginia Power and East Midlands Electricity.

We're making wise investments in new technologies on both sides of the Atlantic. So, it'll be easier and more convenient to do business with both companies. In fact, we're aiming to make it a pleasure.

At Virginia Power, we're investing $100 million to enhance customer service quality while reducing costs through greater productivity. It's now easier to get in touch with us when a storm knocks out the lights, for example. We've also set up automatic monthly deduction of customer bills from personal checking accounts for those who choose that option. And in densely populated neighborhoods, our meter readers will be less visible. Soon, they'll be taking multiple readings from remote sites.

At East Midlands, we've invested $22 million to create new customer centers in Leicester and Nottingham, where innovative technology helps our representatives evaluate customer needs, identify creative solutions and act promptly. We can now devote personal attention to more than 15,000 telephone calls a day.

TRADING REVENUES FROM ELECTRICITY SALES EXCEEDED $540 MILLION, MORE THAN DOUBLING 1996 LEVELS.

We're also investing in East Midlands' network of overhead lines and underground cables, which serves 2.3 million customers over 6,200 square miles. In 1997, we invested $167 million in our network to improve reliability. We also distributed more than 25 million kilowatt-hours of power at a total availability of more than 99.9 percent.

In the meantime, key signals of customer satisfaction at East Midlands are moving in the right direction. Customer complaints to the industry's regulator were down 30 percent to only 427 in 1997. That follows a 40 percent improvement from the year before. We also had fewer customers collecting on our service guarantees—cash payments when we fail to meet certain customer service promises.

INCREASING OPERATING INCOME AT DOMINION ENERGY AND DOMINION CAPITAL

If you go back to our 1995 annual report, you'll find that we committed to increase operating income at Dominion Energy and Dominion Capital and decrease our reliance on transactional income. We've done both. Last year, more than 90 percent of their combined earnings were from ongoing operations.

At each company, we're building the size needed to acquire meaningful shares of the growing markets they were created to serve.

THE TOP 50

In both natural gas production and reserves, Dominion Energy ranks among the nation's 50 largest independent natural gas companies. By the end of 1997, our oil and natural gas group produced more than 161 million cubic feet on average every day, an 18 percent increase over 1996. Through selected expansions in the gas-rich regions of the U.S., we built our reserve base to more than 460 billion cubic feet, up more than 15 percent from the previous year.

On the domestic independent power front, we strengthened our foothold in the promising Midwest market. Late last year we cleared the last hurdles needed to purchase full ownership of the 1,108-megawatt Kincaid Power Station. Located in west-central Illinois, Kincaid will provide electricity to Commonwealth Edison, the region's largest utility, under a 15-year power purchase agreement. The expected addition of Kincaid to our portfolio of independent power businesses at Dominion Energy will increase our gross capability by 40 percent—to more than 3,500 megawatts. Prior to the acquisition, Dominion Energy already ranked among the top 12 largest independent power producers in the world, according to a 1997 McGraw-Hill survey.

In Latin America, construction to double the output of our power business in Bolivia progressed on schedule, as did the addition of 100 megawatts of hydroelectric capacity to our Peruvian power business. Looking ahead, we're seeking to expand our assets only in stable, well-defined and growing markets to meet the region's increasing demand for electric power.

IMPORTANT CONTRIBUTIONS FROM DIVERSIFIED UNITS

Dominion Resources' non-core financial services businesses are providing a vehicle for growth amid the uncertainty of this important, transitional period in the regulated electric power industry.

Through careful entry into specific arenas, Dominion Capital's financial professionals have identified and developed strategies to pursue profitable opportunities in the financial services industry. Dominion Capital has been at it for 12 years now. It's a prudent strategy for our company to have a portion of its assets diversified successfully into niches beyond the energy markets that represent our core businesses.

Last year, Dominion Capital's Saxon Mortgage subsidiary originated more than $1.8 billion in mortgage and home equity loans.

We acquired the other half of First Source Financial, giving us 100 percent ownership of an entity that ended the year with existing loans and commitments to middle-market businesses of $1.4 billion, a 25 percent increase over the preceding year. First Source Financial has tripled its client base since its inception in 1994.

We also built on this profitable foundation of specialized financial services in 1997 by creating First Dominion Capital, a merchant bank. First Dominion Capital provides senior secured loans, bridge loans, mezzanine debt and equity to middle-market companies that need one-stop financial services. And the company will also manage assets comprising high-yield bonds and senior debt.

WE'RE MAKING WISE INVESTMENTS IN NEW TECHNOLOGIES ON BOTH SIDES OF THE ATLANTIC. SO, IT'LL BE EASIER AND MORE CONVENIENT TO DO BUSINESS WITH US. IN FACT, WE'RE AIMING TO MAKE IT A PLEASURE.

STRONG FUNDAMENTALS
IN FACE OF UNCERTAIN DEREGULATION

Our strong fundamentals position us to be ready to build earnings and thus share price in an uncertain future. Lawmakers, regulators and key industry players, including your company, are still at work in Washington, D.C., and in state capitals around the country. In Virginia and in the nation's capital, we're taking a lead role in advancing a plan for deregulation that promotes the interests of shareholders, customers, employees and all other stakeholders.

IF YOU GO BACK TO OUR 1995 ANNUAL REPORT, YOU'LL FIND THAT WE COMMITTED TO INCREASE OPERATING INCOME AT DOMINION ENERGY AND DOMINION CAPITAL AND DECREASE OUR RELIANCE ON TRANSACTIONAL INCOME. WE'VE DONE BOTH.

NOT FORCED TO PLAY OUR HAND

Fortunately, we're well positioned. By remaining flexible, we don't have to play our hand too soon. We're not forced to make decisions today that we might live to regret tomorrow.

The evolving market is certainly tempting. But in 1997 we did not think it had developed with sufficient clarity to warrant a major commitment to determine your company's ultimate size, shape or nature.

In the meantime, we've been investing in selected regional markets, here and abroad, where we can profitably extend our core competencies. The cash we have invested, and will continue to invest, has been and will be carefully deployed under the discipline of a focused investment strategy. Our strategy is founded on the valuable competitive experience that we've achieved in competitive markets beyond the U.S.

WE'VE GOT LEADERSHIP

Let me take a moment to introduce you to four very hard working colleagues who appear with me on page 8. Norman Askew is the former chief executive of East Midlands Electricity whom we named chief executive officer of Virginia Power last year. Norman is credited with transforming East Midlands into the very competitive company that it is today. He came to East Midlands in 1992 from the aerospace industry. His hand-picked successor, Bob Davies, the former second in command, continues to build East Midlands for success in the competitive U.K. market.

Tom Chewning came to Dominion Resources more than a decade ago from the international transportation industry. Tom's leadership has positioned Dominion Energy as one of the largest natural gas and independent power companies in the world today. David Heavenridge, who began his financial career with our company more than two decades ago, has led our successful diversification. In his four years at the helm of Dominion Capital, he has overseen its rapid and profitable growth into financial services.

In fact, I'm proud of the experience and dedication demonstrated every day by all members of our family of employees—a group that now works on our behalf in many different states and on three continents. They are 15,000 other reasons our hand is strong.

AND THE FUTURE OFFERS OPPORTUNITY

No one can predict the future. Our company and our industry are entering uncharted territory, but change presents opportunity. And I like our hand.

I'm confident of Dominion Resources' ability to emerge as a winner. You can call me bullish, based on our track record and our wise investments in people and technology. I'm bullish on our tradition of success, our prudent growth strategy and our ambitious view of the future.

We thank you, our shareholders, for your continued investment.

Sincerely,

THOS. E. CAPPS
Chairman, President and CEO

1997

LEVERAGING OUR FUNDAMENTALS

VIRGINIA POWER

- Welcoming Major New Customers
- Entering New Markets
- Enhancing Service Capabilities
- Implementing Advanced Technology

EAST MIDLANDS ELECTRICITY

- Sharpening Customer Service
- Fine Tuning Reliability
- Driving Down Costs
- Transferring Competitive Expertise

DOMINION ENERGY

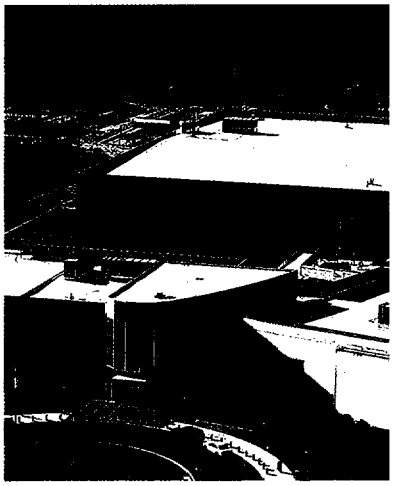
- Growing Natural Gas Production
- Developing Mid-Stream Services
- Expanding Latin American Generation
- Acquiring Domestic Capacity

DOMINION CAPITAL

- Serving Mid-Market Financing Needs
- Providing Merchant Banking Services
- Increasing Home Equity Mortgage Volumes
- Creating Award-Winning Real Estate

VIRGINIA POWER

At Virginia Power, we're putting together the key pieces needed to grow profitably in a rapidly changing U.S. energy market. We've sharpened the competitive capabilities of traditional businesses. We're also pushing into new areas of potential growth where we can use core skills to deliver more value to customers and shareholders alike.



White Oak Semiconductor's new facility.

WELCOMING A NEW CUSTOMER

We're pleased to welcome White Oak Semiconductor to our service area. Low-cost electric power and reliable service helped attract the $1.5 billion joint venture to Virginia.

ENTERING NEW MARKETS WITH EXISTING SKILLS

■ Part of our growth strategy is to enter strong new markets with existing skills.

It's why Virginia Power created a new wholly owned subsidiary, Virginia Power Nuclear Services. The company is now selling management, operating, engineering and fuel-cycle services to other nuclear utilities, capitalizing on its superior performance at home.

An example is Northeast Utilities, which hired us to provide management support at its Millstone Nuclear Station. And other utilities are using Virginia Power for its unique experience in storing nuclear waste.

Another area where we're using our expertise to generate new revenues is the fast-growing market for telecommunications services.

Our new VPS Communications (VPSC) subsidiary will initially offer wholesale services to other telecommunications providers through leased capacity on our existing 270-mile fiber-optic network.

The company's fiber-optic infrastructure runs through the fast-growing "golden crescent" of Virginia, from the suburbs of Washington, D.C., to Richmond and on through metropolitan Hampton Roads. In the future, VPSC will extend its market reach by interconnecting with other telecom networks to the north, south and east and by building new facilities in other parts of Virginia and possibly North Carolina. In addition, VPSC will be a competitive access provider, linking long-distance carriers directly with large businesses and government agencies.

In early 1998, Virginia Power broadened its range of services for other utilities when it began reading the meters of 170,000 Columbia Gas Co. customers in Virginia. We're negotiating with other utilities and municipalities to provide metering and related services.

At Virginia Power's fossil fuel and hydroelectric business unit, we're providing low-cost power to our electricity traders for sale in highly competitive wholesale markets beyond our service area. Also being explored are opportunities to equip large industrial companies, to help others run their power plants, and even to own facilities in the emerging market for merchant plants, which sell generation into competitive markets.

OUR LEGISLATIVE AND REGULATORY AGENDA

■ In the legislative and regulatory arena, 1997 brought increased activity at both the state and federal levels. We continued and will continue to work hard to protect the interests of our customers and shareholders as the momentum builds to restructure the electric utility industry.

In the future, consumers of all sizes may be able to choose their electricity supplier. Virginia Power continues to prepare for this transition and is committed to being the supplier of choice in tomorrow's competitive energy marketplace.

STRONG MANAGEMENT, ENHANCED TECHNOLOGY

■ In 1997, our board elected a British utility executive with proven experience in electric power competition to lead the company.

Norman Askew, formerly chief executive of East Midlands Electricity, became chief executive officer of Virginia Power. He brings knowledge and experience acquired in Great

Britain, where competition in the electric power sector is farther down the road. Since his appointment, Askew has maintained Virginia Power's existing business unit structure while realigning its management team. These moves will help us to be even more flexible and enable us to better leverage our experience.

We're also putting more emphasis on information technology as an instrument to help enhance our competitive position. For example, a new Business Management System (BMS), utilizing advanced software, will improve our finance, human resources and supply management business processes by replacing dozens of existing systems. By standardizing and integrating the way information is used, BMS will promote faster, more accurate analysis and decision making—a critical business tool for an increasingly fast-paced business environment.

MEETING CUSTOMER NEEDS WITH SUPERIOR SERVICE

Meeting our customers' needs with superior service is a key to Virginia Power's strategy to prosper in the competitive future.

Utilizing new technologies, we're taking steps to make doing business with us simpler and more convenient. We're investing $100 million to enhance customer service quality *while reducing costs through greater* productivity.

Remote meter reading improves efficiency and customer service.

Lap-top computers enable faster customer connections.

Among the pieces of our enhanced customer service:

- A toll-free number for our 2 million Virginia and North Carolina customers to call for reporting outages, connecting service, inquiring about bills, or conducting other types of business with our service representatives. The new system can handle up to 100,000 calls an hour in our Customer Service Center. It makes it much easier for customers to report outages and other emergencies.
- New and expanded billing options to give customers added flexibility, eventually including bill payment via the Internet and other electronic means.
- Installation of more than 450,000 automated meters in three densely populated regions of our service area.
- New lap-top computers for our engineers to design distribution facilities on site. This new technology enables us to connect new residences and small businesses more quickly. And we'll be able to speed turnaround times for relocation requests.

We know that new technology enables higher levels of service to customers. It positions us—both in price and service—to be the supplier of choice when full competition arrives.

MARKETING RETAIL ENERGY SERVICES

■ Evantage markets energy-related goods and services at the retail level to commercial and industrial customers. At the end of 1997, Evantage had more than doubled its sales and had staff in 10 states.

Evantage specializes in providing clients with a competitive advantage through comprehensive management of energy assets. Its energy management services range from cogeneration and fuel management to power quality, maintenance services, conservation measures and billing services. For example, an agreement was reached last year with Ball Corporation, a worldwide leader in the production of beverage and food cans and plastic containers. Evantage will act as the company's energy manager and will handle the purchase of natural gas and electricity for Ball's plants in the U.S. and Canada.

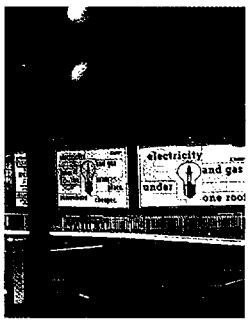
EAST MIDLANDS ELECTRICITY

At East Midlands Electricity, we're preparing for the final stage of deregulation in the United Kingdom's electricity and gas supply markets. We're fine tuning customer service and reliability. We're implementing advanced technology and driving down costs. And we're deploying our competitive experience to make the most of emerging market opportunities.

A COMMITMENT TO SUPERIOR CUSTOMER SERVICE

Investments in advanced technology are helping speed service to customers. Our technicians are using newly developed hand-held computers to record quarterly meter readings. The new instruments provide easier, faster readings throughout our service region.

A new $55 million Geographic Information System will transfer 33,000 hand-drawn map images to computer data bases. Field technicians servicing our overhead and underground lines will have faster, more accurate access to maps of the distribution network. The new system is scheduled to be fully operational later this year.



Sterling Gas marketing message: electricity and gas under one roof.

TRANSFERRING VALUABLE EXPERIENCE

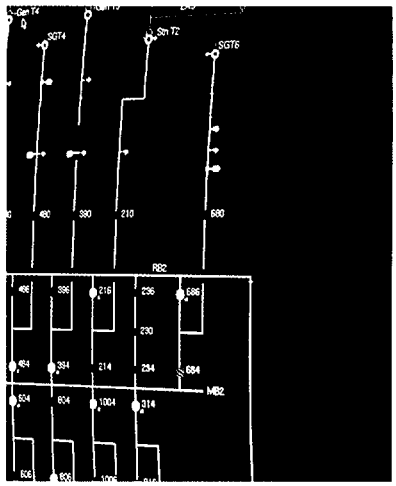
■ We're transferring our customer service expertise and our commitment to competitive rates to new markets and new business lines.

Last year we launched Sterling Gas to capitalize on the deregulated natural gas market in southeastern England. Sterling Gas is providing valuable competitive experience to ready us for the time when markets in the rest of Britain fully deregulate. In fact, we've already begun marketing natural gas in our existing service area. By the end of 1997, we had signed more than 60,000 customers with our campaign to offer "Electricity and Gas Under One Roof."

■ We're also transferring our core skills in construction into new deregulated markets.

Last year we beat other bidders to win our first fully competitive contract. We'll construct an 11-kilovolt infrastructure for the new Daventry International Rail Freight Terminal at the center of Britain's motorway network. The planned railport terminal will connect the Midlands region to Europe via the Channel Tunnel. Our construction unit also announced its first out-of-region contract. And an order for connection work in Hull will take us to a city in the service area of one of our chief competitors.

We also plan to make our strong markets even stronger. East Midlands Development Company, a public/private partnership, has joined East Midlands Electricity to promote the region as a site for national and international investment.



Geographic Information System will speed maintenance and repair of distribution lines.

Our Technology Demonstration Center is helping businesses like McCorquodale Envelopes utilize energy and technology more efficiently. After consulting with our engineers, McCorquodale introduced infrared technology to dry water-based gum on the 35 million envelopes it manufactures weekly. This new process has reduced the company's energy costs by 80 percent. It's also increased McCorquodale's production by 25 percent. And the rejection rate for defective envelopes is nearly zero. More than 300 businesses work with the Center each year.

Our East Midlands Electricity team is primed for full-fledged competition in the U.K. energy supply market. We've committed $160 million and 600 people to develop new systems for a new marketplace. Combine that with low rates and superior customer service, guaranteed reliability, and practical experience in strong, competitive markets for a recipe for success.

DOMINION ENERGY

We've also got the right fundamentals at Dominion Energy: efficient natural gas and independent power production in strong markets. They're important tools in our overall strategy to deliver competitively priced energy into strong regional markets beyond our traditional service areas.

BUILDING PRODUCTION BUSINESSES

■ Michigan is a significant market of focus for our upstream natural gas business.

In fact, more than 40 percent of the company's total production comes from that state, which is home to our Dominion Midwest Energy subsidiary. In 1997, the Grand Rapids-based producer completed its first full year as part of Dominion Energy. During that period, annual production at Dominion Midwest Energy increased to 25.9 billion cubic feet, up more than 18 percent.

In West Virginia, our Dominion Appalachian Development subsidiary was again among the state's most active operators, drilling more than 40 wells, and continuing to be a key player in the Appalachian Basin. Dominion Appalachian is also a showcase for our company-wide policy to preserve the environmental integrity of regions where we do business. It was named one of the most environmentally friendly natural gas producers in the Mountain State's most recent ranking.

BUILDING SERVICE BUSINESSES

■ Advances in production were mirrored by expansion in our midstream and downstream capabilities.

In 1997, we opened the Alberta Hub, a joint venture with Texaco's natural gas subsidiary in Canada and Energy Spectrum Canada, Inc. The hub is a full-service natural gas storage facility near Calgary, a site where there is a strategic geographic intersection between gas buyers and gas sellers throughout the region. Our hub can house up to 25 billion cubic feet of gas. It has a daily peak injection/withdrawal rate of 500 million cubic feet. And existing space now available for use was fully booked in 1997.

We're developing our skills in gas marketing, too. Our Traverse City, Michigan-based Carthage Energy Services enjoyed a profitable year as a new member of the Dominion family. Dominion Energy accounts for more than 10 percent of all gas produced in Michigan, and Carthage has eliminated our need to hire a third party to market and manage that production. In fact, Carthage is successfully managing the production of other natural gas companies throughout the Midwest.

Annual production at Dominion Midwest Energy increased more than 18 percent.

To expand our marketing reach, we announced plans in early 1998 to acquire Phoenix Energy Sales, an independent marketer in the Appalachian Basin. Our goal is to complement Dominion Appalachian Development's production capability by providing it with its own ability to market.

APPLYING TECHNOLOGY

We're putting state-of-the-art technology to work at our oil and natural gas operations.

In Louisiana, we're using 3-D seismic technology to find bypassed natural gas and oil reserves in existing production areas and drilling dual-lateral horizontal wells to exploit Austin Chalk reserves. Enhanced well-completion techniques at our coalbed methane project in Utah have helped us boost production 30 percent.

LATIN AMERICAN POWER GENERATION BUSINESSES

■ In Latin America, we're expanding our businesses in stable, growing markets to meet the region's increasing demand for electric power.

Last year Empresa Corani, our 126-megawatt hydroelectric business in Bolivia, began the first stage of a $35 million construction project to increase the water catchment basin at its two power stations. The expansion will more than double Corani's generating output and will position the company to meet Bolivia's increasing demand for power.

Similar expansions at Egenor, our 405-megawatt generating business based in Lima, will help us meet

Growing in Southern Cone markets with strong demand and political stability.

Peru's increasing demand growth. A three-year, $100-million expansion program to upgrade two hydro units and add 100 megawatts of generating capacity moved ahead on schedule. In 1997 we also sold 49 percent of our stake in Egenor to a Chilean electric power company. The selldown provides us capital to expand into other attractive South American markets, while reducing our exposure to any one country.

We're investing in Southern Cone markets that have strong political and economic stability, strong demand growth and competitive wholesale markets.

DOMESTIC NONUTILITY GROWTH

■ In the U.S., Dominion Energy is deploying its investment and development resources in the densely populated Midwest-Northeast quadrant—home to nearly 40 percent of the nation's energy demand. Additional generating capacity will be needed to meet growth in that demand. Yet, the region's generating stations are aging and in need of upgrades. Many of its areas lack indigenous fuel sources. And some of its transmission facilities are costly.

We've got the right skill sets and asset mix to build market share as the region turns to the competitive power sector for solutions to its energy needs. Our acquisition of the Kincaid Power Station in Illinois is an example.

We'll work to acquire and upgrade other strategically located generating units as utility companies sell them to market rather than commit the resources necessary to maintain ownership. In anticipation that these plants will become "merchant" facilities, selling their output into competitive markets, we'll focus on efficient generation.

Links between our generation stations and our natural gas production, storage and marketing assets will also be sought.

DOMINION CAPITAL

At Dominion Capital, our first nonutility subsidiary, we're bringing together the right fundamentals to form a profitable niche in specialized financial services and real estate.

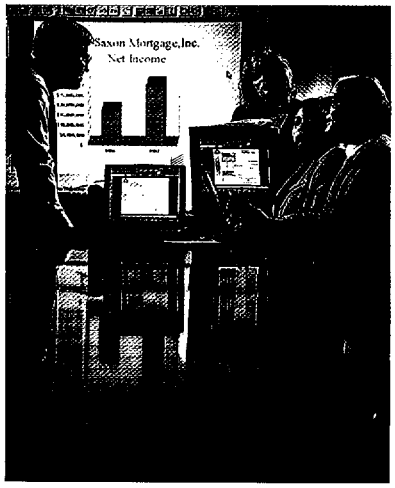
FIRST DOMINION CAPITAL—NEWEST BUSINESS

■ Our newest financial services company is First Dominion Capital, which we formed late last year. It's an integrated merchant bank and asset management business with headquarters in New York City. Our newest subsidiary is expected to accelerate our growth in middle-market financing by providing bridge and senior secured loans, mezzanine debt and equity capital to middle-market companies with capital for acquisitions, recapitalizations and expansions. First Dominion Capital will offer one-stop financial solutions through our team's unique ability to originate and structure each level of the capital structure. We'll also be managing assets invested in high-yield bonds and senior debt.

SAXON MORTGAGE—PRESENT AND FUTURE

■ Saxon Mortgage, our home equity mortgage business, finished its second successful year as a member of the Dominion team.

Last year, Saxon packaged and sold to institutional investors loans totaling $1.8 billion. Saxon will continue to expand its geographic coverage going forward, as we add account executives throughout our 47-state network.



Increasing lending volume at Saxon Mortgage.

FIRST SOURCE FINANCIAL—FINANCING FOR MIDDLE-MARKET BUSINESSES

■ In 1997 we bought the other half of First Source Financial, giving us 100 percent ownership in this growing commercial lending business. Chicago-based First Source Financial provides financing to middle-market companies looking to expand, recapitalize or undertake buyouts. Significant new lending activity drove senior loan commitments up 25 percent for the year and more than tripled our client base since inception three years ago.

Early in 1995, First Source Financial began working with Keystone Capital, Inc.'s Kent Dauten, owner of HIMSCORP, Inc., an operator of several Record Masters locations across the U.S. Each Record Masters location provides storage and retrieval services of medical records for hospitals within its geographic vicinity. First Source Financial's initial $10 million funding enabled Dauten's purchase of four Record Masters locations. The financing gradually increased to $25 million as an additional eight related businesses were acquired. In late 1997, Dauten sold HIMSCORP, Inc. to Iron Mountain, Inc. at a substantial premium.

A major manufacturer of nationally branded mattresses and box springs, Sleepmaster is the second largest licensee of Serta products and an important First Source Financial customer. First Source Financial provides funding to support the company's strategy of growth through both internal expansion and by acquisition. Sleepmaster is one of over 120 mid-sized and larger businesses serviced by First Source Financial.

CAMBRIAN CAPITAL—MERCHANT BANKING FOR THE ENERGY INDUSTRY

■ Houston-based Cambrian Capital, a joint venture with two international financial firms, is our merchant banking enterprise focused on the energy industry. Cambrian provides financing to small-and mid-sized emerging independent oil and natural gas producers to undertake acquisitions, refinancings, and expansions. Loans are secured by the client's proven reserves.

Companies like Texas-based Paladin-Hayes Limited have grown their business in partnership with Cambrian Capital. Paladin-Hayes develops natural gas reserves in fertile southern Texas. Since receiving financing from Cambrian in early 1997, Paladin-Hayes' production rates have improved by more than 2,000 percent to approximately 20 million cubic feet per day, and its reserves have continued to grow. Now the company is able to complete additional property acquisitions and achieve even greater financial flexibility.

1997 marked the end of Cambrian's first full year. Growth in assets met target levels, and operating income exceeded budget by 37 percent.

REAL ESTATE RECOGNITION

■ Our real estate group continued its record of award-winning development and service.

A major licensee of Serta products is a First Source Financial customer.

At Dominion Land Management, our highly amenitized residential developments continue winning national recognition for quality and innovation. Suburban Houston is the setting for Waterford Harbor, our 65-acre high-end, gated community situated along Clear Lake and Galveston Bay. Last year, the community took top honors in five of seven categories of awards presented by the Houston residential development industry to recognize outstanding sales and promotions.

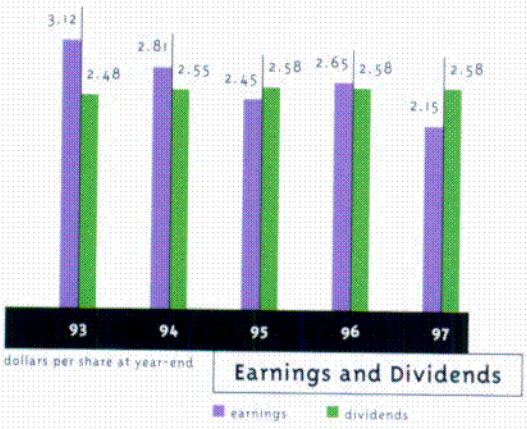
Goodman Segar Hogan Hoffler, our full-service commercial real estate firm, expanded its geographic reach last year. In 1997 we leased or sold 12.7 million square feet, representing a transaction volume of $735 million, and leased or managed 25 million square feet from Washington, D.C., to Florida.

■ Dominion Capital remains a substantial revenue producer for our shareholders. Our extensive expertise in financial services and real estate, combined with our successful track record for more than a decade, promises more of the same going forward.

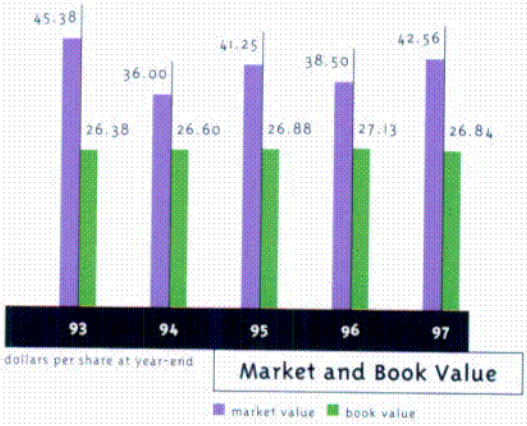
	1997	1996	% Change
OPERATING RESULTS (millions)			
Operating revenues and income	$ 7,677.6	$ 4,854.0	58.2
Operating income	1,477.0	1,109.8	33.1
Net income	399.2	472.1	(15.4)
DATA PER COMMON SHARE			
Earnings	$ 2.15	$ 2.65	(18.9)
Dividends paid	2.58	2.58	0.0
Market value (year-end)	42.56	38.50	10.5
Book value (year-end)	26.84	27.13	(1.1)
FINANCIAL POSITION AT DECEMBER 31			
Assets (millions)	$ 20,192.7	$ 14,896.4	
Capitalization (millions)	13,270.8	10,272.6	
Capitalization ratios (1)			
Long-term debt and capital lease obligations	54%	44%	
Preferred securities of subsidiary trust	3%	1%	
Preferred stock	5%	7%	
Common equity	38%	48%	
OTHER STATISTICS			
Return on average common equity	8.0%	9.8%	
Market to book value (year-end)	158.6%	141.9%	
Common stock price range	42 7/8–33 3/4	44 3/8–36 7/8	
Outstanding shares of common stock (thousands)			
—average	185,169	178,288	
—actual (year-end)	187,799	181,221	
Number of registered common shareholders (year-end)	215,685	248,929	
Number of full-time employees	15,458	10,943	
U.S. Electric Sales (MWh-thousands)	85,962	73,318	
U.K. Electric Sales (MWh-thousands) (2)	25,780		
Independent power generation (MWh-thousands)	6,104	5,749	
Natural gas production (billion cubic feet equivalent)	59.0	50.2	

(1) Excludes nonrecourse-nonutility financing and short-term debt.

(2) Units distributed.



Earnings and Dividends



Market and Book Value

C8

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For The Years Ended December 31, (millions, except per share amounts)	1997	1996	1995
Operating revenues and income:			
Virginia Power	$ 5,079.0	$4,420.9	$4,351.9
East Midlands	1,970.1		
Nonutility	628.5	433.1	281.2
Total operating revenues and income	7,677.6	4,854.0	4,633.1
Operating expenses:			
Fuel, net	1,620.7	1,016.6	1,009.7
Purchased power capacity, net	717.5	700.6	688.4
Supply and distribution—East Midlands	1,466.1		
Accelerated cost recovery	38.4	26.7	
Restructuring	18.4	64.9	121.5
Other operation and maintenance	1,237.7	1,045.3	968.6
Depreciation, depletion and amortization	819.3	615.2	551.0
Other taxes	282.5	274.9	267.5
Total operating expenses	6,200.6	3,744.2	3,606.7
Operating income	1,477.0	1,109.8	1,026.4
Other income and expense:			
Virginia Power	14.2	6.8	10.0
East Midlands	10.9		
Nonutility	8.6	17.8	13.6
Windfall profits tax—East Midlands	(156.6)		
Total other income and expense	(122.9)	24.6	23.6
Income before fixed charges and income taxes	1,354.1	1,134.4	1,050.0
Fixed charges:			
Interest charges, net	627.4	387.0	381.7
Distributions—preferred securities of subsidiary trusts	12.1	10.9	3.7
Preferred dividends of Virginia Power	35.8	35.5	44.1
Total fixed charges	675.3	433.4	429.5
Income before provision for income taxes and minority interests	678.8	701.0	620.5
Provision for income taxes	233.0	219.3	187.1
Minority interests	46.6	9.6	8.4
Net income	$ 399.2	$ 472.1	$ 425.0
Retained earnings, January 1	1,437.9	1,427.6	1,455.2
Common dividends and other deductions:			
Dividends	(478.0)	(460.1)	(448.7)
Other deductions	(5.1)	(1.7)	(3.9)
Retained earnings, December 31	$ 1,354.0	$1,437.9	$1,427.6
Earnings per common share	$ 2.15	$ 2.65	$ 2.45
Dividends paid per common share	$ 2.58	$ 2.58	$ 2.58
Average common shares outstanding	185.2	178.3	173.8

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

Introduction

In Management's Discussion and Analysis (MD&A) we explain the general financial condition and the results of operations for Dominion Resources and its subsidiaries. As you read this section, it may be helpful to refer to our consolidated financial statements and notes. The MD&A is important when making investment decisions about Dominion Resources.

In 1983, Dominion Resources began a diversification strategy to enable the company to make investments in nonutility businesses. These diversified businesses—Dominion Energy and Dominion Capital—operate in competitive environments. There is no monopoly or regulated rate of return on investments as you currently find in our core electric utility business, Virginia Power. Such a move changes the risk profile of a company and provides the opportunity to achieve returns above those found in a regulated business.

The investments outside of Virginia Power during 1997 accounted for approximately 20 percent of the consolidated company's earnings from operations. The recent acquisition of East Midlands Electricity plc (East Midlands) in the U.K. adds a strong international utility to our portfolio of companies. East Midlands is the principal operating subsidiary of our U.K. holding company, Dominion U.K. Holding, Inc. (Dominion UK).

As the electric utility industry is significantly changing in many states across the nation, Dominion Resources is working with its state legislators and regulators to move the restructuring process towards a workable form of competition in Virginia. The generation business of Virginia Power—representing about 50 percent of its assets—may become deregulated at some point in the future, depending on legislative and regulatory action. Customers in Virginia and North Carolina currently have low electricity costs relative to regional and national electricity prices. But management believes that competition can bring benefits to both consumers and the company. These matters are discussed in more detail on page 26 of the MD&A report.

Both Virginia Power and East Midlands enjoy above average customer growth in their respective service areas. Virginia Power has strong plant operations and is recognized as a leader in low-cost generation. East Midlands receives approximately 85 percent of its operating profit from its regulated distribution business—which is the transfer of electricity across its low voltage distribution system to consumers. Virtually all of the remainder comes from its supply business—purchasing electricity and arranging for its distribution to end users. Management's strategy is to continue building on the fundamental strengths at Virginia Power and East Midlands while growing its nonutility businesses in power generation, natural gas production, and financial services.

Overview

Dominion Resources achieved earnings from operations of $555.8 million in 1997 or $3.00 per average common share, compared with earnings of $472.1 million in 1996 or $2.65 per share. The 1997 figure excludes a one-time windfall profits tax of $156.6 million, or 85 cents per share, incurred at East Midlands. Below we have provided a comparison of net income and earnings per share contributions by company along with reasons for the changes in these contributions.

NET INCOME

(millions)	1997	Change	1996	Change	1995
Virginia Power	$ 433.4	2.8%	$421.8	8.5%	$388.7
Dominion UK	46.9				
Dominion Energy	45.0	38.5%	32.5	(7.1)%	35.0
Dominion Capital	45.1	58.2%	28.5	61.9%	17.6
Corporate	(14.6)	(36.4)%	(10.7)	34.4%	(16.3)
	555.8	17.7%	$472.1	11.1%	$425.0
Windfall Profits Tax—East Midlands	(156.6)				
Consolidated	$ 399.2	(15.4)%	$472.1	11.1%	$425.0
Shares	185.2	3.9%	178.3	2.6%	173.8

EARNINGS PER SHARE

	1997	Change	1996	Change	1995
Virginia Power	$2.34	(1.3)%	$2.37	5.8%	$2.24
Dominion UK	.25				
Dominion Energy	.24	33.3%	.18	(10.0)%	.20
Dominion Capital	.24	50.0%	.16	60.0%	.10
Corporate	(.07)	(16.7)%	(.06)	33.3%	(.09)
	$3.00	13.2%	$2.65	8.2%	$2.45
Windfall Profits Tax—East Midlands	(.85)				
Consolidated	$2.15	(18.9)%	$2.65	8.2%	$2.45

The 1997 results as compared to 1996 were affected by a number of factors described below:

VIRGINIA POWER

Earnings were impacted by:

- mild weather which caused a decrease in electricity sales to retail customers, partially offset by continued customer growth in the Virginia and North Carolina service areas;
- an increase in sales from non-traditional businesses, including power marketing, natural gas, and energy products and services;
- higher purchased power expenses as a result of increased power marketing and higher operation and maintenance expenses, reflecting the growth in the costs of products and services offered by the new energy services business;
- lower restructuring expenses;
- a reserve for potential adjustments to regulatory assets; and
- higher depreciation of plant and equipment, higher decommissioning expenses for the future retirement of nuclear plants, and depreciation related to Clover Unit 2—the company's newest coal-fired station.

DOMINION UK

Earnings were impacted by:

- an anticipated one-time windfall profits tax levied on East Midlands and other utilities in Britain as part of the newly elected Labour Party's 1997 budget plan.

DOMINION ENERGY

Earnings were impacted by:

- an increase in natural gas production, resulting partly from the acquisition of Wolverine Gas and Oil in Michigan, and overall higher natural gas prices; and
- an increase in generation from its power plants in Latin America, resulting from more normal water flows at its hydro plants and the acquisition of power generation assets in Peru in the latter half of 1996.

DOMINION CAPITAL

Earnings were impacted by:

- an increase in loan production and securitizations from Saxon Mortgage, the financial services business which originates non-conforming (or sub-prime) residential mortgages and sells them—through securitization transactions—to institutional investors.
- the purchase of the remaining 50 percent of First Source Financial, a Chicago-based lender to middle-market industries.

Virginia Power

RESULTS OF OPERATIONS

Virginia Power's balance available for common stock for 1997 amounted to $433.4 million as compared to $421.8 million in 1996. The earnings were impacted by customer growth and lower restructuring expenses, partially offset by higher depreciation and amortization expenses and the provision of a reserve for potential adjustments to regulatory assets. Virginia Power's contribution to earnings per share in 1997 amounted to $2.34 compared to $2.37 in 1996 due to the dilutive impact of common stock issuances by Dominion Resources during 1997.

In 1996, Virginia Power reported a $33.1 million increase in balance available for common stock when compared to the 1995 results of $388.7 million. The increase was primarily due to lower restructuring expenses in 1996.

(millions)	1997	Change	1996	Change	1995
Operating revenues	$5,079.0	14.9%	$4,420.9	1.6%	$4,351.9
Operating expenses:					
Fuel and purchased power, net	2,338.2	36.2%	1,717.2	1.1%	1,698.1
Other operation and maintenance	812.7	1.2%	803.1	(0.3)%	805.6
Accelerated cost recovery	38.4	43.8%	26.7		
Restructuring	18.4	(71.6)%	64.9	(45.0)%	117.9
Depreciation and amortization	584.3	8.9%	536.4	6.5%	503.5
Other taxes	267.7	1.9%	262.6	3.0%	254.9
Operating income	1,019.3	0.9%	1,010.0	3.9%	971.9
Other income	14.2	108.8%	6.8	(32.0)%	10.0
Fixed charges, including preferred dividends	350.8	(1.1)%	354.8	(3.0)%	365.7
Income taxes	249.3	3.8%	240.2	5.6%	227.5
Balance available for common stock	$ 433.4	2.8%	$ 421.8	8.5%	$ 388.7

As detailed in the chart on the next page, the overall growth in revenues in 1997 reflects strong wholesale power marketing and natural gas sales. Electric service revenues increased slightly in spite of mild weather due to new customer connections and an increase in fuel rates. The increase in fuel revenues is primarily attributable to higher fuel rates which went into effect December 1, 1996, increasing recovery of fuel costs by approximately $48.2 million. In addition, revenues increased as a result of the company's strategy to develop non-traditional business opportunities designed to provide growth in revenues. These include sales of energy products and services offered by Virginia Power's energy services business and nuclear management and operations services offered to other electric utilities.

Revenues increased in 1996, as compared to 1995, due to increased power marketing, sales of natural gas and sales of other energy products and services by Virginia Power's energy services business. This increase in revenues was offset in part by a decrease in electric service revenues, resulting from the effect of mild weather on the company's summer retail rates, which are designed to reflect normal weather conditions. The reduction in revenues from the mild weather was offset in part by revenues from new customers. Other electric service revenues decreased primarily as a result of reduced sales to Old Dominion Electric Cooperative (ODEC) due to the completion of Clover Units 1 and 2, of which ODEC owns a fifty percent interest.

OPERATING REVENUES	Increase (decrease) from prior year	
	1997	1996
(millions)		
Customer growth	$ 55.8	$ 45.1
Weather	(111.1)	4.4
Base rate variance	(18.7)	(35.5)
Fuel rate variance	44.1	(89.6)
Other, net	47.7	41.5
Total retail	17.8	(34.1)
Other electric service	11.0	(49.8)
Total electric service	28.8	(83.9)
Wholesale power marketing	363.4	96.6
Natural gas	232.6	33.2
Other, including energy products and services	33.3	23.1
Total other revenues	629.3	152.9
Total revenues	$ 658.1	$ 69.0

During 1997, Virginia Power added 50,899 new customers, the largest number of new connections since 1990, compared to 44,528 and 44,955 in 1996 and 1995, respectively.

KILOWATT-HOUR SALES

	1997	Change	1996	Change	1995
(millions)					
Retail sales	61,997	(0.5)%	62,298	2.4%	60,865
Wholesale	23,965	117.5%	11,020	36.3%	8,088
Total sales	85,962	17.2%	73,318	6.3%	68,953

DEGREE-DAYS CHART

	1997	1996	Normal
Cooling degree days	1,349	1,365	1,530
Percentage change compared to prior year	(1.2)%	(18.1)%	
Heating degree days	3,787	4,131	3,726
Percentage change compared to prior year	(8.3)%	9.0%	

Fuel and purchased power, net increased due to higher volumes of purchased power. Virginia Power has significantly increased its marketing efforts to generate more sales of electric energy to wholesale customers and more sales of natural gas.

Other operation and maintenance expenses increased in 1997 as a result of the growth in sales by the company's energy services business. This increase was partially offset by a reduction in expenses attributable to Virginia Power's Vision 2000 initiatives to take costs out of the core (traditional) utility business. Expenses in 1996 include high storm damage costs resulting from destructive summer storms, including Hurricane Fran.

Virginia Power embarked on its Vision 2000 restructuring program in 1995 as part of an initiative to prepare for competition in the electric utility industry. Charges of $18.4 million in 1997 primarily include employee severance costs and costs to renegotiate contracts to purchase power from third parties. Charges in 1996 and 1995 were $64.9 million and $117.9 million, respectively (see Note N). Virginia Power estimates that its restructuring efforts will result in future annual savings of $80 million to $90 million. However, such savings are being offset by salary increases, outsourcing costs and increased payroll costs associated with staffing for growth opportunities. While Virginia Power may incur additional restructuring charges in 1998, the amounts are not expected to be significant.

In this increasingly competitive environment, Virginia Power has concluded that it may be appropriate to utilize available savings and cost reductions, such as those from the Vision 2000 program, to accelerate the write-off of unamortized regulatory assets and potentially stranded costs (see Note O). As of December 31, 1997, Virginia Power has accumulated a reserve of $65.1 million. Not only will this strategically position Virginia Power in anticipation of competition, but it also reflects management's commitment to mitigate its exposure to potentially stranded costs.

Depreciation and amortization increased in 1997, as compared to 1996, due to additional depreciation and nuclear decommissioning expense and depreciation related to Clover Unit 2 — the company's newest coal-fired station. Virginia Power recorded additional depreciation and decommissioning expense consistent with its proposal in the rate proceeding before the Virginia Commission (see Note Q).

Dominion UK

RESULTS OF OPERATIONS

Dominion UK earned $46.9 million, or 25 cents per share, in 1997. The 1997 figure excludes a one-time windfall profits tax of $156.6 million, or 85 cents per share, incurred at East Midlands. The anticipated one-time windfall profits tax was levied on East Midlands and other utility companies in Britain as part of the newly elected Labour Party's 1997 budget plan. Including the windfall profits tax, Dominion UK reported a net loss of $109.7 million, or 60 cents per share.

	1997
(millions)	
Operating income:	
Distribution	$ 333.7
Supply	35.4
Other	(122.5)
Total operating income	246.6
Other income and expense:	
Other	10.8
Windfall profits tax	(156.6)
Fixed charges	189.4
Income taxes	21.1
Net income	$ (109.7)

Dominion Energy

NEW BUSINESSES

Dominion Energy has expanded its oil and natural gas business through the development of existing assets and the acquisition of Wolverine Gas and Oil Company, now known as Dominion Midwest Energy, Inc., and the related entities (Dominion Midwest), effective as of January 1997. Dominion Midwest is an oil and gas production and operation company headquartered in Grand Rapids, Michigan.

Dominion Energy expects to expand its domestic power generation in the first quarter of 1998 with the acquisition of the Kincaid generating station, an 1,108-megawatt facility located in Illinois. In addition, Dominion Energy expects to expand its foreign power generation businesses with the completion of certain capital expansion activities.

RESULTS OF OPERATIONS

Dominion Energy's net income amounted to $45.0 million as compared to $32.5 million in 1996. The increase in earnings was due primarily to net income from power generation assets in Peru acquired in August 1996, generally higher natural gas prices and greater production volumes due to the acquisition of natural gas properties in the Gulf Coast area in March 1996, and in Michigan in January 1997.

In 1996, net income decreased by $2.5 million when compared to 1995 primarily due to the sale of the Black Warrior Trust Units in 1995. The sale of the units, which hold royalty interests in proven, developed natural gas properties, provided a net gain of $5.4 million in 1995.

(millions)	1997	Change	1996	Change	1995
Operating income:					
Oil and gas(1)	$ 59.4	42.4%	$ 41.7	68.1%	$ 24.8
Domestic power generation	(3.4)	(136.2)%	9.4	(40.5)%	15.8
Foreign power generation	55.3	66.6%	33.2	16.5%	28.5
Corporate(2)	(3.3)	77.6%	(14.7)	(90.9)%	(7.7)
Adjustments(1)	(25.3)	4.5%	(26.5)	6.0%	(28.2)
Total operating income	$ 82.7	91.9%	$ 43.1	29.8%	$ 33.2

(1) Oil and gas Operating Income includes Nonconventional Fuels Tax Credits. Such credits are reversed on the Adjustments line as they are not ordinarily reported as a component of Operating Income.

(2) Represents corporate overhead charges.

OPERATING INCOME

Oil and gas operating income increased $17.7 million and $16.9 million for the 1997 and 1996 periods, respectively. The results reflect a significant increase in the level of oil and gas produced due to the development and acquisition of properties during 1997 and 1996. Natural gas production rose to 59.0 billion cubic feet equivalent (Bcfe) in 1997, compared to 50.2 Bcfe in 1996, an 18 percent increase. At December 31, 1997, proved gas reserves totaled 460 Bcfe. Proved gas reserves increased 60 Bcfe (15%) during 1997, primarily from the development of existing acreage and the acquisition of Wolverine Gas and Oil. The production results for 1997 reflect a $2.50 average gas sales price per thousand cubic feet equivalent (Mcfe), which increased $.18 per Mcfe compared to 1996. The production results for 1996 reflect a $2.32 average gas sales price per Mcfe, compared to $1.93 per Mcfe in 1995.

Domestic power generation operating income decreased in 1997 primarily due to the write-down of Dominion Energy's investment in two of its California projects. The 1996 results reflect lower income contributions from the two geothermal projects in California due to scheduled ownership reductions.

Foreign power generation operating income increased $22.1 million and $4.7 million for the 1997 and 1996 periods, respectively. The 1997 increase results from more normal water flows at hydro plants and the acquisition of an interest in Egenor, a Peruvian power generation business, in August 1996. The 1996 increase results also from the Egenor acquisition and the acquisition of an interest in Empresa Corani, a Bolivian power generation business, in July 1995.

Dominion Capital

NEW BUSINESSES

There were two significant enhancements to Dominion Capital's diversified financial services strategy. In early 1997, Dominion Capital acquired the remaining 50% of First Source Financial. It is anticipated that First Source Financial, the Chicago-based lender to middle market industries, will increase funded loans and loan commitments as a result of this transaction. Late in 1997, Dominion Capital formed First Dominion Capital, an integrated merchant banking and asset management business. First Dominion Capital expands Dominion Capital's growth in financial services and is based in New York City.

RESULTS OF OPERATIONS

Dominion Capital's net income for 1997 amounted to $45.1 million as compared to $28.5 million in 1996. The increase in earnings was primarily due to residential mortgage loan securitizations performed by Saxon Mortgage and the acquisition of the remaining 50 percent of First Source Financial that it did not already own.

In 1996, Dominion Capital reported an increase in net income of $10.9 million when compared to the 1995 results. The results were primarily due to residential mortgage loan securitizations performed by Saxon Mortgage.

(millions)	1997	Change	1996	Change	1995
Operating income:					
Financial services	$143.5	103.5%	$70.5	103.2%	$34.7
Vidalia & real estate	13.6	40.2%	9.7	(34.5)%	14.8
Total operating income	$157.1	95.9%	$80.2	62.0%	$49.5

OPERATING INCOME

Financial services operating income increased by $73.0 million and $35.8 million in the 1997 and 1996 periods, respectively. Both Saxon Mortgage and First Source Financial benefitted from the healthy regional and national economies. Loan volumes at Saxon were $1.8 billion in 1997, up from $754 million in 1996. In addition, Dominion Capital purchased the remaining 50 percent interest in the Chicago-based First Source Financial at the beginning of 1997. Funded and committed loans at First Source Financial have grown to $1.4 billion at the end of 1997, compared to $1.1 billion at the end of 1996. Financial services operating income improved in 1996 compared to 1995 primarily due to the acquisition of Saxon Mortgage.

Vidalia and real estate operating income increased in 1997 over 1996 by $3.9 million due to higher water flow and improved real estate operations. Operating income decreased in 1996 compared to 1995 primarily due to higher real estate project costs.

Nonoperating Income and Expenses

OTHER INCOME AND EXPENSE

The windfall profits tax of $156.6 million resulted in a decline in net income in 1997 by the same amount.

FIXED CHARGES

Interest charges increased in 1997 as a result of the additional debt associated with the $2.2 billion acquisition of East Midlands. While Dominion Resources financed the purchase with 100 percent interim debt, the final capital structure calls for approximately 60 percent of the acquisition cost to be financed with long-term debt (see "East Midlands Financing" on page 37).

Future Issues

This section discusses information that may have an impact on future operating results. The Securities and Exchange Commission encourages companies to provide forward-looking information because it provides investors with an insight into management's outlook for the future. It should be noted that any forward-looking information is expressly covered by the safe harbor rule for projections. For a more detailed description of some of the uncertainties associated with forward-looking information, please refer to the Forward-Looking Information section on page 33.

VIRGINIA POWER

Competition in the Electric Industry—General

For most of this century, the structure of the electric industry in Virginia Power's service territory and throughout the United States has been relatively stable. Virginia Power has recently seen, however, federal and state developments toward increased competition. Electric utilities have been required to open up their transmission systems for use by potential wholesale competitors. In addition, nonutility power producers now compete with electric utilities in the wholesale generation market. At the federal level, retail competition is under consideration. Some states have enacted legislation requiring retail competition.

Today, Virginia Power faces competition in the wholesale market. Currently, there is no general retail competition in Virginia Power's principal service area. To the extent that competition is permitted, Virginia Power's ability to sell power at prices that will allow it to recover its prudently-incurred costs may be an issue. See Competition—Exposure to Potentially Stranded Costs on page 28.

In response to competition, Virginia Power has successfully renegotiated long term contracts with wholesale and large federal government customers. In addition, the company has obtained regulatory approval of innovative pricing proposals for large industrial customers. Rate concessions resulting from these contract negotiations and innovative pricing proposals are expected to reduce the company's 1998 revenues by approximately $40 million. To date, the company has not experienced any material loss of load.

Virginia Power is actively participating in the legislative and regulatory processes relating to industry restructuring. The company has also responded to these trends toward competition by cutting its costs, re-engineering its core business processes, and pursuing innovative approaches to servicing traditional markets and future markets. In addition, Virginia Power is developing "non-traditional" businesses designed to provide growth in future earnings. These include the following businesses: wholesale power marketing, nuclear management and operations services, telecommunications services and energy services.

Competition—Wholesale

During 1997, sales to wholesale customers represented approximately 17 percent of Virginia Power's total revenues from electric sales. Approximately 73 percent of wholesale revenues resulted from Virginia Power's wholesale power marketing efforts.

In July 1997, Virginia Power filed amendments to its existing rate tariff with the Federal Energy Regulatory Commission (FERC) so it could make wholesale sales at market-based rates. Under a FERC order conditionally accepting the company's rates, Virginia Power began making market-based sales in 1997. FERC set for hearing in June 1998 the issue of whether transmission constraints limiting the transfer of power into the company's service territory provide Virginia Power with generation dominance in localized markets. If FERC finds that transmission constraints give Virginia Power generation dominance, it could either revoke or limit the scope of the market-based rate authority.

Virginia Power has successfully negotiated a new power supply arrangement with its largest wholesale customer. The new arrangement provides for a transition from cost-based rates to market-based rates, subject to FERC approval. Virginia Power estimates the reduced rates, offset in part by other revenues which may be earned under the agreement, will decrease income before taxes by approximately $38 million through 2005. Virginia Power anticipates that additional contract negotiations with other wholesale customers will take place in the future.

Competition—Retail

Currently, Virginia Power has the exclusive right to provide electricity at retail within its assigned service territories in Virginia and North Carolina. As a result, Virginia Power now only faces competition for retail sales if certain of its business customers move into another utility service territory, use other energy sources instead of electric power, or generate their own electricity. However, both Virginia and North Carolina are considering implementing retail competition.

Competition—Legislative Initiatives

Federal: The U.S. Congress is expected to consider federal legislation in the near future authorizing or requiring retail competition. Virginia Power cannot predict what, if any, definitive actions the Congress may take.

Virginia: The company is actively supporting, and the Virginia General Assembly is actively considering in its current session, legislative proposals that would address:

- specific dates for wholesale and retail competition in the state;
- establishment of a regional power exchange (RPX) to conduct competitive auctions for the sale of electricity;
- establishment of an independent system operator (ISO) to control transmission systems and ensure nondiscriminatory access to the transmission grid;
- continued regulation of the distribution of electricity in assigned service territories;
- deregulation of the generation of electricity;
- recovery of prudently incurred stranded costs; and
- consumer protection issues.

The General Assembly is scheduled to be in session through mid-March. The company is unable to predict at this time whether or when any of the bills now before the legislature will be enacted.

North Carolina: The 1997 Session of the North Carolina General Assembly created a Study Commission on the Future of Electric Service in North Carolina. An interim report is expected in 1998, with final recommendations to be made to the 1999 session of the North Carolina General Assembly.

Competition—Regulatory Initiatives

The Virginia Commission has also been actively interested in industry restructuring and competition.

In 1995, the Commission instituted an ongoing generic investigation on restructuring, resulting in a number of reports by its Staff covering such issues as retail wheeling experiments and the status of wholesale power markets. The Staff also submitted a report to the General Assembly calling for a cautious, two-phase, five-year period to address restructuring issues. The report acknowledged the need for direction from the Virginia legislature concerning policy issues surrounding competition in the electric industry.

In late 1996 the Commission ordered Virginia Power to file studies and reports on possible restructuring of the electric industry in Virginia. The Commission also invited Virginia Power to submit a proposed alternative regulatory plan with its filing. In March 1997, Virginia Power filed a two-phase alternative regulatory plan (ARP). The plan as filed requested a five-year freeze of existing base rates with earnings above a certain range to be used to accelerate the write-off of generation-related regulatory assets and to mitigate the costs associated with payments to nonutility generators under power purchase contracts. Virginia Power also sought approval in principle of the recovery of prudently incurred costs beyond 2002 through a non-bypassable transition cost charge. The filing presented an illustrative estimate of potentially stranded costs based on hypothetical market prices. When the company filed its ARP, the Commission consolidated its consideration of the ARP with its consideration of the company's 1995 Annual Informational Filing. For a discussion of the 1995 Annual Informational Filing, see Future Issues—Rate Proceeding.

In December 1997, Virginia Power sought to withdraw its ARP, having concluded that resolution of the cost recovery issues raised by the ARP was unlikely without General Assembly action. The Commission has agreed that the company may withdraw its support of the ARP, but has reserved the right to continue consideration of the ARP as well as other regulatory alternatives. In addition, the Commission will continue to consider the issues arising out of the 1995 Annual Informational Filing. See Future Issues—Rate Proceeding on page 28.

Competition—SFAS 71

Virginia Power's financial statements reflect assets and costs under cost-based rate regulation in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 provides that certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets and are recognized as the related amounts are included in rates and recovered from customers. The presence of increasing competition that limits the utility's ability to charge rates that recover its costs or a change in the method of regulation could result in the discontinued applicability of SFAS 71.

Rate-regulated companies are required to write off regulatory assets against earnings whenever those assets no longer meet the criteria for recognition as defined by SFAS 71. In addition, SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires a review of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Thus, events or changes in circumstances that cause the discontinuance of SFAS 71, and write off of regulatory assets, may also require a review of utility plant assets for possible impairment. If the review indicates utility plant assets are impaired, the carrying amount of affected assets would be written down. This would result in a loss being charged to earnings, unless recovery of the loss is provided through operations that remain regulated.

Virginia Power's regulated operations currently satisfy the SFAS 71 criteria. However, if events or circumstances should change so that those criteria are no longer satisfied, management believes that a material adverse effect on Virginia Power's results of operations and financial position may result. The form of cost-based rate regulation under which Virginia Power operates is likely to evolve as a result of various legislative or regulatory initiatives. At this time, management can predict neither the ultimate outcome of regulatory reform in the electric utility industry nor the impact such changes would have on Virginia Power.

Competition—Exposure to Potentially Stranded Costs

Under traditional cost-based regulation, utilities have generally had an obligation to serve supported by an implicit promise of the opportunity to recover prudently incurred costs. The most significant potential adverse effect of competition is "stranded costs." Stranded costs are those costs incurred or commitments made by utilities under cost-based regulation that may not be reasonably expected to be recovered in a competitive market.

Virginia Power's potential exposure to stranded costs is composed of the following:

- long-term purchased power contracts that may be above market (see Note Q);
- costs pertaining to certain generating plants that may become uneconomic in a deregulated environment;
- regulatory assets for items such as income tax benefits previously flowed-through to customers, deferred losses on reacquired debt, and other costs (See Note C); and
- unfunded obligations for nuclear plant decommissioning and postretirement benefits not yet recognized in the financial statements (See Notes A and M).

Any forecast of potentially stranded costs is extremely sensitive to the various assumptions made. Such assumptions include:

- the timing and extent of customer choice in the market for electric service;
- estimates of future competitive market prices;
- stranded cost recovery mechanisms; and other factors.

Certain combinations of these assumptions as applied to Virginia Power would produce little to no stranded costs; under other scenarios Virginia Power's exposure to potentially stranded costs could be substantial.

Virginia Power has assessed the reasonableness of various possible assumptions, but it has not been able to settle on any particular combination thereof. Thus, Virginia Power's maximum exposure to potentially stranded costs is uncertain. Management believes that recovery of any potentially stranded costs is appropriate and will vigorously pursue such recovery with the regulatory commissions having jurisdiction over its operations. However, Virginia Power cannot predict the extent to which such costs, if any, will be recoverable from customers. Also, in an effort to mitigate the amount at risk, Virginia Power will continue to implement cost reduction measures.

Rate Proceeding

In March 1997, the Virginia Commission issued an order that Virginia Power's base rates be made interim and subject to refund as of March 1, 1997. This order was the result of the Commission Staff's report on its review of Virginia Power's 1995 Annual Informational Filing which concluded that Virginia Power's present rates would cause Virginia Power to earn in excess of its authorized return on equity. The Staff found that, for purposes of establishing rates prospectively, a rate reduction of $95.6 million may be necessary in order to realign rates to the authorized level. In March 1997, Virginia Power filed its alternative regulatory plan (ARP) based on 1996 financial information. Subsequently, the Commission consolidated the proceeding concerned with the 1995 Annual Informational Filing with the proceeding that includes the ARP proposed by the company. Opposing parties in the rate proceeding have made filings recommending rate reductions in excess of $200 million. Virginia Power is currently studying the filings of these parties. The Commission Staff is scheduled to make further filings in late February 1998. Hearings are scheduled to begin in late April.

Environmental Matters

Virginia Power is subject to rising costs resulting from a steadily increasing number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations can result in increased capital, operating and other costs as a result of compliance, remediation, containment, and monitoring obligations of Virginia Power. These costs have been historically recovered through the ratemaking process; however, should material costs be incurred and not recovered through rates, Virginia Power's results of operations and financial condition could be adversely impacted.

Virginia Power incurred expenses of $70.4 million, $71.1 million, and $68.3 million (including depreciation) during 1997, 1996, and 1995, respectively, in connection with the use of environmental protection facilities and expects these expenses to be approximately $69.1 million in 1998. In addition, capital expenditures to limit or monitor hazardous substances were $24.6 million, $22.4 million, and $23.4 million for 1997, 1996, and 1995, respectively. The amount estimated for 1998 for these expenditures is $10.0 million.

The Clean Air Act, as amended in 1990, requires Virginia Power to reduce its emissions of sulfur dioxide (SO_2) and nitrogen oxides (NO_x). The Clean Air Act's SO_2 reduction program is based on the issuance of a limited number of SO_2 emission allowances, each of which may be used as a permit to emit one ton of SO_2 into the atmosphere or may be sold to someone else. Virginia Power's compliance plans may include switching to lower sulfur coal, purchasing emission allowances and installing SO_2 control equipment.

Virginia Power began complying with Clean Air Act Phase I NO_x limits at eight of its units in Virginia in 1997, three years earlier than otherwise required. As a result, the units will not be subject to more stringent Phase II limits until 2008.

From 1994 through 1997, Virginia Power invested over $160 million to install and upgrade emission control equipment at its Mt. Storm and Possum Point power stations. Capital expenditures related to Clean Air Act compliance over the next five years are projected to be approximately $40 million. Changes in the regulatory environment, availability of allowances, and emissions control technology could substantially impact the timing and magnitude of compliance expenditures.

In November 1997, the EPA proposed new requirements for 22 states, including North Carolina, Virginia and West Virginia, to reduce and cap emissions of NO_x. Although the proposal leaves it up to each state to determine how to achieve the required reduction in emissions, the caps were calculated based on emission limits for utility boilers. If the states in which Virginia Power operates choose to impose this limit, major additional emission control equipment, with attendant significant capital and operating costs, could be required. The EPA will issue a final rule by September 1998.

Global Climate Change

In 1993, the United Nation's Global Warming Treaty became effective. The objective of the treaty is the stabilization of greenhouse gas concentrations at a level that would prevent manmade emissions from interfering with the climate system. To further this objective, an international Protocol was formulated on December 10, 1997 in Kyoto, Japan. This Protocol calls for the United States to reduce greenhouse emissions by 7% from 1990 baseline levels by the period 2008-2012. The Protocol will not constitute a binding commitment unless submitted to and approved by the Senate. Emission reductions of the magnitude included in the Protocol, if adopted, would likely result in a substantial financial impact on companies that consume or produce fossil fuel-derived electric power, including Virginia Power.

Nuclear Operations

On September 10, 1997, the Nuclear Regulatory Commission (NRC) published a proposed rule for financial assurance requirements related to nuclear decommissioning. If the NRC's proposed rule were implemented without further clarification or modification, Virginia Power might have to either pre-fund or provide acceptable security for a portion of the decommissioning obligation.

DOMINION UK

East Midlands operates in three strategic business lines—distribution, supply, and other. East Midland's distribution and supply businesses are subject to extensive regulation. The distribution business involves the transfer of electricity across its low voltage distribution system to customers. The supply business encompasses purchasing electricity and arranging for its distribution to end users.

Regulation of Distribution

East Midland's distribution business is fully regulated and accounts for approximately 85% of its operating profit. The focus in the distribution business is on the continuance of cost reductions and efficiency improvements. The revenues which East Midlands derives from its distribution business are controlled by a specified formula. The elements in the formula are established for a five year period. Portions of the formula are subject to review at the end of each five year period and at other times at the discretion of the regulator. An initial annual increase was established by the regulator for the five year period ending March 31, 1995. Since then, the regulator has on two separate occasions decreased East Midland's regulated distribution prices which it may charge its customers through the fiscal year ending March 31, 2000. There can be no assurance that the regulator will not perform further unscheduled distribution price reviews, or that any future distribution price review, whether scheduled or unscheduled, will not result in price reductions or changes in the formula which could materially adversely affect East Midlands.

Supply Competition

East Midlands currently has the sole right to supply electricity to substantially all of the customers in its authorized area, except where the customer's demand is above 100kW. Competition is currently scheduled to be phased into the national electricity market for small customers whose demand is below 100kW, referred to as the domestic customers, beginning in September 1998. East Midlands is getting ready for competition by building customer loyalty. It will accomplish this goal by;

- offering competitive prices,
- providing superior customer service,
- providing reliable distribution service, and
- being responsive in dealing with billing and other matters.

There can be no assurance that competition among suppliers of electricity will not adversely affect East Midlands and Dominion Resources.

In its supply business, East Midlands is focused on taking advantage of the major opportunity in the domestic gas supply business. Adding gas sales will complement its electric supply sales to domestic, small- to medium-sized commercial and industrial customers.

DOMINION ENERGY

The financial performance of Dominion Energy's natural gas and oil operations depends to a certain degree on future market prices which are influenced by many factors outside the control of the company.

Much of Dominion Energy's gas reserves have production-based tax credits. This tax credit is due to expire on December 31, 2002. The expiration of this tax credit will have an impact on the company's future profitability. To replace these earnings, the company continues to grow its reserve base through the drilling and acquisition of oil and gas properties which do not qualify for the credit.

In its foreign power businesses, there are commitments to add generating capacity. Egenor, the company's Peruvian power generation business, has a commitment to add 100 Mw by the end of 1999. Corani, the company's Bolivian business, has a commitment to invest substantial capital to increase generation capacity in Bolivia by the end of 1998. Both expansion projects are currently progressing on schedule. Foreign operations are also subject to political and economic risks. Dominion Energy seeks to manage these risks by limiting its exposure in any single country and by limiting its investments to those countries and regions where the company believes these risks are less significant.

DOMINION CAPITAL

The financial performance of Dominion Capital's diversified financial services business depends to a certain degree on the movement of interest rates, overall economic conditions, and increasing competition. Dominion Capital intends to manage the effect of these issues by reacting quickly to changing economic market factors, maintaining underwriting and credit quality, expanding origination channels and focusing on specialized markets (see Note P).

RECENTLY ISSUED ACCOUNTING STANDARDS

During 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130 "Reporting Comprehensive Income" and SFAS No. 131 "Disclosure About Segments of an Enterprise." Each of these statements is effective for fiscal years beginning after December 15, 1997.

At this time, Dominion Resources does not expect the implementation of these standards to have a material impact on its results of operations and financial condition.

YEAR 2000 COMPLIANCE

Dominion Resources is taking an aggressive approach regarding computer issues associated with the onset of the new millennium—specifically, the impact of possible failure of computer systems and computer-driven equipment due to the rollover to the year 2000. The year 2000 problem is pervasive and complex as virtually every computer operation could be affected in some way by the rollover of the two-digit year value from 99 to 00. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

If not properly addressed, the year 2000 computer problem could result in failures in company computer systems and the computer systems of third parties with whom the company deals on transactions worldwide. Such failures of the company's and/or third parties' computer systems could have a material impact on the company's ability to conduct business.

Since January 1997, the company has organized formal year 2000 project teams to identify, correct or reprogram and test the systems for year 2000 compliance. At this time, a majority of the project teams has completed their preliminary assessment. Based on their evaluation, testing and conversion of system application costs are projected to be within the range of $100 million to $150 million. The range is a function of our ongoing evaluation as to whether certain systems and equipment will be corrected or replaced, which is dependent on information yet to be obtained from suppliers and other external sources. Maintenance or modification costs will be expensed as incurred, while the costs of new software will be capitalized and amortized over the software's useful life.

At this time, Dominion Resources is actively pursuing solutions to year 2000-related computer problems in order to ensure that foreseeable situations related to company computer systems, etc., are effectively addressed.

The company cannot estimate or predict the potential adverse consequences, if any, that could result from a third party's failure to effectively address this issue.

BUSINESS OPPORTUNITIES

Because the worldwide electric power industry is rapidly changing, especially in the U.S., there are many opportunities for acquisitions of electric power assets and business combinations. We investigate any of the opportunities we learn about that may increase shareholder value or build on our existing businesses. Any acquisitions or combinations may result in transactions involving cash, debt or equity securities, and may involve payment of a premium over book and market values. Such transactions or payments could dilute the interests of holders of common stock.

Market Rate Sensitive Instruments and Risk Management

Dominion Resources is subject to market risk as a result of its use of various financial instruments, derivative financial instruments and derivative commodity instruments. Interest rate risk generally is associated with the company's and its subsidiaries' outstanding debt as well as its commercial, consumer, and mortgage lending activities. Currency risk exists principally through the company's investments in the United Kingdom and some debt denominated in European currencies associated with the company's investment in South and Central America. The company is exposed to equity price risk through various portfolios of equity securities.

The company uses derivative commodity instruments to hedge exposures of underlying electric, gas production, and gas procurement operations and is also involved in trading activities which use these instruments. However, the fair value of these derivative commodity instruments at December 31, 1997 and the potential near term losses in future earnings, fair values, or cash flows resulting from reasonably possible near term changes in market prices are not anticipated to be material to the results of operations, cash flows or financial position of the company.

The following analysis does not include the price risks associated with the nonfinancial assets and liabilities of power production operations, including underlying fuel requirements and natural gas operations.

INTEREST-RATE RISK: NON-TRADING ACTIVITIES

In managing interest-rate risk, the company enters into interest-rate sensitive derivatives. The following table presents descriptions of the financial instruments and derivative financial instruments that are held by the company at December 31, 1997 and that are sensitive to interest rate change in some way.

Weighted average variable rates are based on implied forward rates derived from appropriate annual spot rate observations as of the balance sheet date. For interest rate derivatives, notional amounts have been used to calculate the cash flows to be exchanged under the contract.

EXPECTED MATURITY DATE

(millions of US$)	1998	1999	2000	2001	2002	Thereafter	Total	Fair Value
ASSETS								
Loans Receivable:								
Variable rate	$ 39.6	$ 73.7	$119.7	$226.0	$281.4	$ 207.2	$ 947.6	$ 974.5
Average interest rate	8.8%	8.9%	8.9%	8.8%	8.7%	8.4%		
Fixed rate	$ 0.2	$ 3.5	$ 2.4	$ 0.2	$ 0.1	$ 5.0	$ 11.4	$ 11.4
Average interest rate	12.4%	12.4%	12.5%	11.7%	9.9%	8.7%		
Nuclear decommissioning trusts' investments	$ 17.7	$ 5.3	$ 2.1	$ 7.1	$ 3.1	$ 165.0	$ 200.3	$ 190.7
Average interest rate(1)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%		
Mortgage loans in warehouse	$ 88.2						$ 88.2	$ 91.4
Average interest rate	9.6%							
LIABILITIES								
Fixed-rate debt	$ 497.1	$335.6	$260.1	$175.8	$731.4	$3,255.5	$5,255.5	$5,596.9
Average interest rate	6.5%	7.8%	6.1%	6.0%	5.1%	6.9%		
Variable rate debt	$1,501.8	$490.2	$ 88.8	$256.6	$366.5	$ 876.3	$3,580.2	$3,580.2
Average interest rate	6.1%	6.0%	5.6%	5.7%	5.5%	4.9%		
Preferred securities of subsidiary trusts		$135.0				$ 250.0	$ 385.0	$ 387.7
Average interest rate	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%		
Short-term debt	$ 375.1						$ 375.1	$ 375.1
Average interest rate	6.1%							
Mandatorily redeemable preferred stock			$180.0				$ 180.0	$ 186.6
Average dividend rate	$ 6.2	$ 6.2	$ 6.2					
Off balance sheet								
Loan commitments	$ 672.9						$ 672.9	$ 675.9
Average interest rate	9.3%							
INTEREST-RATE DERIVATIVES (2)								
Forwards								
Notional amount	$ 54.0						$ 54.0	
Average strike price	102.142							
Average market price	102.177							
Futures contracts								
Notional amount	$ 498.9						$ 498.9	$ (0.6)
Average strike price	99.077							
Average market price	99.268							

(1) Interest rates are based on average coupon rates for entire portfolio at 12/31/97.

(2) Dominion Capital's use of interest rate swaps to mitigate interest rate risk exposure in its residential and commercial lending businesses is immaterial.

INTEREST RATE RISK: TRADING ACTIVITIES

Dominion Capital, though its indirectly owned subsidiary Saxon Mortgage, Inc., retains ownership in the residual classes of the asset backed securities utilized to sell home equity loans originated and purchased by Saxon Mortgage. These assets are classified as Trading securities on the balance sheet and total $189.1 million as of December 31, 1997.

The residual securities represent the net present value of the excess of the interest payments upon the underlying mortgage collateral net of interest payments to outstanding bond holders, servicing costs, over-collateralization requirements, and credit losses. Fair value of the residual is analyzed quarterly by Saxon Mortgage to determine whether prepayment experience, losses and changes in the interest rate environment have had an impact on the valuation. Expected cash flows of the underlying loans sold are reviewed based upon current economic conditions and the type of loans originated and are revised as necessary. As the securities represent a net present value of future cash flows, changes in the discount rate will result in valuation changes to the underlying securities. The discount rate utilized for the December 31, 1997 fair-market value determination is 11% and is derived from a spread over the prevailing 5-year Treasury interest rate. Should interest rates increase by one percent, Saxon Mortgage could experience a loss of approximately $7.4 million.

FOREIGN-EXCHANGE RISK MANAGEMENT

Dominion Resource's exposure to foreign currency exchange rates or cross currency exposure results from debt which is denominated in a currency different from the company's functional currency, the U.S. dollar. In this situation, the company is subject to gains and losses due to the relative change in the foreign currency rate of the debt versus the U.S. dollar. The company uses currency swaps to minimize this exposure. The table below provides information about the company's foreign currency-sensitive financial instruments and derivative financial instruments. For debt, the table presents principal amounts and related weighted average interest rates by expected maturity dates. The principal cash flows are translated into U.S. dollars based on implied forward currency rates at the reporting date. For currency swaps, the table presents the notional amounts, the weighted average pay rates, and the weighted average receive rates by maturity dates.

EXPECTED MATURITY DATE

(millions)	1998	1999	2000	2001	2002	Thereafter	Total	Fair Value
LIABILITIES								
Long-term debt denominated in foreign currencies								
(US$ functional currency)								
Unit of Currency—Inter American Development Bank								
Variable rate	$ 1.6	$ 1.6	$ 1.6	$ 1.6	$ 1.6	$ 13.4	$ 21.4	$ 21.4
Average interest rate	6.8%	6.7%	6.5%	6.3%	6.3%	6.5%		
Foreign exchange rate	$1.53	$1.37	$1.49	$1.53	$1.49	$1.48		
Unit of Currency-German Mark								
Fixed rate	$ .7	$ .7	$ .7	$ .7	$ .7	$ 20.3	$23.8	$ 22.6
Average interest Rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%		
Foreign exchange rate	$1.79	$1.77	$1.76	$1.75	$1.74	$1.76		
(GBP functional currency)								
Unit of Currency-US$								
Fixed rate					$409.5	$409.5	$819.0	$852.4
Average interest rate	7.3%	7.3%	7.3%	7.3%	7.3%	7.5%		
Foreign exchange rate	$1.60	$1.58	$1.57	$1.56	$1.56	$1.55		
Currency swap agreements related to long-term debt								
Notional amount					$409.5	$409.5	$819.0	$(26.8)
Average pay price					8.2%	8.6%		
Average receive price					7.1%	7.5%		
Foreign exchange rate					$ 1.56	$ 1.55		

EQUITY PRICE RISK MANAGEMENT

The following table presents descriptions of the equity securities that are held by the company at December 31, 1997. As prescribed by the FASB, the marketable securities are reported on the balance sheet at fair market value. The company's securities consist of trading (short-term) and available-for-sale securities.

(millions of US$)	Cost	Fair Value
Trading:		
Short-term marketable securities	$240.7	$240.7
Other than trading:		
Marketable securities	$185.3	$190.8
Nuclear decommissioning trusts' investments	$219.4	$360.4

OTHER RISK MANAGEMENT FACTORS AND MATTERS

On a company-wide basis, the company is sensitive to interest rate risk. The company minimizes interest rate risk through a proper mix of fixed and variable rate debt.

As mentioned earlier, a significant portion of the company's operations are located in foreign countries. These operations have acquired debt in denominations different than the local functional currency. As a result, the company's foreign financial results could be significantly affected by factors such as changes in exchange rates. To mitigate the effect of changes in currency exchange rates in the United Kingdom, Dominion UK has instituted a foreign currency swap. The swap is associated with senior notes denominated in U.S. dollars.

Dominion Capital

Dominion Capital's operations are affected by a number of risks. Its lending institutions are concerned with credit, interest rate, operation reserve, and market price of gas risks. Credit risk is managed in the following ways:

- through its experienced management and underwriting professionals;
- by minimizing the size of the loan;
- spreading the risk over a diversified client base, both geographically and industry wide;
- having first position on the collateralized assets;
- offsetting the credit risk of the customers with lower loan to value and higher interest rates;
- and retaining only a residual interest in the mortgage loans through the securitization process.

Dominion Capital is also concerned with interest rate risk. This risk is managed by making floating rate loans, loan securitizations which transfer most of the risk to investors, prepayment penalties and hedging programs for presecuritized loans. This period is relatively short because the loan portfolios are securitized every 90 days.

Dominion Capital's mortgage investments are adversely impacted by increases in the rate at which home equity loans prepay. Accordingly, Dominion Capital actively manages this risk by 1) imposing prepayment penalties on many of the underlying home equity loans 2) aggressively enforcing premium recapture provisions with correspondent sellers of mortgage collateral, 3) limiting the acquisition of adjustable rate mortgage collateral with below market start rate (i.e., teaser rates), and 4) actively monitoring trends in historical prepayment speeds and using prudent residual prepayment speed assumptions. Changes in interest rates are not considered to have a material impact upon prepayment speeds on the underlying home equity loan collateral as the credit impaired borrowers which make up the majority of the underlying collateral have not proven to be sensitive to changes in interest rates during past periods of interest rate volatility.

Forward-Looking Information

As we have pointed out earlier in this annual report, we have included certain information about the future for us and our subsidiaries. We have talked about our expectations and plans and, when we felt we were able to make reasonable predictions, tried to estimate the impact of known trends and uncertainties that our businesses are subject to. None of our statements about the future, also referred to as "forward-looking statements", are guarantees of future results or outcomes. Any statement of this type necessarily involves assumptions and uncertainties which could cause actual results or outcomes to be substantially different from those we have suggested. In many cases, the matter will be outside of our control. In addition to specific issues discussed in other parts of this report, some of the factors that could make a significant difference in the forward-looking statements we have made include: legislative and regulatory actions, both domestic and international; deregulation and increased competition in our industry; our operation of nuclear power facilities and related decommissioning costs; our acquisition or disposition of assets or facilities; outcomes in legal proceedings, including rate proceedings; changes in environmental requirements and costs of compliance; unanticipated changes in operating expenses and capital expenditures; development project delays or changes in project costs; and competition for new energy development opportunities. We are also influenced by more general economic and geographic factors such as: weather conditions and catastrophic weather related damage; political and economic risks (particularly those associated with international development and operations, including currency fluctuations); pricing and transportation costs of commodities; the level of market demand for energy; inflation; and capital market conditions.

CONSOLIDATED BALANCE SHEETS

Assets

At December 31, (millions)	1997	1996
Current assets:		
Cash and cash equivalents (Notes A and G)	$ 321.6	$ 110.8
Trading securities (Notes A, F and G)	240.7	16.4
Customer accounts receivable, net	601.0	354.8
Other accounts receivable	336.5	174.9
Accrued unbilled revenues	245.2	162.8
Materials and supplies at average cost or less:		
Plant and general	163.3	148.7
Fossil fuel	67.4	76.8
Mortgage loans in warehouse (Notes A and G)	88.2	65.8
Other	209.1	209.5
	2,273.0	1,320.5
Investments:		
Investments in affiliates (Note A)	404.0	448.3
Available-for-sale securities (Notes A, F and G)	190.8	692.4
Nuclear decommissioning trust funds (Notes A and G)	569.1	443.3
Loans receivable, net (Notes A and G)	959.0	
Investments in real estate	101.5	107.7
Other	191.6	234.2
	2,416.0	1,925.9
Property, plant and equipment (Note A):		
(includes plant under construction of $240.9 [1996-$180.1])	19,519.2	16,815.8
Less accumulated depreciation, depletion and amortization	6,986.6	6,306.4
	12,532.6	10,509.4
Deferred charges and other assets:		
Goodwill (Note A)	1,932.0	179.1
Regulatory assets (Note C)	776.6	773.9
Other	262.5	187.6
	2,971.1	1,140.6
Total assets	$20,192.7	$14,896.4

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

Liabilities and Shareholders' Equity

At December 31, (millions)	1997	1996
Current liabilities:		
Securities due within one year (Note H)	$ 1,613.6	$ 431.0
Short-term debt (Notes E and G)	375.1	378.2
Accounts payable, trade	679.3	410.6
Accrued interest	185.1	107.3
Accrued payroll	107.2	73.1
Severance costs accrued (Note N)	29.7	50.2
Customer deposits	44.6	50.0
Other	591.1	155.4
	3,625.7	1,655.8
Long-term debt (Notes G and H):		
Virginia Power	3,514.6	3,579.4
Nonrecourse-nonutility	707.8	825.4
Dominion UK	2,673.6	342.5
Other	300.0	300.0
	7,196.0	5,047.3
Deferred credits and other liabilities:		
Deferred income taxes (Notes A and B)	2,018.4	1,743.3
Investment tax credits (Note A)	238.4	255.3
Other	596.8	162.5
	2,853.6	2,161.1
Total liabilities	13,675.3	8,864.2
Minority interest	402.9	293.0
Commitments and contingencies (Note Q)		
Virginia Power and Dominion Resources obligated mandatorily redeemable preferred securities of subsidiary trusts* (Notes G and K)	385.0	135.0
Preferred stock (Notes G and L):		
Virginia Power stock subject to mandatory redemption	180.0	180.0
Virginia Power stock not subject to mandatory redemption	509.0	509.0
Common shareholders' equity:		
Common stock—no par authorized 300,000,000 shares, outstanding—187,799,443 shares at 1997 and 181,220,746 shares at 1996 (Note I)	3,673.6	3,471.4
Retained earnings	1,354.0	1,437.9
Accumulated translation adjustments (Note A)	(10.6)	(9.2)
Allowance on available-for-sale securities, net of tax (Note A)	7.3	(1.1)
Other paid-in capital	16.2	16.2
	5,040.5	4,915.2
Total liabilities and shareholders' equity	$20,192.7	$14,896.4

*As described in Note K, the 7.83% and 8.05% Junior and Subordinated Notes totaling $232.7 and $139.2 million principal amounts constitute 100% of the Trusts' assets.
The accompanying notes are an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, (millions)	1997	1996	1995
Cash flows from (used in) operating activities:			
Net income	$ 399.2	$ 472.1	$ 425.0
Adjustments to reconcile net income to net cash:			
Depreciation, depletion and amortization	905.7	694.4	633.5
Deferred income taxes	13.8	84.1	26.4
Investment tax credits, net	(16.9)	(16.9)	(16.9)
Deferred fuel expense	9.6	(54.4)	6.2
Deferred capacity expense	(41.2)	(9.2)	6.4
Restructuring expense	12.5	29.6	96.2
Accelerated cost recovery	38.4	26.7	
Purchase of mortgage loans	(1,713.7)	(769.2)	
Proceeds from sale and principal collections of mortgage loans	1,672.6	703.4	
Changes in current assets and liabilities:			
Accounts receivable	(111.3)	(47.0)	(38.7)
Accrued unbilled revenues	(64.9)	17.6	(27.7)
Materials and supplies	15.9	6.0	61.1
Accounts payable, trade	113.8	73.8	(37.6)
Accrued interest and taxes	118.6	(17.5)	33.6
Other changes	(89.9)	(161.3)	3.8
Net cash flows from operating activities	1,262.2	1,032.2	1,171.3
Cash flows from (used in) financing activities:			
Issuance of common stock	176.2	169.7	161.7
Preferred securities of subsidiary trust	250.0		135.0
Issuance of long-term debt:			
Virginia Power	270.0	24.5	240.0
East Midlands	1,898.5	342.5	
Nonrecourse-nonutility	4,113.0	434.5	54.3
Issuance (repayment) of short-term debt	(98.5)	134.5	101.1
Repayment of long-term debt and preferred stock	(4,377.0)	(336.5)	(553.0)
Common dividend payments	(478.0)	(460.1)	(448.7)
Other	74.6	(4.5)	(20.5)
Net cash flows from (used in) financing activities	1,828.8	304.6	(330.1)
Cash flows from (used in) investing activities:			
Utility capital expenditures	(648.7)	(484.0)	(577.5)
Acquisition of natural gas and independent power properties	(52.6)	(271.2)	(128.5)
Loan originations	(1,147.2)		
Repayments of loan originations	1,077.2		
Purchase of East Midlands	(1,901.5)	(342.5)	
Sale of businesses	123.3		
Purchase of fixed assets	(124.4)	(34.8)	(27.4)
Purchase of marketable securities	(8.5)	(8.8)	(61.8)
Sale of marketable securities	127.7		
Additions to mortgage investments	(138.4)	(58.3)	
Acquisitions of businesses	(144.5)	(19.5)	(52.4)
Other investments	(42.6)	(73.6)	(73.6)
Net cash flows used in investing activities	(2,880.2)	(1,292.7)	(921.2)
Increase (decrease) in cash and cash equivalents	$ 210.8	$ 44.1	$ (80.0)
Cash and cash equivalents at beginning of the year	110.8	66.7	146.7
Cash and cash equivalents at end of the year	$ 321.6	$ 110.8	$ 66.7

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CASH FLOWS AND FINANCIAL CONDITION (unaudited)

Introduction

In Management's Discussion and Analysis of Cash Flows and Financial Condition, Dominion Resources' and its subsidiaries' general financial condition and changes in financial condition are discussed by addressing the following topics:

- What our capital expenditures were for the year 1997 and what we project them to be for the year 1998. In addition, we will disclose trends that may have a material effect on our financial condition over the next couple of years.
- The sources of funds utilized to pay for the expenditures incurred during 1997 and the anticipated future capital expenditures.

Consolidated Financing Activity

Dominion Resources funds its operations and supports the financing needs of its subsidiaries primarily as follows: (1) A $950 million shelf registration through which the company may, over the next two years, sell any combination of debt, preferred or common securities up to the $950 million limit. (2) The company continues to raise capital from sales of common stock through its equity plans. The company has raised over $100 million in each of the last nine years from sales through these plans. (3) The company also sells commercial paper backed by lines of credit and provides the proceeds to its subsidiaries under intercompany credit agreements.

Our 1997 financing activities were focused on the acquisition of East Midlands and the related refinancings. A discussion of these activities follows:

EAST MIDLANDS FINANCING

Dominion Resources, through wholly owned UK financing subsidiaries, initially financed 100 percent of the 1.3 billion pounds sterling ($2.2 billion) acquisition of East Midlands with interim debt. The funds necessary for the purchase were obtained in part from borrowings of approximately 640 million pounds sterling ($1 billion) under a short-term credit agreement and borrowings of 700 million pounds sterling ($1.2 billion) under a five-year revolving credit agreement, both guaranteed by Dominion Resources.

During 1997, the entire short-term credit agreement and a portion of the five-year revolving credit agreement were refinanced with 800 million pounds sterling ($1.3 billion) raised from three bond offerings and one private bank facility, all on a non-recourse basis to Dominion Resources. The final target capital structure calls for the remaining 40 percent of the acquisition cost, currently financed on an interim basis with the 5-year revolving credit facility, to be refinanced with equity or equity equivalents.

In December of 1997, $250 million (150 million pounds sterling) in Capital Securities were issued by Dominion Resources Capital Trust I as the first part of the equity capitalization of the East Midlands acquisition. In January of 1998, Dominion Resources raised an additional $275 million (168 million pounds sterling) through the issue of 6.8 million shares of common stock (see Note S), also as a part of the program to capitalize the East Midlands acquisition. The remaining portion of the five-year revolving credit agreement is expected to be refinanced with equity or equity equivalents during the remainder of its five-year term. The capital markets will continue to dictate the timing and methods of completing the equity capitalization of East Midlands.

EQUITY PLANS

Dominion Resources raised capital from sales of common stock through the following plans:

- Automatic Dividend Reinvestment and Stock Purchase Plan;
- Customer Stock Purchase Plan;
- Dominion Direct Investment; and
- Employee Savings Plan.

On July 8, 1996, the company established Dominion Direct Investment. Dominion Direct Investment continues and expands the Automatic Dividend Reinvestment and Stock Purchase Plan. Dominion Resources will continue to raise capital through the Dominion Direct Investment and the Employee Savings Plans in 1998. Proceeds from these plans were (in millions): 1997-$176.2; 1996-$164.2; and 1995-$136.9. Reflected in the amounts of the proceeds from these plans were the repurchases of 136,800 shares of common stock in 1996 for an aggregate price of $5.5 million and 685,500 shares of common stock in 1995 for an aggregate price of $24.8 million.

COMMERCIAL PAPER

Dominion Resources' nonutility subsidiaries may finance their working capital for operations from the proceeds from Dominion Resources commercial paper sales. Dominion Resources sells its commercial paper in regional and national markets and provides the proceeds to the nonutility subsidiaries under the terms of intercompany credit agreements. At the end of 1997, Dominion Resources supported these borrowings through bank lines of credit totaling $500.8 million. The nonutility subsidiaries repay Dominion Resources through cash flows from operations and proceeds from permanent financings. Virginia Power has a commercial paper program with a limit of $500 million. The program is supported by $500 million of revolving credit facilities and is used primarily to finance working capital for operations. East Midlands has a commercial paper program with a limit of 200 million pounds sterling. The program is supported by a 200 million

pounds sterling five-year revolving credit facility and is utilized principally to fund its operations.

Virginia Power

LIQUIDITY AND CAPITAL RESOURCES

Operating activities continue to be a strong source of cash flow, providing $1,091 million in 1997 compared to $1,115 million in 1996. The decrease of $24 million (or 2 percent) from the previous year is attributable to normal business fluctuations. Over the past three years, cash flow from operating activities has, on average, covered 134 percent of its total construction requirements and provided 81 percent of its total cash requirements. Virginia Power's remaining cash needs are met generally with proceeds from the sale of securities and short-term borrowings.

Cash from (used in) financing activities was as follows:

(millions)	1997	1996	1995
Issuance of long-term debt	$ 270.0	$ 24.5	$ 240.0
Repayment of long-term debt and preferred stock	(311.3)	(284.1)	(439.0)
Issuance of securities of subsidiary trust			135.0
Issuance (repayment) of short-term debt	(86.2)	143.4	169.0
Common dividend payments	(379.9)	(385.8)	(394.3)
Other	(49.2)	(48.8)	(58.0)
Total	$(556.6)	$(550.8)	$(347.3)

Financing activities have represented a net outflow of cash in recent years as strong cash flow from operations and the absence of major construction programs have reduced Virginia Power's reliance on debt financing.

Virginia Power has taken advantage of declining interest rates by issuing new debt at lower rates as higher-rate debt has matured. For example, in 1997, $311.3 million of Virginia Power's long-term debt securities matured with an average effective rate of 8.08%. As a partial replacement for this maturing debt, Virginia Power issued $270 million of long-term debt securities during the year with an average effective rate of 6.84%.

Virginia Power currently has three shelf registration statements effective with the Securities and Exchange Commission from which it can obtain additional debt capital: $400 million of Junior Subordinated Debentures filed in January 1997, $575 million of First and Refunding Mortgage Bonds, and $200 million of Medium-Term Notes, Series F. The remaining principal amount of debt that can be issued under these registrations totals $915 million. An additional capital resource of $100 million in preferred stock is also registered with the Securities and Exchange Commission.

Cash (used in) investing activities was as follows:

(millions)	1997	1996	1995
Utility plant expenditures	$(397.0)	$(393.8)	$(519.9)
Nuclear fuel	(84.8)	(90.2)	(57.6)
Nuclear decommissioning contributions	(36.2)	(36.2)	(28.5)
Sale of accounts receivable, net			(160.0)
Purchase of assets	(19.8)	(13.7)	
Other	(8.3)	(12.5)	(11.1)
Total	$(546.1)	$(546.4)	$(777.1)

Investing activities in 1997 resulted in a net cash outflow of $546.1 million, primarily due to $397.0 million of construction expenditures and $84.8 million of nuclear fuel expenditures. The construction expenditures included approximately $252.4 million for transmission and distribution projects, $52.1 million for production projects, $49.7 million for information technology projects and $42.8 million for other projects.

CAPITAL REQUIREMENTS

CAPACITY – Virginia Power anticipates that kilowatt-hour sales will grow approximately 2.4 percent each year through 2000. We will continue to pursue capacity acquisition plans to meet the anticipated load growth and maintain a high degree of service reliability. The additional capacity may be purchased from others or built by Virginia Power if we can build capacity at a lower overall cost. Virginia Power has long-term purchase agreements with Hoosier (400 Mw) and AEP (500 Mw) which will expire on December 31, 1999. The company presently anticipates adding 584 Mw of market purchases beginning in the year 2000 to meet future load growth.

FIXED ASSETS – Virginia Power's construction and nuclear fuel expenditures during 1998, 1999 and 2000 are expected to total $588.1 million, $476.2 million and $395.1 million, respectively. Virginia Power has adopted a plan to improve customer service and is spending in excess of $100 million. Virginia Power estimates that all of these expenditures will be met through cash flow from operations.

LONG-TERM DEBT – Virginia Power will require $333.5 million to meet maturities of long-term debt in 1998, which it expects to meet with cash flow from operations and refinancing of debt maturities. Other capital requirements will be met through a combination of sales of securities and short-term borrowings.

Dominion UK

LIQUIDITY AND CAPITAL RESOURCES

Dominion UK funds its capital requirements through cash from operations, long- and short-term debt facilities, and equity contributions from Dominion Resources. In 1997, Dominion UK funded the acquisition of East Midlands and the first of two installments of the windfall profits tax. While the entire windfall profits tax was expensed in 1997, the cash payments are to be made in two installments, half in December 1997 and half in December 1998.

Cash flows from operations at East Midlands for 1997 were $(83.4) million and were due primarily to operating profit and working capital management. A comparison is not made to the year 1996 or 1995 because East Midlands did not become a part of Dominion Resources' consolidated entity until 1997.

Cash from (used in) financing activities was as follows:

(millions)	1997
Contribution from parent	$ 254.3
Issuance of long-term debt	1,898.5
Other	47.6
Total	$2,200.4

During 1997, cash from financing activities was primarily due to the funding of the acquisition of East Midlands by contributions from Dominion Resources ($254 million) and the issuance of the following debt:

- 321 million pounds sterling ($528 million) under a revolving credit agreement and 200 million pounds sterling ($329 million) under a private bank facility, the proceeds of which were used to fund the purchase of East Midlands, and
- $819 million of five- and ten-year Senior notes and 100 million pounds sterling ($165 million) of Eurobonds, which were used to pay down debt borrowed under a short-term credit agreement.
- In addition, $54 million was borrowed to fund the acquisition of an additional 40% interest in the Corby Power Station.

Cash from (used in) investing activities was as follows:

(millions)	1997
Utility plant expenditures	$ (166.9)
Purchase of fixed assets	(67.3)
Purchase of East Midlands	(1,901.5)
Other	0.3
Total	$(2,135.4)

During 1997, cash flows used in investing activities was utilized primarily to acquire the outstanding shares of stock in East Midlands, fund the investment in fixed assets, principally on the distribution network, and acquire an additional 40% interest in the Corby Power Station.

CAPITAL REQUIREMENTS

The projected 1998 capital requirements of Dominion UK include approximately $229 million for capital expenditures, predominantly for the electricity distribution network and the completion of new systems and facilities required for the opening up of competition in the electricity and gas markets. Interest payments are expected to be $216 million and approximately $80 million will also be required for the second and final installment of the windfall profits tax. The capital requirements are expected to be funded by cash generated from operations and other existing financing sources.

The company anticipates approximately $300 million of equity contributions from the parent during 1998. To the extent these sources are available, they will be used to repay acquisition debt.

Dominion Energy

LIQUIDITY AND CAPITAL RESOURCES

Dominion Energy funds its capital requirements through cash from operations, equity contributions by Dominion Resources, an intercompany credit agreement with Dominion Resources and bank revolving credit agreements.

Net cash provided by operating activities increased by $59.8 million in 1997, as compared to 1996, primarily due to: net income from power generation assets in Peru acquired in August 1996; generally higher natural gas prices; and greater production volumes due to the acquisition of natural gas properties in the Gulf Coast area in March 1996 and in Michigan in January 1997. Net cash provided by operating activities increased by $52.1 million in 1996, as compared to 1995, primarily due to cash generated by operations of acquired companies and assets and from normal operations.

Cash from (used in) financing activities was as follows:

(millions)	1997	1996	1995
Contribution from parent		$ 75.0	$149.3
Issuance of long-term debt	$ 107.9	221.7	
Repayment of debt	(212.7)	(8.9)	(72.5)
Common dividend payments	(48.3)	(43.3)	(31.6)
Issuance of intercompany debt	21.9	19.7	32.4
Other	0.2	10.0	9.5
Total	$(131.0)	$274.2	$ 87.1

Cash from (used in) investing activities was as follows:

(millions)	1997	1996	1995
Purchase of fixed assets	$(11.7)	$ (15.8)	$ (25.1)
Purchase of independent power properties			(32.3)
Purchase of natural gas properties	(52.6)	(93.3)	(71.1)
Sale of business	123.3		
Sale of trust units			16.4
Acquisition of business	(28.0)	(228.2)	
Other	(21.2)	(16.7)	(24.1)
Total	$ 9.8	$(354.0)	$(136.2)

During 1997, the major source of cash flows from investing activities was the sale of a portion of Dominion Energy's generating business in Peru for $123.3 million. These funds were used primarily to pay down long-term debt.

CAPITAL REQUIREMENTS

Capital requirements for Dominion Energy in 1998 are forecasted to be approximately $388 million. These requirements consist of: oil and gas expenditures of $52 million and power generation expenditures of $336 million (including the Kincaid acquisition).

Sources for these capital requirements will be nonrecourse debt, cash flows from operations, borrowings from the revolving credit facility and, if necessary, equity from Dominion Resources.

It should be noted that amounts enumerated above are estimates; consequently, actual amounts may differ.

Dominion Capital

LIQUIDITY AND CAPITAL RESOURCES

Dominion Capital funds its capital requirements through cash from operations, an intercompany credit agreement with Dominion Resources, equity contributions from Dominion Resources, a medium-term note facility, bank revolving credit agreements, term loans and a commercial paper program. Cash flows used in operations for 1997 increased by $138.7 million as compared to 1996 primarily due to a decrease in the net cash outflow of mortgage loan activity for Saxon Mortgage.

Net cash provided by operating activities decreased by $179.1 million in 1996 as compared to 1995, primarily as a result of the funding of mortgage loans prior to the securitization of such loans in its financial services business.

Cash from (used in) financing activities was as follows:

(millions)	1997	1996	1995
Contribution from parent	$ 162.0	$ 85.0	$150.0
Issuance of long-term debt	3,910.7	104.7	16.1
Repayment of long-term debt	(3,865.3)	(52.4)	(41.5)
Common dividend payments	(43.1)	(30.7)	(22.7)
Issuance (repayment) of intercompany debt	29.0	79.6	(52.1)
Other	32.7	(0.4)	(4.5)
Total	$ 226.0	$185.8	$ 45.3

During 1997, cash flows from financing activities were $226 million, primarily due to the acquisition of the remaining 50 percent interest in First Source Financial, loan originations and investment in marketable debt securities. Cash from (used in) investing activities was as follows:

(millions)	1997	1996	1995
Investments in affiliates	$ (96.0)	$(19.5)	$(52.4)
Loan originations, net	(70.0)		
Other	(27.2)	(23.9)	(32.9)
Total	$(193.2)	$(43.4)	$(85.3)

During 1997, cash flows used in investing activities increased primarily due to the acquisition of the remaining 50 percent interest in First Source Financial and net investment in marketable securities.

CAPITAL REQUIREMENTS

Dominion Capital's principal focus is growing its financial services companies. First Source Financial will increase its loan portfolio from $970 million to approximately $1.2 billion in 1998. Saxon Mortgage plans to generate over $2 billion in loan originations primarily in the sub-prime credit arena during 1998. Cambrian, a merchant banking enterprise for emerging independent oil and natural gas producers, will expand its loan portfolio to approximately $110 million in 1998. To finance these expansion plans in 1998, Dominion Capital plans to utilize approximately $75 million in new equity and intercompany debt. The remaining capital requirements will come from the reinvestment of cash from operations, harvesting capital from existing real estate and other assets, and various third party credit sources.

NOTE A Significant Accounting Policies

GENERAL Dominion Resources, Inc. is a holding company headquartered in Richmond, Virginia. Its primary business is Virginia Power, which is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within a 30,000 square mile area in Virginia and northeastern North Carolina. It sells electricity to retail customers (including governmental agencies) and to wholesale customers such as rural electric cooperatives, municipalities, power marketers and other utilities. The Virginia service area comprises about 65 percent of Virginia's total land area, but accounts for over 80 percent of its population.

Dominion Resources recently acquired East Midlands in 1997, which is primarily a distribution and supply company. East Midlands operates a distribution system serving a region of some 6,200 square miles in east central England and it supplies electricity to 2.3 million customers, including businesses across the country.

The company also operates business subsidiaries active in independent power production, the acquisition and sale of natural gas reserves, financial services, and real estate. Some of the independent power and natural gas projects are located in foreign countries. Net investments of approximately $374.6 million are involved in independent power production operations in Central and South America.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Dominion Resources is currently exempt from regulation as a registered holding company under the Public Utility Holding Company Act of 1935.

Accounting for the utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by federal agencies and the commissions of the states in which the utility business operates.

The Consolidated Financial Statements include the accounts of Dominion Resources and its subsidiaries. In consolidation, all significant intercompany transactions and accounts have been eliminated.

OPERATING REVENUES AND INCOME Utility revenues are recorded on the basis of services rendered, commodities delivered or contracts settled. Dividend income on securities owned is recognized on the ex-dividend date. Interest income is accrued on the unpaid principal balance.

INVESTMENTS IN AFFILIATES Investments in common stocks of affiliates representing 20 percent to 50 percent ownership, and joint ventures and partnerships representing generally 50 percent or less ownership interests, are accounted for under the equity method.

Costs in excess of net assets acquired from equity investments are amortized over periods not to exceed 40 years.

GAIN ON SALE OF LOANS Gain on sale of loans represents the present value of the difference between the interest rate received on the mortgage loans and the interest rate received by the investor in the securities after considering the effects of estimated prepayments, costs to service the mortgage loans and nonrefundable fees and premiums on loans sold. These gains on the sale of loans are recognized on the settlement date and are based on the relative fair market value of the portion sold and retained. Concurrently with recognizing such gain on sale, a corresponding asset representing interest-only strips retained at securitization is recorded on the balance sheet in an initial amount equal to the net present value of the projected cash flows. The asset recorded which is classified as trading is amortized in proportion to the income estimated to be received during the life.

PROPERTY, PLANT AND EQUIPMENT Utility plant at Virginia Power and East Midlands is recorded at original cost, which includes labor, materials, services, and other indirect costs.

The cost of acquisition, exploration and development of natural resource properties is accounted for under the successful efforts method.

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 1997, 1996, and 1995, $3.5 million, $6.3 million, and $14.1 million of interest cost was capitalized, respectively.

Major classes of property, plant and equipment and their respective balances are:

At December 31, (millions)	1997	1996
UTILITY:		
Production	$ 7,973.9	$ 7,691.9
Transmission	1,415.7	1,386.5
Distribution	6,210.7	4,385.4
Other electric	1,127.1	862.9
Plant under construction	240.9	180.1
Nuclear fuel	854.3	843.8
Total utility	17,822.6	15,350.6
NONUTILITY:		
Natural gas properties	521.8	492.4
Independent power properties	920.3	869.2
Other	254.5	103.6
Total nonutility	1,696.6	1,465.2
Total property, plant and equipment	$19,519.2	$16,815.8

DEPRECIATION, DEPLETION AND AMORTIZATION Depreciation of utility plant (other than nuclear fuel) is computed using the straight-line method based on projected useful service lives. The cost of depreciable utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation. The provision for depreciation provides for the recovery of the cost of assets and the estimated cost of removal, net of salvage, and is based on the weighted average depreciable plant using a rate of 3.2 percent for 1997, 1996 and 1995.

Owned nuclear fuel is amortized on a unit-of-production basis sufficient to amortize fully, over the estimated service life, the cost of the fuel plus permanent storage and disposal costs.

	Surry		North Anna	
	Unit 1	Unit 2	Unit 1	Unit 2
NRC license expiration year	2012	2013	2018	2020
Method of decommissioning	DECON	DECON	DECON	DECON
(millions)				
Current cost estimate (1994) dollars	$272.4	$274.0	$247.0	$253.6
External trusts balance at December 31, 1997	156.5	151.8	134.2	126.6
1997 contribution to external trusts	10.6	10.8	7.6	7.2

When Virginia Power's nuclear units cease operations, it is obligated to decontaminate or remove radioactive contaminants so that the property will not require Nuclear Regulatory Commission (NRC) oversight. This phase of a nuclear power plant's life cycle is termed decommissioning. While the units are operating, Virginia Power collects from ratepayers amounts that, when combined with investment earnings, will be used to fund this future obligation.

The amount being accrued for decommissioning is equal to the amount being collected from ratepayers and is included in depreciation, depletion and amortization expense. The decommissioning collections were $45.8 million, $36.2 million and $28.5 million in 1997, 1996 and 1995, respectively. These dollars are deposited into external trusts through which the funds are invested. Net earnings of the trusts' investments are included in Other Income. In 1997, 1996 and 1995 net earnings were $20.5 million, $16 million and $15.9 million, respectively. The accretion of the decommissioning obligation is equal to the trusts' net earnings and is also recorded in Other Income. Thus, the net impact of the trusts on Other Income is zero.

The accumulated provision for decommissioning, which is included in Accumulated Depreciation, Depletion and Amortization in the company's Consolidated Balance Sheets, includes the accrued expense and accretion described above and any unrealized gains and losses on the trusts' investments. At December 31, 1997, the net unrealized gains were $149.5 million, which is an increase of $69 million over the December 31, 1996 amount of $80.5 million. The total accumulated provision for decommissioning at December 31, 1997 was $578.7 million. It was $443.3 million at December 31, 1996.

The total estimated cost to decommission Virginia Power's four nuclear units is $1 billion based upon a site-specific study that was completed in 1994. Virginia Power plans to update this estimate in 1998. The cost estimate assumes that the method of completing decommissioning activities is prompt dismantlement. This method assumes that dismantlement and other decommissioning activities will begin shortly after cessation of operations, which under current operating licenses will begin in 2012 as detailed in the table.

The FASB is reviewing the accounting for nuclear plant decommissioning. In 1996, FASB tentatively determined that the estimated cost of decommissioning should be reported as a liability rather than as accumulated depreciation and that a substantial portion of the decommissioning obligation should be recognized earlier in the operating life of the nuclear unit. If the industry's accounting were changed to reflect FASB's tentative proposal, then the annual provisions for nuclear decommissioning would increase.

During its deliberations, the FASB expanded the scope of the project to include similar unavoidable obligations to perform closure and post-closure activities for non-nuclear power plants. Therefore, any forthcoming standard may also change industry plant depreciation practices. Any impact related to other company assets cannot be determined at this time.

Independent power properties and East Midland's fixed assets are depreciated using the straight-line method based on estimated useful lives ranging from 30 to 40 years. Natural gas properties are depleted using the units-of-production method.

FEDERAL INCOME TAXES Dominion Resources and its subsidiaries file a consolidated federal income tax return.

Deferred income taxes are provided for all significant temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates in accordance with SFAS No. 109, "Accounting for Income Taxes." Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in future periods. The regulatory treatment of temporary differences can differ from the requirements of SFAS No. 109. Accordingly, Virginia Power recognizes a regulatory asset if it is probable that future revenues will be provided for the payment of those deferred tax liabilities. Similarly, in the event a deferred tax liability is reduced to reflect changes in tax rates, a regulatory liability is established if it is probable that a future reduction in revenue will result.

Due to regulatory requirements, Virginia Power accounts for investment tax credits under the "deferral method" which provides for the amortization of these credits over the service lives of the property giving rise to the credits.

FOREIGN CURRENCY TRANSLATION Dominion Resources translates foreign currency financial statements by adjusting balance sheet accounts using the exchange rate at the balance sheet date and income statement accounts using the average exchange rate for the year. Translation gains and losses are recorded in shareholder's equity. Gains and losses resulting from the settlement of transactions in a currency other than the functional currency are reflected in income.

DEFERRED CAPACITY AND FUEL EXPENSES Approximately 90 percent of Virginia Power's fuel expenses and 80 percent of its purchased power capacity expenses incurred as part of providing regulated electric service are subject to deferral accounting. Under this method, the difference between reasonably incurred actual expenses and the level of expenses included in current rates is deferred and matched against future revenues.

GOODWILL Goodwill is the excess of the cost of net assets acquired in business combinations over their fair value. It is amortized on a straight-line basis over periods ranging from 25 to 40 years. The company evaluates goodwill for impairment at least annually.

AMORTIZATION OF DEBT ISSUANCE COSTS Dominion Resources defers and amortizes any expenses incurred in the issuance of long-term debt including premiums and discounts associated with such debt over the lives of the respective issues. Any gains or losses resulting from the refinancing of Virginia Power debt are also deferred and amortized over the lives of the new issues of long-term debt as permitted by the appropriate regulatory commission. At Virginia Power, gains or losses resulting from the redemption of debt without refinancing are amortized over the remaining lives of the redeemed issues.

INVESTMENT SECURITIES Dominion Resources accounts for and classifies investments in equity securities that have readily determinable fair values and for all investments in debt securities based on management's intent. The investments are classified into three categories and accounted for in the following manner.

Debt securities which are intended to be held to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities purchased and held with the intent of selling them in the current period are classified as trading securities. They are reported at fair value and unrealized gains and losses are included in earnings. Debt and equity securities that are neither held-to-maturity or trading are classified as available-for-sale securities. These are reported at fair value with unrealized gains and losses reported in shareholders' equity, net of tax.

MORTGAGE LOANS IN WAREHOUSE Mortgage loans in warehouse consist of mortgage loans secured by single family residential properties. Any price premiums or discounts on mortgage loans including any capitalized costs or deferred fees on originated loans are deferred as an adjustment to the cost of the loans and are therefore included in the determination of any gains or losses on sales of the related loans. Mortgage loans in warehouse are carried at the lower of cost or market value.

LOANS RECEIVABLE, NET Loans receivable are stated at their outstanding principal balance net of the allowance for credit losses and any deferred fees or costs. Origination fees net of certain direct origination costs are deferred and recognized as an adjustment of the yield of the related loans receivable.

The allowance for credit losses is established through provisions for credit losses charged against income. Loans deemed to be uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are credited to the allowance. At December 31, 1997, the allowance for credit losses was $17.5 million.

MORTGAGE INVESTMENTS In accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," mortgage investments, which had been held entirely as available for sale as defined by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," were reclassified as trading securities. Changes in the fair value of the mortgage investments are reported in operating results in the current period. No material gain or loss resulted from the reclassification.

NONRECOURSE-NONUTILITY FINANCINGS Dominion Resources' nonutility subsidiaries issue debt to finance their operations and obtain financings that generally are secured by the assets of the nonutility subsidiaries. However, Dominion Resources may be required to provide contingent equity support or to maintain a minimum net worth at the nonutility subsidiaries. These financings have been segregated on the accompanying financial statements to distinguish their nonrecourse nature.

DERIVATIVES AND FUTURES—OTHER THAN TRADING Dominion Resources utilizes futures and forward contracts and derivative instruments, including swaps, caps and collars, to manage exposure to fluctuations in interest rates, foreign currency exchange rates and natural gas and electricity prices.

These futures, forwards and derivative instruments are deemed effective hedges when the item being hedged and the underlying financial or commodity instrument show strong historical correlation. Dominion Resources uses deferral accounting to account for futures, forwards and derivative instruments which are designated as hedges. Under this method, gains and losses (including the payment of any premium) related to effective hedges of existing assets and liabilities are recorded on the balance sheet and recognized in earnings in conjunction with earnings of the designated asset or liability. Gains and losses related to effective hedges of firm commitments and anticipated transactions are included in the measurement of the subsequent transaction. Cash flows from derivatives designed as hedges are reported in Net Cash Flows from Operating Activities.

DERIVATIVES AND FUTURES—TRADING The fair value method, which is used for those derivative transactions which do not qualify for settlement or deferral accounting, requires that derivatives are carried on the balance sheet at fair value with changes in that value recognized in earnings or stockholder's equity. Virginia Power uses this method for its wholesale power group's trading activities.

Options, exchange-for-physical contracts, basis swaps and futures contracts are marked to market with resulting gains and losses reported in earnings. Fixed price forward contracts, initiated for trading purposes, are also marked to market with resulting gains and losses reported in earnings. For exchange-for-physical contracts, basis swaps, fixed price forward contracts, and options which require physical delivery of the underlying commodity, market value reflects management's best estimates considering over-the-counter quotations, time value and volatility factors of the underlying commitments. Futures contracts and options on futures contracts are marked to market based on closing exchange prices. Gains and losses resulting from marking positions to mar-

ket are reported in Other Income and Expense. Net gains and losses resulting from futures contracts and options on futures contracts and settlement of basis swaps are included in Operating Expenses. Amortization of option premiums associated with sales and purchases are included in Operating Revenues and Income and Operating Expenses, respectively.

Purchased options and options sold are reported in Deferred Charges and Other Assets and in Deferred Credits and Other Liabilities, respectively, until exercise or expiration. Gains and losses are reported in Other Income and Expense. Electric options exercised are reflected in the recording of related purchases or sales of electricity as Operating Expenses and Operating Revenues, respectively. Upon expiration, electric options written are recognized in Operating Revenues and options purchased are recognized in Operating Expenses. Cash flows from trading activities are reported in Net Cash Flows from Operating Activities.

CASH Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 1997 and 1996, the company's accounts payable included the net effect of checks outstanding but not yet presented for payment of $62.3 million and $72.6 million, respectively.

For purposes of the Consolidated Statements of Cash Flows, Dominion Resources considers cash and cash equivalents to include cash on hand and temporary investments purchased with a maturity of three months or less.

SUPPLEMENTARY CASH FLOWS INFORMATION:

(millions)	1997	1996	1995
CASH PAID DURING THE YEAR FOR:			
Interest (reduced for net costs of borrowed funds capitalized)	$439.6	$373.0	$376.0
Federal income taxes	190.0	169.8	159.6
NON-CASH TRANSACTIONS FROM INVESTING AND FINANCING ACTIVITIES:			
Note issued in acquisition of business	18.4	47.5	
Exchange of securities	51.9	12.1	12.3
Equity contribution for Wolverine acquisition	21.4		

RECLASSIFICATION Certain amounts in the 1996 and 1995 Consolidated Financial Statements have been reclassified to conform to the 1997 presentation.

NOTE B | Taxes

Income before provision for income taxes, classified by source of income, before minority interests was as follows:

(millions)	1997	1996	1995
U.S.	$712.7	$683.5	$609.5
Non-U.S.	(33.9)	17.5	11.0
Total	$678.8	$701.0	$620.5

The provision for income taxes, classified by the timing and location of payment, was as follows:

(millions)	1997	1996	1995
CURRENT			
U.S.	$221.9	$153.7	$178.4
State	9.1	3.0	0.9
Non-U.S.	24.7	4.3	1.7
Total Current	255.7	161.0	181.0
DEFERRED			
U.S.	22.1	71.9	19.2
State	0.1	3.3	3.8
Non-U.S.	(28.0)		
Total Deferred	(5.8)	75.2	23.0
Amortization of deferred investment tax credits—net	(16.9)	(16.9)	(16.9)
Total Provision	$233.0	$219.3	$187.1

The components of deferred income tax expense are as follows:

(millions)	1997	1996	1995
Liberalized depreciation	$ 4.1	$ 53.8	$ 56.6
Indirect construction costs	4.9	3.4	(13.8)
Other plant related items	5.1	12.6	12.1
Deferred fuel	(3.3)	19.1	(2.2)
Separation costs	6.5	(2.6)	(12.4)
MBS basis differences	24.6		
Deferred capacity	14.4	3.2	(3.8)
Contingent claims	(25.9)	(0.1)	(1.2)
Tax rate change	(16.6)		
Deferred state taxes	0.1	3.3	3.8
Other, net	(19.7)	(17.5)	(16.1)
Total	$ (5.8)	$ 75.2	$ 23.0

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	1997	1996	1995
U.S. statutory rate	35%	35%	35%
Preferred dividends of Virginia Power	1.8	1.8	2.5
Amortization of investment tax credits	(2.5)	(2.4)	(2.7)
Nonconventional fuel credit	(3.7)	(3.8)	(4.5)
Benefits and taxes related to foreign operations	4.3	0.2	0.3
State taxes net of federal benefit	0.9	0.6	0.5
Other, net	(1.5)	(0.1)	(0.9)
Effective tax rate	34.3%	31.3%	30.2%

The effective income tax rate includes state and foreign income taxes.

The 1997 budget of the new Labour government in the United Kingdom reduced the corporate income tax rate to 31% effective April 1, 1997. Income tax expense from continuing operations has been reduced by $16.6 million to reflect the decrease in deferred tax liabilities resulting from the 2 percent decrease in the corporate tax rate.

Dominion Resources net noncurrent deferred tax liability is attributable to:

(millions)	1997	1996
ASSETS:		
Deferred investment tax credits	$ 84.4	$ 90.3
Other	192.3	
Total deferred income tax asset	276.7	90.3
LIABILITIES:		
Depreciation method and plant basis differences	1,924.2	1,463.5
Income taxes recoverable through future rates	169.5	168.8
Partnership basis differences	126.4	130.3
Other	75.0	71.0
Total deferred income tax liability	2,295.1	1,833.6
Net deferred income tax liability	$2,018.4	$1,743.3

NOTE C | Regulatory Assets

Certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets and are recognized in income as the related amounts are included in rates and recovered from customers. Virginia Power's regulatory assets included the following:

At December 31, (millions)	1997	1996
Deferred capacity expenses	$ 47.3	$ 6.1
Income taxes recoverable through future rates	478.9	477.0
Cost of decommissioning DOE uranium enrichment facilities	67.6	73.5
Deferred losses on reacquired debt, net	85.4	91.5
North Anna Unit 3 project termination costs	42.3	73.1
Other	55.1	52.7
Total	$776.6	$773.9

The costs of decommissioning the Department of Energy's (DOE) uranium enrichment facilities have been deferred and represent the unamortized portion of Virginia Power's required contributions to a fund for decommissioning and decontaminating the DOE's uranium enrichment facilities. Virginia Power is making such contributions over a 15-year period with escalation for inflation. These costs are being recovered in fuel rates.

The construction of North Anna Unit 3 was terminated in November 1982. All retail jurisdictions have permitted recovery of the incurred costs. For Virginia and FERC jurisdictional customers, the amounts deferred are being amortized from the date termination costs were first includible in rates.

The incurred costs underlying these regulatory assets may represent expenditures by Virginia Power or may represent the recognition of liabilities that ultimately will be settled at some time in the future. For some of those regulatory assets representing past expenditures that are not included in Virginia Power's rate base or used to adjust Virginia Power's capital structure, Virginia Power is not allowed to earn a return on the unrecovered balance. Of the $776.6 million of regulatory assets at December 31, 1997, Virginia Power does not earn a return on $15.4 million of regulatory assets, effectively excluded from rate base, to be recovered over various recovery periods up to 21 years, depending on the nature of the deferred costs.

In addition, Virginia Power's depreciation practices for early retirements of plant and equipment and cost of removal, along with changing operating plant scenarios, have resulted in an accumulated depreciation reserve deficiency estimated to be $235 million at December 31, 1997. The reserve deficiency results from deferral of costs in conformity with regulatory depreciation practices authorized by regulatory commissions having jurisdiction over Virginia Power's operations. Currently, Virginia Power is allowed to amortize reserve deficiencies over estimated remaining functional plant lives in all of the regulatory jurisdictions it serves.

NOTE D | Jointly Owned Plants

The following information relates to Virginia Power's proportionate share of jointly owned plants at December 31, 1997.

	Bath County Pumped Storage Station	North Anna Power Station	Clover Power Station
Ownership interest	60.0%	88.4%	50.0%
(millions)			
Utility plant in service	$1,072.9	$1,819.4	$533.3
Accumulated depreciation	229.1	819.2	26.3
Nuclear fuel		403.6	
Accumulated amortization of nuclear fuel		383.4	
Construction work in progress	0.1	61.2	1.1

The co-owners are obligated to pay their share of all future construction expenditures and operating costs of the jointly owned facilities in the same proportions as their respective ownership interest. Virginia Power's share of operating costs is classified in the appropriate expense category in the Consolidated Statements of Income.

NOTE E Short-Term Debt

Dominion Resources and its subsidiaries have credit agreements with various expiration dates. These agreements provided for maximum borrowings of $5,402.6 million and $3,882.4 million at December 31, 1997 and 1996, respectively. At December 31, 1997 and 1996, $1,907.3 million and $714.5 million, respectively, was borrowed under such agreements and classified as long-term debt.

Dominion Resources credit agreements supported $403.4 million and $308 million of Dominion Resources commercial paper at December 31, 1997 and 1996, respectively.

Virginia Power has an established commercial paper program with a maximum borrowing capacity of $500 million which is supported by two credit facilities. One is a $300 million, five-year credit facility that was effective on June 7, 1996 and expires on June 7, 2001. The other is a $200 million credit facility, also effective June 7, 1996, with an initial term of 364 days and provisions for subsequent 364-day extensions. It was renewed on June 6, 1997 for 364 days. The total amount of commercial paper outstanding was $226.2 million and $312.4 million at December 31, 1997 and 1996, respectively.

A subsidiary of Dominion Capital also had $85.5 million and $91 million of nonrecourse commercial paper outstanding at December 31, 1997 and 1996, respectively. East Midlands has a commercial paper program with a limit of 200 million pounds sterling ($329 million). The program is supported by 200 million pounds sterling ($329 million) five-year revolving credit facility and is utilized principally to fund its operations. There was no commercial paper outstanding at December 31, 1997. A total of $385.5 million and $390 million of the commercial paper was classified as long-term debt at December 31, 1997 and 1996, respectively. The commercial paper is supported by revolving credit agreements that have expiration dates extending beyond one year. Dominion Resources and its subsidiaries pay fees in lieu of compensating balances in connection with these credit agreements. A summary of short-term debt outstanding at December 31 follows:

(millions, except percentages)	Amount Outstanding	Weighted Average Interest Rate
1997		
Commercial paper	**$329.6**	**5.8%**
Term-notes	**45.5**	**7.3%**
Total	**$375.1**	
1996		
Commercial paper	$320.5	5.5%
Term-notes	57.7	7.4%
Total	$378.2	

NOTE F Investment Securities

Securities classified as available-for-sale as of December 31 follow:

Security Type (millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
1997				
Equity	**$185.3**	**$10.9**	**$ 5.4**	**$190.8**
1996				
Equity	$635.8	$ 8.2	$10.1	$633.9
Debt	58.5			58.5

Debt securities held at December 31, 1996 do not have stated contractural maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

For the years ended December 31, 1997 and 1996, the proceeds from the sales of available-for-sale securities were $122.2 million and $33.4 million, respectively. The gross realized gains and losses were $12.8 million and $0.5 million for 1997 and $2.4 million and $1 million for 1996, respectively. The basis on which the cost of these securities was determined is specific identification. The changes in net unrealized holding gain or loss on available-for-sale securities has resulted in an increase in the separate component of shareholders equity during the years ended December 31, 1997 and 1996 of $8.4 million, net of tax, and $5.6 million, net of tax, respectively. The gross realized gains and losses included in earnings from transfers of securities from the available-for-sale category into the trading category was $5 million and $3.6 million, respectively. The changes in net realized holding gain or loss on trading securities increased earnings during the years ended December 31, 1997 and 1996 by $0.6 million and $3.1 million, respectively.

NOTE G | Fair Value of Financial Instruments

The fair value amounts of Dominion Resources' financial instruments have been determined using available market information and valuation methodologies deemed appropriate in the opinion of management. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the company could realize in a current market exchange. The use of different market assumptions and/or estimation assumptions may have a material effect on the estimated fair value amounts.

	Carrying Amount		Estimated Fair Value	
December 31, (millions)	1997	1996	1997	1996
ASSETS:				
Cash and cash equivalents	$ 321.6	$ 110.8	$ 321.6	$ 110.8
Trading securities	240.7	16.4	240.7	16.4
Mortgage loans in warehouse	88.2	65.8	91.4	67.9
Available-for-sale securities	190.8	692.4	190.8	692.4
Loans receivable	959.0		987.3	
Nuclear decommissioning trust funds	569.1	443.3	569.1	443.3
LIABILITIES:				
Short-term debt	$ 375.1	$ 378.2	$ 375.1	$ 378.2
Long-term debt	8,809.6	5,478.3	9,151.0	5,560.3
PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	$ 385.0	$ 135.0	$ 387.7	$ 135.0
PREFERRED STOCK	$ 180.0	$ 180.0	$ 186.6	$ 185.8
LOAN COMMITMENTS			$ 675.9	$ 547.0
DERIVATIVES—RELATING TO:				
Foreign currency risk		$ 9.8	$ (26.8)	$ 9.8
Natural gas options in a net receivable (payable) position	$ 0.1	$ 0.6	$ 0.8	$ (0.6)

CASH AND CASH EQUIVALENTS The carrying amount of these items is a reasonable estimate of their fair value.

INVESTMENT SECURITIES AND NUCLEAR DECOMMISSIONING TRUST FUNDS The estimated fair value is determined based on quoted market prices, dealer quotes, and prices obtained from independent pricing sources.

MORTGAGE LOANS IN WAREHOUSE The fair value of mortgage loans in warehouse is based on outstanding commitments from investors.

LOANS RECEIVABLE The carrying value approximates fair value due to the variable rate or term structure of the notes receivable.

SHORT-TERM DEBT AND LONG-TERM DEBT Market values are used to determine the fair value for debt securities for which a market exists. For debt issues that are not quoted on an exchange, interest rates currently available to the company for issuance of debt with similar terms and remaining maturities are used to estimate fair value. The carrying amount of debt issues with short-term maturities and variable rates that are refinanced at current market rates is a reasonable estimate of their fair value.

PREFERRED SECURITIES OF SUBSIDIARY TRUSTS The fair value is based on market quotations.

PREFERRED STOCK The fair value of the fixed-rate preferred stock subject to mandatory redemption was estimated by discounting the dividend and principal payments for a representative issue of each series over the average remaining life of the series.

LOAN COMMITMENTS The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

FOREIGN CURRENCY CONTRACTS The fair value of foreign currency contracts is estimated by obtaining quotes from brokers.

INTEREST RATE SWAPS The fair value of interest rate swaps (used for hedging purposes) is the estimated amount that the company would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. Net market value at December 31, 1997 and 1996 was immaterial.

NATURAL GAS OPTIONS The fair value of natural gas options (used for hedging purposes) is estimated by obtaining quotes from bankers.

FUTURES CONTRACTS Derivatives used as hedging instruments are off-balance sheet items marked-to-market with any unrealized gains or losses deferred until the related loans are securitized or sold. Net market value at December 31, 1997 and 1996 was immaterial.

NOTE H | Long-Term Debt

At December 31, (millions)	1997	1996
VIRGINIA POWER FIRST AND REFUNDING MORTGAGE BONDS(1):		
Series U, 5.125%, due 1997		$ 49.3
1992 Series B, 7.25%, due 1997		250.0
1988 Series A, 9.375%, due 1998	$ 150.0	150.0
1992 Series F, 6.25%, due 1998	75.0	75.0
1989 Series B, 8.875%, due 1999	100.0	100.0
1993 Series C, 5.875%, due 2000	135.0	135.0
Various series, 6.75%-7.625%, due 2007	415.0	215.0
Various series, 6%-8%, due 2001-2004	805.0	805.0
Various series, 5.45%-8.75%, due 2021-2025	1,144.5	1,144.5
TOTAL FIRST AND REFUNDING MORTGAGE BONDS	2,824.5	2,923.8
OTHER LONG-TERM DEBT:		
DOMINION RESOURCES:		
Commercial paper(2)	300.0	300.0
VIRGINIA POWER:		
Term notes, fixed interest rate, 6.15%-10%, due 1996-2003	551.1	503.1
Tax exempt financings(3):		
Money market municipals, due 2007-2027(4)	488.6	488.6
Convertible interest rate, due 2022	10.0	
DOMINION UK:		
Eurobonds, fixed rate, 8.125%-12%, due 2006-2016	643.2	
Senior notes, fixed rate, 7.10%-7.45%, due 2002-2007	822.6	
Revolving credit agreement, due 2001(5)	857.1	342.5
Term loan, due 2002(6)	329.0	
Loan notes, due 2007(7)	19.6	
Revolving credit agreement, due 1998(8)	27.1	
Revolving credit agreement, due 2002(9)	28.0	
Finance lease(10)	255.5	
Other borrowings(11)	16.4	
TOTAL OTHER LONG-TERM DEBT	4,348.2	1,634.2
NONRECOURSE—NONUTILITY:		
DOMINION RESOURCES:		
Bank loans, 9.25%, due 2008	19.7	20.8
DOMINION ENERGY:		
Revolving credit agreements, due 2001(12)	255.0	320.0
Term loan, fixed rate, 5.445%, due 1998	15.0	35.0
Bank loans, fixed rate, 9.70%-9.92%, due 2005	20.0	32.5
Bank loans, 4.5%-6.64%, due 1996-2024	45.2	53.0
Term loan, due 2002(13)	8.0	

(continued)

At December 31, (millions)	1997	1996
DOMINION CAPITAL:		
Senior notes:(14)		
Fixed rate, 6.12%, due 2000	50.0	50.0
Fixed rate, 7.60%, due 2003	46.0	46.0
Term note, fixed rate, 12.1%, due 2006	44.6	44.1
Line of Credit, due 1998(15)	57.7	57.2
Note payable, fixed rate, 6.04%, due 2002	50.0	26.8
Term loan, fixed rate, 6.00%, due 1996-1997		5.0
Commercial paper(16)	85.5	90.0
Term loan, fixed rate, 6.5%, due 2001	38.0	47.2
Medium term notes, fixed rates, 4.93%-6.25%, due 1996-1998	134.0	104.0
Term loan, fixed rates, 6.5%-11.25%, due 1996-2001	13.0	13.5
Term loan, due 2008(17)	99.2	
Revolving credit agreement(18)	6.8	
Revolving credit agreement(19)	675.3	
TOTAL—NONUTILITY DEBT	1,663.0	945.1
LESS AMOUNTS DUE WITHIN ONE YEAR:		
First and refunding mortgage bonds	225.0	299.3
Loans	433.4	12.0
Nonrecourse—nonutility	955.2	119.7
TOTAL AMOUNT DUE WITHIN ONE YEAR	1,613.6	431.0
LESS UNAMORTIZED DISCOUNT, NET OF PREMIUM	26.1	24.8
TOTAL LONG-TERM DEBT	$7,196.0	$5,047.3

(1) Substantially all of Virginia Power's property is subject to the lien of the mortgage, securing its First and Refunding Mortgage Bonds.
(2) See Note E to the Consolidated Financial Statements.
(3) Certain pollution control equipment at Virginia Power's generating facilities has been pledged or conveyed to secure these financings.
(4) Interest rates vary based on short-term tax-exempt market rates. For 1997 and 1996, the weighted average daily interest rates were 3.74% and 3.57%, respectively. Although these bonds are re-marketed within a one year period, they are classified as long-term debt because Virginia Power intends to maintain the debt and it is supported by long-term bank commitments.
(5) The weighted average interest rate was 6.9% during 1997.
(6) The weighted average interest rate was 7.56% during 1997.
(7) The weighted average interest rate was 5.81% during 1997.
(8) The weighted average interest rate was 7.66% during 1997.
(9) The weighted average interest rate was 7.76% during 1997.
(10) The weighted average interest rate was 4.6% during 1997.
(11) The weighted average interest rate was 7.58% during 1997.
(12) The weighted average interest rates during 1997 and 1996 were 6.06% and 5.89%, respectively.
(13) The weighted average interest rate was 3.94% during 1997.
(14) The Rincon Securities common stock owned by Dominion Capital is pledged as collateral to secure the loan.
(15) The weighted average interest rates during 1997 and 1996 were 6.24% and 6.24%, respectively.
(16) The weighted average interest rates during 1997 and 1996 were 5.57% and 5.37%, respectively.
(17) The weighted average interest rate was 7.67% during 1997.
(18) The weighted average interest rate was 5.63% during 1997.
(19) The weighted average interest rate was 6.19% during 1997.

Maturities (including sinking fund obligations) through 2002 are as follows (in millions): 1998-$1,613.6; 1999-$826; 2000-$349.1; 2001-$432.6; and 2002-$1,098.3.

NOTE I Common Stock

During 1996 the company purchased on the open market and retired 136,800 shares of common stock for an aggregate price of $5.5 million. On July 8, 1996, the company established Dominion Direct Investment which continues and expands the Automatic Dividend Reinvestment and Stock Purchase Plan. From 1995 through 1997, the following changes in common stock occurred:

	1997		1996		1995	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding	Amount
(millions)						
Balance at January 1	181.2	$3,471.4	176.4	$3,303.5	172.4	$3,157.6
Changes due to:						
Dominion Direct Investment	3.7	142.2	1.9	70.9		
Automatic Dividend Reinvestment and Stock Purchase Plan			1.4	55.1	2.9	107.6
Stock Purchase Plan for Customers of Virginia Power			1.0	23.2	1.4	45.8
Employee Savings Plan	0.9	34.0	0.5	20.5	0.2	8.3
Wolverine acquisition	1.9	21.4				
Stock repurchase and retirement			(0.1)	(5.5)	(0.7)	(24.8)
Other	0.1	4.6	0.1	3.7	0.2	9.0
Balance at December 31	187.8	$3,673.6	181.2	$3,471.4	176.4	$3,303.5

NOTE J Long-Term Incentive Plan

A long-term incentive plan (the Plan) provides for the granting of nonqualified stock options and restricted stock to certain employees of Dominion Resources and its affiliates. The aggregate number of shares of common stock that may be issued pursuant to the Plan is 3,750,000. The changes in share and option awards under the Plan were as follows:

	Restricted Shares	Weighted Average Price	Stock Options	Weighted Average Price	Shares Exercisable
Balance at December 31, 1994	41,186	$41.05	11,076	$29.36	11,076
Awards granted—1995	25,320	$37.63			
Exercised/distributed	(21,576)	$38.60			
Balance at December 31, 1995	44,930	$40.92	11,076	$29.36	11,076
Awards granted—1996	79,784	$41.76			
Exercised/distributed	(29,433)	$39.94	(475)	$29.63	
Balance at December 31, 1996	95,281	$41.61	10,601	$29.34	10,601
Awards granted—1997	53,884	$35.24			
Exercised/distributed/forfeited	(44,399)	$39.42	(4,800)	$29.25	
Balance at December 31, 1997	104,766	$39.29	5,801	$29.42	5,801

In 1995, the FASB issued SFAS No. 123, "Accounting for Stock Based Compensation." However, the company continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for the plan. Accordingly, no compensation expense has been recognized for stock options awarded. Had compensation cost for the company's plan been determined consistent with the methodology prescribed under SFAS No. 123 there would have been no significant impact on the company's operations for the years ended December 31, 1997 and 1996.

East Midlands launched sharesave plans in December 1997 under which employees, who enter into Inland Revenue approved savings contract for periods of three or five years, are granted options to purchase shares in Dominion Resources common stock. Under these arrangements options were granted on December 22, 1997, on 149,881 shares to 918 employees under the three year plan and on 514,947 shares to 1,511 employees under the five year plan.

No charge has been made to the income statement for the year ended December 31, 1997 with respect to the 20% discount on the market price of the options on their date of issue. The discount will be recorded as compensation expense over the periods of the plans.

NOTE K Obligated Mandatorily Redeemable Preferred Securities of Dominion Resources and Virginia Power Subsidiary Trusts

In December 1997, Dominion Resources established Dominion Resources Capital Trust I (DR Capital Trust). DR Capital Trust sold 250,000 shares of Capital Securities for $250 million, representing preferred beneficial interests and 97 percent beneficial ownership in the assets held by DR Capital Trust. Dominion Resources issued $257.7 million of 7.83% Junior Subordinated Debentures (Debentures) in exchange for the $250 million realized from the sale of the Capital Securities and $7.7 million of common securities of DR Capital Trust. The common securities represent the remaining 3 percent beneficial ownership interest in the assets held by DR Capital Trust. The Debentures constitute 100 percent of DR Capital Trust assets. The Debentures are due December 1, 2027. The distribution rate on the Capital Securities and the interest rate on the Debentures are each subject to increase if Dominion Resources and DR Capital Trust do not comply with an agreement they made to exchange the Capital Securities and the Debentures, which were not registered under the securities laws at the time of issuance, for registered substantially identical securities within 180 days after the date of original issuance. Dominion Resources may redeem the Debentures prior to December 1, 2007 under certain conditions at a specified redemptive price. The Debentures may be redeemed on or after December 1, 2007 at another redemptive price. The Capital Securities are subject to mandatory redemption upon repayment of the Debentures at maturity or earlier redemption. At redemption, each Capital Security shall be entitled to receive a liquidation amount of $1,000 plus accumulated distributions from December 8, 1997.

VP Capital Trust I (VP Capital Trust) was established as a subsidiary of Virginia Power for the sole purpose of selling $135 million of preferred securities (5.4 million shares at $25 par) in 1995. These securities represent preferred beneficial interests and 97 percent beneficial ownership in the assets held by VP Capital Trust. Virginia Power concurrently issued $139.2 million of its 1995 Series A, 8.05% Junior Subordinated Notes (the Notes) in exchange for the $135 million realized from the sale of the preferred securities and $4.2 million of common securities of VP Capital Trust. The preferred securities and the common securities represent the total beneficial ownership interest in the assets held by VP Capital Trust. The Notes are the sole assets of VP Capital Trust.

The preferred securities are subject to mandatory redemption upon repayment of the Notes at a liquidation amount of $25 plus accrued and unpaid distributions, including interest. The Notes are due September 30, 2025. However, that date may be extended up to an additional ten years if certain conditions are satisfied.

NOTE L Preferred Stock

Dominion Resources is authorized to issue up to 20,000,000 shares of preferred stock; however, no such shares are issued and outstanding.

Virginia Power has authorized 10,000,000 shares of preferred stock, $100 liquidation preference. Upon involuntary liquidation, dissolution or winding-up of Virginia Power, each share is entitled to receive $100 per share plus accrued dividends. Dividends are cumulative. Virginia Power preferred stock subject to mandatory redemption at December 31, 1997 was as follows:

Series	Shares Outstanding
$5.58	400,000(1)(2)
$6.35	1,400,000(1)(3)
Total	**1,800,000**

(1) Shares are non-callable prior to redemption.
(2) All shares to be redeemed on 3/1/00.
(3) All shares to be redeemed on 9/1/00.

There were no redemptions of preferred stock during 1997 and 1996. In 1995 Virginia Power redeemed 417,319 shares of its $7.30 dividend preferred stock subject to mandatory redemption.

At December 31, 1997 Virginia Power preferred stock not subject to mandatory redemption, $100 liquidation preference, is listed in the table below.

Dividend	Issued and Outstanding Shares	Entitled Per Share Upon Redemption
$5.00	106,677	$112.50
4.04	12,926	102.27
4.20	14,797	102.50
4.12	32,534	103.73
4.80	73,206	101.00
7.05	500,000	105.00(1)
6.98	600,000	105.00(2)
MMP 1/87(3)	500,000	100.00
MMP 6/87(3)	750,000	100.00
MMP 10/88(3)	750,000	100.00
MMP 6/89(3)	750,000	100.00
MMP 9/92 series A(3)	500,000	100.00
MMP 9/92 series B(3)	500,000	100.00
Total	**5,090,140**	

(1) Through 7/31/03 and thereafter to amounts declining in steps to $100.00 after 7/31/13.
(2) Through 8/31/03 and thereafter to amounts declining in steps to $100.00 after 8/31/13.
(3) Money Market Preferred (MMP) dividend rates are variable and are set every 49 days via an auction. The weighted average rates for these series in 1997, 1996, and 1995, including fees for broker/dealer agreements, were 4.71%, 4.48%, and 4.93%, respectively.

During the years 1995 through 1997, the following shares were redeemed:

Year	Dividend	Shares
1995	$7.45	400,000
1995	7.20	450,000

NOTE M Retirement Plan, Postretirement Benefits and Other Benefits

RETIREMENT PLAN Dominion Resources' Retirement Plan covers virtually all employees of Dominion Resources and its subsidiaries except for its U.K. subsidiary, East Midlands. The benefits are based on years of service and the employee's compensation. Dominion Resources funding policy is to contribute annually an amount that is in accordance with the provisions of the Employment Retirement Income Security Act of 1974. The majority of East Midlands' employees joined a pension plan that is administered for the United Kingdom's electricity industry. The assets of this plan are held in a separate trustee-administered fund that is actuarially valued every three years. East Midlands and its participating employees contribute to their pension plan.

The components of the provision for net periodic pension expense were as follows:

	1997			1996	1995
Year ending December 31, (millions)	Total Plans	U.S. Plan	Non U.S. Plan	U.S. Plan	U.S. Plan
Service costs benefits earned during the year	$ 50.1	$ 27.5	$ 22.6	$ 26.7	$ 23.4
Interest cost on projected benefit obligation	147.2	64.2	83.0	61.1	54.9
Actual return on plan assets	(231.0)	(136.1)	(94.9)	(92.9)	(172.3)
Net amortization and deferral	65.9	65.9		30.6	114.9
Net periodic pension cost	$ 32.2	$ 21.5	$ 10.7	$ 25.5	$ 20.9

The following table sets forth the Plan's funded status:

	1997			1996
As of December 31, (millions)	Total Plans	U.S Plan	Non U.S. Plan	U.S. Plan
Actuarial present value of benefit obligations:				
Accumulated benefit obligation:				
Vested	$1,730.9	$646.6	$1,084.3	$586.7
Non Vested	79.0	77.5	1.5	73.3
	$1,809.9	$724.1	$1,085.8	$660.0
Projected benefit obligation for service rendered to date	2,111.7	945.3	1,166.4	852.2
Plan assets at fair value, primarily listed stocks and corporate bonds	2,299.6	966.4	1,333.2	845.0
Plan assets in excess of (less than) projected benefit obligation	187.9	21.1	166.8	(7.2)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	(73.9)	15.8	(89.7)	40.4
Unrecognized prior service cost	4.1	4.1		4.7
Unrecognized net asset at January 1, being recognized over 16 years beginning 1986	(18.5)	(18.5)		(21.8)
Prepaid pension cost included in other assets	$ 99.6	$ 22.5	$ 77.1	$ 16.1

Significant assumptions used in determining net periodic pension cost and the projected benefit obligation were:

	1997		1996
As of December 31,	U.S. Plan	Non U.S. Plan	U.S. Plan
Discount rates	7.75%	6.75%	8.0%
Rates of increase in compensation levels	5.0%	4.75%	5.0%
Expected long-term rate of return	9.5%	7.00%	9.5%

POSTRETIREMENT BENEFITS Dominion Resources and its subsidiaries provide retiree health care and life insurance benefits through insurance companies with annual premiums based on benefits paid during the year. From time to time in the past, Dominion Resources and its subsidiaries have changed benefits. Some of these changes have reduced benefits. Under the terms of their benefit plans, the companies reserve the right to change, modify or terminate the plans. Net periodic postretirement benefit expense for 1997 and 1996 was as follows:

Year ending December 31, (millions)	1997	1996
Service cost	$ 12.7	$ 12.3
Interest cost	25.4	24.2
Return on plan assets	(25.3)	(16.6)
Amortization of transition obligation	12.1	12.1
Net amortization and deferral	13.4	7.2
Net periodic postretirement benefit expense	$ 38.3	$ 39.2

The following table sets forth the funded status of the plan:

As of December 31, (millions)	1997	1996
Fair value of plan assets	$ 176.6	$ 133.0
Accumulated postretirement benefit obligation:		
Retirees	$ 225.5	$ 202.7
Active plan participants	139.4	125.0
Accumulated postretirement benefit obligation	364.9	327.7
Accumulated postretirement benefit obligation in excess of plan assets	(188.3)	(194.7)
Unrecognized transition obligation	181.9	194.1
Unrecognized net experience gain	(1.3)	(3.0)
Accrued postretirement benefit cost	$ (7.7)	$ (3.6)

A one percent increase in the health care cost trend rate would result in an increase of $5.1 million in the service and interest cost components and a $39.9 million increase in the accumulated postretirement benefit obligation. Significant assumptions used in determining the postretirement benefit obligation were:

	1997	1996
Discount rates	**7.75%**	8.0%
Assumed return on plan assets	**9.0%**	9.0%
Medical cost trend rate	**6% for first year 5% for second year Scaling down to 4.75% beginning in the year 2000**	7% for first year 6% for second year Scaling down to 4.75% beginning in the year 2000

Virginia Power is recovering these costs in rates on an accrual basis in all material respects, in all jurisdictions. The funds being collected for other postretirement benefits accrual in rates, in excess of other postretirement benefits actually paid during the year, are contributed to external benefit trusts under Virginia Power's current funding policy. Employer provided health care benefits are not common in the United Kingdom due to the country's national health care system. Accordingly, East Midlands does not provide health care benefits to the majority of its employees.

NOTE N | Restructuring

In March 1995, Virginia Power announced the implementation phase of its Vision 2000 program. During this phase, Virginia Power began reviewing operations with the objective of outsourcing services where economical and appropriate, and re-engineering the remaining functions to streamline operations. The re-engineering process has resulted in outsourcing, decentralization, reorganization and downsizing for portions of Virginia Power's operations. As part of this process, Virginia Power has evaluated its utilization of capital resources in its operations to identify further opportunities for operational efficiencies through outsourcing or re-engineering of its processes.

Restructuring charges of $18.4 million, $64.9 million and $117.9 million in 1997, 1996 and 1995, respectively, included severance costs, purchased power contract restructuring and negotiated settlement costs, capital project cancellation costs, and other costs incurred directly as a result of the Vision 2000 initiatives. While Virginia Power may incur additional charges for severance in 1998, the amounts are not expected to be significant.

In 1995, Virginia Power established a comprehensive involuntary severance package for salaried employees who may no longer be employed as a result of these initiatives. Virginia Power is recognizing the cost associated with employee terminations as management identifies the positions to be eliminated. Severance payments are being made over a period not to exceed twenty months. Through December 31, 1997, management had identified 1,977 positions to be eliminated. The recognition of severance costs resulted in a charge to operations in 1997, 1996 and 1995 of $12.5 million, $49.2 million and $51.2 million, respectively. At December 31, 1997, 1,619 employees have been terminated and severance payments totaling $74 million have been paid. Virginia Power estimates that these staffing reductions will result in annual savings in the range of $80 million to $90 million for its restructured operations. However, such savings are being offset by salary increases, outsourcing costs and increased payroll costs associated with staffing for growth opportunities.

In an effort to minimize its exposure to potential stranded investment, Virginia Power is evaluating its long-term purchased power contracts and negotiating modifications to their terms, including cancellations, where it is determined to be economically advantageous to do so. Virginia Power also negotiated settlements with several other parties to terminate their rights to sell power to Virginia Power. The cost of contract modifications, contract cancellations and negotiated settlements was $3.8 million, $7.8 million and $8.1 million in 1997, 1996 and 1995, respectively. Virginia Power estimated that its annual future purchased power costs, including energy payments, would be reduced by up to $0.8 million, $5.8 million and $147 million for the 1997, 1996 and 1995 transactions, respectively. The cost of alternative sources of power that might ultimately be required as a result of these settlements is expected to be significantly less than the estimated reduction in purchased power costs.

Restructuring charges reported in 1995 included $37.3 million for the cancellation of a project to construct a facility to handle low level radioactive waste at Virginia Power's North Anna Power Station. Virginia Power concluded that the facility should not be completed due to the additional capital investment required, decreased Virginia Power volumes of low level radioactive waste resulting from improvements in station procedures and the availability of more economical offsite processing.

NOTE O | Accelerated Cost Recovery

In this increasingly competitive environment, Virginia Power has concluded that it is appropriate to utilize available savings and cost reductions, such as those generated by the Vision 2000 program (see Note N), to accelerate the write-off of existing unamortized regulatory assets. Not only will this strategically position Virginia Power in anticipation of competition, but it also reflects Virginia Power's commitment to mitigate its exposure to potentially stranded costs. Virginia Power identified savings of $38.4 million in 1997 and $26.7 million in 1996 which were used to establish a reserve for expected adjustments to regulatory assets. (See Note Q).

NOTE P | Derivative Transactions

Dominion Resources uses derivative financial instruments for the purposes of managing interest rate, natural gas price and foreign currency risks.

INTEREST RATE RISKS Saxon Mortgage, enters into forward delivery contracts, financial futures and options contracts for the purpose of reducing exposure to the effects of changes in interest rates on mortgage loans which the company has funded or has committed to fund. Gains and losses on such contracts relating to mortgage loans are recognized when the loans are sold. If the counterparties to the hedging transactions are unable to perform according to the terms of the contracts, the company may incur losses upon selling the mortgage loans at prevailing prices. As of December 31, 1997, Saxon has outstanding liabilities related to its hedging positions with certain counter parties a notional amount of $552.9 million. The deferred hedging losses, net, at December 31, 1997 and 1996 were immaterial.

FOREIGN CURRENCY RISKS In May 1997, Dominion UK issued $819 million of Yankee bonds. The bonds are denominated in U.S. dollars, exposing the company to foreign currency risk. Coincident with the issuance of the debt, Dominion UK acquired cross currency swaps to mitigate the foreign currency risk. The swaps are in effect until the debt matures in five and ten years, respectively. The cash settlement and the periodic payments under the hedge are treated as yield adjustments to the underlying debt and recognized over the period the bonds are outstanding. The notional amount of these swaps at December 31, 1997 was $819 million and the deferred hedging losses, net as of December 31, 1997 were immaterial.

NOTE Q | Commitments and Contingencies

As the result of issues generated in the course of daily business, the company is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies. While some of the proceedings involve substantial amounts of money, management believes that the final disposition of these proceedings will not have an adverse material effect on operations or the financial position of the company.

Virginia Power

REGULATORY MATTERS In March, 1997, the Virginia Commission issued an order that Virginia Power's base rates be made interim and subject to refund as of March 1, 1997. This order was the result of the Commission Staff's report on its review of Virginia Power's 1995 Annual Information Filing which concluded that the company's present rates would cause Virginia Power to earn in excess of its authorized return on equity. The Staff found that, for purposes of establishing rates prospectively, a rate reduction of $95.6 million may be necessary in order to realign rates to the authorized level.

Virginia Power filed an Alternative Rate Plan (ARP) in March 1997 based on 1996 financial information. Subsequently, the Commission consolidated the proceeding concerned with the 1995 Annual Informational Filing with the proceeding that includes the ARP proposed by the company. Opposing parties in the rate proceeding have made filings recommending rate reductions in excess of $200 million. The company is currently studying the filings of those parties. The Commission Staff is scheduled to make further filings in late February 1998. Hearings are scheduled to begin in late April 1998.

CONSTRUCTION PROGRAM Virginia Power has made substantial commitments in connection with its construction program and nuclear fuel expenditures, which are estimated to total $588.1 million (excluding AFC) for 1998. Virginia Power presently estimates that all of its 1998 construction expenditures, including nuclear fuel, will be met through cash flow from operations.

PURCHASED POWER CONTRACTS Since 1984, Virginia Power has entered into contracts for the long-term purchase of capacity and energy from other utilities, qualifying facilities and independent power producers. As of December 31, 1997, there were 57 nonutility generating facilities under contract to provide Virginia Power 3,277 megawatts of dependable summer capacity. The following table shows the minimum commitments as of December 31, 1997 for power purchases from utility and nonutility suppliers.

	Commitments	
(millions)	Capacity	Other
1998	$ 813.5	$ 154.9
1999	816.7	156.7
2000	723.8	92.0
2001	716.0	83.7
2002	721.1	81.5
After 2002	9,069.6	388.2
Total	**$12,860.7**	**$ 957.0**
Present value of the total	**$ 5,878.0**	**$ 553.3**

In addition to the commitments listed above, under some contracts, Virginia Power may purchase, at its option, additional power as needed. Payments for purchased power (including economy, emergency, limited-term, short-term, and long-term purchases) for the years 1997, 1996, and 1995 were $1,381 million, $1,183 million, and $1,093 million, respectively. For discussion of Virginia Power's efforts to restructure certain purchased power contracts (see Note N).

FUEL PURCHASE COMMITMENTS Virginia Power's estimated fuel purchase commitments for the next five years for system generation are as follows (millions): 1998-$293; 1999-$233; 2000-$144; 2001-$144; and 2002-$127.

ENVIRONMENTAL MATTERS Environmental costs have been historically recovered through the ratemaking process; however, should material costs be incurred and not recovered through rates, Virginia Power's results of operations and financial condition could be adversely impacted.

The EPA has identified Virginia Power and several other entities as Potentially Responsible Parties (PRPs) at two Superfund sites located in Kentucky and Pennsylvania. The estimated future remediation costs for the sites are in the range of $61.5 million to $72.5 million. Virginia Power's proportionate share of the costs is expected to be in the range of $1.7 million to $2.5 million, based upon allocation formulas and the volume of waste shipped to the

sites. As of December 31, 1997, Virginia Power had accrued a reserve of $1.7 million to meet its obligations at these two sites. Based on a financial assessment of the PRPs involved at these sites, Virginia Power has determined that it is probable that the PRPs will fully pay the costs apportioned to them.

Virginia Power generally seeks to recover its costs associated with environmental remediation from third-party insurers. At December 31, 1997 pending claims were not recognized as an asset or offset against recorded obligations.

NUCLEAR INSURANCE The Price-Anderson Act limits the public liability of an owner of a nuclear power plant to $8.9 billion for a single nuclear incident. The Price-Anderson Amendments Act of 1988 allows for an inflationary provision adjustment every five years. Virginia Power has purchased $200 million of coverage from commercial insurance pools with the remainder provided through a mandatory industry risk-sharing program. In the event of a nuclear incident at any licensed nuclear reactor in the United States, Virginia Power could be assessed up to $81.7 million (including a 3 percent insurance premium tax for Virginia) for each of its four licensed reactors not to exceed $10.3 million (including a 3 percent insurance premium tax for Virginia) per year per reactor. There is no limit to the number of incidents for which this retrospective premium can be assessed.

Nuclear liability coverage for claims made by nuclear workers first hired on or after January 1, 1988, except those arising out of an extraordinary nuclear occurrence, is provided under the Master Worker insurance program. (Those first hired into the nuclear industry prior to January 1, 1988 are covered by the policy discussed above.) The aggregate limit of coverage for the industry is $400 million ($200 million policy limit with automatic reinstatements of an additional $200 million). Virginia Power's maximum retrospective assessment is approximately $12.3 million (including a 3 percent insurance premium tax for Virginia).

Virginia Power's current level of property insurance coverage ($2.55 billion for North Anna and $2.4 billion for Surry) exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per reactor site, and includes coverage for premature decommissioning and functional total loss. The NRC requires that the proceeds from this insurance be used first to return the reactor to and maintain it in a safe and stable condition, and second to decontaminate the reactor and station site in accordance with a plan approved by the NRC. Virginia Power's nuclear property insurance is provided by Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL), two mutual insurance companies, and is subject to retrospective premium assessments in any policy year in which losses exceed the funds available to these insurance companies. The maximum assessment for the current policy period is $37 million. Based on the severity of the incident, the boards of directors of Virginia Power's nuclear insurers have the discretion to lower the maximum retrospective premium assessment or eliminate either or both completely. For any losses that exceed the limits, or for which insurance proceeds are not available because they must first be used for stabilization and decontamination, Virginia Power has the financial responsibility.

Virginia Power purchases insurance from NEIL to cover the cost of replacement power during the prolonged outage of a nuclear unit due to direct physical damage of the unit. Under this program, Virginia Power is subject to a retrospective premium assessment for any policy year in which losses exceed funds available to NEIL. The current policy period's maximum assessment is $8.7 million.

As a joint owner of the North Anna Power Station, ODEC is responsible for its proportionate share (11.6 percent) of the insurance premiums applicable to that station, including any retrospective premium assessments and any losses not covered by insurance.

Dominion Resources

Under the terms of an investment agreement, Dominion Resources must provide contingent equity support to Dominion Energy in the amount of $47.4 million. Management believes the possibility of such support to Dominion Energy is remote.

Dominion Resources is guarantor to Dominion UK's revolving credit agreement. The revolving credit agreement is with Union Bank of Switzerland and various lending institutions. The total commitment of the agreement is 700 million pounds sterling ($1.2 billion). Under the agreement, Dominion Resources has guaranteed the prompt payment in full of amounts outstanding. In addition, if Dominion UK fails to pay when due any of the amounts outstanding, Dominion Resources is obligated to promptly pay the amount outstanding. This agreement expires on November 12, 2001.

Dominion UK

Dominion UK's indirect subsidiary, Corby Power Limited, has entered into long-term commitments to purchase gas. The contract commenced on October 1, 1993 and terminates on September 30, 2008. The following table shows the net present value of the commitments as of December 31, 1997.

(millions)	Commitments
1998	$ 82.3
1999	82.3
2000	88.8
2001	92.1
2002	93.8
After 2002	605.3
Total	**$1,044.6**
Present value of the total	**$ 683.5**

Dominion Energy

Dominion Energy, through certain wholly-owned subsidiaries, has general partnership interests in certain of its energy ventures. Accordingly, such subsidiaries may be called upon to fund future operation of these investments to the extent operating cash flow is insufficient.

In addition, Dominion Energy may be required to make payments under certain agreements on behalf of its energy ventures. As of December 31, 1997 no payments have been required.

Dominion Capital

At December 31, 1997, Dominion Capital had commitments to fund loans of approximately $672.9 million.

NOTE R | Acquisitions

EAST MIDLANDS ACQUISITION AND FINANCING In the first quarter of 1997, Dominion Resources acquired 100% indirect ownership of East Midlands by means of a cash tender offer commenced on November 22, 1996. Total consideration for the acquisition was $2.2 billion. The acquisition has been accounted for using the purchase method of accounting. The excess of the purchase price over the net assets acquired resulted in goodwill of $1.7 billion. (Net assets acquired consists of the fair value of tangible and identifiable intangible assets less the fair value of liabilities assumed by the purchaser.) The goodwill is being amortized over a 40-year period.

The following unaudited pro forma combined results of operations for the twelve months ended December 31, 1996 has been prepared assuming the acquisition of East Midlands had occurred at the beginning of the period. The pro forma results are provided for information only. The results are not necessarily indicative of the actual results that would have been realized had the acquisition occurred on the indicated dates, nor are they necessarily indicative of future results of operations of the combined companies.

	Twelve Months Ended December 31,		
	1997	1996	
	As Reported	As Reported	Pro Forma
CONSOLIDATED RESULTS			
(millions, except earnings per share amounts)			
Revenues	$7,677.6	$4,854.0	$6,924.2
Net income*	$ 399.2	$ 472.1	$ 598.8
Earnings per share*	$ 2.15	$ 2.65	$ 3.36

*1997 results include ($156.6) windfall profits tax ($0.85 per share).

NOTE S | Subsequent Events

On January 21, 1998, Dominion Resources issued 6.5 million shares of common stock. On January 27, 1998, the company sold an additional 275 thousand shares. Proceeds from the sale amounted to approximately $275 million. A portion of the funds was used to pay down part of the five-year revolving credit facility used to finance the purchase of East Midlands.

NOTE T | Business Segments

The company's principal business segments include Virginia Power, Dominion UK, Dominion Energy, Dominion Capital and corporate. The company's business segment information was:

BUSINESS SEGMENTS

(millions, except identifiable assets amounts)	1997	1996	1995
OPERATING REVENUES AND INCOME			
Virginia Power	$5,079.0	$4,420.9	$4,351.9
Dominion UK	1,970.1		
Dominion Capital	295.7	177.5	105.4
Dominion Energy	332.8	255.6	175.8
Consolidated	$7,677.6	$4,854.0	$4,633.1
OPERATING INCOME			
Virginia Power	$1,019.3	$1,010.0	$971.9
Dominion UK	246.6		
Dominion Capital	157.1	81.9	50.2
Dominion Energy	71.4	36.6	35.3
Corporate	(17.4)	(18.7)	(31.0)
Consolidated	$1,477.0	$1,109.8	$1,026.4
IDENTIFIABLE ASSETS			
(billions)			
Virginia Power	$ 12.0	$ 11.8	$ 11.8
Dominion UK	4.4		
Dominion Capital	2.1	1.1	0.9
Dominion Energy	1.6	1.6	1.1
Corporate	6.1	5.6	5.0
Eliminations	(6.0)	(5.2)	(4.9)
Consolidated	$ 20.2	$ 14.9	$ 13.9
DEPRECIATION AND AMORTIZATION			
Virginia Power	$ 584.3	$ 536.4	$ 503.5
Dominion UK	131.3		
Dominion Capital	17.5	6.8	3.0
Dominion Energy	85.0	69.9	42.6
Corporate	1.2	2.1	1.9
Consolidated	$ 819.3	$ 615.2	$ 551.0
CAPITAL EXPENDITURES			
Virginia Power	$ 481.8	$ 484.0	$ 577.5
Dominion UK	234.2		
Dominion Capital	7.8	17.7	1.9
Dominion Energy	11.7	176.0	25.1
Corporate	17.7	1.3	0.4
Consolidated	$ 753.2	$ 679.0	$ 604.9

NOTE U Quarterly Financial and Common Stock Data (unaudited)

The following amounts reflect all adjustments, consisting of only normal recurring accruals (except as disclosed below), necessary in the opinion of Dominion Resources' management for a fair statement of the results for the interim periods.

QUARTERLY FINANCIAL AND COMMON STOCK DATA—UNAUDITED

(millions, except per share amounts)	1997	1996
REVENUES AND INCOME		
First Quarter	$1,891.4	$1,223.9
Second Quarter	1,655.1	1,088.3
Third Quarter	2,094.3	1,327.3
Fourth Quarter	2,036.8	1,214.5
Year	$7,677.6	$4,854.0
INCOME BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTERESTS		
First Quarter	$ 255.0	$ 224.2
Second Quarter	124.3	144.3
Third Quarter	153.2	244.9
Fourth Quarter	146.3	87.6
Year	$ 678.8	$ 701.0
NET INCOME		
First Quarter	$ 169.9	$ 150.2
Second Quarter	79.1	94.2
Third Quarter	50.4	162.2
Fourth Quarter	99.8	65.5
Year	$ 399.2	$ 472.1
EARNINGS PER SHARE		
First Quarter	$ 0.92	$ 0.85
Second Quarter	0.43	0.53
Third Quarter	0.27	0.91
Fourth Quarter	0.53	0.36
Year	$ 2.15	$ 2.65
DIVIDENDS PER SHARE		
First Quarter	$ 0.645	$ 0.645
Second Quarter	0.645	0.645
Third Quarter	0.645	0.645
Fourth Quarter	0.645	0.645
Year	$ 2.58	$ 2.58
STOCK PRICE RANGE		
First Quarter	41 3/8-35 1/2	44 3/8-37 5/8
Second Quarter	36 3/4-33 1/4	40 1/4-37
Third Quarter	38 1/4-35 5/16	40-36 7/8
Fourth Quarter	42 7/8-34 7/8	41-37 1/8
Year	42 7/8-33 1/4	44 3/8-36 7/8

In the third quarter of 1997, East Midlands recorded a liability of approximately $157 million to reflect the anticipated one-time windfall tax levied by the UK government. The tax was levied on regional electric companies in the United Kingdom and is based on the privatized utilities' excess profits. East Midlands paid one-half of the tax levy in December 1997. The remaining payment is due in December 1998.

Certain accruals were recorded in 1997 and 1996 that are not ordinary, recurring adjustments, consisting of restructuring (see Note N) and accelerated costs recovery (see Note O).

Restructuring—Virginia Power expensed $0, $6.3 million, $1.4 million and $10.7 million during the first, second, third and fourth quarters of 1997, respectively, and $5.4 million, $19.3 million, $4.6 million and $35.6 million during the same periods in 1996.

Accelerated cost recovery—Amounts reserved for accelerated cost recovery were $0, $2.7 million, $28.3 million and $7.3 million during the first, second, third and fourth quarters of 1997, respectively, and $26.7 million during the fourth quarter of 1996.

Charges for restructuring and accelerated cost recovery reduced Balance Available for Common Stock by $0, $5.8 million, $19.3 million, and $11.7 million for the first, second, third, and fourth quarters of 1997, respectively and $3.5 million, $12.5 million, $3.0 million and $40.6 million for the same periods in 1996.

REPORT OF MANAGEMENT'S RESPONSIBILITIES

The management of Dominion Resources, Inc. is responsible for all information and representations contained in the Consolidated Financial Statements and other sections of the annual report. The Consolidated Financial Statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that Dominion Resources' and its subsidiaries' assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed and recorded in accordance with established procedures. Management recognizes the inherent limitations of any system of internal accounting control, and therefore cannot provide absolute assurance that the objectives of the established internal accounting controls will be met.

This system includes written policies, an organizational structure designed to ensure appropriate segregation of responsibilities, careful selection and training of qualified personnel, and internal audits. Management believes that during 1997 the system of internal control was adequate to accomplish the intended objectives.

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, independent auditors, whose designation by the Board of Directors was ratified by the shareholders. Their audits were conducted in accordance with generally accepted auditing standards and include a review of Dominion Resources' and its subsidiaries' accounting systems, procedures and internal controls, and the performance of tests and other auditing procedures sufficient to provide reasonable assurance that the Consolidated Financial Statements are not materially misleading and do not contain material errors.

The Audit Committees of the Boards of Directors, composed entirely of directors who are not officers or employees of Dominion Resources or its subsidiaries, meet periodically with independent auditors, the internal auditors and management to discuss auditing, internal accounting control and financial reporting matters and to ensure that each is properly discharged. Both independent auditors and the internal auditors periodically meet alone with the Audit Committees and have free access to the Committees at any time.

Management recognizes its responsibility for fostering a strong ethical climate so that Dominion Resources' affairs are conducted according to the highest standards of personal corporate conduct. This responsibility is characterized and reflected in Dominion Resources' Code of Ethics, which addresses potential conflicts of interest, compliance with all domestic and foreign laws, the confidentiality of proprietary information, and full disclosure of public information.

Dominion Resources, Inc.

Thos. E. Capps
Chairman, President and
Chief Executive Officer

James L. Trueheart
Vice President and
Controller

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF DOMINION RESOURCES, INC.

We have audited the accompanying consolidated balance sheets of Dominion Resources, Inc. and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income and retained earnings and of cash flows for each of the three years in the period ended December 31, 1997. These Consolidated Financial Statements are the responsibility of the company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

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

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Dominion Resources, Inc. and subsidiaries as of December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Richmond, Virginia
February 9, 1998

OUTSIDE DIRECTORS

4 1 2 4

John B. Adams, Jr., 53 (DRI/VP)
President & Chief Executive Officer
of The Bowman Companies,
manufacturer and bottler of
alcohol beverages,
Fredericksburg, Virginia.
Director since 1987.

2 4

John B. Bernhardt, 68 (DRI/VP/DCI)
Managing Director, Bernhardt/
Gibson Financial Opportunities,
financial services,
Newport News, Virginia.
Director since 1981.

2 3

James F. Betts, 65 (VP)
Former Chairman of the Board
and President, The Life
Insurance Company of Virginia,
Richmond, Virginia.
Director since 1978.

1 3

Jean E. Clary, 54 (VP)
President, Century 21
Clary and Associates, Inc.
South Hill, Virginia.
Director since 1996.

2 4

Kenneth A. Randall, 70 (DRI/VP/DEI)
Corporate director for various
financial companies,
Williamsburg, Virginia.
Director since 1971.

2 3 1 3 4

William T. Roos, 70 (DRI/VP/DCI)
Retired President of Penn
Luggage, Inc., retail specialty stores,
Hampton, Virginia.
Director since 1975.

1 3 4

Frank S. Royal, M.D., 58 (DRI/VP/DCI)
Physician,
Richmond, Virginia.
Director since 1994.

1 2

Judith Warrick Sack, 49 (DRI/VP/DEI)
Senior Advisor, Morgan Stanley
& Co., Inc., an investment banking
firm, New York, New York.
Director since 1989.

INSIDE DIRECTORS AND SUBSIDIARY PRESIDENTS

Thos. E. Capps, 62 (DRI/VP/EME/DEI/DCI)
Chairman of the Board, President & Chief
Executive Officer of Dominion Resources;
Chairman of the Board of all wholly
owned subsidiaries. Director since 1986.
13 years of service.

Norman Askew, 55 (VP)
President & Chief Executive Officer
of Virginia Power.
1 year of service.

Robert J. Davies, 49 (EME)
Chief Executive of East Midlands
Electricity plc.
1 year of service.

Thomas N. Chewning, 52 (EME/DEI/DCI)
President of Dominion Energy
& Executive Vice President of
Dominion Resources.
10 years of service.

DOMINION RESOURCES OFFICERS

Edgar M. Roach, Jr., 49
Executive Vice President
& Chief Financial Officer.
4 years of service.

Thomas F. Farrell, II, 43
Senior Vice President—Corporate Affairs.
3 years of service.

G. Scott Hetzer, 41
Vice President and Treasurer.
1 year of service.

William S. Mistr, 50
Vice President.
28 years of service.

James F. Stutts, 53
Vice President and General Counsel.
1 year of service.

James L. Trueheart, 46
Vice President & Controller.
20 years of service.

William C. Hall, Jr., 44
Assistant Vice President—Corporate
Communications.
14 years of service.

Karen E. Hunter, 43
Assistant Vice President—Financial Planning.
10 years of service.

Fred G. Wood, III, 34
Assistant Vice President—Investor Relations.
12 years of service.

Patricia A. Wilkerson, 42
Corporate Secretary.
20 years of service.

VIRGINIA POWER SENIOR OFFICERS AND TREASURER

Thomas F. Farrell, II, 43
Executive Vice President.
3 years of service.

Robert E. Rigsby, 48
Executive Vice President.
26 years of service.

William R. Cartwright, 55
Senior Vice President—Fossil & Hydro.
32 years of service.

Lawrence E. DeSimone, 50
Senior Vice President—Energy Services.
2 years of service.

Larry M. Girvin, 54
Senior Vice President—
Commercial Operations.
27 years of service.

John W. Harris, 50 (VP/DCI)
President, The Harris Group,
a consulting & real estate
development firm,
Charlotte, North Carolina.
Director since 1994.

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Benjamin J. Lambert, III, 61 (DRI/VP)
Optometrist, Richmond, Virginia.
Director since 1992.

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Richard L. Leatherwood, 58 (DRI/VP/DEI)
Retired, Baltimore, Maryland.
Director since 1994.

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Harvey L. Lindsay, Jr., 68 (DRI/VP)
Chairman & Chief Executive Officer,
Harvey Lindsay Commercial
Real Estate, Norfolk, Virginia.
Director since 1986.

1

S. Dallas Simmons, 58 (DRI/VP/DCI)
President, Virginia Union
University, Richmond, Virginia.
Director since 1992.

3
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4

Robert H. Spilman, 70 (DRI/VP/DEI)
Retired Chairman, Chief Executive
Officer, Bassett Furniture
Industries, Inc., Bassett, Virginia.
Director since 1994.

2
4

William G. Thomas, 58 (VP/EME)
President, Hazel & Thomas,
a law firm,
Alexandria, Virginia.
Director since 1987.

David A. Wollard, 60 (VP/DCI)
Retired President,
Bank One Colorado, N.A.,
Denver, Colorado.
Director since 1994.

David L. Heavenridge, 51 (EME/DEI/DCI)
President of Dominion Capital
& Executive Vice President of
Dominion Resources.
23 years of service.

COMPANIES:

DRI	Dominion Resources
VP	Virginia Power
EME	East Midlands
DEI	Dominion Energy
DCI	Dominion Capital

DOMINION RESOURCES COMMITTEES:

1 Audit
2 Finance
3 Nominating
4 Organization & Compensation

VIRGINIA POWER COMMITTEES:

1 Audit
2 Finance
3 Nominating
4 Organization & Compensation

James P. O'Hanlon, 54
Senior Vice President—Nuclear.
8 years of service.

Eva S. Teig, 53
Senior Vice President—External Affairs &
Corporate Communications.
8 years of service.

Said Ziai, 43
Senior Vice President—Corporate Strategy.
1 year of service.

J. Kennerly Davis, Jr., 52
Vice President—Finance & Administrative
Services, Treasurer & Corporate Secretary.
16 years of service.

EAST MIDLANDS SENIOR OFFICERS

Andrew N. Halford, 38
Finance Director.
1 year of service.

Christopher J. Boon, 51
Managing Director—Supply.
1 year of service.

Sally C. Smedley, 49
Human Resources Director.
1 year of service.

Keith Stanyard, 55
Managing Director—Distribution.
1 year of service.

DOMINION ENERGY SENIOR OFFICERS AND TREASURER

E. Wayne Harrell, 51
Senior Vice President—Power Generation.
28 years of service.

Godfrey E. Lake, Jr., 43
Senior Vice President—Oil & Gas Operations.
15 years of service.

John P. Finneran, Jr., 38
Vice President, Chief Financial Officer
and Treasurer.
2 years of service.

DOMINION CAPITAL SENIOR OFFICERS AND TREASURER

Charles E. Coudriet, 51
Senior Vice President.
2 years of service.

Hayden D. McMillian, 42
Senior Vice President and Chief
Financial Officer. 3 years of service.

Randolph W. Wyckoff, 50
Senior Vice President.
1 year of service.

Dennis W. Hedgepeth, 45
Vice President and Treasurer.
18 years of service.

(millions, except per share amounts and percentages)	1997	1996	1995	1994	1993	1992
Revenues and Income	**$ 7,677.6**	$ 4,854.0	$ 4,633.1	$ 4,491.1	$ 4,433.9	$ 3,791.1
Income before cumulative effect of a change in accounting principle	**$ 399.2**	$ 472.1	$ 425.0	$ 478.2	$ 516.6	$ 428.9
Cumulative effect on prior years of changing the method of accounting for income taxes						15.6
Net income	**$ 399.2**	$ 472.1	$ 425.0	$ 478.2	$ 516.6	$ 444.5
Total assets	**$20,192.7**	$14,896.4	$13,903.3	$13,562.2	$13,349.5	$12,615.1
Long-term debt, preferred stock subject to mandatory redemption and preferred securities of a subsidiary trust	**$ 7,761.0**	$ 5,362.3	$ 4,926.9	$ 4,934.2	$ 4,976.7	$ 4,667.4
Common stock data:						
Earnings per share before cumulative effect of a change in accounting principle	**$ 2.15**	$ 2.65	$ 2.45	$ 2.81	$ 3.12	$ 2.66
Cumulative effect on prior years of changing the method of accounting for income taxes						.10
Earnings per share	**$ 2.15**	$ 2.65	$ 2.45	$ 2.81	$ 3.12	$ 2.76
Dividends paid per share	**$ 2.58**	$ 2.58	$ 2.58	$ 2.55	$ 2.48	$ 2.40
Market value per share at year-end	**42.56**	38.50	41.25	36.00	45.38	39.50
Book value per share at year-end	**26.84**	27.13	26.88	26.60	26.38	25.21
Return on equity—average	**8.0%**	9.8%	9.2%	10.6%	12.2%	11.2%
Payout ratio	**120.0%**	97.4%	105.3%	90.7%	79.5%	87.0%
Price/earnings ratio at year-end	**19.8**	14.5	16.8	12.8	14.5	14.3
Outstanding shares of common stock						
—average	**185.2**	178.3	173.8	170.3	165.7	161.1
—actual (year-end)	**187.8**	181.2	176.4	172.4	168.1	163.8
Capitalization:*						
Long-term debt	**$ 7,156.3**	$ 4,533.4	$ 4,348.9	$ 4,384.1	$ 4,219.5	$ 4,111.8
Preferred securities	**385.0**	135.0	135.0			
Preferred stock	**689.0**	689.0	689.0	816.1	819.5	845.6
Common equity	**5,040.5**	4,915.2	4,742.0	4,586.1	4,435.9	4,131.3
Total capitalization	**$13,270.8**	$10,272.6	$ 9,914.9	$ 9,786.3	$ 9,474.9	$ 9,088.7
*Capitalization excludes:						
Nonrecourse-nonutility financing	**$ 1,663.0**	$ 945.1	$ 684.7	$ 727.1	$ 726.8	$ 593.4
Short-term debt	**$ 375.1**	$ 378.2	$ 236.6	$ 146.0	$ 262.8	$ 125.2
Property, plant and equipment:						
Electric utility	**$16,968.3**	$14,506.8	$14,201.6	$13,896.6	$13,376.1	$12,930.6
Nuclear fuel	**854.3**	843.8	836.0	817.2	814.1	754.6
Other	**1,696.6**	1,465.2	939.8	701.6	724.5	451.4
Total	**19,519.2**	16,815.8	15,977.4	15,415.4	14,914.7	14,136.6
Less accumulated depreciation, depletion and amortization	**6,986.6**	6,306.4	5,655.1	5,170.0	4,802.1	4,459.5
Net property, plant and equipment	**$12,532.6**	$10,509.4	$10,322.3	$10,245.4	$10,112.6	$ 9,677.1
CWIP included in property, plant and equipment	**$ 240.9**	$ 180.1	$ 512.1	$ 828.2	$ 913.1	$ 840.9

SHAREHOLDER INFORMATION

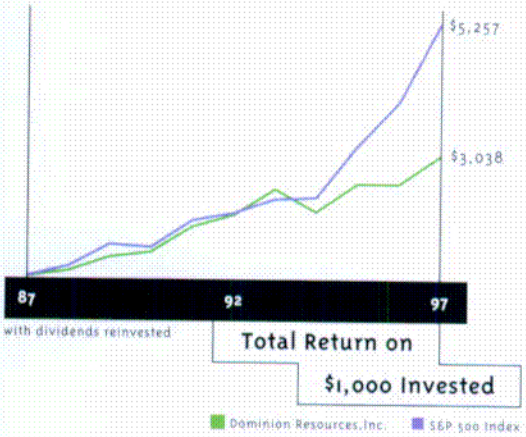
Dominion Resources, Inc. is the transfer agent and registrar for its common stock. Shareholder Administration provides personal assistance for any inquiries Monday through Friday from 9:00 a.m. to 4:00 p.m. (ET). In addition, our automated telephone system is available 24 hours a day for general information on stock transfers as well as the daily closing price.

1-800-552-4034 (TOLL FREE)
1-804-775-2500

BUY STOCK DIRECTLY

You may buy Dominion Resources common stock directly from the company through Dominion Direct Investment® with no brokerage fees.

Please contact Shareholder Administration for a prospectus and enrollment form or visit our website at www.domres.com.



Dividends on Dominion Resources common stock are paid as declared by the Board of Directors. Dividends are typically paid on the 20th of March, June, September and December. Over the past three years the quarterly dividend rate has been $.645 per share or $2.58 annually. Dividends can be paid by check or electronic deposit, or may be reinvested.

COMMON STOCK LISTING

New York Stock Exchange
Trading symbol: D
Newspaper listing: DominRes, DomRs

COMMON STOCK PRICE RANGE

	1997		1996	
	High	Low	High	Low
First Quarter	41 3/8	35 1/2	44 3/8	37 5/8
Second Quarter	36 3/4	33 1/4	40 1/4	37
Third Quarter	38 1/4	35 5/16	40	36 7/8
Fourth Quarter	42 7/8	34 7/8	41	37 1/8
Year	42 7/8	33 1/4	44 3/8	36 7/8

ANNUAL MEETING

The 1998 Annual Meeting of Shareholders of Dominion Resources, Inc. will be held Friday, April 17, at 9:30 a.m. in Charlottesville, Virginia, at the Charlottesville Performing Arts Center, Charlottesville High School, 1400 Melbourne Road.

CORPORATE STREET ADDRESS

Dominion Resources, Inc.
Riverfront Plaza—West Tower 17th Floor
901 East Byrd Street
Richmond, Virginia 23219-4069

MAILING ADDRESS

Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

WEBSITE AND E-MAIL ADDRESS

www.domres.com
Shareholder_Administration@domres.com.

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Richmond, Virginia

ADDITIONAL INFORMATION

Dominion Resources will provide, without charge, a copy of any of the following items:

- 1997 SEC Form 10-K (excluding exhibits).
- 1997 Statistical Summary and Financial Forecast.

Requests for these items should be made by writing to:
Investor Relations Department
Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

Or by e-mail to:
Dominion_Resources@domres.com

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Dominion Resources

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Richmond, Virginia 23261

BULK RATE
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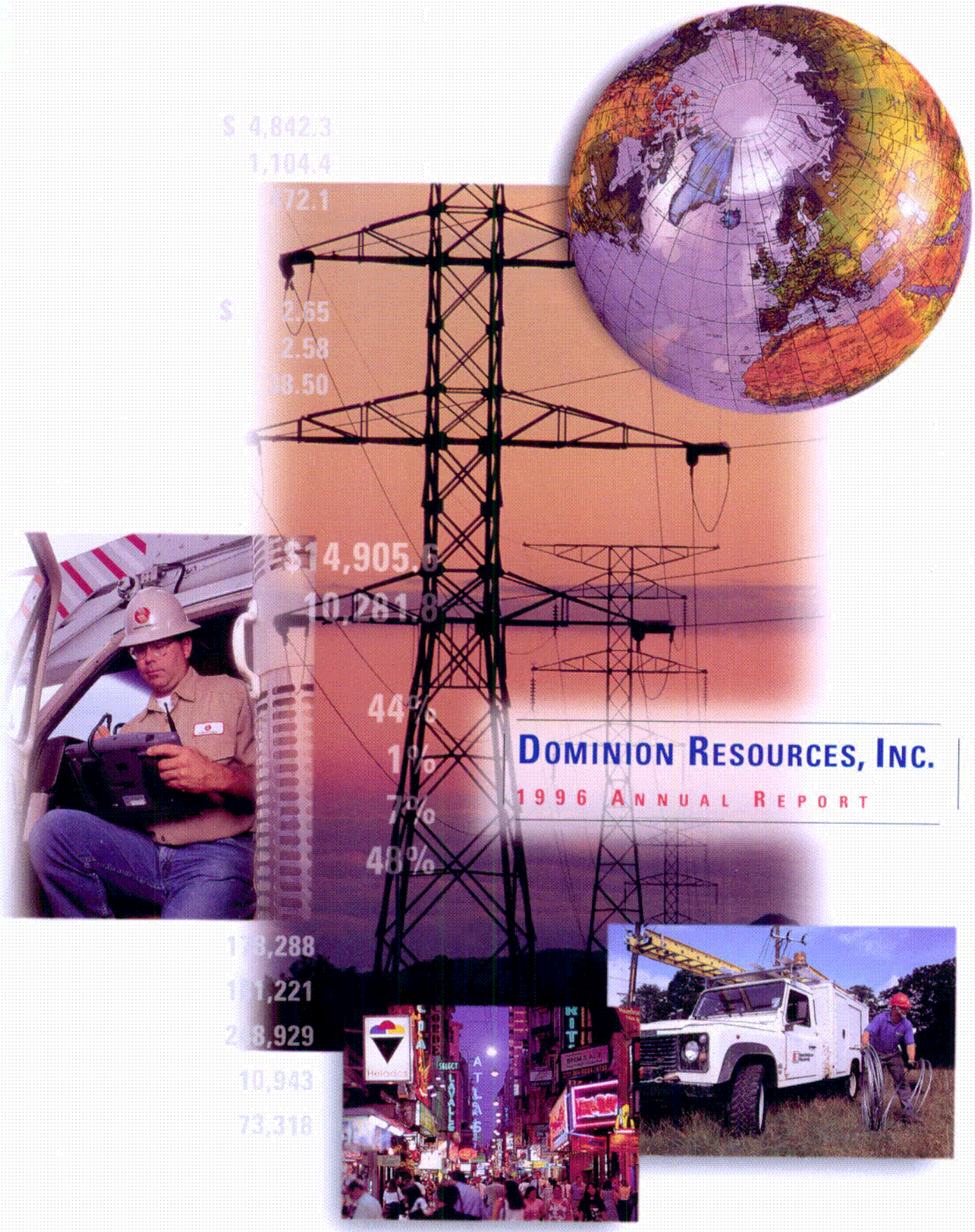


Dominion Resources, Inc.

1996 Annual Report

Dominion Resources

Dominion Resources, Inc. is a holding company headquartered in Richmond, Virginia. More than 350,000 individuals and institutions hold, directly or indirectly, shares of Dominion Resources, which trades on the New York Stock Exchange under the symbol "D".

The primary subsidiary is Virginia Power/North Carolina Power, an electric utility serving two million residences and businesses in a 30,000-square-mile region from populous northern Virginia to northeastern North Carolina. It owns and operates nuclear, coal, natural gas, oil and hydroelectric power stations.

Dominion Energy, Inc. is the independent power and natural gas subsidiary. It has ownership and operating interests in 27 generating facilities in six U.S. states, Argentina, Belize, Bolivia and Peru. The company has about 460 billion cubic feet of proven reserves throughout several major gas-producing regions of the United States.

Dominion Capital, Inc. is the financial services and real estate subsidiary, with commercial and mortgage lending entities, one of the Southeast's major full-service commercial real estate companies, a large hydroelectric station in Louisiana, and a variety of debt and equity investments.

Acquired early in 1997, East Midlands Electricity plc is the newest subsidiary of Dominion Resources. It is principally a power distribution company serving 2.3 million homes and businesses in the growing East Midlands region of the United Kingdom.

This annual report contains "forward-looking statements," including discussions as to what the company expects, believes or plans for the future, and future financial performance. These statements should be read in conjunction with the forward-looking information section of "Management's Discussion and Analysis of Operations," which can be found on page 29 of this annual report.

Consolidated Financial Highlights

	1996	1995	% Change
Operating Results (millions)			
Operating revenues and income	$ 4,842.3	$ 4,651.7	4.1
Operating income	1,104.4	1,028.0	7.4
Net income	472.1	425.0	11.1
Data Per Common Share			
Earnings	$ 2.65	$ 2.45	8.2
Dividends paid	2.58	2.58	0.0
Market value (year-end)	38.50	41.25	(6.7)
Book value (year-end)	27.17	26.88	1.1
Financial Position at December 31			
Assets (millions)	$14,905.6	$13,903.3	
Capitalization (millions)	10,281.8	9,914.9	
Capitalization ratios(*)			
Long-term debt and capital lease obligations	44%	44%	
Preferred securities of subsidiary trust	1%	1%	
Preferred stock	7%	7%	
Common equity	48%	48%	
Other Statistics			
Return on average common equity	9.8%	9.2%	
Market to book value (year-end)	141.7%	153.5%	
Common stock price range	44 3/8 – 36 7/8	41 5/8 – 34 7/8	
Outstanding shares of common stock (thousands)			
–average	178,288	173,845	
–actual (year-end)	181,221	176,414	
Number of registered common shareholders (year-end)	248,929	233,496	
Number of full-time employees	10,943	11,230	
Electric Sales (MWh-thousands)	73,318	68,953	6.3
Independent power generation (MWh-thousands)	5,749	5,189	10.8
Natural gas production (billion cubic feet equivalent)	51.9	36.5	42.2

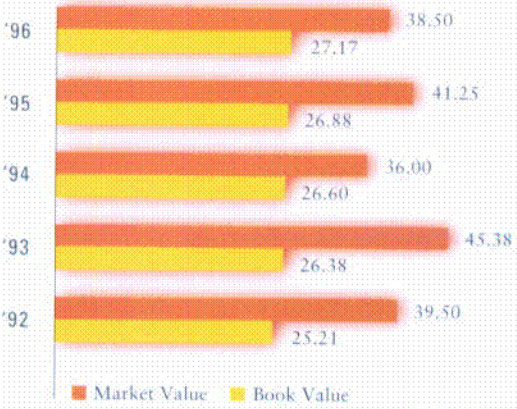
(*) Excludes nonrecourse-nonutility financing and short-term debt.

Earnings and Dividends

(Dollars Per Share)

Market and Book Value

(Dollars Per Share at Year-End)



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DEAR SHAREHOLDERS:

Your company had a very successful year in 1996. We continued to cut costs, grow earnings and sustain your dividend. We also initiated a successful bid for East Midlands Electricity, a large electric distribution company in Great Britain, as our fourth subsidiary.

In short, we're well positioned for growth in an era that finds many of our industry peers wringing their hands about the onset of competition in the electric utility industry.

William Butler Yeats didn't have electric power restructuring in mind when he wrote, many years ago: "Things fall apart; the center cannot hold. The best lack all conviction, while the worst are full of passionate intensity."

As competition comes to the electric utility industry, Dominion Resources neither "lacks all conviction" nor is "full of passionate intensity." But Yeats aptly described the current situation in which most of our industry now discovers itself.

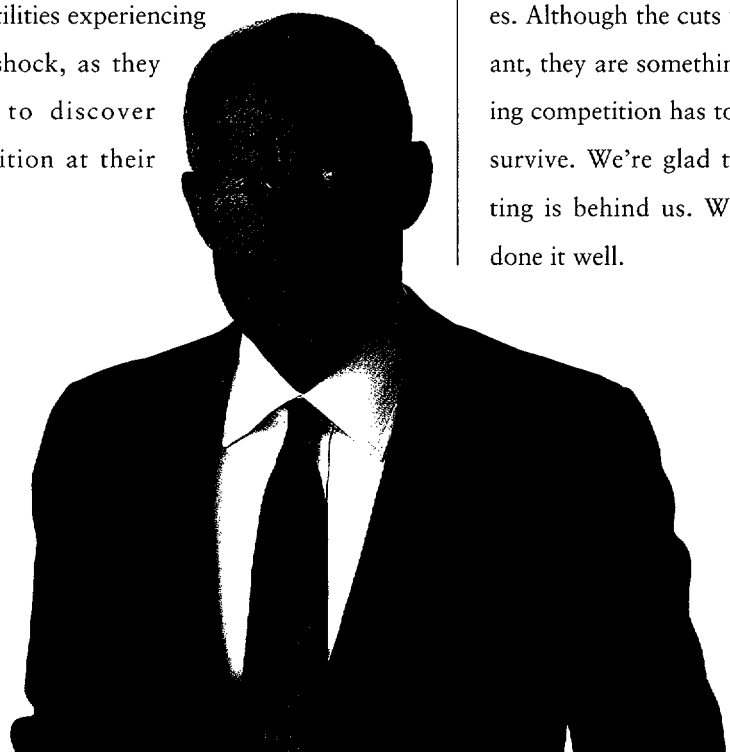
Change now sweeping our industry has many utilities experiencing future shock, as they awake to discover competition at their doorsteps. Some are suddenly reshaping operations at home. Others are seeking new revenues in foreign markets where the potential risks and rewards are high. That's not our style. We're not suddenly changing our strategy.

At Dominion Resources, we began our successful diversification program more than 10 years ago. That experience is the basis of all we do today, and it's helping us to build on our successes going forward.

WE'RE WELL POSITIONED FOR GROWTH IN AN ERA THAT FINDS MANY OF OUR INDUSTRY PEERS WRINGING THEIR HANDS ABOUT THE ONSET OF COMPETITION IN THE ELECTRIC UTILITY INDUSTRY.

Our strategies guide us toward continued earnings growth. Back in school we learned there are only three ways to grow earnings: 1) Cut costs, which we've already done exceedingly well; 2) Raise prices, which we won't do because we would lose customers to new competitors; or 3) Grow revenues, which we can and will do.

During the last several years at Virginia Power, we focused primarily on cutting costs –even though the utility is one of the lowest-cost producers in the nation. We've successfully reduced operation and maintenance expenses. Although the cuts were sometimes unpleasant, they are something every corporation facing competition has to undertake if it wants to survive. We're glad the bulk of the cost-cutting is behind us. We've done it, and we've done it well.



THOS. E. CAPPS

CHAIRMAN OF THE BOARD,
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

The second method of increasing earnings –raising prices–is not feasible for any corporation facing competition in the not-too-distant future. In a deregulated world the successful company is a price *taker*, not a price *setter*, because empowered consumers are going to demand lower prices.

Because we've already cut costs and can't increase prices, we're committed foursquare to increasing revenues. We'll accomplish this by increasing revenues from those assets that we already own–Virginia Power, Dominion Energy and Dominion Capital–and by acquiring new revenue-producing assets in lines of business in which we have expertise, such as East Midlands Electricity. To finance this growth and acquisition, we'll use the cash we generate and, when appropriate, funds from the sale of new stock for these purposes–but only when we can add value for you, our shareholder. Although we dedicated ourselves to increasing revenues several years ago, we'll intensify our efforts in 1997 and thereafter.

For example, at Virginia Power we're planning to utilize our generation assets and our telecommunications network more fully by selling to new customers in new markets. The challenge ahead will be for us to convert any surplus generating capacity into revenue. We're also seeking to increase revenues through various products and services that we can offer our customers. In fact, we'll offer them to customers in our service area and *beyond*. Virginia Power's Energy Services Business, which just completed its first full calendar year of operations on a high note, was designed for just that purpose.

WE'RE GLAD THE BULK OF THE COST-CUTTING IS BEHIND US. WE'VE DONE IT, AND WE'VE DONE IT WELL.

At Dominion Energy, we're finding new sources of revenue for earnings growth by exploring for and developing additional gas and oil reserves. We also purchase additional reserves. Look at our acquisition of Wolverine Gas & Oil at the beginning of 1997: With reserves of about 75 billion cubic feet, Wolverine is an excellent example of growing revenues through the purchase of additional reserves.

BECAUSE WE'VE ALREADY CUT COSTS AND CAN'T INCREASE PRICES, WE'RE COMMITTED FOURSQUARE TO INCREASING REVENUES. WE'LL ACCOMPLISH THIS BY INCREASING REVENUES FROM THOSE ASSETS THAT WE ALREADY OWN AND BY ACQUIRING NEW REVENUE-PRODUCING ASSETS IN LINES OF BUSINESS IN WHICH WE HAVE EXPERTISE.

Dominion Energy is also growing revenues through the purchase of generating assets in markets where demand outpaces supply. But the price must be reasonable. Our most recent purchase was last year in Peru, where growth in demand exceeds 6 percent annually, and we won a close bid for 405 megawatts of generating capacity.

At Dominion Capital, we're growing revenues from our financial services businesses in two ways. First, we purchase existing revenue streams from existing businesses. We accomplished this in 1995 by buying First Source Financial, which lends money to mid-sized corporations. Second, we can create new revenue streams. Two examples of this are Saxon Mortgage and Cambrian Capital. Saxon makes money through home mortgages and home equity loans, which are packaged and sold to institutional investors. Cambrian Capital helps finance independent natural gas and oil producers. And once we acquire or create new revenues, our mission is to grow them.

Our fourth and newest instrument for revenue growth is East Midlands Electricity. Based in Nottingham, England, East Midlands is an electric distribution company with about $2 billion in annual revenues. We expect that the purchase of East Midlands, which should be completed in early 1997, will add immediately to Dominion Resources' earnings.

OUR NEWEST INSTRUMENT FOR REVENUE GROWTH IS EAST MIDLANDS ELECTRICITY. EAST MIDLANDS HAS IN PLACE AN EXCELLENT MANAGEMENT TEAM THAT PROVIDES SUPERIOR SERVICE TO ITS 2.3 MILLION CUSTOMERS.

East Midlands has in place an excellent management team that provides superior service to its 2.3 million customers. Our job is to expand that customer base–not only the number of customers but also the services provided to those customers. In other words, we can grow revenues by getting more customers and by getting additional revenues from each customer.

We'll study the potential markets for those customers–markets in which we have strong expertise, such as gas and financial services. We can sell those products and services to our East Midlands customers through the business connection that we already have with them. They're already spending the money, so they'll simply channel those revenues toward Dominion Resources instead of some other company.

AT VIRGINIA POWER WE'RE PLANNING TO UTILIZE OUR GENERATION ASSETS AND OUR TELECOMMUNICATIONS NETWORK MORE FULLY BY SELLING TO NEW CUSTOMERS IN NEW MARKETS.

We try awfully hard not to fall in love with any asset. If we can't get it at a price at which we can expect to make money, we don't buy it. Our goal is to grow revenues–but not at the expense of earnings. In other words, we're not going to be big simply for the sake of being big.

Change in the electric utility industry is inevitable and accelerating. Unfortunately, the future is also clouded by an ill-advised rush to pass and implement sweeping federal legislation that would mandate retail competition in the industry. We oppose such draconian measures because we believe that this complex issue is best handled at the state level by state officials. And we urge our shareholders to actively oppose these proposals which have surfaced in Washington, D.C.

Still, many new business opportunities can be tapped through diversification by smart players. The shared initiatives among Dominion Resources' four strong operating subsidiaries will create significant synergies that, in turn, can create long-term profits for you, our owners.

We have our work cut out for us, but we believe we also have the right intellectual capital in place to successfully complete the task. I must confess that I'm looking forward to the future with neither trepidation nor timidity but with much excitement and enthusiasm.

Sincerely,

Thos. E. Capps

THOS. E. CAPPS

CHAIRMAN OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER

- *Derbyshire*
- *Nottinghamshire*
- *Lincolnshire*
- *Leicestershire*
- *Northamptonshire*
- *Coventry*

East Midlands Electricity. We welcome one of the strongest electric distribution and supply companies in the United Kingdom as the newest member of the Dominion Resources family. Late last year, we began the $2.2 billion purchase of East Midlands Electricity, which provides electric power to 2.3 million homes and businesses covering 6,200-square-miles in east central England. It's a prosperous and growing region two hours north of London with a population of more than 5 million.

East Midlands is primarily a distribution and supply company. It buys electricity from an electricity pool and sells it to domestic, commercial and industrial customers along its 41,600-mile network of overhead and underground cables. East Midlands' customers enjoy some of the lowest electricity prices in the country. In 1996, the company reduced prices for the fourth consecutive year.

East Midlands is also active in natural gas supply, electrical contracting, power generation and energy services. Full competition in the electric industry is expected to reach the U.K. in 1998. No other English distribution and supply company is better positioned to succeed than East Midlands and its workforce of 4,500 strong. Low-cost operations, exceptional customer services and state-of-the-art network technology position East Midlands as one of the strongest players in Great Britain's competitive future.

Principal areas of activity

- Electric distribution and supply

Other areas

- Gas supply
- Electrical contracting
- Power generation
- Energy consulting

Facts and figures

- Serves 2.3 million homes and businesses
- Operates more than 41,600 miles of overhead lines, underground cables
- Serves 6,200-square-mile service area in east central England
- Distributed more than 25 billion kilowatt-hours of power in fiscal year 1995/96

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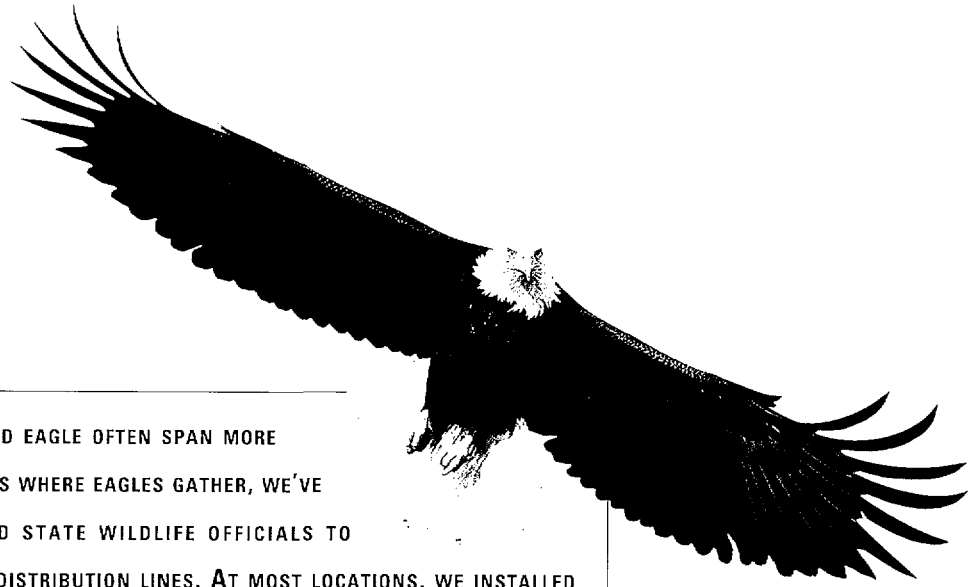
OUR WORLD IS GETTING BIGGER EVERY DAY, AND MORE THAN EVER OUR NATION'S ELECTRIC POWER INDUSTRY IS ENERGIZING IT. AT DOMINION RESOURCES, WE'RE NOW PROVIDING ELECTRICITY TO GROWING POPULATIONS ON THREE CONTINENTS. BUT WE'RE NOT IN EVERY CORNER OF THE WORLD—AND WE DON'T INTEND TO BE. WE'RE BUILDING NEW GENERATION AND DISTRIBUTION BUSINESSES WHERE POPULATION GROWTH REQUIRES ADDITIONAL POWER SUPPLY. BUT WE ALSO REQUIRE MARKET ECONOMIES IN NATIONS WITH STABLE GOVERNMENTS AND CLEAR, ENFORCEABLE LAWS. WE LOOK FOR REGULATIONS THAT ALLOW US TO GROW THROUGH LOW-COST PRODUCTION AND SALES TO MULTIPLE BUYERS. THERE'S A WORLD OF OPPORTUNITY, AND WE'LL BE THERE WHEN WE CAN PROPERLY LINK THE ENERGY NEEDS OF OTHERS WITH THE INVESTMENT NEEDS OF OUR SHAREHOLDERS.

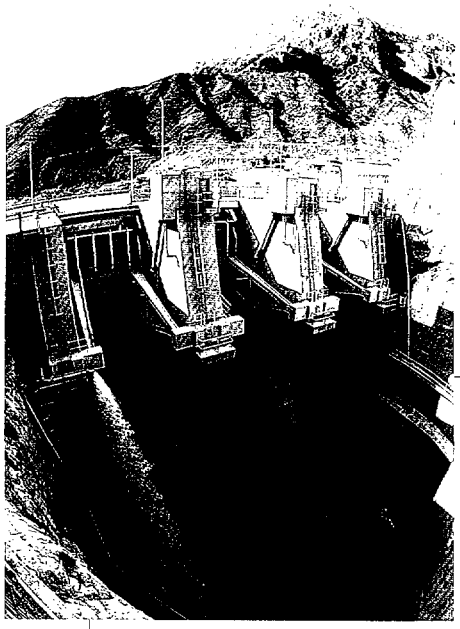
EVANTAGE℠

WHILE WE'RE GETTING READY FOR COMPETITION IN THE ELECTRIC INDUSTRY, VIRGINIA POWER'S EVANTAGE UNIT IS HELPING PAPER MANUFACTURER JAMES RIVER CORPORATION SHARPEN ITS OWN COMPETITIVE EDGE. EVANTAGE WILL ANALYZE BILLING AND RATE EXPENSES AT 27 U.S. AND CANADIAN FACILITIES AND WILL WORK CLOSELY WITH JAMES RIVER TO REDUCE THEIR ENERGY COSTS. JAMES RIVER IS ONLY ONE EXAMPLE OF OUR CLIENT GROWTH LAST YEAR. EVANTAGE HAS SIGNED CONTRACTS WITH 200 CUSTOMERS. THESE CONTRACTS TOTAL $85 MILLION IN REVENUE.

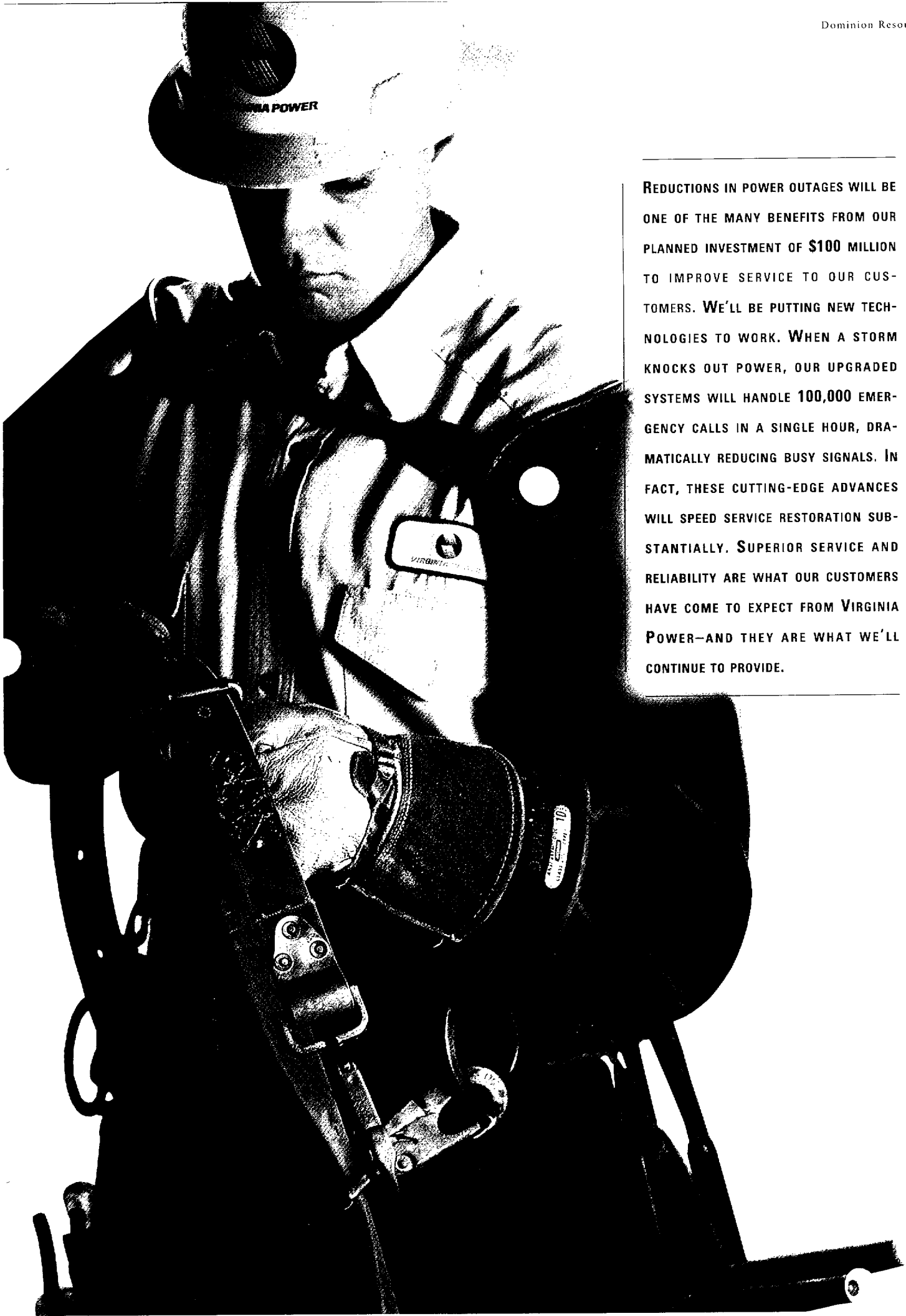
SUPERIOR CUSTOMER SERVICE, RELIABILITY AND SAFETY—HALLMARKS OF EAST MIDLANDS ELECTRICITY. IT'S WHY THIS PARTICULAR ELECTRIC DISTRIBUTION COMPANY HAS BECOME ONE OF THE MOST COMPETITIVE IN THE U.K.'S DEREGULATED MARKET AND WHY EAST MIDLANDS FITS SO WELL AT DOMINION RESOURCES. TOGETHER, WE ARE COMMITTED TO BUILDING NEW SHAREHOLDER VALUE AND EXPANDING OUR SERVICES TO CUSTOMERS ON BOTH SIDES OF THE ATLANTIC. WE'LL DO IT AS A TEAM, SHARING OUR INDUSTRY KNOWLEDGE AND EXPERIENCES AND LINKING OUR STRENGTHS.



THE WINGS OF A MATURE BALD EAGLE OFTEN SPAN MORE THAN SIX FEET. IN SOME AREAS WHERE EAGLES GATHER, WE'VE WORKED WITH FEDERAL AND STATE WILDLIFE OFFICIALS TO IMPROVE THEIR SAFETY NEAR DISTRIBUTION LINES. AT MOST LOCATIONS, WE INSTALLED PERCH GUARDS TO PREVENT THE BIRDS FROM LANDING ON THE CROSSARMS OF OUR DISTRIBUTION LINES. IN A FEW PLACES, WE ACTUALLY MOVED THE LINES FARTHER APART SO THE EAGLES COULD MANEUVER AROUND THEM MORE SAFELY. AT VIRGINIA POWER, WE HAVE A STRONG COMMITMENT TO THE ENVIRONMENT AND ALL OF ITS INHABITANTS. WE TAKE THAT COMMITMENT VERY SERIOUSLY.

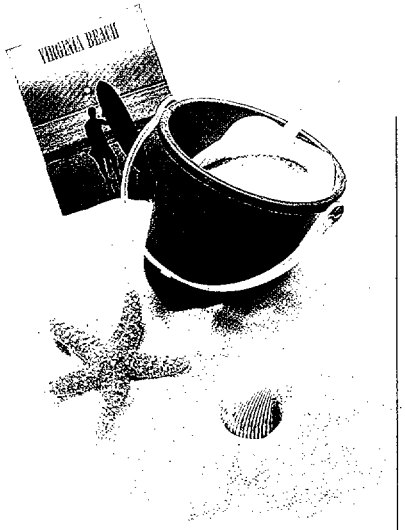


DEMAND FOR POWER IN PERU IS INCREASING BY MORE THAN 6 PERCENT ANNUALLY. **EGENOR**, OUR NEWEST GENERATING BUSINESS IN LATIN AMERICA, POWERS THE NATION'S POPULOUS NORTHERN REGION. OUR ASSETS THERE INCLUDE TWO HYDROELECTRIC STATIONS AND SIX SMALLER THERMAL UNITS, WITH 405 MEGAWATTS OF GENERATING CAPACITY AND MORE THAN 100 MILES OF TRANSMISSION FACILITIES. A PLANNED THREE-YEAR, $100 MILLION EXPANSION WILL POSITION DOMINION ENERGY TO INCREASE ITS PRODUCTION IN THIS GROWING MARKET, WHILE BROADENING OUR EXPERIENCE IN A COMPETITIVE ELECTRIC ENVIRONMENT.



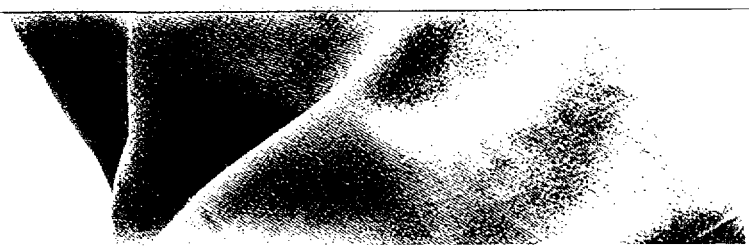
REDUCTIONS IN POWER OUTAGES WILL BE ONE OF THE MANY BENEFITS FROM OUR PLANNED INVESTMENT OF **$100** MILLION TO IMPROVE SERVICE TO OUR CUSTOMERS. WE'LL BE PUTTING NEW TECHNOLOGIES TO WORK. WHEN A STORM KNOCKS OUT POWER, OUR UPGRADED SYSTEMS WILL HANDLE **100,000** EMERGENCY CALLS IN A SINGLE HOUR, DRAMATICALLY REDUCING BUSY SIGNALS. IN FACT, THESE CUTTING-EDGE ADVANCES WILL SPEED SERVICE RESTORATION SUBSTANTIALLY. SUPERIOR SERVICE AND RELIABILITY ARE WHAT OUR CUSTOMERS HAVE COME TO EXPECT FROM VIRGINIA POWER—AND THEY ARE WHAT WE'LL CONTINUE TO PROVIDE.

SAXON MORTGAGE HELPS HUNDREDS OF FAMILIES EACH YEAR REALIZE THE AMERICAN DREAM OF HOME OWNERSHIP. IN 1996, OUR 44-STATE NETWORK OF LENDING PROFESSIONALS GENERATED $700 MILLION IN MORTGAGE AND HOME EQUITY LOANS, WHICH ARE PACKAGED AND SOLD TO INSTITUTIONAL INVESTORS. SAXON IS ALREADY WELL POSITIONED TO INCREASE ITS VOLUME—EVEN BEFORE OUR MARKETING AND PRODUCT EXPANSIONS COME ON LINE IN 1997.



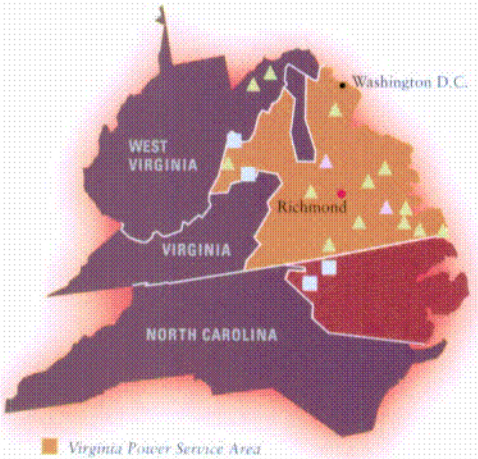
VIRGINIA'S LARGEST CITIES ARE ALSO SOME OF VIRGINIA POWER'S BIGGEST CUSTOMERS. LAST YEAR WE SIGNED A 20-YEAR FRANCHISE AGREEMENT WITH THE CITY OF VIRGINIA BEACH, WHERE OUR RETAIL CUSTOMERS ACCOUNT FOR ABOUT 6 PERCENT OF OUR TOTAL ELECTRICITY REVENUES. IT'S AN EXAMPLE OF OUR BROADER STRATEGY TO WORK CLOSELY WITH CITIES THAT MAY CONSIDER MUNICIPALIZATION TO SHOP AROUND FOR OTHER SOURCES OF POWER.

DRILLING FOR NEW RESERVES AND ACQUIRING EXISTING ONES—AT DOMINION ENERGY, WE'LL DO BOTH TO ENLARGE OUR NATURAL GAS AND OIL RESERVE BASE AND TO MAINTAIN EARNINGS GROWTH OVER THE LONG RUN. WITH THE ACQUISITION OF WOLVERINE GAS & OIL EARLY IN 1997, WE NOW ACCOUNT FOR MORE THAN 10 PERCENT OF ALL THE NATURAL GAS PRODUCED IN MICHIGAN. WE'VE ALSO JOINED ONE OF THE NATION'S MOST EXPERIENCED DRILLERS, SONAT EXPLORATION CO., TO DEVELOP 50,000 ACRES OF THE AUSTIN CHALK IN EASTERN TEXAS. WITH THIS PARTNERSHIP, WE'RE NOW A MAJOR FORCE IN ONE OF THE MOST ACTIVE OIL AND GAS REGIONS IN NORTH AMERICA.



Virginia Power

At Virginia Power, we aim to be a full-service national energy company—one step at a time, so that we do it right. That means we'll draw top value from every asset and skill that we possess as we continue to prepare for tomorrow's more competitive electric industry. It means we'll remain a provider of choice, we'll expand our business revenues and reputation as an innovative and trusted provider of energy services, we'll be a regional leader in transmission, and we'll work openly and actively in the legislative and regulatory arenas to shape the path to competition.



Virginia Power Service Area
North Carolina Power Service Area

Company Headquarters, Richmond
Nuclear Power Station
Fossil Power Station
Hydroelectric Power Station

In 1996, we took important steps down the path towards competition. Once again, Virginia Power ranked among the nation's lowest-cost producers of electricity, a fundamental for any power company positioning to defend existing market share and build new opportunities in the competitive future. Our generating units delivered excellent performance at the same time that they lowered costs and restructured operations. As a result, our variable cost of production was less than 3 cents per kilowatt-hour in 1996–a cost well below national averages and less than the average of our regional competitors.

Credit that accomplishment to the team of energy professionals staffing our nuclear business unit and our fossil and hydroelectric business unit. Last year, those two units generated 73 percent of our energy supply.

North Anna Power Station was the nation's lowest-cost nuclear producer for the 3 years ending in 1995. Surry Power Station ranked 11th for the same period. Our efficient coal-fired units beat the most recent national averages for availability by 5 percentage points.

We're going all out to keep our stations generating as efficiently as we possibly can. We're staffing them tightly but safely, running them efficiently and controlling costs and overhead as never before.

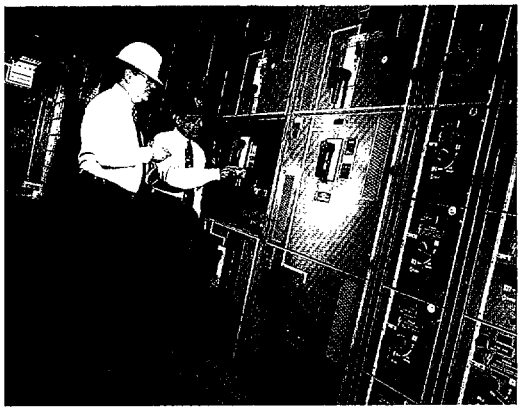
Our cost controls have yielded staff reductions of 30 percent since 1987 and other significant reductions in operation and maintenance costs. Each business unit in our company is more accountable than ever for its individual impact on corporate costs. And each is more clearly recognized for contributions to the bottom line, thanks to our Vision 2000 planning process, which continued to move forward in 1996.

In the competitive future, electricity will crisscross the country along thousands of miles of power lines. Low-cost producers in the Southeast and potential buyers in the Northeast will be making increasing use of our transmission system.

C13

Under Vision 2000, we've been looking for ways to work better and smarter in all that we do. At our fossil and hydroelectric business unit, for example, we've installed a new system to speed the delivery of information about individual unit performance more rapidly to unit operators and to management. They must often make spot decisions that affect our cost of production. With the new system now in place, they'll be able to make more timely and cost-efficient decisions.

As a result of these and other initiatives, our rates remain below the national average, the average of adjacent regions and the average of our own region–a crucial price consideration for major industrial, commercial and municipal customers that may someday be able to shop around. But we don't believe they need to shop. In fact, we're pleased that several important customers are taking advantage of our corporate initiative to offer long-term supply contracts.



EVANTAGE HAS ENTERED AN ALLIANCE WITH WESTINGHOUSE ELECTRICAL SYSTEMS & SERVICES DIVISION. AS A TEAM, THEY WILL PROVIDE POWER QUALITY AND ELECTRICAL MAINTENANCE SERVICES TO COMMERCIAL, INDUSTRIAL AND GOVERNMENT CUSTOMERS. THEIR FIRST MAJOR NEW CONTRACT IS TO PERFORM ELECTRICAL MAINTENANCE FOR OWENS-ILLINOIS, INC., AT 21 OF ITS GLASS CONTAINER PLANTS ACROSS THE U.S.

The U.S. Navy is among our military customers that account for 3 percent of our total revenues. A 10-year contract for services was signed last year. Our rural electric cooperatives and municipal electric systems account for 5 percent of our revenues, and we currently have long-term contracts with virtually all of them.

We're taking other steps to keep our customers happy.

Consider our "Real Time Pricing" program, which was a hit in 1996 with major industrial customers. So we have expanded it by making the program available to more than 60 heavy users. The program enables them to reduce their own energy costs by purchasing certain portions of their power at a variable hourly rate–one more closely aligned to our actual production costs on a given day.

But keeping ahead in tomorrow's market takes even more aggressive outreach. We're serving current customers while also finding new markets in which we can leverage our brand name recognition, sell our existing skills, and use our current assets to harness new revenues.

On this front, our energy services business unit closed its first full year of operations in 1996 with major expansions inside our service area and beyond.

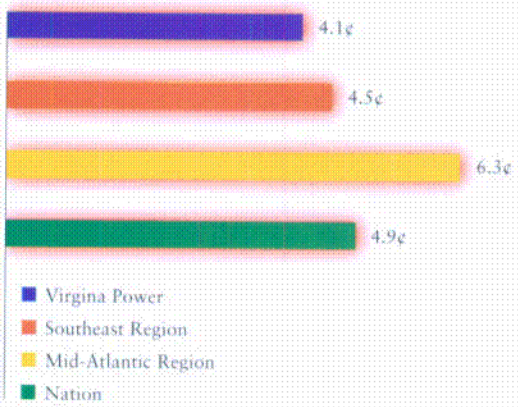
This new unit's wholesale power group took advantage of our low-cost production by selling electricity into national markets. By year's end, energy services had about 100 trading relationships with partners ranging from other utilities, to power marketers, to municipalities. The group increased by 225 percent the total megawatt-hours it sold in 1996 compared to 1995, from 2 million megawatt-hours to 6.5 million megawatt-hours.

On the retail side of our energy services business, our Evantage group is gaining a reputation as a leading national full-service energy manager for businesses that want to improve their use of energy and sharpen their own competitive edge. We believe there's a $100 billion national marketplace for energy-related goods and services–and we took steps to tap it in 1996, the first full year of operation for Evantage.

By year's end, thanks to some talented marketing, word of Evantage's growing portfolio of goods and services was clearly out in a big way. Evantage has signed 200 customers with contracts totaling $85 million.

AVERAGE INDUSTRIAL ELECTRICITY PRICES

(Most recent averages in cents per kilowatt-hour)



For example, Evantage closed a $10 million contract with the U.S. Navy Public Works Center in Washington, D.C. Its mission: to install high-efficiency lighting and occupancy sensors at various U.S. Navy and Marine Corps locations in 3 states.

Our acquisition last year of two energy services divisions from Atlanta-based A&C Enercom further broadened our geographic reach. A&C Enercom is a consulting firm that serves the utility industry and its commercial and industrial customers with expertise that includes marketing, technology and the environment. We progressed with their integration into Virginia Power in 1996.

We know that it takes hard work, vigor and determination to achieve significant market share. Sometimes it will work to our advantage to find good strategic partners to help penetrate specific markets with particular needs–partners like Westinghouse Electrical Systems & Services Division. Last year, Evantage announced an alliance with Westinghouse to provide energy services to many industrial, commercial and governmental customers that might be attracted to a team of this particular nature.

We'll explore other alliances if they can complement our product and service portfolio, extend our geographic reach or accelerate our time to market.

Virginia Power has also entered into a transmission alliance with 5 other power companies whose systems stretch from Mississippi to Canada. Virginia Power and its alliance partners have asked federal regulators to approve a test of new transmission pricing concepts that will enhance reliability while ensuring that transmission owners are properly compensated for use of their system.

And we'll analyze any other assets for potential new value too. Consider our telecommunications system. To do business as a major utility covering 30,000 square miles, we've found it cost beneficial over time to invest in a fiber-optic telecommunications

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network stretching more than 250 miles. So we asked ourselves: How can we best extract maximum value from this asset? The answer: Sell services to long-distance carriers or to our major customers for their own use or both. By doing this, we'll generate additional rev-

enues, use existing assets more efficiently and provide even better customer service.

We have a proposal to sell our communications services pending before our state regulators. At the federal and state levels, we'll continue to be an active player in the ongoing restructuring debate and will work to shape the environment in which we will do business in the future.

It's an essential way to stay ahead and promote your investment interests as shareholders and uphold our customers' service interests as well.

At home in Virginia, the legislature gets much of the credit for adopting new laws and regulations favored by our company. The new laws empower our state regulators with broader flexibility to consider and adopt rules and regulations that will govern the transition to competition on our home turf. In the future, we'll strive to enhance the regulatory environment by working with them to address key issues of significant financial importance to the state and the company.

Our position on deregulation is grounded in the belief that to pass sweeping federal legislation creating retail competition would be rushing the process. It would be misguided, and it would ignore regional differences and circumstances. We believe our focus should be on managing the transition process and resolving unanswered questions at the state level.

A major transition issue is stranded cost recovery–legitimate utility investments made under the obligation-to-serve system that must be recognized by regulators in a manner that protects both your interests as a shareholder and the interests of residential and small business customers. These include the expenses of conforming with government mandates, nuclear decommissioning costs and contracts to purchase power that may ultimately be at above-market rates.

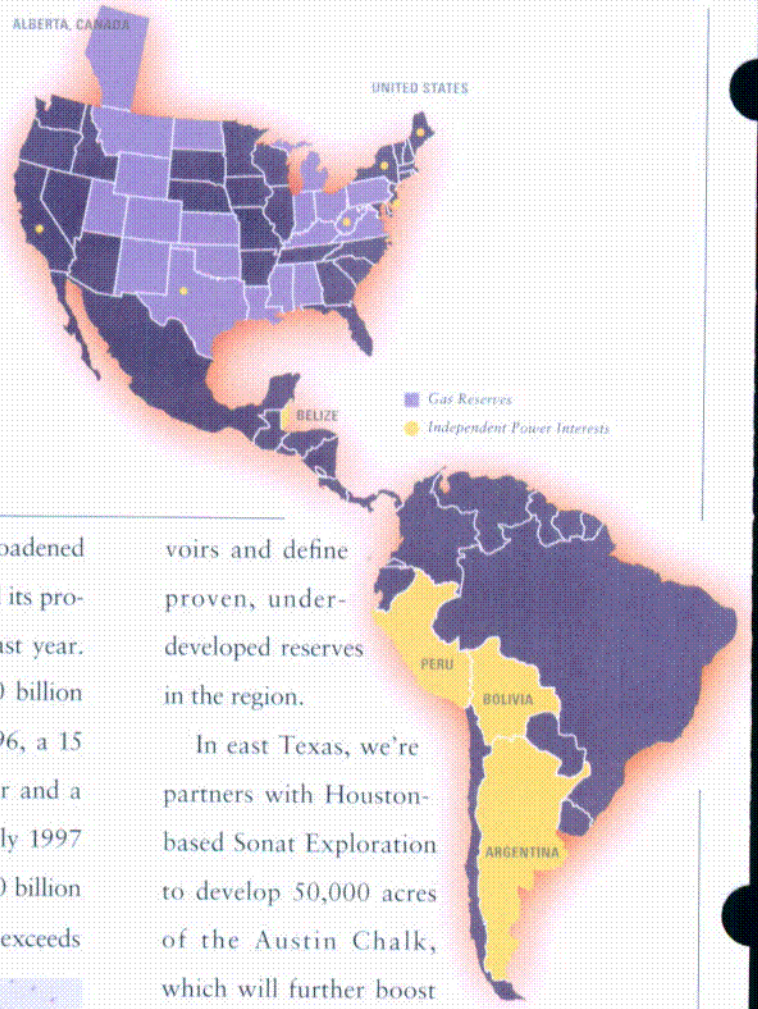
Resolving this and other important transition issues will determine whether or not a truly competitive energy marketplace will exist in the future. Issues facing the industry are highly complex and defy quick resolution.

There is still much work to be done. It's an exciting period in the history of our company and industry. Fortunately, we've already taken many steps in the right direction. We're continuing on that path and positioning ourselves to prosper in the more competitive future.

VIRGINIA POWER'S NUCLEAR PROGRAM IS RATED AS ONE OF THE SAFEST AND MOST PRODUCTIVE IN THE NATION BY THE NUCLEAR REGULATORY COMMISSION AND THE INSTITUTE OF NUCLEAR POWER OPERATIONS. SO WE'VE DECIDED TO MARKET THAT EXPERTISE TO OTHER UTILITIES SEEKING OUTSIDE MANAGEMENT ADVICE. NORTHEAST UTILITIES SYSTEM, FOR EXAMPLE, HAS CONTRACTED FOR VIRGINIA POWER TO HELP RESTART ONE OF ITS NUCLEAR UNITS. IT'S YET ANOTHER WAY WE'RE USING EXISTING SKILLS AND INSTITUTIONAL KNOWLEDGE TO IDENTIFY NEW SOURCES OF REVENUES.

Dominion Energy

We've entered our second decade at Dominion Energy focused on a strategy for long-term growth in earnings from our core operations: natural gas and independent power production. We leveraged our growing body of experience in 1996 to pursue only the most promising opportunities in each industry. It was a year of increased earnings from an established operating base, a year of steady cash flow, and a year of carefully focused expansion in selected markets.



Our natural gas and oil division broadened its service capability and expanded its production in major regions of the U.S. last year.

Our reserve base approximated 400 billion cubic feet equivalent at the end of 1996, a 15 percent increase from the previous year and a 25 percent increase over 1994. By early 1997 we had expanded the base to about 460 billion cubic feet equivalent. Production now exceeds

150 million cubic feet per day. In both reserves and production, we're among the 50 largest companies in the industry.

Two new joint ventures should stimulate our future growth.

In the Gulf Coast area, we've joined other major players to explore for and develop oil and gas reserves, with encouraging potential for success. Using 3-D seismic technology, we'll be able to identify undiscovered reservoirs and define proven, underdeveloped reserves in the region.

In east Texas, we're partners with Houston-based Sonat Exploration to develop 50,000 acres of the Austin Chalk, which will further boost our reserves while providing valuable experience with one of the most successful operators in North America.

Efficiency in operations is key to our long-term growth and profit. That's why we're moving to consolidate and operate existing businesses where we formerly employed multiple operators.

Consider Michigan, site of more than 40 percent of our total production. We expanded our reserves and broadened our service capability by entering gas marketing and producer management services. In early 1997, we brought a Michigan production company into our natural gas family of businesses. With the acquisition of Wolverine Gas & Oil, headquartered in Grand Rapids, we expanded

Dominion Energy investment manager Eng Pong Heah is one of a team of veteran professionals guiding your company's growth in natural gas production. Already, Dominion Energy ranks among the industry's 50 largest natural gas companies. Several strategic deals last year will increase reserves through acquisition and new drilling, while expanding our marketing and storage services.

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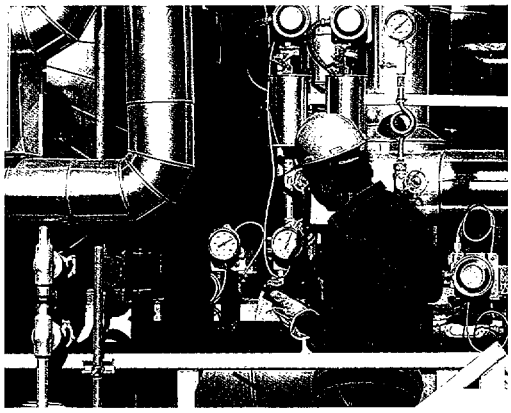
our reserve base by approximately 75 billion cubic feet and gained the expertise of an operator with nearly 50 years of proven experience.

And our purchase of Carthage Energy Services in Traverse City eliminated the costs of hiring a third party to manage and sell our production. We also positioned ourselves to begin marketing and managing the gas production of other companies.

In Canada, we joined with Texaco's Sabine Hub Services to develop the Alberta Hub, a full-service natural gas storage facility strategically located as a centralized point for all gas transactions in that area. The hub will have the potential to store up to 25 billion cubic feet. In any given day, the facility can inject or withdraw natural gas at an average rate of 250 million cubic feet. And it will have a peak rate of 500 million cubic feet. Use of our hub will improve the ability of producers, large users of natural gas and marketers to buy, sell and transport their product more efficiently.



AT DOMINION ENERGY'S NATURAL GAS-FIRED ALTO VALLE POWER STATION IN ARGENTINA, WE'VE IMPROVED FUEL EFFICIENCY BY 30 PERCENT. AT ALL OF OUR LATIN AMERICAN POWER BUSINESSES, WE'RE COMMITTED TO LOW-COST PRODUCTION IN COMPETITIVE MARKETS FOR WHOLESALE POWER—AND WE'LL DO WHATEVER IT TAKES TO MAINTAIN OUR COMPETITIVE POSTURE.

Our independent power division is already a prominent player in Latin America, where we have a record of prudent, strategic ownership in that region's fast-growing electricity markets.

In Peru–site of our most recent expansion–we acquired majority ownership and operating interest in EGENOR. Our acquisition bid topped the closest bid of a U.S. competitor by less than 3 percent.

Bolivia is another fast-growing market where we've established a foothold by acquiring a 50 percent interest and management control of existing hydroelectric businesses. Near-term expansions are in the works. We're proceeding with $35 million in capital improvements that will increase our water storage capacity over the next 2 years. This, in turn, will increase our ability to sell even more power, increase revenues and enhance earnings.

While growth has been slower in the U.S. independent power arena, specific opportunities will become available as utility companies sell generation stations to the market rather than commit the resources necessary to maintain ownership. We recognize that certain properly operated stations have the potential to be powerful instruments of profit as markets for bulk power grow in the coming years.

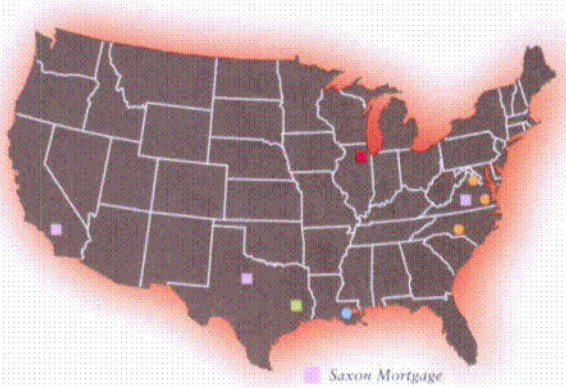
Such is the case with the 1,108-megawatt Kincaid Power Station, which Commonwealth Edison has agreed to sell to Dominion Energy subject to final regulatory approval.

At Dominion Energy, we know what we do well–and we're sticking with it. We seek to be the most profitable and efficient business, not the biggest business.

Look for us to devote ourselves to becoming even better at specific things in a limited number of specific markets. When the markets are overpriced, we'll not enter them. But when conditions are ripe, we'll prudently commit our resources to build the value of your investment.

Dominion Capital

We're building market share in specialized financial services from a strong foundation of earnings stability, continuity and time-tested experience at Dominion Capital, the oldest of your company's nonutility subsidiaries. In preparation for our second decade of operation, we took significant steps in 1996 toward our strategic goal of building growth-oriented businesses where we have the knowledge and experience to build significant shareholder value.



We look ahead into our second decade as a growing enterprise of $1.1 billion in assets that actively cultivates and manages our financial services companies. Last year we made important contributions to the bottom line while refining our longer-term position to achieve superior returns in the years to come.

Our experienced management team at Chicago-based First Source Financial is pursuing the market provided by mid-sized corporations seeking to expand or make acquisitions. First Source completed its first full year of operations in 1996. Conceived in 1994 and begun in mid-1995, this joint venture between Dominion Capital and Household International is actively servicing more than 80 mid-sized businesses across the nation. First Source has funded and committed assets in excess of $1 billion, with the potential and ability to grow those assets to $1.5 billion.

For some time, we have recognized a profitable market in originating certain categories of home mortgages and home equity loans, which are then packaged and sold to institutional investors.

This is why we acquired 100 percent of Saxon Mortgage in mid-1996. Our purchase followed a careful, nationwide review of companies that ultimately led us back to Richmond, where Saxon is headquartered and from which it manages a 44-state network of brokers and correspondents.

In the last six months of 1996 alone, Saxon generated more than $700 million in loan volume and was a major contributor to our bottom line. Like First Source, Saxon has rigorous underwriting requirements and a professional servicing capability executed by a seasoned management and professional staff of 245 employees. In 1997 we plan to expand both our product line and marketing channels which will stimulate continued growth in Saxon's consumer services.

America's largest manufacturer of dental implants is one of First Source Financial's newest customers. Steri-Oss, a recent Bausch & Lomb spin-off, is borrowing needed capital through First Source to grow with the expanding economy. Steri-Oss joins more than 80 other mid-sized businesses serviced by First Source, our Dominion Capital commercial lending subsidiary.

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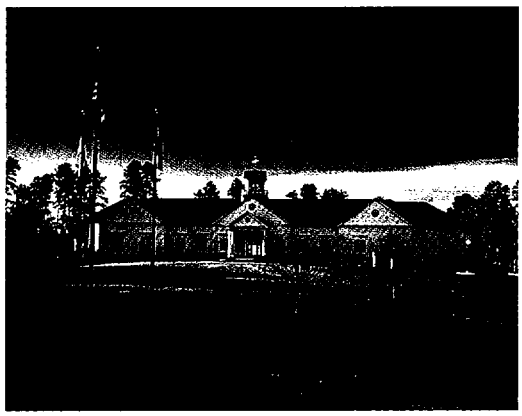
Dominion Capital's specialized energy business comprises the third leg of our financial services enterprise. Last year we created Cambrian Capital, a Houston-based joint venture with two international firms experienced in the oil and gas industry. By providing innovative financing that is secured by the assets of the client, Cambrian helps companies acquire and finance oil and natural gas properties in the U.S. Looking ahead, we expect to have acquired assets of $500 million in this important market by the year 2000.



WE WEREN'T SURPRISED LAST YEAR WHEN THE OLD NORTH STATE CLUB AT UWHARRIE POINT OUTSIDE CHARLOTTE, N.C., WAS CHOSEN TO HOST THE ATLANTIC COAST CONFERENCE GOLFING CHAMPIONSHIP. ITS MANICURED GREENS AND PLACID SETTING AMID ONE OF DOMINION CAPITAL'S MOST SUCCESSFUL UPSCALE RESIDENTIAL DEVELOPMENTS PROVIDED THE PERFECT LOCATION FOR THIS PREMIER COLLEGIATE SPORTING EVENT.

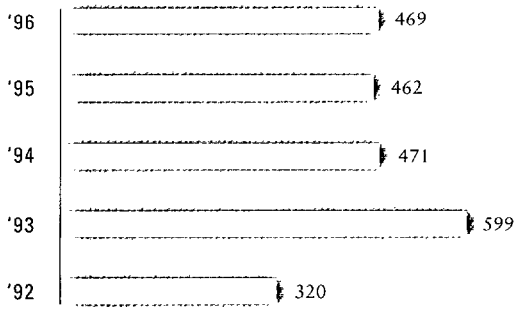
We also had a successful year in our core business ventures–investments in the 192-megawatt Sidney A. Murray Hydroelectric Power Station near Vidalia, Louisiana, and the Rincon portfolio of preferred stocks. The Vidalia station experienced a slightly above-average year of producing environmentally sound electric power while providing critical flood control services on the Mississippi River. And the Rincon portfolio, which has invested mainly in utility securities, continued its record of annual earnings contributions of about $10 million. We'll carefully manage both ventures to maintain their current earnings streams, with our focus on growth continuing in specialized financial services.

Our real estate group forged ahead on our 10-year record in development and management. The majority of our real estate development is represented by investments in two residential real estate developments in Virginia and North Carolina–The Governor's Land in Williamsburg and Old North State Club near Charlotte. In 1997 we will begin marketing at Stonehouse, a new 651-acre community located in the growing Interstate 64 corridor between Richmond and the Hampton Roads area of Virginia.

On the management services side, our Goodman Segar Hogan Hoffler commercial real estate company broadened its reputation as a growing full-service firm in the Southeast through leases of more than 18 million square feet in $1.3 billion of commercial property. It, too, had a profitable 1996 and will expand its services and markets in 1997.

VIDALIA HYDROELECTRIC GENERATION

(Megawatt-hours in thousands)



We have ambitious goals to do more of the same going forward. We are optimistic about our opportunity to continue to build value in financial services and real estate, and our management team is committed to the aggressive pursuit of long-term, sustainable growth.

Dominion Resources, Inc.

1996 Financial Presentation

Consolidated Financial Statements and Management's Discussion and Analysis:

Consolidated Statements of Income and Retained Earnings

For The Years Ended December 31, *(millions, except per share amounts)*	**1996**	1995	1994
Operating revenues and income:			
Electric utility	**$4,382.6**	$4,350.4	$4,170.8
Nonutility	**459.7**	301.3	320.3
Total operating revenues and income	**4,842.3**	4,651.7	4,491.1
Operating expenses:			
Fuel, net	**987.0**	1,006.9	973.0
Purchased power capacity, net	**700.5**	688.4	669.4
Restructuring	**91.6**	121.5	
Other operation	**807.5**	721.6	739.6
Maintenance	**250.9**	260.5	263.2
Depreciation, depletion and amortization	**615.2**	551.0	533.1
Other taxes	**285.2**	273.8	274.6
Total operating expenses	**3,737.9**	3,623.7	3,452.9
Operating income	**1,104.4**	1,028.0	1,038.2
Other income	**9.8**	7.3	13.5
Income before fixed charges and federal income taxes	**1,114.2**	1,035.3	1,051.7
Fixed charges:			
Interest charges, net	**387.0**	381.7	360.3
Preferred dividends and distributions of Virginia Power, net	**42.6**	46.5	42.2
Total fixed charges	**429.6**	428.2	402.5
Income before provision for federal income taxes	**684.6**	607.1	649.2
Provision for federal income taxes	**212.5**	182.1	171.0
Net income	**$ 472.1**	$ 425.0	$ 478.2
Retained earnings, January 1	**1,427.6**	1,455.2	1,417.8
Common dividends and other deductions:			
Dividends	**(460.1)**	(448.7)	(434.7)
Other deductions	**(1.7)**	(3.9)	(6.1)
Retained earnings, December 31	**$1,437.9**	$1,427.6	$1,455.2
Earnings per common share	**$ 2.65**	$ 2.45	$ 2.81
Dividends paid per common share	**$ 2.58**	$ 2.58	$ 2.55
Average common shares outstanding	**178.3**	173.8	170.3

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

Management's Discussion and Analysis of Operations:

(Unaudited)

Overview

Dominion Resources achieved earnings of $472.1 million in 1996 or $2.65 per average common share, compared with earnings of $425 million in 1995 or $2.45 per share. Virginia Power's utility operations increased its contribution to $421.8 million in 1996 or $2.37 per share, from the $388.7 million earned in 1995 or $2.24 per share. Dominion Energy's independent power and natural gas operations earned $32.5 million in 1996 or 18 cents per share, a slight decrease from the $35 million earned in 1995 or 20 cents per share. Dominion Capital's financial services and real estate businesses earned $28.5 million in 1996 or 16 cents per share, an increase over the $17.6 million earned in 1995 or 10 cents per share. Corporate overhead expenses fell in 1996, reducing its net loss to $10.7 million or 6 cents per share, compared with a net loss in 1995 of $16.3 million or 9 cents per share.

Net Income

(millions)	1996	Change	1995	Change	1994
Virginia Power	$421.8	8.5%	$388.7	(4.0)%	$404.9
Dominion Energy	32.5	(7.1)%	35.0	(41.3)%	59.6
Dominion Capital	28.5	61.9%	17.6	(6.9)%	18.9
Corporate	(10.7)	(34.4)%	(16.3)	213.5 %	(5.2)
Consolidated	$472.1	11.1%	$425.0	(11.1)%	$478.2
Shares	178.3	2.6%	173.8	2.1 %	170.3

Earnings Per Share

	1996	Change	1995	Change	1994
Virginia Power	$2.37	5.8%	$2.24	(5.9)%	$2.38
Dominion Energy	.18	(10.0)%	.20	(42.9)%	.35
Dominion Capital	.16	60.0%	.10	(9.1)%	.11
Corporate	(.06)	33.3%	(.09)	(200.0)%	(.03)
Consolidated	$2.65	8.2%	$2.45	(12.8)%	$2.81

The 1996 results were affected by a number of factors described below:

Virginia Power

Earnings were impacted by:

- an increase in kilowatt-hour sales from retail customers due to continued customer growth in the Virginia Power and North Carolina Power service areas; partially offset by lower base revenues due to the effect of mild summer weather in 1996 on summer retail rates; and
- an increase in power marketing (wholesale) and energy services (A&C Enercom) revenues; and
- lower other operation and maintenance expenses, even with an additional $21 million in service restoration costs resulting from severe storms like Hurricane Fran, and an additional $22 million due to growth in the energy services business (A&C Enercom); and
- lower restructuring expenses; and
- higher depreciation expenses relating to the new Clover Power Station whose units began operating in October 1995 and March 1996.

Dominion Energy

Earnings were impacted by:

- an increase in natural gas production and prices; offset by
- a decrease in income when compared to the gain ($5.4 million, net of tax) realized in 1995 from the sale of the remaining units of the Black Warrior Trust.

Dominion Capital

Earnings were impacted by:

- an increase in income from Saxon Mortgage, the new financial services business which originates non-conforming residential mortgages and packages them—through a securitization—for sale to institutional investors.

Corporate

Earnings were impacted by:

- a decrease in expenses when comparing to the $12.4 million of restructuring costs and other charges incurred in 1995.

Virginia Power

Results of Operations

As part of the Vision 2000 program to transition Virginia Power to a potential future of competition in the electric utility industry, Virginia Power recorded $91.6 million in restructuring expenses in 1996 and $117.9 million in 1995 (see Note O). Restructuring charges included severance costs, purchased power contract restructuring and negotiated settlement costs, capital project cancellation costs, reserve for expected adjustments to regulatory assets, and other costs. Without restructuring expenses, balance available for common stock in 1996 and 1995 would have increased by $59.5 million and $76.6 million, respectively.

Virginia Power estimates that the staffing reductions will result in annual savings in the range of $62 million to $90 million. When realized, savings from staffing reductions will be reflected in lower construction expenditures as well as lower operation and maintenance expenses. While Virginia Power may incur additional charges for further staffing reductions in 1997, the amounts are not expected to be significant.

In 1995, Virginia Power reported a decrease in balance available for common stock of $16.2 million when compared to the 1994 results of $404.9 million. The decrease was primarily due to increases in operating expenses attributable to restructuring costs which reduced earnings by $0.44 per share offset in part by an increase in kilowatt-hour sales from both retail and wholesale customers.

(millions)	1996	Change	1995	Change	1994
Revenues	$4,382.6	0.7%	$4,350.4	4.3 %	$4,170.8
Operating expenses	3,379.4	0.0%	3,379.2	5.0 %	3,219.5
Nonoperating expenses, net	581.4	0.2%	582.5	6.6 %	546.4
Balance available for common stock	$ 421.8	8.5%	$ 388.7	(4.0)%	$ 404.9

Operating Revenues

As detailed in the chart below, the decrease in 1996 retail revenues reflects a reduction in fuel rate revenues and a reduction in base revenues due to the effect of the mild summer weather in 1996 on Virginia Power's summer retail rates which are designed to reflect expected usage during normal weather conditions, offset in part by continued customer growth during 1996. The increased sales to wholesale customers were primarily a result of Virginia Power's marketing efforts during 1996, offset by a decrease in sales to Old Dominion Electric Cooperative (ODEC) due to completion of Clover Units 1 and 2, of which ODEC owns a 50 percent interest. Other operating revenues increased primarily as a result of the revenues generated by Virginia Power's energy services subsidiary, A&C Enercom.

In 1995 Virginia Power's revenues increased primarily due to the weather experienced in the last six months of 1995, customer growth and increased sales to wholesale customers.

Operating Revenues

	Increase (decrease) from prior year	
(millions)	1996	1995
Customer growth	$52.5	$ 76.2
Weather	4.4	81.6
Base rate variance	(35.5)	6.3
Fuel rate variance	(89.6)	(8.9)
Other, net	34.1	(6.0)
Total retail	(34.1)	149.2
Wholesale	33.1	32.8
Other operating revenues	33.2	(2.4)
Total revenues	$32.2	$179.6

During 1996, Virginia Power had 44,528 new connections to its system compared to 44,955 and 46,741 in 1995 and 1994, respectively.

Kilowatt-Hour Sales

(millions)	1996	Change	1995	Change	1994
Residential	23,039	2.3%	22,512	4.1%	21,621
Commercial	19,934	2.3%	19,486	3.6%	18,801
Industrial	10,851	2.3%	10,606	3.6%	10,235
Public authorities	8,474	2.6%	8,261	4.0%	7,950
Total retail sales	62,298	2.4%	60,865	3.8%	58,607
Wholesale	11,020	36.3%	8,088	13.4%	7,134
Total sales	73,318	6.3%	68,953	4.9%	65,741

The increase in retail kilowatt-hour sales in 1996 compared to 1995 reflects continued customer growth. The increase in sales to wholesale customers was primarily due to Virginia Power's power marketing efforts.

The increase in kilowatt-hour sales in 1995 compared to 1994 reflects increased customer growth and the weather experienced in the last six months of 1995, partially offset by the milder weather experienced in the first six months of 1995.

Degree-Days Chart

	1996	1995	Normal
Cooling degree days	1,365	1,667	1,531
Percentage change compared to prior year	(18.1)%	3.3%	
Heating degree days	4,131	3,790	3,672
Percentage change compared to prior year	9.0%	7.8%	

Operating Expenses
(excluding federal income taxes)

(millions)	1996	Change	1995	Change	1994
Fuel, net	$ 987.0	(2.0)%	$1,006.9	3.5 %	$ 973.0
Purchased power capacity, net	700.5	1.8 %	688.4	2.8 %	669.4
Other operation	546.9	0.6 %	543.7	(5.8)%	577.4
Maintenance	250.9	(3.7)%	260.5	(1.0)%	263.2
Restructuring	91.6	(22.3)%	117.9		
Depreciation and amortization	536.4	6.5 %	503.5	4.7 %	480.7
Taxes, other than federal income	266.1	3.0 %	258.3	1.0 %	255.8
Total	$3,379.4	0.0 %	$3,379.2	5.0 %	$3,219.5

Maintenance decreased compared to 1995, primarily as a result of a reduction in expenses attributable to Virginia Power's Vision 2000 initiatives, offset in part by the higher storm damage costs incurred from destructive summer storms, including Hurricane Fran.

Depreciation and amortization increased compared to 1995, primarily as a result of greater nuclear decommissioning expense and depreciation related to Clover Units 1 and 2 which were placed in service in October 1995 and March 1996, respectively.

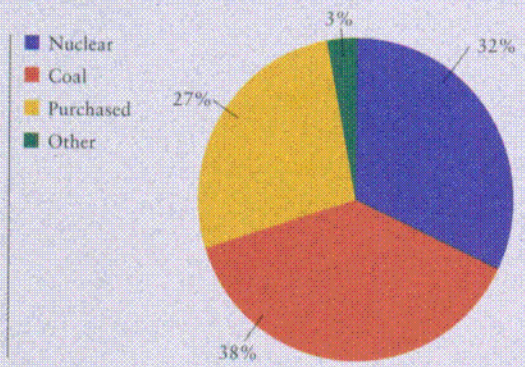
Other operation and maintenance decreased in 1995 compared to 1994. Expenses during 1994 included payroll and voluntary separation costs for those employees who elected to terminate service with Virginia Power under the 1994 Early Retirement and Voluntary Separation Programs, offset in part by recognition of insurance policyholder distributions. Expenses in 1995 reflected a decrease in payroll costs due to reduced staffing levels and weather-related overtime, offset by 1995 salary increases and the impact of employees being reassigned from capital to operation and maintenance activities. In addition, 1995 expenses include expenses associated with the North Branch Power Station, increased obsolete inventory

costs, increased accruals for employee benefits, and increased nuclear outage costs.

Nonoperating Income and Expenses, Net

Nonoperating expenses, net increased in 1995 as compared to 1994 primarily as a result of higher interest rates on the utility's First and Refunding Mortgage Bonds and Pollution Control Notes and as a result of a reduction of $10.6 million in the interest accrued for prior years on certain tax obligations in 1994.

Virginia Power
1996 System Energy Output



Dominion Energy

New Businesses

Dominion Energy has expanded its oil and natural gas and foreign power generation businesses through the development of existing assets and the following acquisitions.

In March 1996, Dominion Energy, through a wholly-owned subsidiary, acquired interests in natural gas and oil properties in the Gulf of Mexico. The estimated proved reserves from this acquisition were 36 billion cubic feet of natural gas and 1.9 million barrels of oil and liquids.

In April 1996, Dominion Energy acquired a gas management and marketing company, Carthage Energy Services, Inc.

In August 1996, Dominion Energy, through wholly-owned subsidiaries, acquired a 60-percent ownership and management interest in Empresa de Generacion Electrica NorPeru S.A. (EGENOR). EGENOR is a generation company providing power to Peru's northern region. The government-owned ElectroPeru S.A. and the employees of EGENOR collectively retain a 40-percent interest in EGENOR. Dominion Energy continues to assess sale opportunities for a portion of its interest in EGENOR to a third party.

Results of Operations

Dominion Energy's net income amounted to $32.5 million as compared to $35 million in 1995. The decrease in earnings was due primarily to a reduction in the company's reported gain on sale of assets which in 1995 included a $5.4 million after tax gain on the sale of Black Warrior Trust Units.

In 1995, net income decreased by $24.6 million when compared to 1994 primarily due to the sale of the Black Warrior Trust Units in 1994. The sale of the units, which hold royalty interests in proven, developed natural gas properties, provided a net gain of $28.9 million in 1994.

(millions)	1996	Change	1995	Change	1994
Revenues	$267.1	46.5 %	$182.3	(13.4)%	$210.6
Operating expenses	233.8	54.7 %	151.1	1.8 %	148.4
Nonoperating expenses, net	0.8	121.1 %	(3.8)	(246.2)%	2.6
Net income	$ 32.5	(7.1)%	$ 35.0	(41.3)%	$ 59.6

Revenues

In 1996, revenues increased compared to 1995 by $84.8 million. The increase was due to added capacity in foreign power generation resulting from a full year of operations by Empresa Electrica Corani S.A. (Corani) in Bolivia and the 1996 acquisition of EGENOR. In addition, gas price increases and the increase in gas production due to the acquisition and development of natural gas properties provided additional revenues in 1996 not available in 1995.

In 1995, revenues decreased as compared to 1994 by $28.3 million due to the sale in 1994 of the Black Warrior Trust Units. This revenue reduction was partially offset by the increase in 1995 in gas revenues due to increased gas prices and production.

Operating Expenses

In 1996, operating expenses increased by $82.7 million as compared to 1995, primarily due to a full year's incurrence of operating, maintenance and depreciation expenses at Corani. The increase was also due to similar expenses incurred by EGENOR, which was not part of Dominion Energy's operations in 1995, and the additional depreciation and depletion expenses incurred due to the acquisition and development of oil and gas properties.

Dominion Capital

New Businesses

On May 13, 1996, Dominion Capital, through a wholly-owned subsidiary, acquired the stock of Saxon Mortgage, Inc. (Saxon Mortgage), the company's single-family mortgage origination division and Meritech Mortgage Services, Inc., the company's single-family mortgage servicing operation. Dominion Capital also organized a new indirect subsidiary, Saxon Asset Securities, Inc., which is responsible for securitizing the single-family residential loans.

Results of Operations

Dominion Capital's net income for 1996 amounted to $28.5 million as compared to $17.6 million in 1995. The increase in earnings was primarily due to residential mortgage loan securitizations performed by Saxon Asset Securities, Inc.

In 1995, Dominion Capital reported a decrease in net income of $1.3 million when compared to the 1994 results of $18.9 million. The results were primarily due to the increase in taxes because of a reduction in other tax benefits and higher income subject to tax. These expenses were offset in part by an increase in revenues at First Source Financial, Inc. (First Source Financial). First Source Financial, which began opera-

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tions in April 1995, is a commercial lender to middle-market businesses.

	1996	CHANGE	1995	Change	1994
(millions)					
Revenues	$186.3	66.6%	$111.8	12.7 %	$99.2
Operating expenses	106.1	70.0%	62.4	(6.2)%	66.5
Nonoperating expenses, net	51.7	62.6%	31.8	130.4 %	13.8
Net income	$ 28.5	61.9%	$ 17.6	(6.9)%	$18.9

REVENUES

In 1996, Dominion Capital's revenues increased $74.5 million when compared to 1995 primarily due to the gains recognized in the securitizations of residential mortgage loans which contributed $41.9 million to revenues.

Revenues in 1995 were $12.6 million higher than revenues in 1994 primarily due to revenues from First Source Financial.

OPERATING EXPENSES

In 1996, operating expenses increased by $43.7 million when compared to 1995 due to additional real estate project costs and the operating expenses incurred at Saxon Mortgage, which was acquired in 1996 by Dominion Capital.

NONOPERATING INCOME AND EXPENSES, NET

Nonoperating expenses, net increased by $19.9 million in 1996 compared to 1995 primarily due to an increase in pre-tax book income.

Federal income taxes increased in 1995 compared to 1994 by $18.3 million primarily due to the decrease in other tax benefits plus higher income subject to tax.

CORPORATE

RESULTS OF OPERATIONS

In 1996, Corporate net loss has decreased by $5.6 million compared to 1995 primarily due to $3.6 million in restructuring expenses and the $8.8 million in other charges recorded in 1995. These expenses included restructuring costs at the holding company as well as litigation and other costs.

Net income in 1995 decreased $11.1 million compared to 1994 primarily due to the recording of $3.6 million of restructuring expenses and $8.8 million in other charges.

FUTURE ISSUES

UTILITY ISSUES

Regulatory Matters: Regulatory policy continues to be of fundamental importance to Virginia Power.

On October 7, 1996, the Virginia State Corporation Commission (the Virginia Commission) ordered that its investigation regarding spent nuclear fuel disposal be consolidated with Virginia Power's next fuel recovery proceeding. On October 21, 1996, Virginia Power filed an application with the Virginia Commission to increase its annual fuel cost recovery approximately $48.2 million. The proposed fuel factor became effective on December 1, 1996. A hearing has been scheduled for April 17, 1997. Any potential adjustments to the factor ordered after the hearing will be reflected prospectively after entry of the final order.

Various provisions of the Energy Policy Act of 1992 (the Energy Act) that could affect Virginia Power include those provisions encouraging the development of non-utility generation, giving the Federal Energy Regulatory Commission (FERC) authority to order transmission access for wholesale transactions, requiring higher energy efficiency and alternative fuels use, restructuring of nuclear plant licensing procedures and requiring state regulatory authorities to give full rate treatment for the effects of conservation and demand management programs, including the effects of reduced sales. While the full impact of the Energy Act on Virginia Power cannot at this time be quantified, it is likely, over time, to be significant.

Competition: A number of developments in the United States are causing a trend toward less regulation of and more competition in the electric utility industry. This is evidenced by legislative and regulatory action at both the federal and state level. To the extent that competition is either authorized or mandated and regulation is eliminated or relaxed, electric utilities will no longer, in the absence of appropriate legislative or regulatory action during the transition period, be guaranteed an opportunity to recover their prudently-incurred costs including their cost of capital, and utilities with costs that exceed the market prices established by the competitive market will run the risk of suffering losses, which may be substantial.

Virginia Power has responded to these trends by undertaking cost-cutting measures, engaging in re-engineering efforts of its core business processes, and pursuing a strategic planning initiative (called Vision 2000) to encourage innovative approaches to servicing traditional markets and to develop appropriate methods by which to service future markets. Virginia Power has established separate business units for its nuclear operations, fossil and hydroelectric operations, commercial operations and its energy services business.

It has created a subsidiary to provide nuclear management and operation services to electric utilities seeking assistance in the management and operation of their nuclear generating facilities; it has acquired an operating business, A&C Enercom, Inc., a provider of marketing, program planning and design, customer engineering and energy consulting services; it is seeking approval to engage in the telecommunications business; and it is in the planning stages of creating additional subsidiaries to engage in these and other unregulated businesses. It is also taking regulatory and legislative initiatives designed to enhance the likelihood that the transition to competition is an orderly one and that Virginia Power will not be prevented from recovering prudently-incurred costs and investments.

In addition, Virginia Power is actively pursuing strategic alliances with partners whose strengths, market position and strategies complement Virginia Power's and where efficiencies can be gained through the alliance.

Virginia Power has organized a wholesale power group to take advantage of open access transmission and engage in off-system wholesale purchases and sales, and that group is developing trading relationships beyond the geographic limits of Virginia Power's retail service territory. Virginia Power has also been successful in negotiation of wholesale requirements con-

tracts with multi-year provisions for notice of termination of service and a long-term contract with large federal government customers for service to facilities within Virginia Power's service territory and has obtained regulatory approval of innovative pricing proposals for industrial loads, although rate concessions have been necessary in some cases. To date, Virginia Power has not experienced any material loss of load, and the reduction in 1997 revenues attributable to such rate concessions is expected to approximate $22 million.

Competition–Wholesale: Competition at the wholesale level (8% of Virginia Power's revenues in 1996) has been mandated by the Energy Act and FERC regulations thereunder.

FERC established the requirements for open transmission access and related matters in final rules issued on April 24, 1996 in Order No. 888 and Order No. 889. This enables other suppliers of power to displace electric service provided by a utility to wholesale customers served by the utility's transmission system, unless those customers are required by contract to take service from the utility. The orders required utilities to file with FERC an open access transmission tariff, which Virginia Power did on July 9, 1996; they require utilities to take transmission service under that tariff for wholesale power sales; they provide for utilities to recover legitimate, prudent and verifiable costs that would be unrecoverable in a competitive market (stranded costs); they require utilities to participate in an open access same-time information system (OASIS); and they require separation of transmission operations and reliability functions from wholesale merchant and marketing functions. FERC also issued a notice of proposed rulemaking proposing replacement of open access tariffs with a capacity reservation tariff by December 31, 1997.

In addition, on August 15, 1996, pursuant to the provisions of the Interconnection and Operating Agreement between ODEC and Virginia Power, ODEC gave written notice of its intent to reduce its supplemental demand purchases under that Agreement to zero within nine years. This termination of supplemental sales to ODEC will result in an annual reduction of approximately $22 million of fixed charge recoveries beginning in 2005.

Competition–Retail: General retail competition presently is not authorized in Virginia and North Carolina, and as a result Virginia Power faces competition for retail sales only in the ability of certain business customers to relocate among utility service territories, to substitute other energy sources for electric power, and to generate their own electricity. But major customers, principally industrial, and other suppliers of power are advocating retail competition vigorously in Congress and in the Virginia and North Carolina legislatures and commissions. Legislation either to authorize or require retail competition is under consideration in the present Congress; a joint subcommittee of the Virginia Senate and House of Delegates is considering whether and how such competition should be allowed or required; and legislation is pending before the North Carolina General Assembly that would establish a study commission to determine whether legislation is necessary to ensure adequate, reliable and economical electric service in light of current trends in the industry.

Virginia Power has been advocating a cautious and measured approach to the question of retail competition. In 1996 it initiated legislation, which was enacted by the General Assembly and became effective on July 1, 1996, that authorizes the Virginia Commission to approve alternative forms of regulation, economic development rates and packages of incentive rates; that facilitates a regulated utility's ability to enter into joint ventures and partnerships; that authorizes the Virginia Commission to determine the treatment of stranded costs for service to federal customer accounts, which are otherwise outside the Commission's rate-making jurisdiction; that establishes that a local referendum must be held before municipalization of utility services may occur for services previously provided by a utility; and that authorizes the Virginia Commission to determine stranded cost payments when utility property is condemned by a municipality or other corporation possessing the power of eminent domain. Virginia Power has also obtained regulatory approval of innovative pricing proposals for industrial loads in Virginia and North Carolina and entered into an energy partnership with a key industrial customer.

The Virginia Commission is taking an active interest in retail competition in the electric utility industry and the industry restructuring that might accompany such competition. It has instituted both a generic investigation of industry restructuring and competition and a separate proceeding specifically involving Virginia Power. Virginia Power expects to propose in that case an alternative regulatory plan intended to facilitate an orderly transition to competition, if such competition should be allowed, including full recovery of any potentially stranded costs.

Competition–SFAS 71: Virginia Power's regulated rates are designed to recover its prudently incurred costs of providing service, including the opportunity to earn a reasonable return on its shareholders' investment. Virginia Power's financial statements reflect assets and costs under this cost-based rate regulation in accordance with Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation," which provides that certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets and are recognized as the related amounts are included in rates and recovered from customers. Continued accounting under SFAS 71 requires that rates designed to recover the utility's specific costs of providing service, are, and will continue to be, established by regulators. The presence of increasing competition that limits the utility's ability to charge rates that recover its costs, or a change in the method of regulation with the same effect, could result in the discontinued applicability of SFAS 71.

Rate-regulated companies are required to write off regulatory assets against earnings whenever those assets no longer meet the criteria for recognition as defined by SFAS 71. In addition, SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires a review of long-lived assets for impairment whenever events or changes in circumstances, such as those used to determine continued applicability of SFAS 71, indicate that the carrying amount of an asset may not be recoverable.

Virginia Power's operations currently satisfy the SFAS 71 criteria. However, if events or circumstances should change so that those criteria are no longer satisfied, management believes that a material adverse effect on Virginia Power's results of operations and financial position may result. In light of changes predicted for the electric utility industry, Virginia Power will continue monitoring its regulated operations in light of the SFAS 71 requirements.

Competition—Exposure to Potentially Stranded Costs: Under traditional cost-based regulation, utilities have generally had an obligation to serve supported by an implicit promise of the opportunity to recover prudently incurred costs. The most significant potential adverse effect of competition is "stranded costs," those costs incurred or commitments made by utilities under cost-based regulation that may not be reasonably expected to be recovered in a competitive market. Regulatory assets recognized under SFAS 71, unrecovered investment in power plants and commitments such as long-term purchased power contracts are items that may become stranded costs if prices for electric services are determined by the market rather than based on the cost of providing that service.

Virginia Power's exposure to stranded costs is comprised of potentially above-market long-term purchased power contracts, costs pertaining to certain generating plants that may become uneconomic in a deregulated environment and regulatory assets for items such as income tax benefits previously flowed-through to customers, deferred losses on reacquired debt, and other costs (see Note D). In addition, unfunded obligations for nuclear plant decommissioning and postretirement benefits not yet recognized in the financial statements could contribute to Virginia Power's exposure to potentially stranded costs (see Notes A and N).

Any forecast of potentially stranded costs is inextricably tied to the assumptions made at the time of the analysis, including the timing of open access (customer choice) in the market for electric service, the extent of open access permitted, potential prices in the competitive market, sales and load growth forecasts, future operating performance, rate revenues permitted during the transition, cost structure over time, mitigation opportunities and stranded cost recovery mechanisms. The calculation of potentially stranded costs is extremely sensitive to the various assumptions made. Certain combinations of these assumptions as applied to Virginia Power would produce little to no stranded costs; under other scenarios Virginia Power's exposure to potentially stranded costs could be substantial.

Virginia Power is presently assessing the reasonableness of various possible assumptions, but it has not been able to settle on any particular combination thereof. Thus Virginia Power's maximum exposure to potentially stranded costs is uncertain, as is the extent to which such costs, if any, will be recoverable from customers. Virginia Power believes that recovery of such costs, if any, is appropriate and will vigorously pursue the recovery of any potentially stranded costs with the regulatory commissions having jurisdiction over its operations and continue to implement cost-reduction measures in an effort to mitigate the amount at risk.

Presently, Virginia Power expects to continue to operate under regulation and to recover its cost of providing traditional electric service. However, the form of cost-based rate regulation, under which Virginia Power operates, may evolve as a result of Virginia Power's alternative regulatory plan to be filed with the Virginia Commission or legislative initiatives. At this time, Virginia Power management can predict neither the ultimate outcome of regulatory reform in the electric utility industry nor the impact such changes would have on Virginia Power.

Environmental Matters: Virginia Power is subject to rising costs resulting from a steadily increasing number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. They can result in increased capital, operating and other costs as a result of compliance, remediation, containment, and monitoring obligations of Virginia Power. These costs have been historically recovered through the ratemaking process; however, should material costs be incurred and not recovered through rates, Virginia Power's results of operations and financial condition could be adversely impacted.

Virginia Power incurred expenses of $71.1 million, $68.3 million, and $67.3 million (including depreciation) during 1996, 1995, and 1994, respectively, in connection with the use of environmental protection facilities and expects these expenses to be approximately $71.5 million in 1997. In addition, capital expenditures to limit or monitor hazardous substances were $22.4 million, $23.4 million, and $47.3 million for 1996, 1995, and 1994, respectively. The amount estimated for 1997 for these expenditures is $14.3 million.

The Clean Air Act, as amended in 1990, requires Virginia Power to reduce its emissions of sulfur dioxide (SO2) and nitrogen oxides (NOx). Beginning in 1995, the SO2 reduction program is based on the issuance of a limited number of SO2 emission allowances, each of which may be used as a permit to emit one ton of SO2 into the atmosphere or may be sold to someone else. The program is administered by the Environmental Protection Agency (EPA).

Virginia Power has installed SO2 control equipment on Unit 3 at Mt. Storm Power Station. The SO2 control equipment began operation on October 31, 1994. The cost of this and related equipment was $147 million. Additional plans for SO2 control involve switching to lower sulfur coal, purchase of emission allowances and additional SO2 controls. Maximum flexibility and least-cost compliance will be maintained through annual studies. Virginia Power has completed its compliance plan for NOx control, with the exception of some additional studies concerning Phase II of the Clean Air Act, for which the EPA issued final regulations in December 1996, and ozone control requirements, for which regulations have not yet been promulgated.

In 1996, Virginia Power installed NOx controls on Possum Point Unit 4 at a cost of about $4 million, and at Mt. Storm Unit 3 at a cost of about $6 million. The utility plans to install additional NOx controls and modify existing controls at Mt. Storm Units 1 and 2 in 1997, and to seek alternative emission limitations from the EPA for all three Mt. Storm Units. The utility has notified the EPA of its decision (called "early election") to begin

complying with Phase I NOx limits at ten of its units in Virginia in 1997, three years earlier than otherwise required. As a result, the units will not be subject to more stringent Phase II limits until 2008.

In order to assist the Virginia Department of Environmental Quality in maintaining good air quality in the Richmond and Hampton Roads regions, and to avoid the necessity of more stringent regulations, Virginia Power made voluntary commitments in 1996 to cap NOx emissions at its Chesterfield and Yorktown Power Stations and the Chesapeake Energy Center beginning in 2000.

Capital expenditures on Clear Air Act compliance over the next five years are projected to be approximately $21 million. Changes in the regulatory environment, availability of allowances, and emissions control technology could substantially impact the timing and magnitude of compliance expenditures.

The Clean Air Act amendments also require Virginia Power to obtain operating permits for all major emissions-emitting facilities. Permit applications have been submitted, and deemed complete by the regulatory authorities, for the Mt. Storm and North Branch power stations. Applications for the Virginia stations are expected to be due in 1997.

Electromagnetic Fields: The possibility that exposure to electromagnetic fields (EMFs) emanating from power lines, household appliances and other electric sources may result in adverse health effects has been a subject of increased public, governmental and media attention. A considerable amount of scientific research has been conducted on this topic without definitive results. Research is continuing to resolve scientific uncertainties. It is too soon to tell what, if any, impact EMFs may have on the company's financial condition.

Nuclear Operations: The Nuclear Regulatory Commission (NRC) revised the nuclear power plant license renewal rules issued in 1991. Virginia Power intends to work with industry groups on license renewal programs, and to apply for renewal of the current 40-year licenses.

Nonutility Issues

Dominion Energy: Dominion Energy has evolved into a company that emphasizes building businesses in the Americas with long-term earnings and value growth. The key to this growth is the attainment of low cost production in geographical areas where we have institutional experience and staff in place. Dominion Energy will pursue this mission through its business lines of independent power generation and natural gas and oil exploration, development and operations.

Dominion Energy's strategy with respect to power generation is to grow through selective bidding opportunities and the expansion of existing assets. The primary international markets of interest to Dominion Energy are South and Central America. Dominion Energy has also established regional offices for development in Argentina and Bolivia.

Dominion Energy's strategy with respect to its natural gas and oil businesses is to continue to grow its reserve base, either through drilling or acquisition. In order to enhance the value in its oil and gas assets, Dominion Energy will invest in pipeline, gathering and storage facilities where these investments increase flexibility and market presence. Dominion Energy is also exploring ways to add value by integrating its gas supply entities with its power production units.

Coincident with the growing economic opportunities are related risks. These risks include limited currency fluctuations, developments in both domestic and international economic conditions, and governmental and regulatory actions. Internationally, Dominion Energy is managing these risks by limiting its investments to more stable countries and by avoiding overcommitment to one country. The financial performance of the natural gas operations depends to a degree on the market price of natural gas which is influenced by many factors outside the control of Dominion Energy. However, due to the advantageous cost basis of its reserves and related tax credits, natural gas operations are profitable at today's market prices. Much of Dominion Energy's gas reserves has production-based tax credits. Consequently, future profitability could be affected adversely by federal legislation which would remove the tax credit prior to its current expiration in 2002.

Dominion Capital: Dominion Capital has evolved from a company which centered its earnings performance primarily on transactional activity to one focused on obtaining earnings from ongoing operations. Dominion Capital's strategy is to actively operate and manage a specialized financial services business and to a lesser degree, continue its real estate activities. In addition, Dominion Capital plans to continue to expand its flexibility by achieving stand-alone taxpayer status and independent credit capacity.

Dominion Capital is divided into three major strategic areas. They consist of (1) financial services businesses, (2) core investments of Rincon Securities and Vidalia Hydroelectric, and (3) real estate and passive investments.

The financial services businesses, from which management expects continued growth, focus on commercial lending to medium-sized companies, origination and servicing of home mortgage and home equity loans to individuals, and a merchant banking enterprise whose clients are small to medium sized oil and gas producers. The primary risks characteristic of these businesses are credit, interest rate, operation reserve, and market price of gas. The credit risk is mitigated by diversification of client base, geographic and industry concentrations. In addition, these companies are managed by experienced management and underwriting professionals. The interest rate risk is managed by floating rate loans, loan securitizations which transfer most of the risk to investors, prepayment penalties and hedging programs for presecuritized loans. The operation reserve risk is tempered by doing business with clients that have management teams with proven track records and requiring

quality third-party reserve reports. The gas market price risk is hedged through a swap program that establishes a price for reserves that supports the original loan underwritten.

Rincon Securities and Vidalia Hydroelectric will be managed to optimize profitability but do not offer much growth opportunities. The real estate and passive direct investments will be managed to harvest capital for reinvestment. The critical risk to the real estate investments is the regional economy which affects both the market price and the product's absorption rate.

Corporate Issues

In November 1996, Dominion Resources through its indirect United Kingdom (U.K.) subsidiary DR Investments (U.K.) PLC, posted a formal offer document to the shareholders of East Midlands Electricity plc (East Midlands). The offer amounts to approximately $2.2 billion and the transaction is anticipated to be completed in the first quarter of 1997.

East Midlands is a regional electricity company based in the Nottingham area of England that serves about 2.3 million homes and businesses. It buys electricity from the U.K. competitive pool and direct from generating companies and supplies it to all smaller businesses and domestic customers in its franchise area plus to larger business customers anywhere in the country on a negotiated contract basis. This is a pattern which may be coming to the United States as the push for more competition especially in the wholesale power market sector of the electricity business intensifies. In addition, Dominion Resources expects to gain valuable experience from the U.K. business in the area of direct competition for individual consumers when deregulation comes to the U.K. in 1998.

Risk associated with this business includes the fact that the distribution business of East Midlands is regulated under a license pursuant to which revenue of the distribution business is controlled by a distribution price control formula established and reviewed by U.K. regulators. There can be no assurance that any review by the U.K. regulators will not adversely affect East Midlands.

Furthermore, the supply business in the U.K. is being progressively opened to competition. Other factors that could adversely affect the business of East Midlands are pool purchase price volatility (East Midlands obtains the electricity it sells under fixed price contracts by purchases from wholesale trading markets in the U.K.) and changes in U.K. governmental policies, including the possible introduction of a one-time tax on excess profits of privatized utilities. East Midlands expects to continue to effectively compete in the U.K. supply business, utilizing elaborate hedging programs to manage purchase price volatility risk.

Other Risk Factors and Risk Management Matters

In 1996 and January 1997, the company instituted and implemented risk management policies involving derivative transactions at the corporate, nonutility and utility levels. In 1997, the company will continue to use derivative financial instruments for prudent risk management. For more information on derivative transactions (see Notes A and P).

As Dominion Resources continues to expand its operations in competitive power supply markets, the possibility of challenges by contractual purchasers of power exists. There could be a significant impact on the results of operations of Dominion Resources if any of the contracts were to be successfully challenged resulting in unfavorable modifications. Management continues to evaluate its significant power contracts and has concluded that the terms are binding and enforceable.

Forward-Looking Information

This annual report contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995, including (without limitation) discussions as to expectations, beliefs, plans, objectives and future financial performance, or assumptions underlying or concerning matters discussed in this document. These discussions, and any other discussions contained in this report that are not historical facts, are forward-looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In addition to certain contingency matters (and their respective cautionary statements) discussed elsewhere in this report, the following important factors should be considered with respect to any forward-looking statements made herein:

Current governmental policies and regulatory actions both domestic and international (including those of FERC, the EPA, the NRC and the Virginia Commission), industry and rate structure, operation of nuclear power facilities, acquisition and disposal of assets and facilities, operation and storage facilities, recovery of the cost of purchased power, decommissioning costs, present or prospective wholesale and retail competition, economic and geographic factors including political and economic risks (particularly those associated with international development and operations, including currency fluctuation), changes in and compliance with environmental laws and policies, weather conditions and catastrophic weather related damage, competition for retail and wholesale customers, pricing and transportation of commodities, market demand for energy, inflation, capital market conditions, unanticipated development project delays or changes in project costs, unanticipated changes in operating expenses and capital expenditures, competition for new energy development opportunities and legal and administrative proceedings. All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond the control of Dominion Resources. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business of the company.

Any forward-looking statement speaks only as of the date on which such statement is made, and Dominion Resources undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.

Consolidated Balance Sheets

Assets

At December 31, *(millions)*	1996	1995
Current assets:		
Cash and cash equivalents	$ 110.8	$ 66.7
Trading securities	16.4	10.8
Customer accounts receivable, net	354.8	362.6
Other accounts receivable	174.9	104.2
Accrued unbilled revenues	162.8	179.5
Materials and supplies at average cost or less:		
Plant and general	148.7	160.2
Fossil fuel	76.8	71.2
Mortgage loans in warehouse	65.8	
Other	209.5	141.5
	1,320.5	1,096.7
Investments:		
Investments in affiliates	457.5	436.2
Available-for-sale securities	692.4	285.5
Nuclear decommissioning trust funds	443.3	351.4
Investments in real estate	107.7	133.0
Other	234.2	236.6
	1,935.1	1,442.7
Property, plant and equipment:		
(includes plant under construction of $180.1 [1995-$512.1])	16,815.8	15,977.4
Less accumulated depreciation, depletion and amortization	6,306.4	5,655.1
	10,509.4	10,322.3
Deferred charges and other assets:		
Regulatory assets	773.9	816.4
Other	366.7	225.2
	1,140.6	1,041.6
Total assets	$14,905.6	$13,903.3

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

Liabilities and Shareholders' Equity

At December 31, *(millions)*	1996	1995
Current liabilities:		
Securities due within one year	$ 750.7	$ 420.8
Short-term debt	378.2	236.6
Accounts payable, trade	410.6	336.7
Accrued interest	107.3	110.5
Accrued payroll	73.1	77.7
Severance costs accrued	50.2	42.5
Customer deposits	50.0	55.4
Other	155.4	114.0
	1,975.5	1,394.2
Long-term debt:		
Utility	3,579.4	3,889.4
Nonrecourse-nonutility	505.7	523.5
Other	642.5	199.0
	4,727.6	4,611.9
Deferred credits and other liabilities:		
Deferred income taxes	1,743.3	1,661.1
Investment tax credits	255.3	272.2
Deferred fuel expenses	3.3	57.7
Other	452.2	340.2
	2,454.1	2,331.2
Total liabilities	9,157.2	8,337.3
Commitments and contingencies		
Virginia Power obligated mandatorily redeemable preferred securities of subsidiary trust*	135.0	135.0
Preferred stock:		
Virginia Power stock subject to mandatory redemption	180.0	180.0
Virginia Power stock not subject to mandatory redemption	509.0	509.0
Common shareholders' equity:		
Common stock—no par authorized 300,000,000 shares, outstanding—181,220,746 shares at 1996 and 176,414,110 shares at 1995	3,471.4	3,303.5
Retained earnings	1,437.9	1,427.6
Allowance on available-for-sale securities, net of tax	(1.1)	(6.7)
Other paid-in capital	16.2	17.6
	4,924.4	4,742.0
Total liabilities and shareholders' equity	$14,905.6	$13,903.3

**As described in Note L, the 8.05% Junior Subordinated Notes totaling $139.2 million principal amount constitute 100% of the Trust's assets.*

Consolidated Statements of Cash Flows

For The Years Ended December 31, *(millions)*	1996	1995	1994
Cash flows from (used in) operating activities:			
Net income	$ 472.1	$ 425.0	$ 478.2
Adjustments to reconcile net income to net cash:			
Depreciation, depletion and amortization	694.4	633.5	610.7
Deferred income taxes	84.1	26.4	68.2
Investment tax credits, net	(16.9)	(16.9)	(17.1)
Allowance for other funds used during construction	(3.0)	(6.7)	(6.4)
Deferred fuel expense	(54.4)	6.2	(2.6)
Deferred capacity expense	(9.2)	6.4	26.5
Restructuring expense	56.3	96.2	
Non-cash return on terminated construction project costs—pre-tax	(6.4)	(8.4)	(10.3)
Gain on sale of trust units		(8.7)	(49.0)
Purchase of mortgage loans	(769.2)		
Proceeds from sale and principal collections of mortgage loans	703.4		
Changes in current assets and liabilities:			
Accounts receivable	(47.0)	(38.7)	19.1
Accrued unbilled revenues	17.6	(27.7)	11.9
Materials and supplies	6.0	61.1	(6.5)
Accounts payable, trade	73.8	(37.6)	32.6
Accrued interest and taxes	(17.5)	33.6	(46.5)
Provision for rate refunds		(12.2)	(89.5)
Other changes	(151.9)	39.8	(27.5)
Net cash flows from operating activities	1,032.2	1,171.3	991.8
Cash flows from (used in) financing activities:			
Issuance of common stock	169.7	161.7	186.7
Preferred securities of subsidiary trust		135.0	
Issuance of long-term debt:			
Utility	24.5	240.0	464.0
Nonrecourse-nonutility	434.5	54.3	18.7
Other	342.5		
Issuance (repayment) of short-term debt	134.5	101.1	(117.0)
Repayment of long-term debt and preferred stock	(336.5)	(553.0)	(349.6)
Common dividend payments	(460.1)	(448.7)	(434.7)
Other	(4.5)	(20.5)	(8.0)
Net cash flows from (used in) financing activities	304.6	(330.1)	(239.9)
Cash flows from (used in) investing activities:			
Utility capital expenditures (excluding AFC-equity funds)	(484.0)	(577.5)	(660.9)
Acquisition of natural gas and independent power properties	(271.2)	(128.5)	(60.4)
Sale of accounts receivable, net		(160.0)	(40.0)
Sale of trust units		16.4	128.4
Purchase of marketable securities	(351.3)	(61.8)	
Additions to mortgage investments	(58.3)		
Acquisitions of businesses	(19.5)	(52.4)	
Other investments	(108.4)	42.6	(74.3)
Net cash flows used in investing activities	(1,292.7)	(921.2)	(707.2)
Increase (decrease) in cash and cash equivalents	$ 44.1	$ (80.0)	$ 44.7
Cash and cash equivalents at beginning of the year	66.7	146.7	102.0
Cash and cash equivalents at end of the year	$ 110.8	$ 66.7	$ 146.7

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

Management's Discussion and Analysis of Cash Flows and Financial Condition:

(Unaudited)

Consolidated

Financing Activity

Each of Dominion Resources' subsidiaries—Virginia Power, Dominion Energy, and Dominion Capital—obtains capital primarily through cash from operations, debt financings and equity contributed by the parent. The utility and nonutility companies obtain financing based on their individual credit profiles and ability to repay the debt; in no way are the other companies contingently liable for each other's indebtedness.

Commercial Paper

To finance working capital for operations, proceeds from the sale of Dominion Resources commercial paper in regional and national markets are made available to its nonutility subsidiaries under the terms of intercompany credit agreements. To support these borrowings, Dominion Resources had available bank lines of credit totaling $400.8 million at the end of 1996. Amounts borrowed by the subsidiaries are repaid to Dominion Resources through cash flows from operations and through proceeds from permanent financings.

Virginia Power has a commercial paper program with a limit of $500 million. The program is supported by $500 million of revolving credit facilities and is used primarily to finance working capital for operations.

Common Equity

Dominion Resources made no underwritten public offerings of common stock in 1996, but did raise capital from sales of common stock through the Automatic Dividend Reinvestment and Stock Purchase Plan, Customer Stock Purchase Plan, Dominion Direct Investment Plan, and Employee Savings Plan. On July 8, 1996, the company established the Dominion Direct Investment Plan. The Dominion Direct Investment Plan continues and expands the Automatic Dividend Reinvestment and Stock Purchase Plan. Dominion Resources will continue to raise capital through the Dominion Direct Investment and the Employee Savings plans in 1997. Proceeds from these plans were (in millions): 1996-$164.2; 1995-$136.9; and 1994-$166. Reflected in the amounts of proceeds from these plans were the repurchases of 136,800 shares of common stock in 1996 for an aggregate price of $5.5 million, 685,500 shares of common stock in 1995 for an aggregate price of $24.8 million, and 566,000 shares in 1994 for an aggregate price of $20.7 million. In 1997, the company will make an underwritten public offering of common stock in the amount of approximately $300 million to finance the purchase of East Midlands.

Virginia Power

Liquidity and Capital Resources

Cash flow from operating activities has accounted for, on average, 75% of Virginia Power's cash requirements over the past three years.

With the completion of the 882 Mw coal-fired power station near Clover, Virginia, Virginia Power is in a period in which internal cash generation will exceed construction expenditures. The internal generation of cash in 1996, 1995 and 1994 provided 143%, 119% and 88%, respectively, of the funds required for Virginia Power's capital requirements.

Net cash provided by operating activities decreased $10.1 million in 1996 as compared to 1995, primarily as a result of normal operations.

Net cash provided by operating activities increased by $107.1 million in 1995 as compared to 1994, primarily as a result of increased sales, partially offset by a number of other factors resulting from normal operations.

Cash from (used in) financing activities was as follows:

(millions)	**1996**	1995	1994
Contribution from parent			$ 75.0
Issuance of long-term debt	**$ 24.5**	$ 240.0	464.0
Repayment of long-term debt	**(284.1)**	(439.0)	(334.3)
Issuance of securities of subsidiary trust		135.0	
Issuance (repayment) of short-term debt	**143.4**	169.0	(43.0)
Common dividend payments	**(385.8)**	(394.3)	(395.5)
Other	**(48.8)**	(58.0)	(50.5)
Total	**$(550.8)**	$(347.3)	$(284.3)

In 1996, Virginia Power issued $24.5 million of variable rate solid waste disposal securities to refund $24.5 million of securities assumed in its acquisition of the North Branch Power Station. Also in 1996, Virginia Power retired a total of $259.6 million of Medium-Term Notes through mandatory maturities.

In June 1996, Virginia Power increased the limit for its commercial paper program from $300 million to $500 million with the execution of $500 million of revolving credit facilities, which replaced existing liquidity support. Proceeds from the sale of commercial paper are primarily used to finance working capital for operations. Net borrowings under the commercial paper program were $312.4 million at December 31, 1996.

In January 1997, Virginia Power filed a registration statement with the Securities and Exchange Commission for $400 million of Junior Subordinated Debentures. At December 31, 1996, Virginia Power had two additional shelf registration statements for debt securities registered with the Securities and Exchange Commission, one for $575 million of First and Refunding Mortgage Bonds and the other for $200 million of Medium-Term Notes, Series F. In addition, Virginia Power has a Preferred Stock shelf, registered with the Securities and Exchange Commission, for $100 million in aggregate principal amount, which has not been utilized. Virginia Power intends to issue securities from time to time to meet its capital requirements.

Cash (used in) investing activities was as follows:

(millions)	1996	1995	1994
Utility plant expenditures	$(393.8)	$(519.9)	$(580.9)
Nuclear fuel	(90.2)	(57.6)	(80.0)
Nuclear decommissioning contributions	(36.2)	(28.5)	(24.5)
Sale of accounts receivable, net		(160.0)	(40.0)
Purchase of subsidiary assets	(13.7)		
Other	(12.5)	(11.1)	(1.4)
Total	$(546.4)	$(777.1)	$(726.8)

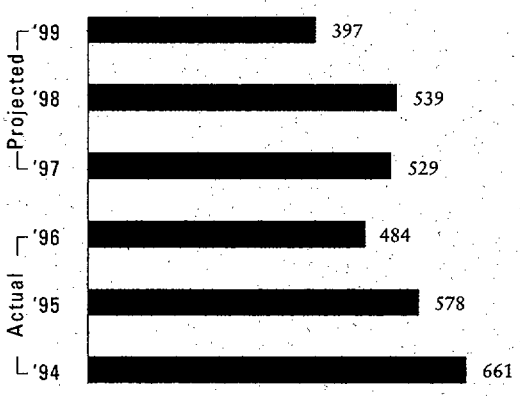
Investing activities in 1996 resulted in a net cash outflow of $546.4 million primarily due to $393.8 million of construction expenditures and $90.2 million of nuclear fuel expenditures. Of the construction expenditures, $78.6 million was spent on production projects, $244.6 million on transmission and distribution projects, and approximately $17.1 million on new generating facilities.

Capital Requirements

Virginia Power presently anticipates that kilowatt-hour sales will grow approximately 2.4 percent a year through 2011. Both the Hoosier 400 Mw long-term purchase and the AEP 500 Mw long-term purchase agreements will expire on December 31, 1999. With the scheduled termination of 900 Mw of long-term purchases and continued system growth, Virginia Power presently anticipates adding 1,200 Mw of short-term (three-year) purchases beginning in 2000. Virginia Power has and will pursue capacity acquisition plans to provide that capacity and maintain a high degree of service reliability. This capacity may be owned and operated by others and sold to Virginia Power or may be built by Virginia Power if it determines it can build capacity at a lower overall cost.

Virginia Power Capital Expenditures

(Millions of Dollars)



Clover Unit 2, which is part of a two-unit facility jointly owned with ODEC, began commercial operation in March 1996. Virginia Power's fifty percent ownership share of the cost of construction was completed at a cost of $235 million.

Virginia Power will require $311.3 million to meet long-term debt maturities in 1997. Virginia Power presently estimates that all of its 1997 construction expenditures, including nuclear fuel expenditures, will be met through cash flow from operations. Other capital requirements will be met through a combination of sales of securities and short-term borrowings.

Dominion Energy

Liquidity and Capital Resources

Dominion Energy funds its capital requirements through operations, equity contributions by Dominion Resources, an intercompany credit agreement with Dominion Resources and bank revolving credit agreements.

Net cash provided by operating activities increased by $52.1 million in 1996, as compared to 1995, primarily due to cash generated by operations of acquired companies and assets and from normal operations.

Cash from (used in) financing activities was as follows:

(millions)	1996	1995	1994
Contribution from parent	$ 75.0	$149.3	
Issuance of long-term debt	221.7		
Repayment of long-term debt		(72.5)	
Repayment of short-term debt	(8.9)		$(52.6)
Common dividend payments	(43.3)	(31.6)	(26.4)
Issuance (repayment) of intercompany debt	19.7	32.4	(47.1)
Other	10.0	9.5	29.1
Total	$274.2	$ 87.1	$(97.0)

In 1996, cash flows from financing activities of $274.2 million, resulted from long-term debt financing and equity contributions from Dominion Resources. The additional debt and equity requirements were used primarily for the acquisition of oil and gas properties and an interest in EGENOR.

In 1995, cash flows from financing activities of $87.1 million resulted from the $149.3 million of equity contributions from Dominion Resources which was used to retire long-term debt of approximately $72.5 million and fund the acquisition of Corani.

In 1994, cash flows used in financing activities decreased by $97 million, resulting from the repayment of short-term and intercompany debt. Proceeds from the sale of the Black Warrior Trust Units which amounted to $128.4 million were used to fund the repayments.

Cash from (used in) investing activities was as follows:

(millions)	1996	1995	1994
Purchase of independent power properties	$(167.3)	$ (60.2)	
Purchase of natural gas properties	(103.9)	(68.3)	$ (60.4)
Sale of trust units		16.4	128.4
Other	(82.8)	(24.1)	(31.1)
Total	$(354.0)	$(136.2)	$ 36.9

Net cash flows used in investing activities in 1996 of $354 million were used primarily to fund the acquisition of oil and gas properties and an interest in EGENOR.

In 1995, net cash flows used in investing activities of $136.2 million were primarily for the acquisitions of Corani and oil and gas properties.

In 1994, net cash flows from investing activities increased, primarily due to the gain on the sale of the Black Warrior Trust Units offset by the purchase of oil and natural gas properties.

Capital Requirements

Capital requirements for Dominion Energy in 1997 are forecasted to be approximately $375 million. These requirements consist of: oil and gas expenditures of $115 million (including the Wolverine acquisition). Power generation will have capital expenditures of $260 million (including the Kincaid acquisition).

Sources for these capital requirements will be: nonrecourse debt, cash flows from operations, equity from Dominion Resources and, if necessary, borrowings from the revolving credit facility.

It should be noted that amounts enumerated above are estimates; consequently, actual amounts may differ.

Dominion Capital

Liquidity and Capital Resources

Dominion Capital funds its capital requirements through operations, intercompany credit agreement with Dominion Resources, equity contributions from Dominion Resources, a medium-term note facility, bank revolving credit agreements, term loans and a commercial paper program.

Net cash provided by operating activities decreased by $179.1 million in 1996 as compared to 1995, primarily as a result of the funding of mortgage loans prior to the securitization of such loans in its financial services business.

Net cash provided by operating activities increased to $49.3 million in 1995 as compared to 1994, primarily due to a number of factors resulting from normal operations.

Cash from (used in) financing activities was as follows:

	1996	1995	1994
(millions)			
Contribution from parent	**$ 85.0**	$150.0	$ 4.9
Issuance of long-term debt	**104.7**	16.1	
Repayment of long-term debt	**(52.4)**	(41.5)	(15.3)
Common dividend payments	**(30.7)**	(22.7)	(12.7)
Issuance (repayment) of intercompany debt	**79.6**	(52.1)	71.0
Other	**(0.4)**	(4.5)	0.8
Total	**$185.8**	$ 45.3	$ 48.7

In 1996, cash flows from financing activities increased to $185.8 million, primarily due to the following transactions. Dominion Capital received seller financing of $47.5 million from Resource Mortgage Capital when it purchased Saxon Mortgage. Intercompany debt which is available through Dominion Capital's intercompany credit agreement with Dominion Resources, increased by $79.6 million. The proceeds were used to fund capital requirements not covered by proceeds from operations or debt, including the initial cash payment of the Saxon acquisition, and medium term note maturities of $38.5 million. During the year, Senior Notes of $46 million were refinanced with similar debt.

In 1995, cash flows from financing activities increased to $45.3 million due to an equity infusion of $150 million from Dominion Resources. The proceeds were used to invest in First Source Financial. The remaining proceeds from the equity infusion were used to pay down intercompany and long-term debt.

In 1994, cash flows from financing activities increased to $48.7 million due to borrowings from the intercompany credit agreement. The proceeds from the borrowings were used to pay dividends and reduce long-term debt.

Cash from (used in) investing activities was as follows:

	1996	1995	1994
(millions)			
Investments in affiliates	**$(19.5)**	$(52.4)	
Capital expenditures		(1.9)	
Other	**(23.9)**	(31.0)	$(32.5)
Total	**$(43.4)**	$(85.3)	$(32.5)

Net cash flows used in investing activities in 1996 resulted from the acquisition of Saxon Mortgage, the residual interest in mortgage loans securitized relating to Saxon Mortgage and equity investments in Cambrian Capital (Cambrian). Net cash flows used in investing activities in 1995 resulted primarily from its investment in First Source Financial. Investing activities in 1994 resulted in a net cash outflow of $32.5 million as a result of venture capital and other investments.

Capital Requirements

Dominion Capital's principal focus is growing its financial services companies. First Source Financial will increase its loan portfolio from $650 million to approximately $954 million in 1997. Saxon Mortgage plans to generate almost $2 billion in loan originations primarily in the sub-prime credit arena during 1997. Cambrian, a merchant banking enterprise for emerging independent oil and natural gas producers, will expand its loan portfolio to approximately $100 million in 1997. To finance these expansion plans in 1997, Dominion Capital plans to utilize approximately $160 million in new equity and intercompany debt. The remaining capital requirements will come from the reinvestment of cash from operations, harvesting capital from existing real estate and other assets, and various third party credit sources. Dominion Capital anticipates dividend payments to Dominion Resources of approximately $31 million.

Notes to Consolidated Financial Statements

Note A: Significant Accounting Policies

General: Dominion Resources, Inc. is a holding company headquartered in Richmond, Virginia. Its primary business is Virginia Power, which is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within a 30,000 square mile area in Virginia and northeastern North Carolina. It sells electricity to retail customers (including governmental agencies) and to wholesale customers such as rural electric cooperatives and municipalities. The Virginia service area comprises about 65 percent of Virginia's total land area, but accounts for over 80 percent of its population.

The company also operates business subsidiaries active in independent power production, the acquisition and sale of natural gas reserves, in financial services, and in real estate. Some of the independent power and natural gas projects are located in foreign countries. Net assets of approximately $440 million are involved in independent power production operations in Central and South America.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Dominion Resources is currently exempt from regulation as a registered holding company under the Public Utility Holding Company Act of 1935.

Accounting for the utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by federal agencies and the commissions of the states in which the utility business operates.

Consolidation: The Consolidated Financial Statements include the accounts of Dominion Resources and its subsidiaries. In consolidation, all significant intercompany transactions and accounts have been eliminated.

Operating Revenues and Income: Utility revenues are recorded on the basis of service rendered. Dividend income on securities owned is recognized on the ex-dividend date. Investments in common stocks of affiliates representing 20 percent to 50 percent ownership, and joint ventures and partnerships representing generally 50 percent or less ownership interests, are accounted for under the equity method.

Gain on sale of loans: Gain on sale of loans represents the present value of the difference between the interest rate received on the mortgage loans and the interest rate received by the investor in the securities after considering the effects of estimated prepayments, costs to service the mortgage loans and non-refundable fees and premiums on loans sold. These gains on the sale of loans are recognized on the settlement date and are based on the relative fair market value of the portion sold and retained. Concurrently with recognizing such gain on sale, a corresponding asset representing interest-only strips retained at securitization is recorded on the balance sheet in an initial amount equal to the net present value of the projected cash flows. The asset recorded which is classified as available-for-sale is amortized in proportion to the income estimated to be received during the life.

Property, Plant and Equipment: Utility plant is recorded at original cost, which includes labor, materials, services, AFC (where permitted by regulators), and other indirect costs.

The cost of acquisition, exploration and development of natural resource properties is accounted for under the successful efforts method.

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 1996, 1995, and 1994, $6.3 million, $14.1 million, and $13.8 million of interest cost was capitalized, respectively. Capitalized interest includes AFC—other funds for certain regulatory jurisdictions of $3 million, $6.7 million, and $6.4 million for the years ended December 31, 1996, 1995 and 1994, respectively.

Major classes of property, plant and equipment and their respective balances are:

At December 31, *(millions)*	**1996**	1995
Utility:		
Production	**$ 7,691.9**	$ 7,340.0
Transmission	**1,386.5**	1,316.1
Distribution	**4,385.4**	4,215.7
Other electric	**862.9**	817.7
Construction work-in-progress	**180.1**	512.1
Nuclear fuel	**843.8**	836.0
Total utility	**15,350.6**	15,037.6
Nonutility:		
Natural gas properties	**492.4**	395.7
Independent power properties	**869.2**	462.7
Other	**103.6**	81.4
Total nonutility	**1,465.2**	939.8
Total property, plant and equipment	**$16,815.8**	$15,977.4

Depreciation, Depletion and Amortization: Depreciation of utility plant (other than nuclear fuel) is computed using the straight-line method based on projected useful service lives. The cost of depreciable utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation. The provision for depreciation provides for the recovery of the cost of assets and the estimated cost of removal, net of salvage, and is based on the weighted average depreciable plant using a rate of 3.2 percent for 1996, 1995 and 1994.

Owned nuclear fuel is amortized on a unit-of-production basis sufficient to amortize fully, over the estimated service life, the cost of the fuel plus permanent storage and disposal costs.

Costs in excess of net assets acquired from equity investments are amortized over periods not to exceed 40 years.

Nuclear Decommissioning: Nuclear plant decommissioning costs are accrued and recovered through rates over the expected service lives of Virginia Power's nuclear generating units. The amounts collected from customers are being placed in trusts, which, with the accumulated earnings thereon, will be utilized solely to fund future decommissioning obligations.

	North Anna		Surry	
	Unit 1	Unit 2	Unit 1	Unit 2
NRC license expiration year	2018	2020	2012	2013
Method of decommissioning	DECON	DECON	DECON	DECON
(millions)				
Current cost estimate (1994) dollars	$247.0	$253.6	$272.4	$274.0
External trusts balance at December 31, 1996	105.1	98.9	121.8	117.5
1996 contribution to external trusts	7.6	7.2	10.6	10.8

Approximately every four years, site-specific studies are prepared to determine the decommissioning cost estimate for Virginia Power's four nuclear units. The current cost estimate is based on the DECON method, which assumes the activities associated with the decontamination or prompt removal of radioactive contaminants will begin shortly after cessation of operations so that the property may be released for unrestricted use.

The accumulated provision for decommissioning of $443.3 million and $351.4 million is included in accumulated depreciation, depletion and amortization at December 31, 1996 and 1995, respectively. Provisions for decommissioning of $36.2 million, $28.5 million, and $24.5 million applicable to 1996, 1995, and 1994, respectively, are included in depreciation, depletion and amortization expense. The net unrealized gain of $80.5 million and $40.7 million associated with securities held by Virginia Power's Nuclear Decommissioning trusts at December 31, 1996 and 1995, respectively, are included in the accumulated provision for decommissioning.

Earnings of the trust funds were $16 million, $15.9 million, and $15.2 million for 1996, 1995, and 1994, respectively, and are included in other income in the Consolidated Financial Statements. The accretion of the accumulated provision for decommissioning, equal to the earnings of the trust funds, is also recorded in other income.

The Financial Accounting Standards Board (FASB) is reviewing the accounting for nuclear plant decommissioning. If current electric utility industry practices for such decommissioning are changed, annual provisions for decommissioning could increase. FASB has tentatively determined that the estimated cost of decommissioning should be reported as a liability rather than as accumulated depreciation and that a substantial portion of the decommissioning obligation should be recognized earlier in the operating life of the nuclear plant.

During its deliberations, FASB expanded the scope of this project to include similar unavoidable obligations to perform closure and post-closure activities incurred as a condition to operate assets other than nuclear power plants. Whether this position, if adopted, would impact other assets of Virginia Power cannot be determined at this time. Furthermore, the FASB has tentatively determined that it would be inappropriate to account for cost of removal as negative salvage; thus, any forthcoming standard may also cause changes in industry plant depreciation practices.

Federal Income Taxes: Dominion Resources and its subsidiaries file a consolidated federal income tax return.

Deferred income taxes are provided for all significant temporary differences between the financial and tax basis of assets and liabilities using presently enacted tax rates in accordance with SFAS No. 109, "Accounting for Income Taxes." Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in future periods. The regulatory treatment of temporary differences can differ from the requirements of SFAS No. 109. Accordingly, Virginia Power recognizes a regulatory asset if it is probable that future revenues will be provided for the payment of those deferred tax liabilities. Similarly, in the event a deferred tax liability is reduced to reflect changes in tax rates, a regulatory liability is established if it is probable that a future reduction in revenue will result.

Due to regulatory requirements, Virginia Power accounts for investment tax credits under the "deferral method" which provides for the amortization of these credits over the service lives of the property giving rise to the credits.

Allowance for Funds Used During Construction (AFC): The applicable regulatory Uniform System of Accounts defines AFC as the cost during the construction period of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

The pre-tax AFC rates for 1996, 1995, and 1994 were 8.1, 8.9, and 8.9 percent, respectively. Approximately 82 percent of Virginia Power's construction work in progress is now included in rate base and a cash return is collected currently thereon.

Deferred Capacity and Fuel Expenses: Approximately 90 percent of fuel expenses and 80 percent of capacity expenses are subject to deferral accounting. Under this method, the difference between reasonably incurred actual expenses and the level of expenses included in current rates is deferred and matched against future revenues.

Amortization of Debt Issuance Costs: Dominion Resources defers and amortizes any expenses incurred in the issuance of long-term debt including premiums and discounts associated with such debt over the lives of the respective issues. Any gains or losses resulting from the refinancing of Virginia Power debt are also deferred and amortized over the lives of the new issues of long-term debt as permitted by the appropriate regulatory commission. At Virginia Power, gains or losses resulting from the redemption of debt without refinancing are amortized over the remaining lives of the redeemed issues.

Investment Securities: Dominion Resources accounts for and classifies investments in equity securities that have readily determinable fair values and for all investments in debt securities based on management's intent. The investments are classified into three categories and accounted for in the following manner.

Debt securities which are intended to be held to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities purchased and held with the intent of selling them in the current period are classified as trading securities. They are reported at fair value and unreal-

ized gains and losses are included in earnings. Debt and equity securities that are neither held-to-maturity or trading are classified as available-for-sale securities. These are reported at fair value with unrealized gains and losses reported in shareholders' equity, net of tax.

Mortgage Loans in Warehouse: Mortgage loans in warehouse consist of mortgage loans secured by single family residential properties. Any price premiums or discounts on mortgage loans including any capitalized costs or deferred fees on originated loans, as required by SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," are deferred as an adjustment to the cost of the loans and are therefore included in the determination of any gains or losses on sales of the related loans. Mortgage loans in warehouse are carried at the lower of cost or market value.

Mortgage Investments: Included in available-for-sale securities are mortgage investments. Mortgage investments at December 31, 1996 are interest-only strips retained at securitization of the mortgage loans. Unrealized holding gains and losses, net of tax, are reported as a net amount in a separate component of stockholders' equity until realized.

Nonrecourse-Nonutility Financings: Dominion Resources' nonutility subsidiaries issue debt to finance their operations and obtain financings that generally are secured by the assets of the nonutility subsidiaries. However, Dominion Resources may be required to provide contingent equity support or to maintain a minimum net worth at the nonutility subsidiaries. These financings have been segregated on the accompanying financial statements to distinguish their nonrecourse nature.

Derivatives: Dominion Resources utilizes derivative instruments to manage exposure to fluctuations in interest rates, foreign exchange rates and natural gas prices.

Derivative financial instruments, which are principally used by the company in the management of its interest rate and foreign currency exposures, are accounted for on an accrual basis. Income and expense are recorded in the same category as that arising from the related asset or liability. For example, amounts to be paid or received under interest rate swap agreements are recognized as interest income or expense in the periods in which they accrue.

Gains and losses related to effective hedges of existing assets or liabilities are deferred and recognized over the expected remaining life of the related asset or liability. Changes in the market value of derivatives that do not qualify as hedges are recognized as interest income or expense in the period in which the changes occur. The company does not hold or issue derivative financial instruments for trading purposes.

An additional derivative instrument managed by the company is a call option to fix in United States dollars the investment amount in the East Midlands acquisition. Unrealized gains or losses on the call option are included in income.

Cash: Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 1996 and 1995, the company's accounts payable included the net effect of checks outstanding but not yet presented for payment of $72.6 million and $70.1 million, respectively.

For purposes of the Consolidated Statements of Cash Flows, Dominion Resources considers cash and cash equivalents to include cash on hand and temporary investments purchased with a maturity of three months or less.

Supplementary Cash Flows Information:

(millions)	**1996**	1995	1994
CASH PAID DURING THE YEAR FOR:			
Interest (reduced for net costs of borrowed funds capitalized)	**$373.0**	$376.0	$355.9
Federal income taxes	**169.8**	159.6	154.2
NON-CASH TRANSACTIONS FROM INVESTING AND FINANCING ACTIVITIES:			
Note issued in acquisition of business	**47.5**		
Exchange of long-term marketable securities	**12.1**	12.3	11.8
Assumption of obligations and acquisition of utility property			26.3
Other			3.1

Reclassification: Certain amounts in the 1995 and 1994 Consolidated Financial Statements have been reclassified to conform to the 1996 presentation.

NOTE B: SALE OF RECEIVABLES

Virginia Power had an agreement to sell, with limited recourse, certain accounts receivable including unbilled amounts, up to a maximum of $200 million. The agreement was allowed to expire on October 1, 1996. At December 31, 1995, no amounts were outstanding under this agreement.

NOTE C: TAXES

(millions)	**1996**	1995	1994
PROVISION FOR FEDERAL INCOME TAXES:			
Included in operating expenses:			
Current	**$157.5**	$179.8	$120.8
Tax effects of temporary/timing differences:			
Liberalized depreciation	**53.8**	56.6	61.3
Indirect construction costs	**3.4**	(13.8)	(21.5)
Other plant related items	**12.6**	12.1	4.0
Deferred fuel	**19.1**	(2.2)	0.8
Deferred capacity	**3.2**	(3.8)	(9.0)
Separation costs	**(2.6)**	(12.4)	
Customer accounts reserve			36.8
Intangible drilling costs	**5.7**	3.6	4.1
Other, net	**(23.3)**	(20.9)	(9.2)
	71.9	19.2	67.3
Net deferred investment tax credits—amortization	**(16.9)**	(16.9)	(17.1)
Total provision for federal income tax expense	**$212.5**	$182.1	$171.0

(millions, except percentages)	**1996**	1995	1994
COMPUTATION OF PROVISION FOR FEDERAL INCOME TAX:			
Pre-tax income	**$684.6**	$607.1	$649.2
Tax at statutory federal income tax rate of 35% applied to pre-tax income	**$239.6**	$212.5	$227.2
Changes in federal income taxes resulting from:			
Preferred dividends of Virginia Power	**12.4**	15.4	14.8
Amortization of investment tax credits	**(16.9)**	(16.9)	(17.1)
Nonconventional fuel credit	**(26.5)**	(28.2)	(32.0)
Other, net	**3.9**	(0.7)	(21.9)
Total provision for federal income tax expense	**$212.5**	$182.1	$171.0
Effective tax rate	**31%**	30%	26.3%

Dominion Resources net noncurrent deferred tax liability is attributable to:

(millions)	**1996**	1995
ASSETS:		
Deferred investment tax credits	**$ (90.3)**	$ (96.4)
LIABILITIES:		
Depreciation method and plant basis differences	**1,463.5**	1,403.5
Income taxes recoverable through future rates	**168.8**	171.6
Partnership basis differences	**130.3**	111.5
Other	**71.0**	70.9
Total deferred income tax liability	**1,833.6**	1,757.5
Net deferred income tax liability	**$1,743.3**	$1,661.1

NOTE D: REGULATORY ASSETS

Certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets and are recognized in income as the related amounts are included in rates and recovered from customers. Virginia Power's regulatory assets included the following:

At December 31, *(millions)*	**1996**	1995
Income taxes recoverable through future rates	**$477.0**	$484.5
Cost of decommissioning DOE uranium enrichment facilities	**73.5**	78.5
Deferred losses on reacquired debt, net	**91.5**	99.3
North Anna Unit 3 project termination costs	**73.1**	101.8
Other	**58.8**	52.3
Total	**$773.9**	$816.4

The costs of decommissioning the Department of Energy's (DOE) uranium enrichment facilities have been deferred and represent the unamortized portion of Virginia Power's required contributions to a fund for decommissioning and decontaminating the DOE's uranium enrichment facilities. Virginia Power is making such contributions over a 15-year period with escalation for inflation. These costs are being recovered in fuel rates.

The construction of North Anna Unit 3 was terminated in November 1982. All retail jurisdictions have permitted recovery of the incurred costs. For Virginia and FERC jurisdictional customers, the amounts deferred are being amortized from the date termination costs were first includible in rates.

The incurred costs underlying these regulatory assets may represent expenditures by Virginia Power or may represent the recognition of liabilities that ultimately will be settled at some time in the future. For some of those regulatory assets representing past expenditures that are not included in Virginia Power's rate base or used to adjust Virginia Power's capital structure, Virginia Power is not allowed to earn a return on the unrecovered balance. Of the $773.9 million of regulatory assets at December 31, 1996, approximately $117 million represent past expenditures that are effectively excluded from the rate base by the Virginia Commission which has primary jurisdiction over Virginia Power's rates. However, of that amount $73.1 million represents the present value of amounts to be recovered through future rates for North Anna Unit 3 project termination costs, and thus reflects a reduction in the actual dollars to be recovered through future rates for the time value of money. Virginia Power does not earn a return on the remaining $43.9 million of regulatory assets, effectively excluded from rate base, to be recovered over various recovery periods up to 23 years, depending on the nature of the deferred costs.

In addition, Virginia Power's depreciation practices for early retirements of plant and equipment and cost of removal, along with changing operating plant scenarios, have resulted in an accumulated depreciation reserve deficiency estimated to be $245 million at December 31, 1996. The reserve deficiency results from deferral of costs in conformity with regulatory depreciation practices authorized by regulatory commissions having jurisdiction over Virginia Power's operations. Currently, Virginia Power is allowed to amortize reserve deficiencies over estimated remaining functional plant lives in all of the regulatory jurisdictions it serves.

NOTE E: JOINTLY OWNED PLANTS

The following information relates to Virginia Power's proportionate share of jointly owned plants at December 31, 1996:

Ownership interest	Bath County Pumped Storage Station 60.0%	North Anna Power Station 88.4%	Clover Power Station 50.0%
(millions)			
Utility plant in service	$1,075.4	$1,819.5	$530.1
Accumulated depreciation	208.8	716.9	13.2
Nuclear fuel		449.4	
Accumulated amortization of nuclear fuel		380.7	
Construction work in progress	0.1	49.1	3.6

The co-owners are obligated to pay their share of all future construction expenditures and operating costs of the jointly owned facilities in the same proportions as their respective ownership interest. Virginia Power's share of operating costs is classified in the appropriate expense category in the Consolidated Statements of Income.

NOTE F: SHORT-TERM DEBT

Dominion Resources and its subsidiaries have credit agreements with various expiration dates. These agreements provided for maximum borrowings of $3,882.4 million and $885.8 million at December 31, 1996 and 1995, respectively. At December 31, 1996 and 1995, $714.5 million and $48.6 million, respectively, was borrowed under such agreements and classified as long-term debt.

Dominion Resources credit agreements supported $308 million and $199 million of Dominion Resources commercial paper at December 31, 1996 and 1995, respectively.

Virginia Power has an established commercial paper program with a maximum borrowing capacity of $500 million which is supported by two credit facilities. One is a $300 million, five-year credit facility that was effective on June 7, 1996 and expires on June 7, 2001. The other is a $200 million credit facility, also effective June 7, 1996, with an initial term of 364 days and provisions for subsequent 364-day extensions. The total amount of commercial paper outstanding was $312.4 million and $169.0 million at December 31, 1996 and 1995, respectively.

A subsidiary of Dominion Capital also had $91 million of nonrecourse commercial paper outstanding at December 31, 1996 and 1995. A total of $391 million and $289 million of the commercial paper was classified as long-term debt at December 31, 1996 and 1995, respectively. The commercial paper is supported by revolving credit agreements that have expiration dates extending beyond one year. Dominion Resources and its subsidiaries pay fees in lieu of compensating balances in connection with these credit agreements. A summary of short-term debt outstanding at December 31 follows:

(millions, except percentages)	Amount Outstanding	Weighted Average Interest Rate
1996		
Commercial paper	**$ 320.5**	**5.5%**
Term-notes	**57.7**	**7.4%**
Total	**$ 378.2**	
1995		
Commercial paper	$169.0	5.8%
Term-notes	67.6	11.1%
Total	$236.6	

NOTE G: INVESTMENT SECURITIES

Securities classified as available-for-sale as of December 31 follow:

Security Type	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
(millions)				
1996				
Equity	**$ 635.8**	**$ 8.2**	**$ 10.1**	**$ 633.9**
Debt	**58.5**			**58.5**
1995				
Equity	$288.3	$8.0	$16.5	$279.8
Debt	5.8		0.1	5.7

Debt securities held at December 31, 1996 do not have stated contractural maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

For the years ended December 31, 1996 and 1995, the proceeds from the sales of available-for-sale securities were $33.4 million and $49.4 million, respectively. The gross realized gains and losses were $2.4 million and $1 million for 1996 and $10.4 million and $0.1 million for 1995, respectively. The basis on which the cost of these securities was determined is specific identification. The changes in net unrealized holding gain or loss on available-for-sale securities has resulted in an increase in the separate component of shareholders equity during the years ended December 31, 1996 and 1995 of $5.6 million, net of tax, and $41.1 million, net of tax, respectively. The changes in net realized holding gain or loss on trading securities increased earnings during the years ended December 31, 1996 and 1995 by $3.1 million and $2.1 million, respectively.

NOTE H: FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value amounts of the company's financial instruments have been determined using available market information and valuation methodologies deemed appropriate in the opinion of management. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the company could realize in a current market exchange. The use of different market assumptions and/or estimation assumptions may have a material effect on the estimated fair value amounts.

	Carrying Amount		Estimated Fair Value	
December 31, *(millions)*	**1996**	1995	**1996**	1995
ASSETS:				
Cash and cash equivalents	**$ 110.8**	$ 66.7	**$ 110.8**	$ 66.7
Trading securities	**16.4**	10.8	**16.4**	10.8
Mortgage loans in warehouse	**65.8**		**67.9**	
Available-for-sale securities	**692.4**	285.5	**692.4**	285.5
Pollution control project funds	**9.7**	11.9	**9.7**	11.9
Notes receivable	**40.3**	43.1	**40.3**	43.7
Nuclear decommissioning trust funds	**443.3**	351.4	**443.3**	351.4
LIABILITIES:				
Short-term debt	**$ 378.2**	$ 236.6	**$ 378.2**	$ 236.6
Long-term debt	**5,478.3**	5,058.8	**5,560.3**	5,322.4
PREFERRED SECURITIES OF A SUBSIDIARY TRUST	**$ 135.0**	$ 135.0	**$ 135.0**	$ 140.4
PREFERRED STOCK	**$ 180.0**	$ 180.0	**$ 185.8**	$ 190.9
LOAN COMMITMENTS			**$ 547.0**	
DERIVATIVES—RELATING TO:				
Foreign currency contract	**$ 9.8**		**$ 9.8**	$ (13.6)
Natural gas options in a net receivable (payable) position	**$ 0.6**	$ 0.6	**$ (0.6)**	$ 0.1

Cash and Cash Equivalents: The carrying amount of these items is a reasonable estimate of their fair value.

Investment Securities and Nuclear Decommissioning Trust Funds: The estimated fair value is determined based on quoted market prices, dealer quotes, and prices obtained from independent pricing sources.

Mortgage Loans in Warehouse: The fair value of mortgage loans in warehouse is based on outstanding commitments from investors.

Notes Receivable: The carrying value approximates fair value due to the variable rate or term structure of the notes receivable.

Short-Term Debt and Long-Term Debt: Market values are used to determine the fair value for debt securities for which a market exists. For debt issues that are not quoted on an exchange, interest rates currently available to the company for issuance of debt with similar terms and remaining maturities are used to estimate fair value. The carrying amount of debt issues with short-term maturities and variable rates that are refinanced at current market rates is a reasonable estimate of their fair value.

Preferred Securities of Subsidiary Trust: The fair value is based on market quotations.

Preferred Stock: The fair value of the fixed-rate preferred stock subject to mandatory redemption was estimated by discounting the dividend and principal payments for a representative issue of each series over the average remaining life of the series.

Loan Commitments: The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

Foreign Currency Contracts: The fair value of foreign currency contracts is estimated by obtaining quotes from brokers.

Interest Rate Swaps: The fair value of interest rate swaps (used for hedging purposes) is the estimated amount that the company would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. Net market value at December 31, 1996 was immaterial.

Natural Gas Options: The fair value of natural gas options (used for hedging purposes) is estimated by obtaining quotes from bankers.

Futures Contracts: Derivatives used as hedging instruments are off-balance sheet items marked-to-market with any unrealized gains or losses deferred until the related loans are securitized or sold. Net market value at December 31, 1996 was immaterial.

Note I: Long-Term Debt

At December 31, *(millions)*	1996	1995
Virginia Power First and Refunding Mortgage Bonds(1):		
Series U, 5.125%, due 1997	$ 49.3	$ 49.3
1992 Series B, 7.25%, due 1997	250.0	250.0
1988 Series A, 9.375%, due 1998	150.0	150.0
1992 Series F, 6.25%, due 1998	75.0	75.0
1989 Series B, 8.875%, due 1999	100.0	100.0
1993 Series C, 5.875%, due 2000	135.0	135.0
1992 Series D, 7.625%, due 2007	215.0	215.0
Various series, 6%-8%, due 2001-2004	805.0	805.0
Various series, 5.45%-8.75%, due 2020-2025	1,144.5	1,144.5
Total First and Refunding Mortgage Bonds	2,923.8	2,923.8
Other Long-Term Debt:		
Virginia Power:		
Bank loans, notes and term loans, 6.15%-10%, due 1996-2003	503.1	762.7
Pollution control financings(2):		
Money market municipals, due 2008-2027(3)	488.6	488.6
Dominion Resources:		
Revolving credit agreement, 6.46%, due 2001	342.5	
Commercial paper (4)	300.0	199.0
Total Other Long-Term Debt	1,634.2	1,450.3
Nonrecourse—Nonutility Debt:		
Dominion Resources:		
Bank loans, 9.25%, due 2008	20.8	21.7
Dominion Capital:		
Senior notes, fixed rate, 6.12%-11.875%, due 1996-2005(5)	96.0	102.0
Term notes, fixed rate, 4.93%-12.48%, due 1994-2020	212.8	204.0
Revolving credit agreements, due 1995-1999(6)	85.0	34.6
Commercial paper(7)	90.0	90.0
Dominion Energy:		
Term loan, 7.22%, due 1996(8)		68.6
Revolving credit agreements, due 1997(9)	320.0	14.0
Term loan, 5.445%, due 1998	35.0	55.0
Bank loans, 9.70%-13.20%, due 2005	32.5	35.0
Bank loans, 4.5%-6.76%, due 1996-2024	53.0	59.8
Total Nonrecourse—Nonutility Debt	945.1	684.7
Less Amounts Due Within One Year:		
First and refunding mortgage bonds	299.3	
Bank loans, notes and term loans	12.0	259.6
Nonrecourse—nonutility	439.4	161.2
Total Amount Due Within One Year	750.7	420.8
Less Unamortized Discount, Net of Premium	24.8	26.1
Total Long-Term Debt	$4,727.6	$4,611.9

(1) Substantially all of Virginia Power's property is subject to the lien of the mortgage, securing its First and Refunding Mortgage Bonds.
(2) Certain pollution control equipment at Virginia Power's generating facilities has been pledged or conveyed to secure these financings.
(3) Interest rates vary based on short-term tax-exempt market rates. The weighted average daily interest rates were 3.57% and 3.89% for 1996 and 1995, respectively.
(4) See Note F to the Consolidated Financial Statements.
(5) The Rincon Securities common stock owned by Dominion Capital is pledged as collateral to secure the loan.
(6) The weighted average interest rates during 1996 and 1995 were 6.24% and 6.76%, respectively.
(7) The weighted average interest rates during 1996 and 1995 were 5.37% and 5.91%, respectively.
(8) The Enron/Dominion Cogen Corp. common stock owned by Dominion Energy is pledged as collateral to secure the loan.
(9) The weighted average interest rates during 1996 and 1995 were 5.89% and 6.04%, respectively.

Maturities (including sinking fund obligations) through 2001 are as follows (in millions): 1997-$750.7; 1998-$440.7; 1999-$359.2; 2000-$253.9; and 2001-$512.6.

In January 1997, Virginia Power filed a registration statement with the Securities and Exchange Commission for $400 million of Junior Subordinated Debentures.

NOTE J: COMMON STOCK

During 1996 the company purchased on the open market and retired 136,800 shares of common stock for an aggregate price of $5.5 million. On July 8, 1996, the company established Dominion Direct Investment which continues and expands the Automatic Dividend Reinvestment and Stock Purchase Plan. From 1994 through 1996, the following changes in common stock occurred:

	1996		1995		1994	
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding	Amount
(millions)						
Balance at January 1	**176.4**	**$3,303.5**	172.4	$3,157.6	168.1	$2,991.0
Changes due to:						
Dominion Direct Investment	**1.9**	**70.9**				
Automatic Dividend Reinvestment and Stock Purchase Plan	**1.4**	**55.1**	2.9	107.6	2.9	112.2
Stock Purchase Plan for Customers of Virginia Power	**1.0**	**23.2**	1.4	45.8	1.3	51.3
Employee Savings Plan	**0.5**	**20.5**	0.2	8.3	0.6	23.2
Stock repurchase and retirement	**(0.1)**	**(5.5)**	(0.7)	(24.8)	(0.6)	(20.7)
Other	**0.1**	**3.7**	0.2	9.0	0.1	0.6
Balance at December 31	**181.2**	**$3,471.4**	176.4	$3,303.5	172.4	$3,157.6

NOTE K: LONG-TERM INCENTIVE PLAN

A long-term incentive plan (the Plan) provides for the granting of nonqualified stock options and restricted stock to certain employees of Dominion Resources and its affiliates. The aggregate number of shares of common stock that may be issued pursuant to the Plan is 3,750,000. The changes in share and option awards under the Plan were as follows:

	Restricted Shares	Weighted Average Price	Stock Options	Weighted Average Price	Shares Exercisable
Balance at December 31, 1993	26,899	$40.37	12,464	$29.39	12,464
Awards granted—1994	19,842	$40.64			
Exercised/distributed	(5,555)	$36.25	(1,388)	$29.63	
Balance at December 31, 1994	41,186	$41.05	11,076	$29.36	11,076
Awards granted—1995	25,320	$37.63			
Exercised/distributed	(21,576)	$38.69			
Balance at December 31, 1995	44,930	$41.60	11,076	$29.36	11,076
Awards granted—1996	79,784	$41.76			
Exercised/distributed/forfeited	(29,433)	$39.94	(475)	$29.63	
Balance at December 31, 1996	**95,281**	**$ 41.78**	**10,601**	**$ 29.34**	**10,601**

In 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock Based Compensation." However, the company continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for the plan. Accordingly, no compensation expense has been recognized for stock options awarded. Had compensation cost for the company's plan been determined consistent with the methodology prescribed under SFAS No. 123 there would have been no significant impact on the company's operations for the year ended December 31, 1996.

Note L: Virginia Power Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust

In 1995, Virginia Power established Virginia Power Capital Trust I (VP Capital Trust). VP Capital Trust sold 5,400,000 shares of Preferred Securities for $135 million, representing preferred beneficial interests and 97 percent beneficial ownership in the assets held by VP Capital Trust.

Virginia Power issued $139.2 million of its 1995 Series A, 8.05 percent Junior Subordinated Notes (the Notes) in exchange for the $135 million realized from the sale of the Preferred Securities and $4.2 million of common securities of VP Capital Trust. The common securities represent the remaining 3 percent beneficial ownership interest in the assets held by VP Capital Trust. The Notes constitute 100 percent of VP Capital Trust's assets.

The Notes are due September 30, 2025, but may be extended up to an additional ten years, subject to satisfying certain conditions. However, Virginia Power may redeem the Notes on or after September 30, 2000, under certain circumstances. The Preferred Securities are subject to mandatory redemption upon repayment of the Notes at maturity or earlier redemption. At redemption, each Preferred Security shall be entitled to receive a liquidation amount of $25 plus accrued and unpaid distributions, including any interest thereon.

Note M: Preferred Stock

Dominion Resources is authorized to issue up to 20,000,000 shares of preferred stock; however, no such shares are issued and outstanding.

Virginia Power has authorized 10,000,000 shares of preferred stock, $100 liquidation preference. Upon voluntary liquidation, each share is entitled to receive $100 plus accrued dividends. Dividends are cumulative. Virginia Power preferred stock subject to mandatory redemption at December 31, 1996 was as follows:

Series	Shares Outstanding
$5.58	400,000(1)(2)
$6.35	1,400,000(1)(3)
Total	**1,800,000**

(1) Shares are non-callable prior to redemption.
(2) All shares to be redeemed on 3/1/00.
(3) All shares to be redeemed on 9/1/00.

During the years 1994 through 1996, the following shares were redeemed:

Year	Dividend	Shares
1995	$7.30	417,319
1994	7.30	37,681

At December 31, 1996 Virginia Power preferred stock not subject to mandatory redemption, $100 liquidation preference, is listed in the table below.

Dividend	Issued and Outstanding Shares	Entitled Per Share Upon Redemption
$5.00	106,677	$112.50
4.04	12,926	102.27
4.20	14,797	102.50
4.12	32,534	103.73
4.80	73,206	101.00
7.05	500,000	105.00(1)
6.98	600,000	105.00(2)
MMP 1/87 series(3)	500,000	100.00
MMP 6/87 series(3)	750,000	100.00
MMP 10/88 series(3)	750,000	100.00
MMP 6/89 series(3)	750,000	100.00
MMP 9/92A(3)	500,000	100.00
MMP 9/92B(3)	500,000	100.00
Total	**5,090,140**	

(1) Through 7/31/03 and thereafter to amounts declining in steps to $100.00 after 7/31/13.
(2) Through 8/31/03 and thereafter to amounts declining in steps to $100.00 after 8/31/13.
(3) Money Market Preferred (MMP) dividend rates are variable and are set every 49 days via an auction. The weighted average rates for these series in 1996, 1995, and 1994, including fees for broker/dealer agreements, were 4.48%, 4.93%, and 3.75%, respectively.

During the years 1994 through 1996, the following shares were redeemed:

Year	Dividend	Shares
1995	$7.45	400,000
1995	7.20	450,000

Note N: Retirement Plan, Postretirement Benefits and Other Benefits

Retirement Plan: Dominion Resources' Retirement Plan (the Plan) covers virtually all employees of Dominion Resources and its subsidiaries. The benefits are based on years of service and the employee's compensation. Dominion Resources' funding policy is to contribute annually an amount that is in accordance with the provisions of the Employment Retirement Income Security Act of 1974.

The components of the provision for net periodic pension expense were as follows:

Year ending December 31, (millions)	1996	1995	1994
Service cost—benefits earned during the year	$ 26.7	$23.4	$24.6
Interest cost on projected benefit obligation	61.1	54.9	46.3
Actual return on plan assets	(63.5)	(56.7)	(51.3)
Net amortization and deferral	1.2	(0.7)	0.1
Net periodic pension cost	$ 25.5	$20.9	$19.7

The following table sets forth the Plan's funded status:

As of December 31, (millions)	1996	1995
Actuarial Present Value of Benefit Obligations:		
Accumulated benefit obligation, including vested benefit of 1996–$586.7 and 1995–$540.2	$660.0	$607.4
Projected benefit obligation for service rendered to date	$852.2	$767.0
Plan assets at fair value, primarily listed stocks and U.S. bonds	845.0	763.6
Plan assets less than projected benefit obligation	(7.2)	(3.4)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	40.4	35.7
Unrecognized prior service cost	4.7	5.3
Unrecognized net asset at January 1, being recognized over 16 years beginning in 1986	(21.8)	(25.1)
Prepaid pension cost included in other assets	$ 16.1	$ 12.5

Significant assumptions used in determining net periodic pension cost and the projected benefit obligation were:

As of December 31,	1996	1995
Discount rates	8.0%	8.0%
Rates of increase in compensation levels	5.0%	5.0%
Expected long-term rate of return	9.5%	9.5%

Postretirement Benefits: Dominion Resources and its subsidiaries provide retiree health care and life insurance benefits through insurance companies with annual premiums based on benefits paid during the year. From time to time in the past, Dominion Resources and its subsidiaries have changed benefits. Some of these changes have reduced benefits. Under the terms of their benefits plans, the companies reserve the right to change, modify or terminate the plans.

Net periodic postretirement benefit expense for 1996 and 1995 was as follows:

Year ending December 31, (millions)	1996	1995
Service cost	$ 12.3	$ 8.9
Interest cost	24.2	21.9
Return on plan assets	(16.6)	(6.1)
Amortization of transition obligation	12.1	12.1
Net amortization and deferral	7.2	0.1
Net periodic postretirement benefit expense	$ 39.2	$36.9

The following table sets forth the funded status of the plan:

As of December 31, (millions)	1996	1995
Fair value of plan assets	$ 133.0	$ 96.3
Accumulated postretirement benefit obligation:		
Retirees	$ 202.7	$ 211.4
Active plan participants	125.0	99.2
Accumulated postretirement benefit obligation	327.7	310.6
Accumulated postretirement benefit obligation in excess of plan assets	(194.7)	(214.3)
Unrecognized transition obligation	194.1	206.2
Unrecognized net experience gain	(3.0)	8.6
Prepaid (accrued) postretirement benefit cost	$ (3.6)	$ 0.5

A one percent increase in the health care cost trend rate would result in an increase of $4.8 million in the service and interest cost components and a $35 million increase in the accumulated postretirement benefit obligation.

Significant assumptions used in determining the postretirement benefit obligation were:

	1996	1995
Discount rates	8.0%	8.0%
Assumed return on plan assets	9.0%	9.0%
Medical cost trend rate	8% for first year 7% for second year Scaling down to 4.75% beginning in the year 2001	9% for first year 8% for second year Scaling down to 4.75% beginning in the year 2001

Virginia Power is recovering these costs in rates on an accrual basis in all material respects, in all jurisdictions. The funds being collected for other postretirement benefits accrual in rates, in excess of other postretirement benefits actually paid during the year, are contributed to external benefit trusts under Virginia Power's current funding policy.

Other Benefits: In 1994, Virginia Power offered an early retirement program to employees aged 50 or older and offered a voluntary separation program to all regular full-time employees. Approximately 1,400 employees accepted offers under these programs. The costs associated with these programs were $90.1 million. Virginia Power capitalized $25.9 million based upon regulatory precedent and expensed $64.2 million.

NOTE O: RESTRUCTURING

In March 1995, Virginia Power announced the implementation phase of its Vision 2000 program. During this phase, Virginia Power began reviewing operations with the objective of outsourcing services where economical and appropriate, and re-engineering the remaining functions to streamline operations. The re-engineering process is resulting in outsourcing, decentralization, reorganization and downsizing for portions of Virginia Power's operations. As part of this process, Virginia Power is reevaluating its utilization of capital resources in its operations to identify further opportunities for operational efficiencies through outsourcing or re-engineering of its processes.

Restructuring charges of $91.6 million and $117.9 million in 1996 and 1995, respectively, included severance costs, purchased power contract restructuring and negotiated settlement costs, capital project cancellation costs, and other costs incurred directly as a result of the Vision 2000 initiatives. While Virginia Power may incur additional charges for severance in 1997, the amounts are not expected to be significant.

In 1995, Virginia Power established a comprehensive involuntary severance package for salaried employees who may no longer be employed as a result of these initiatives. Virginia Power is recognizing the cost associated with employee terminations in accordance with Emerging Issues Task Force Consensus No. 94-3 as management identifies the positions to be eliminated. Severance payments are being made over a period not to exceed twenty months. Through December 31, 1996, management had identified 1,811 positions to be eliminated. Those positions were identified as a result of Virginia Power's review of the Fossil and Hydroelectric, Nuclear and Commercial Operations Business Units and portions of the corporate center operations. The recognition of severance costs resulted in a charge to operations in 1996 and 1995 of $49.2 million and $51.2 million, respectively. At December 31, 1996, 1,266 employees have been terminated and severance payments totaling $45 million have been paid. Virginia Power estimates that these staffing reductions will result in annual savings in the range of $62 million to $90 million for its restructured operations. However, such savings may be offset in part by future salary increases, possible outsourcing costs and increased payroll costs associated with staffing for growth opportunities such as those in Virginia Power's Energy Services Business Unit. Savings from staffing reductions will be reflected in lower construction expenditures as well as lower operation and maintenance expenses.

In an effort to minimize its exposure to potential stranded investment, Virginia Power is evaluating its long-term purchased power contracts and negotiating modifications to their terms, including cancellations, where it is determined to be economically advantageous to do so. Virginia Power also negotiated settlements with several other parties to terminate their rights to sell power to Virginia Power. The cost of contract modifications, contract cancellations and negotiated settlements was $7.8 million and $8.1 million in 1996 and 1995, respectively. Using contract terms, estimated quantities of power that would have otherwise been delivered and other relevant factors at the time of each transaction, Virginia Power estimated that its annual future purchased power costs, including energy payments, would be reduced by up to $5.8 million and $147 million for the 1996 transactions and 1995 transactions, respectively. The cost of alternative sources of power that might ultimately be required as a result of these settlements is expected to be significantly less than the estimated reduction in purchased power costs.

Restructuring charges reported in 1995 included $37.3 million for the cancellation of a project to construct a facility to handle low level radioactive waste at Virginia Power's North Anna Power Station. As a result of reevaluating the handling of low level radioactive waste, Virginia Power concluded that the facility should not be completed due to the additional capital investment required, decreased Virginia Power volumes of low level radioactive waste resulting from improvements in station procedures and the availability of more economical offsite processing.

The incurrence of restructuring charges and the savings resulting therefrom in subsequent periods are elements of Virginia Power's cost of operations and will be considered in the cost of service information filed by Virginia Power in response to the Virginia Commission's Order issued on November 12, 1996.

In this increasingly competitive environment, Virginia Power has also concluded that it is appropriate to utilize available savings and cost reductions, such as those generated by the Vision 2000 program, to accelerate the write-off of existing unamortized regulatory assets. Not only will this strategically position Virginia Power in anticipation of competition, but it also reflects Virginia Power's commitment to mitigate its exposure to potentially strandable costs. As of December 31, 1996, Virginia Power had identified savings of $26.7 million which were used to establish a reserve for expected adjustments to regulatory assets.

As part of re-engineering operations, Virginia Power has adopted a plan to improve customer service which will require an investment in excess of $100 million over the next several years. That plan includes the installation of automated electric meters in metropolitan and inaccessible rural and urban locations. The plan also provides for the installation of mobile data dispatch technology in the utility's service fleet, accompanied by digitized mapping of Virginia Power's service territory. Furthermore, technological changes are being made to enhance the utility's ability to handle customer calls during power outages. In order to increase service reliability, Virginia Power has initiated both local and regional distribution line improvement projects.

Note P: Derivative Transactions

Dominion Resources uses derivative financial instruments for the purposes of managing interest rate, natural gas price and foreign currency risks. The company does not hold or issue derivative financial instruments for trading purposes.

Natural Gas Risks: Dominion Energy enters into natural gas options, collars, and swaps as a hedge against fluctuations in natural gas prices existing for future production periods. Dominion Energy addresses market risk by selecting natural gas-based financial instruments whose historical value fluctuations correlate strongly with those of the item being hedged. Revenues received from such contracts which are held until expiration are recognized in the corresponding production month for the contract. Dominion Energy has some risk since the price received for the underlying production may exceed the reference price included in the hedging transaction. As of December 31, 1996, Dominion Energy has entered into various natural gas put options, collars and swap contracts as hedges expiring on various dates until March 1998 on approximately 10 Bcf of natural gas and the weighted average put price per MMBTU of natural gas was $1.94. At December 31, 1995, Dominion Energy had entered into natural gas put option contracts as hedges extending through March 31, 1996 on approximately 5 Bcf of natural gas and the weighted average put price per MMBTU of natural gas was $1.98.

Foreign Currency Risks: On November 13, 1996, Dominion Resources purchased a call option at a cost of $9.8 million (face amount, £1.35 billion) to stabilize the amount of its U.S. dollar investment in its acquisition of East Midlands Electricity plc, an English utility. At December 31, 1996, the unrealized gain recorded in net income was $2.2 million. The option expires on May 12, 1997. In 1989, Dominion Energy obtained a loan that was denominated in Japanese yen. Immediately upon obtaining the loan, Dominion Energy entered into a currency exchange agreement in order to exchange the yen for $55 million. At December 31, 1995, Dominion Energy had an unrealized translation currency loss of $13.6 million and the currency exchange rate was one U.S. dollar equaled 103.43 Japanese yen. On February 15, 1996, Dominion Energy repaid the loan in its entirety without incurring any foreign translation loss.

Interest Rate Risks: In 1996, Dominion Capital began using interest rate swaps to manage interest rate costs. The purpose of the transactions was to effectively convert floating rate debt to a fixed rate obligation. The face or notional amount of the interest rate swaps at December 31, 1996 was $30 million. The difference between the amounts paid or received on interest rate swaps in 1996 was recognized as an adjustment to interest expense. Credit risk exists to the extent that the counterparties to the swap do not perform their obligation under the agreements.

Saxon Mortgage, a subsidiary of Dominion Capital, enters into forward delivery contracts, financial futures and options contracts for the purpose of reducing exposure to the effects of changes in interest rates on mortgage loans which the company has funded or has committed to fund. Gains and losses on such contracts relating to mortgage loans are recognized when the loans are sold. If the counterparties to the hedging transactions are unable to perform according to the terms of the contracts, the company may incur losses upon selling the mortgage loans at prevailing prices. As of December 31, 1996, Saxon has outstanding liabilities related to its hedging positions with certain counter parties of $0.8 million. The deferred hedging losses, net, at December 31, 1996 were immaterial.

Interest rate swaps were utilized in 1996 at a number of the cogeneration projects in which Dominion Energy maintains 50% ownership interests. The purpose of theses transactions was to reduce the risk of interest rate fluctuations by effectively converting variable rate debt to a fixed rate liability.

Note Q: Commitments and Contingencies

As the result of issues generated in the course of daily business, the company is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies. While some of the proceedings involve substantial amounts of money, management believes that the final disposition of these proceedings will not have an adverse material effect on operations or the financial position of the company.

Virginia Power

Federal Energy Regulatory Commission Audit: FERC has conducted a compliance audit of Virginia Power's financial statements for the years 1990 to 1994. Virginia Power has received a preliminary audit report from FERC, in which certain compliance exceptions were noted. Virginia Power has supplied information to the FERC staff relating to these preliminary exceptions. Based on information available at this time, the disposition of these issues is not expected to have a significant effect on Virginia Power's financial position or results of operations.

Construction Program: Virginia Power has made substantial commitments in connection with its construction program and nuclear fuel expenditures, which are estimated to total $529.2 million (excluding AFC) for 1997. Virginia Power presently estimates that all of its 1997 construction expenditures, including nuclear fuel, will be met through cash flow from operations.

Purchased Power Contracts: Since 1984, Virginia Power has entered into contracts for the long-term purchase of capacity and energy from other utilities, qualifying facilities and independent power producers. As of December 31, 1996, there were 65 nonutility generating facilities under contract to provide Virginia Power 3,524 megawatts of dependable summer capacity. Of these, 62 projects (aggregating 3,509 megawatts) were

operational at the end of 1996, with the remaining three projects to become operational before 1999. The following table shows the minimum commitments as of December 31, 1996 for power purchases from utility and nonutility suppliers.

	Commitments	
(millions)	Capacity	Other
1997	$ 790.7	$ 211.2
1998	793.5	216.8
1999	796.6	220.3
2000	709.2	157.9
2001	712.1	161.5
After 2001	10,098.0	788.0
Total	**$ 13,900.1**	**$1,755.7**
Present value of the total	**$ 6,147.2**	**$ 986.7**

In addition to the commitments listed above, under some contracts, Virginia Power may purchase, at its option, additional power as needed. Payments for purchased power (including economy, emergency, limited-term, short-term, and long-term purchases) for the years 1996, 1995, and 1994 were $1,183 million, $1,093 million, and $1,025 million, respectively. For discussion of Virginia Power's efforts to restructure certain purchased power contracts, see Note O to the Consolidated Financial Statements.

Fuel Purchase Commitments: Virginia Power's estimated fuel purchase commitments for the next five years for system generation are as follows: 1997-$326 million; 1998-$274 million; 1999-$194 million; 2000-$157 million; and 2001-$110 million.

Environmental Matters: Environmental costs have been historically recovered through the ratemaking process; however, should material costs be incurred and not recovered through rates, Virginia Power's results of operations and financial condition could be adversely impacted.

The EPA has identified Virginia Power and several other entities as Potentially Responsible Parties (PRPs) at two Superfund sites located in Kentucky and Pennsylvania. The estimated future remediation costs for the sites are in the range of $61.5 million to $72.5 million. Virginia Power's proportionate share of the costs is expected to be in the range of $1.7 million to $2.5 million, based upon allocation formulas and the volume of waste shipped to the sites. As of December 31, 1996, Virginia Power accrued a reserve of $1.7 million to meet its obligations at these two sites. Based on a financial assessment of the PRPs involved at these sites, Virginia Power has determined that it is probable that the PRPs will fully pay the costs apportioned to them.

Virginia Power and Dominion Resources, along with Consolidated Natural Gas, have remedial action responsibilities remaining at two coal tar sites. Virginia Power accrued a $2 million reserve to meet its estimated liability based on site studies and investigations performed at these sites. In addition, two civil actions have been instituted against the City of Norfolk and Virginia Power by property owners who allege that their property has been contaminated by toxic pollutants originating from one of the coal tar sites now owned by the city of Norfolk and formerly owned by Virginia Power. The plaintiffs are seeking compensatory damages of $12 million and punitive damages of $6 million. It is too early in the cases for Virginia Power to predict their outcome.

Virginia Power generally seeks to recover its costs associated with environmental remediation from third-party insurers. At December 31, 1996 pending claims were not recognized as an asset or offset against recorded obligations.

Nuclear Insurance: The Price-Anderson Act limits the public liability of an owner of a nuclear power plant to $8.9 billion for a single nuclear incident. The Price-Anderson Amendments Act of 1988 allows for an inflationary provision adjustment every five years. Virginia Power has purchased $200 million of coverage from commercial insurance pools with the remainder provided through a mandatory industry risk-sharing program. In the event of a nuclear incident at any licensed nuclear reactor in the United States, Virginia Power could be assessed up to $81.7 million (including a 3 percent insurance premium tax for Virginia) for each of its four licensed reactors not to exceed $10.3 million (including a 3 percent insurance premium tax for Virginia) per year per reactor. There is no limit to the number of incidents for which this retrospective premium can be assessed.

Nuclear liability coverage for claims made by nuclear workers first hired on or after January 1, 1988, except those arising out of an extraordinary nuclear occurrence, is provided under the Master Worker insurance program. (Those first hired into the nuclear industry prior to January 1, 1988 are covered by the policy discussed above.) The aggregate limit of coverage for the industry is $400 million ($200 million policy limit with automatic reinstatements of an additional $200 million). Virginia Power's maximum retrospective assessment is approximately $12.5 million (including a 3 percent insurance premium tax for Virginia).

Virginia Power's current level of property insurance coverage ($2.55 billion for North Anna and $2.4 billion for Surry) exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per reactor site, and includes coverage for premature decommissioning and functional total loss. The NRC requires that the proceeds from this insurance be used first to return the reactor to and maintain it in a safe and stable condition, and second to decontaminate the reactor and station site in accordance with a plan approved by the NRC. Virginia Power's nuclear property insurance is provided by Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL), two mutual insurance companies, and is subject to retrospective premium assessments in any policy year in which losses exceed the funds available to these insurance companies. The maximum assessment for the current policy period is $44.8 million. Based on the severity of the incident, the boards of directors of Virginia Power's nuclear insurers have the discretion to lower the maximum retrospective premium assessment or eliminate either or both completely. For any losses that exceed the limits, or for which insurance proceeds are not available because they must first be used for stabilization and decontamination, Virginia Power has the financial responsibility.

Virginia Power purchases insurance from NEIL to cover the cost of replacement power during the prolonged outage of a nuclear unit due to direct physical damage of the unit. Under this program, Virginia Power is subject to a retrospective premium assessment for any policy year in which losses exceed funds available to NEIL. The current policy period's maximum assessment is $9 million.

As a joint owner of the North Anna Power Station, ODEC is responsible for its proportionate share (11.6 percent) of the insurance premiums applicable to that station, including any retrospective premium assessments and any losses not covered by insurance.

Dominion Resources

Under the terms of an investment agreement, Dominion Resources must provide contingent equity support to Dominion Energy in the amount of $52.6 million. Management believes the possibility of such support to Dominion Energy is remote.

Dominion Energy

Dominion Energy has general partnership interests in certain of its energy ventures. Accordingly, Dominion Energy may be called upon to fund future operation of these investments to the extent operating cash flow is insufficient.

In addition, Dominion Energy may be required to make payments under certain agreements on behalf of its energy ventures. As of December 31, 1996 no payments have been required.

Dominion Capital

At December 31, 1996, Saxon Mortgage had commitments to fund mortgage loans of approximately $525 million. Saxon had a commitment to sell approximately $7 million of mortgage loans to the trust of its last securitization. This commitment expired on February 5, 1997.

Note R: Acquisitions

In May 1996, Dominion Capital acquired from Resource Mortgage Capital its single-family mortgage operations for $67 million. The resulting $56.3 million of purchase price in excess of assets acquired is being amortized over 25 years. The transaction has been recorded using the purchase method of accounting.

In August 1996, Dominion Energy, through wholly-owned subsidiaries, acquired a 60 percent ownership and management interest in EGENOR for $228.2 million. EGENOR is a power generation company providing electricity to Peru's northern region. This transaction has been accounted for using the purchase method of accounting.

Note S: Subsequent Events

Effective January 1997, Dominion Energy acquired the stock of Wolverine Gas and Oil Company and related entities (Wolverine) in exchange for stock in Dominion Resources. Wolverine is an oil and gas production and operating company headquartered in Grand Rapids, Michigan. The transaction will be recorded using the pooling of interest method.

Dominion Resources announced in November 1996, that its indirect subsidiary DR Investments (U.K.) PLC had made an offer to purchase East Midlands for approximately $2.2 billion. East Midlands is a regional electricity company based in the Nottingham area of the United Kingdom. Dominion Resources expects the transaction to be completed during the first quarter of 1997.

Note T: Business Segments

The company's principal business segments include Virginia Power, Dominion Energy, Dominion Capital and corporate. The company's business segment information was:

Business Segments

(in millions, except Identifiable Assets amounts)	**1996**	1995	1994
Revenue			
Virginia Power	**$4,382.6**	$4,350.4	$4,170.8
Dominion Capital	**186.3**	111.8	99.2
Dominion Energy	**267.1**	182.3	210.6
Corporate	**20.1**	19.3	19.3
Eliminations	**(13.8)**	(12.1)	(8.8)
Consolidated	**$4,842.3**	$4,651.7	$4,491.1
Income From Operations			
Virginia Power	**$1,003.2**	$ 971.3	$ 951.3
Dominion Capital	**80.2**	49.5	32.7
Dominion Energy	**33.3**	31.2	62.2
Corporate	**1.5**	(11.9)	0.8
Eliminations	**(13.8)**	(12.1)	(8.8)
Consolidated	**$1,104.4**	$1,028.0	$1,038.2
(billions)			
Identifiable Assets			
Virginia Power	**$ 11.8**	$ 11.8	$ 11.6
Dominion Capital	**1.1**	0.9	0.8
Dominion Energy	**1.6**	1.1	0.9
Corporate	**5.6**	5.0	4.9
Eliminations	**(5.2)**	(4.9)	(4.6)
Consolidated	**$ 14.9**	$ 13.9	$ 13.6
Depreciation and Amortization			
Virginia Power	**$ 536.4**	$ 503.5	$ 480.7
Dominion Capital	**6.8**	3.0	2.8
Dominion Energy	**69.9**	42.6	47.7
Corporate	**2.1**	1.9	1.9
Consolidated	**$ 615.2**	$ 551.0	$ 533.1
Capital Expenditures			
Virginia Power	**$ 484.0**	$ 577.5	$ 660.9
Dominion Capital	**17.7**	1.9	0.3
Dominion Energy	**176.0**	25.1	39.8
Corporate	**1.3**	0.4	0.3
Consolidated	**$ 679.0**	$ 604.9	$ 701.3

Note U: Quarterly Financial and Common Stock Data (Unaudited)

The following amounts reflect all adjustments, consisting of only normal recurring accruals (except as disclosed below), necessary in the opinion of Dominion Resources' management for a fair statement of the results for the interim periods.

Quarterly Financial and Common Stock Data—Unaudited

	1996	1995
(in millions, except per share amounts)		
Revenues		
First Quarter	**$1,239.3**	$1,129.3
Second Quarter	**1,121.0**	1,042.8
Third Quarter	**1,286.7**	1,345.0
Fourth Quarter	**1,195.3**	1,134.6
Year	**$4,842.3**	$4,651.7
Income Before Provision for Federal Income Taxes		
First Quarter	**$ 220.3**	$ 151.9
Second Quarter	**138.5**	107.3
Third Quarter	**240.4**	295.1
Fourth Quarter	**85.4**	52.8
Year	**$ 684.6**	$ 607.1
Net Income		
First Quarter	**$ 150.2**	$ 108.5
Second Quarter	**94.2**	78.1
Third Quarter	**162.2**	197.9
Fourth Quarter	**65.5**	40.5
Year	**$ 472.1**	$ 425.0
Earnings Per Share		
First Quarter	**$ 0.85**	$ 0.63
Second Quarter	**0.53**	0.45
Third Quarter	**0.91**	1.14
Fourth Quarter	**0.36**	0.23
Year	**$ 2.65**	$ 2.45
Dividends Per Share		
First Quarter	**$ 0.645**	$ 0.645
Second Quarter	**0.645**	0.645
Third Quarter	**0.645**	0.645
Fourth Quarter	**0.645**	0.645
Year	**$ 2.58**	$ 2.58
Stock Price Range		
First Quarter	**44⅜-37⅝**	39¼-35½
Second Quarter	**40¼-37**	38⅝-35⅞
Third Quarter	**40-36⅞**	37⅞-34⅞
Fourth Quarter	**41-37⅛**	41⅝-37⅝
Year	**44⅜-36⅞**	41⅝-34⅞

As part of the Vision 2000 program (see Note O), Virginia Power recorded $91.6 million and $117.9 million of restructuring charges in 1996 and 1995, respectively. Restructuring charges included severance costs, purchased power contract restructuring and negotiated settlement costs, capital project cancellation costs, and other costs incurred directly as a result of the Vision 2000 initiatives. The following chart shows the quarterly impact of restructuring charges on expense and balance available for common stock for 1996 and 1995.

Virginia Power

Quarter *(millions)*	Expense	Balance Available For Common Stock
1996		
1st	**$ 5.4**	**$ 3.5**
2nd	**19.3**	**12.5**
3rd	**4.6**	**3.0**
4th	**62.3**	**40.6**
1995		
1st	$ 3.5	$ 2.3
2nd	1.8	1.1
3rd	30.6	19.9
4th	82.0	53.3

In the fourth quarter of 1995, Dominion Resources incurred at the holding company restructuring expenses amounting to $3.6 million and other charges amounting to $8.8 million. The other charges included litigation costs which were incurred to resolve the shareholder claims made in 1994. The impact of the restructuring expenses reduced net income by $2.3 million and the other charges reduced net income by $5.8 million.

During December 1995, Dominion Energy settled certain outstanding disputes with a supplier and renegotiated the terms of related long-term supply contracts. As a result, the fourth quarter earnings include gains from these changes which total $6.2 million, net of tax.

In June 1995, Dominion Resources Black Warrior Trust units were sold to third parties amounting to a gain of $5.4 million, net of tax. These were the remaining ownership units of a trust established in June 1994 when Dominion Energy transferred from Dominion Black Warrior Basin to Dominion Resources Black Warrior Trust a 65 percent overriding royalty interest in coal seam gas properties.

Report of Management's Responsibilities

The management of Dominion Resources, Inc. is responsible for all information and representations contained in the Consolidated Financial Statements and other sections of the annual report. The Consolidated Financial Statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that Dominion Resources' and its subsidiaries' assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed and recorded in accordance with established procedures. Management recognizes the inherent limitations of any system of internal accounting control, and therefore cannot provide absolute assurance that the objectives of the established internal accounting controls will be met.

This system includes written policies, an organizational structure designed to ensure appropriate segregation of responsibilities, careful selection and training of qualified personnel, and internal audits. Management believes that during 1996 the system of internal control was adequate to accomplish the intended objectives.

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, independent auditors, whose designation by the Board of Directors was ratified by the shareholders. Their audits were conducted in accordance with generally accepted auditing standards and include a review of Dominion Resources' and its subsidiaries' accounting systems, procedures and internal controls, and the performance of tests and other auditing procedures sufficient to provide reasonable assurance that the Consolidated Financial Statements are not materially misleading and do not contain material errors.

The Audit Committees of the Boards of Directors, composed entirely of directors who are not officers or employees of Dominion Resources or its subsidiaries, meet periodically with independent auditors, the internal auditors and management to discuss auditing, internal accounting control and financial reporting matters and to ensure that each is properly discharged. Both independent auditors and the internal auditors periodically meet alone with the Audit Committees and have free access to the Committees at any time.

Management recognizes its responsibility for fostering a strong ethical climate so that Dominion Resources' affairs are conducted according to the highest standards of personal corporate conduct. This responsibility is characterized and reflected in Dominion Resources' Code of Ethics, which addresses potential conflicts of interest, compliance with all domestic and foreign laws, the confidentiality of proprietary information, and full disclosure of public information.

Dominion Resources, Inc.

Thos. E. Capps

Thos. E. Capps
Chairman, President and Chief Executive Officer

James L. Trueheart

James L. Trueheart
Vice President and Controller

Report of Independent Auditors

To the Shareholders and Board of Directors of Dominion Resources, Inc.

We have audited the accompanying consolidated balance sheets of Dominion Resources, Inc. and subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of income and retained earnings and of cash flows for each of the three years in the period ended December 31, 1996. These Consolidated Financial Statements are the responsibility of the company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

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

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Dominion Resources, Inc. and subsidiaries as of December 31, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Richmond, Virginia
February 11, 1997

Deloitte & Touche LLP

SELECTED CONSOLIDATED FINANCIAL DATA

(millions, except per share amounts and percentages)	**1996**	1995	1994	1993	1992	1991
Revenues and other income	**$ 4,842.3**	$ 4,651.7	$ 4,491.1	$ 4,433.9	$ 3,791.1	$ 3,785.7
Income before cumulative effect of a change in accounting principle	**$ 472.1**	$ 425.0	$ 478.2	$ 516.6	$ 428.9	$ 459.9
Cumulative effect on prior years of changing the method of accounting for income taxes					15.6	
Net income	**$ 472.1**	$ 425.0	$ 478.2	$ 516.6	$ 444.5	$ 459.9
Total assets	**$14,905.6**	$13,903.3	$13,562.2	$13,349.5	$12,615.1	$11,201.4
Long-term debt, preferred stock subject to mandatory redemption and preferred securities of a subsidiary trust	**$ 5,042.6**	$ 4,926.9	$ 4,934.2	$ 4,976.7	$ 4,667.4	$ 4,668.2
Common stock data:						
Earnings per share before cumulative effect of a change in accounting principle	**$ 2.65**	$ 2.45	$ 2.81	$ 3.12	$ 2.66	$ 2.94
Cumulative effect on prior years of changing the method of accounting for income taxes					.10	
Earnings per share	**$ 2.65**	$ 2.45	$ 2.81	$ 3.12	$ 2.76	$ 2.94
Dividends paid per share	**$ 2.58**	$ 2.58	$ 2.55	$ 2.48	$ 2.40	$ 2.32
Market value per share at year-end	**38.50**	41.25	36.00	45.38	39.50	38.00
Book value per share at year-end	**27.17**	26.88	26.60	26.38	25.21	24.41
Return on equity—average	**9.8%**	9.2%	10.6%	12.2%	11.2%	12.4%
Payout ratio	**97.4%**	105.3%	90.7%	79.5%	87.0%	78.9%
Price/earnings ratio at year-end	**14.5**	16.8	12.8	14.5	14.3	12.9
Outstanding shares of common stock						
—average	**178.3**	173.8	170.3	165.7	161.1	156.5
—actual (year-end)	**181.2**	176.4	172.4	168.1	163.8	158.8
Capitalization:*						
Long-term debt	**$ 4,533.4**	$ 4,348.9	$ 4,384.1	$ 4,219.5	$ 4,111.8	$ 4,025.6
Preferred securities	**135.0**	135.0				
Preferred stock	**689.0**	689.0	816.1	819.5	845.6	761.7
Common equity	**4,924.4**	4,742.0	4,586.1	4,435.9	4,131.3	3,877.8
Total capitalization	**$10,281.8**	$ 9,914.9	$ 9,786.3	$ 9,474.9	$ 9,088.7	$ 8,665.1
*Capitalization excludes:						
Nonrecourse-nonutility financing	**$ 945.1**	$ 684.7	$ 727.1	$ 726.8	$ 593.4	$ 545.7
Short-term debt	**$ 378.2**	$ 236.6	$ 146.0	$ 262.8	$ 125.2	$ 154.0
Property, plant and equipment:						
Electric utility	**$14,506.8**	$14,201.6	$13,896.6	$13,376.1	$12,930.6	$12,397.7
Nuclear fuel	**843.8**	836.0	817.2	814.1	754.6	766.4
Other	**1,465.2**	939.8	701.6	724.5	451.4	213.4
Total	**16,815.8**	15,977.4	15,415.4	14,914.7	14,136.6	13,377.5
Less accumulated depreciation, depletion and amortization	**6,306.4**	5,655.1	5,170.0	4,802.1	4,459.5	4,110.5
Net property, plant and equipment	**$10,509.4**	$10,322.3	$10,245.4	$10,112.6	$ 9,677.1	$ 9,267.0
CWIP included in property, plant and equipment	**$ 180.1**	$ 512.1	$ 828.2	$ 913.1	$ 840.9	$ 736.1

Directors and Officers

Outside Directors

4 1 2 3 4

John B. Adams, Jr., 52 (DRI/VP)
President & Chief Executive Officer of The Bowman Companies, manufacturer and bottler of alcohol beverages, Fredericksburg, Virginia.
Chairman of the Board of Virginia Power. Director since 1987.

2 4

John B. Bernhardt, 67 (DRI/DCI)
Managing Director, Bernhardt/Gibson Financial Opportunities, financial services, Newport News, Virginia.
Director since 1981.

2 3

James F. Betts, 64 (VP)
Former Chairman of the Board and President, The Life Insurance Company of Virginia, Richmond, Virginia.
Director since 1978.

Jean E. Clary, 53 (VP)
President, Century 21 Clary and Associates, Inc. South Hill, Virginia.
Director since 1996.

2 4

Kenneth A. Randall, 69 (DRI/DEI)
Corporate director for various companies, Williamsburg, Virginia.
Director since 1971.

2 3 1 3 4

William T. Roos, 69 (DRI/VP/DCI)
Retired President of Penn Luggage, Inc., retail specialty stores, Hampton, Virginia.
Director since 1975.

1 3 4

Frank S. Royal, M.D., 57 (DRI/DCI)
Physician, Richmond, Virginia.
Director since 1994.

1 2

Judith B. Sack, 48 (DRI/DEI)
Senior Advisor, Morgan Stanley & Co., Inc., an investment banking firm, New York, New York.
Director since 1989.

Inside Directors and Subsidiary Presidents

Thos. E. Capps, 61 (DRI/DEI/DCI)
Chairman of the Board, President & Chief Executive Officer of Dominion Resources. Director since 1986.
12 years of service.

James T. Rhodes, 55 (VP)
President & Chief Executive Officer of Virginia Power.
Director since 1989.
25 years of service.

Norman Askew, 54
Chief Executive of East Midlands Electricity plc & Executive Vice President of Dominion Resources.
Effective February 1997.

Thomas N. Chewning, 51
President of Dominion Energy & Executive Vice President of Dominion Resources.
9 years of service.

Dominion Resources Officers

Linwood R. Robertson, 57
Executive Vice President & Treasurer.
27 years of service.

Thomas F. Farrell, II, 42
Senior Vice President–Corporate & General Counsel.
2 years of service.

Donald T. Herrick, Jr., 53
Vice President.
26 years of service.

James L. Trueheart, 45
Vice President & Controller.
19 years of service.

William C. Hall, Jr., 43
Assistant Vice President–Public Affairs.
13 years of service.

Karen E. Hunter, 42
Assistant Vice President–Financial Planning.
9 years of service.

Fred G. Wood, III, 33
Assistant Vice President–Investor Relations.
11 years of service.

Patricia A. Wilkerson, 41
Corporate Secretary.
19 years of service.

Virginia Power Officers

Robert E. Rigsby, 47
Executive Vice President.
25 years of service.

William R. Cartwright, 54
Senior Vice President–Fossil & Hydro.
31 years of service.

Lawrence E. DeSimone, 49
Senior Vice President–Energy Services.
1 year of service.

Larry M. Girvin, 53
Senior Vice President–Commercial Operations.
26 years of service.

James P. O'Hanlon, 53
Senior Vice President–Nuclear.
7 years of service.

John W. Harris, 49 (DCI)
President, The Harris Group, a consulting & real estate development firm, Charlotte, North Carolina.
Director since 1994.

1 1 2

Benjamin J. Lambert, III, 60 (DRI/VP)
Optometrist, Richmond, Virginia.
Director since 1992.

1 2 1 4

Richard L. Leatherwood, 57 (DRI/VP/DEI)
Retired, Baltimore, Maryland.
Director since 1994.

1 3 1 3

Harvey L. Lindsay, Jr., 67 (DRI/VP) Chairman & Chief Executive Officer, Harvey Lindsay Commercial Real Estate, Norfolk, Virginia.
Director since 1986.

1

S. Dallas Simmons, 57 (DRI/DCI)
President, Virginia Union University, Richmond, Virginia.
Director since 1992.

3 4 2 3

Robert H. Spilman, 69 (DRI/VP/DEI)
Chairman, Chief Executive Officer, Bassett Furniture Industries, Inc., Bassett, Virginia.
Director since 1994.

2 4

William G. Thomas, 57 (VP)
President, Hazel & Thomas, a law firm, Alexandria, Virginia.
Director since 1987.

David A. Wollard, 59 (DCI)
Retired President, Bank One Colorado, N.A., Denver, Colorado.
Director since 1994.

David L. Heavenridge, 50
President of Dominion Capital & Executive Vice President of Dominion Resources.
22 years of service.

Companies:

DRI *Dominion Resources*
VP *Virginia Power*
DEI *Dominion Energy*
DCI *Dominion Capital*

Dominion Resources Committees:

1 *Audit*
2 *Finance*
3 *Nominating*
4 *Organization & Compensation*

Virginia Power Committees:

1 *Audit*
2 *Finance*
3 *Nominating*
4 *Organization & Compensation*

Edgar M. Roach, Jr., 48
Senior Vice President–Finance, Regulation and General Counsel.
3 years of service.

Charles A. Brown, 54
Vice President–Central Division.
14 years of service.

Thomas L. Caviness, Jr., 51
Vice President–Retail Energy Services/EVANTAGE.
28 years of service.

J. Kennerly Davis, Jr., 51
Vice President–Finance & Administrative Services, Treasurer & Corporate Secretary. 15 years of service.

James T. Earwood, Jr., 53
Vice President–Bulk Power Delivery.
30 years of service.

Thomas A. Hyman, Jr., 45
Vice President–Eastern Division & North Carolina Power.
24 years of service.

Michael R. Kansler, 42
Vice President–Nuclear Operations.
19 years of service.

Mark F. McGettrick, 39
Vice President–Customer Service.
16 years of service.

William S. Mistr, 49
Vice President–Information Technology.
27 years of service.

F. Kenneth Moore, 55
Vice President–Fossil & Hydro Services.
29 years of service.

Thomas J. O'Neil, 54
Vice President–Human Resources.
31 years of service.

Robert F. Saunders, 53
Vice President–Nuclear Engineering and Services.
21 years of service.

Johnny V. Shenal, 51
Vice President–Northern & Western Divisions.
27 years of service.

Eva S. Teig, 52
Vice President–Public Affairs.
7 years of service.

Shareholder Information

Inquiries

Shareholders can reach our automated telephone system 24 hours a day.

Shareholder Administration
1-800-552-4034 (Toll free)
1-804-775-2500

Our automated telephone system offers the following:

- Stock price
- Dividend information
- Mailing and street address
- Transfer agent's address
- Dominion Direct Investment information
- Transfer instructions
- Instructions for replacing lost certificates

When you call between 9:00 a.m. and 4:00 p.m. Eastern time Monday through Friday, a representative can assist you directly if you press "0" after hearing the stock price. Please have your Social Security number or account code ready. We cannot give information about a shareholder's account to a third party without the shareholder's approval or appropriate documents.

Mail inquiries to:
Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

Common Stock Listing

New York Stock Exchange
Trading symbol: D
Newspaper listing: DominRes, DomRs

Common Stock Price Range

	1996	1995
	High Low	High Low
First Quarter	**44⅜-37⅝**	39¼-35½
Second Quarter	**40¼-37**	38⅝-35⅞
Third Quarter	**40-36⅞**	37⅞-34⅞
Fourth Quarter	**41-37⅛**	41⅝-37⅝
Year	**44⅜-36⅞**	41⅝-34⅞

Buy Stock Directly

You may buy Dominion Resources common stock directly from the company through Dominion Direct Investment. You may reinvest all or a portion of your quarterly dividends and/or make cash investments. Dominion Direct Investment is available only through the Prospectus and only in states and countries where it is lawful.

Please contact Shareholder Administration for a prospectus and enrollment form.

Dividends Per Share

	1996	1995
First Quarter	**$0.645**	$0.645
Second Quarter	**0.645**	0.645
Third Quarter	**0.645**	0.645
Fourth Quarter	**0.645**	0.645
Year	**$2.58**	$2.58

Dividends on Dominion Resources common stock are paid as declared by the Board of Directors. Dividends are typically paid on the 20th day of March, June, September and December. Over the past two years the quarterly dividend rate has been $.645 per share or $2.58 annually.

You may receive dividends by check or electronic deposit on some or all of your shares, or you may reinvest dividends on some or all shares whether your shares are held in Dominion Direct Investment or by you.

If dividends are paid to you by check and you do not receive your check within 10 business days after the payment date, please contact Shareholder Administration for a replacement.

Address Changes

It is important that we have your current address on file. Please contact Shareholder Administration promptly with any address changes, either by calling our 800 number or e-mail us at: shareholder_administration@domres.com.

Beneficial Owners

When you purchase stock and it is held for you by your broker, it may be listed with the company in the broker's name, also known as the "street name." This qualifies you as a beneficial owner. If you are a beneficial owner, you will receive all dividend payments, annual reports and proxy materials through your broker.

Transfer Agent and Registrar

Chase Mellon Shareholder Services
85 Challenger Road
Ridgefield, New Jersey 07660-2104

Consolidating Multiple Accounts

Multiple accounts for shareholders exist when:

- A shareholder owns stock in variations of the same name (for example, John E. Smith and John Edward Smith), or
- A shareholder owns stock in his or her name alone and also owns stock with another shareholder.

When multiple accounts exist, the company is required to create separate accounts and mail separate dividend checks and proxy material for each account. To consolidate multiple accounts, please contact Dominion Resources for instructions.

Selling your Dominion Resources Common Stock

If you want to sell your certificate shares through Dominion Direct Investment, please mail your certificate(s) along with a letter of instruction listing the certificate numbers and requesting sale of the shares. All owners must sign the letter exactly as their names appear on the face of the certificate(s). *Please do not sign the stock certificate(s).*

You may also sell certificate shares through a stockbroker.

To sell shares held in Dominion Direct Investment or to have stock certificates issued, please provide written instructions. To expedite these transactions, use the "Withdrawal Form" attached to your Dominion Direct Investment Confirmation Statement and the envelope enclosed with your statement.

We cannot take requests to sell shares or issue certificates over the phone or by e-mail. We must have such requests in writing.

Depositing your Shares for Safekeeping

Shareholders may send their Dominion Resources stock certificates to Dominion Direct Investment for safekeeping. This option offers the advantage of protection against loss, theft or inadvertent destruction of certificates—as well as convenience when the shares are sold through the plan.

To deposit your certificates for safekeeping, submit the certificates and a letter of instruction signed exactly as the names appear on the stock certificates. *Please do not sign the certificates.*

Total Return on $1,000 Invested

(with Dividends Reinvested)

Annual Meeting

The 1997 Annual Meeting of Shareholders of Dominion Resources, Inc. will be held Friday, April 18, at 9:30 a.m. in Richmond, Virginia, at One James River Plaza, 701 East Cary Street.

Corporate Street Address

Dominion Resources, Inc.
Riverfront Plaza—West Tower
901 East Byrd Street
Richmond, Virginia 23219-4069

Independent Auditors

Deloitte & Touche LLP
Richmond, Virginia

Additional Information

Dominion Resources will provide, without charge, a copy of any of the following items:

- 1996 SEC Form 10-K (excluding exhibits).
- 1996 Statistical Summary and Financial Forecast.

Requests for these items should be made by writing to:

Investor Relations Department
Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

or by e-mail to:
dominion_resources@domres.com

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Dominion Resources

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Richmond, Virginia 23261

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Dominion Resources

Visit our site on the World Wide Web. You can find all the latest in news, product offerings and shareholder information. We'll also show you how to visit the web sites of different company subsidiaries.

WWW.DOMRES.COM


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The Industry


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Dominion Resources, Inc.

Focused Growth

New World, New Markets

1995 Annual Report

Dominion Resources, Inc. is a holding company headquartered in Richmond, Virginia. More than 350,000 individuals and institutions hold, directly or indirectly, shares of Dominion Resources, which trades on the New York Stock Exchange under the symbol "D".

The primary subsidiary is Virginia Electric and Power Company, a utility serving more than 1.9 million residences and businesses in a 30,000-square-mile region in the most populous areas of Virginia and northeastern North Carolina. Virginia Power owns and operates nuclear, coal, natural gas, oil and hydroelectric power stations.

Dominion Energy, Inc. is the independent power and cogeneration subsidiary, with ownership and operating interests in 19 such facilities in six U.S. states, Argentina, Belize and Bolivia. The company is also active in the natural gas business, with more than 345 billion cubic feet of reserves in the United States and Canada.

Dominion Capital, Inc. is principally a financial services and real estate subsidiary, with two commercial lending entities, one of the Southeast's major full-service commercial real estate companies, a large hydroelectric station in Louisiana, and a variety of debt and equity investments.

Contents

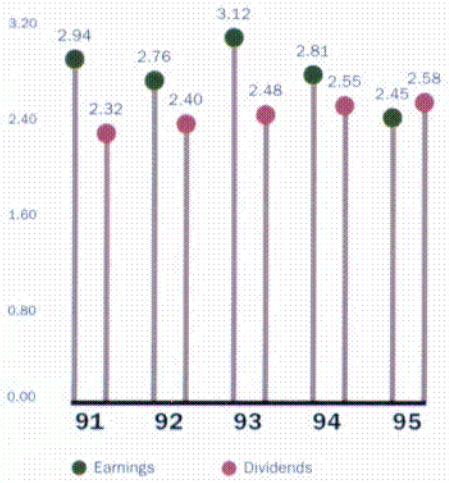
Consolidated Financial Highlights

	1995	1994	% Change
Operating Results *(millions)*			
Operating revenues and income	**$ 4,651.7**	$ 4,491.1	3.6
Operating income	**1,025.6**	1,038.2	(1.2)
Net income	**425.0**	478.2	(11.1)
Data Per Common Share			
Earnings	**$ 2.45**	$ 2.81	(12.8)
Dividends paid	**2.58**	2.55	1.2
Market value *(year-end)*	**41.25**	36.00	14.6
Book value *(year-end)*	**26.88**	26.60	1.1
Financial Position at December 31			
Assets *(millions)*	**$ 13,903.3**	$ 13,562.2	
Capitalization *(millions)*	**9,914.9**	9,786.3	
Capitalization ratios(*)			
Long-term debt and capital lease obligations	**44%**	45%	
Preferred securities of subsidiary trust	**1%**		
Preferred stock	**7%**	8%	
Common equity	**48%**	47%	
Other Statistics			
Return on average common equity	**9.2%**	10.6%	
Market to book value *(year-end)*	**153.5%**	135.3%	
Common stock price range	**41⅝–34⅞**	45⅜–34⅞	
Outstanding shares of common stock *(thousands)*			
–average	**173,845**	170,316	
–actual *(year-end)*	**176,414**	172,405	
Number of registered common shareholders *(year-end)*	**233,496**	235,062	
Number of full-time employees	**10,592**	10,789	
Sales *(MWh-thousands)*	**68,953**	65,741	4.9
Independent power generation *(MWh-thousands)*	**5,189**	5,323	(2.5)
Natural gas production *(billion cubic feet equivalent)*	**36.5**	36.7	(0.5)

(*) Excludes nonrecourse-nonutility financing and short-term debt.

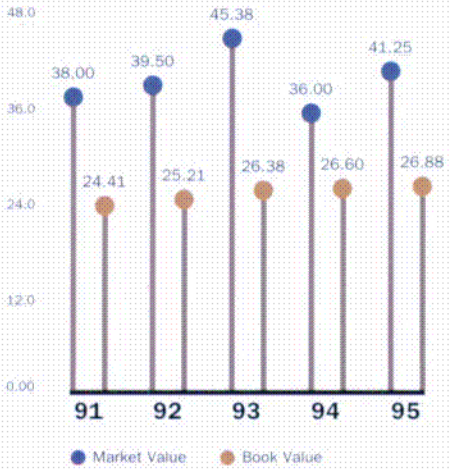
Earnings and Dividends

(Dollars Per Share)



Market & Book Value

(Dollars Per Share at Year-End)



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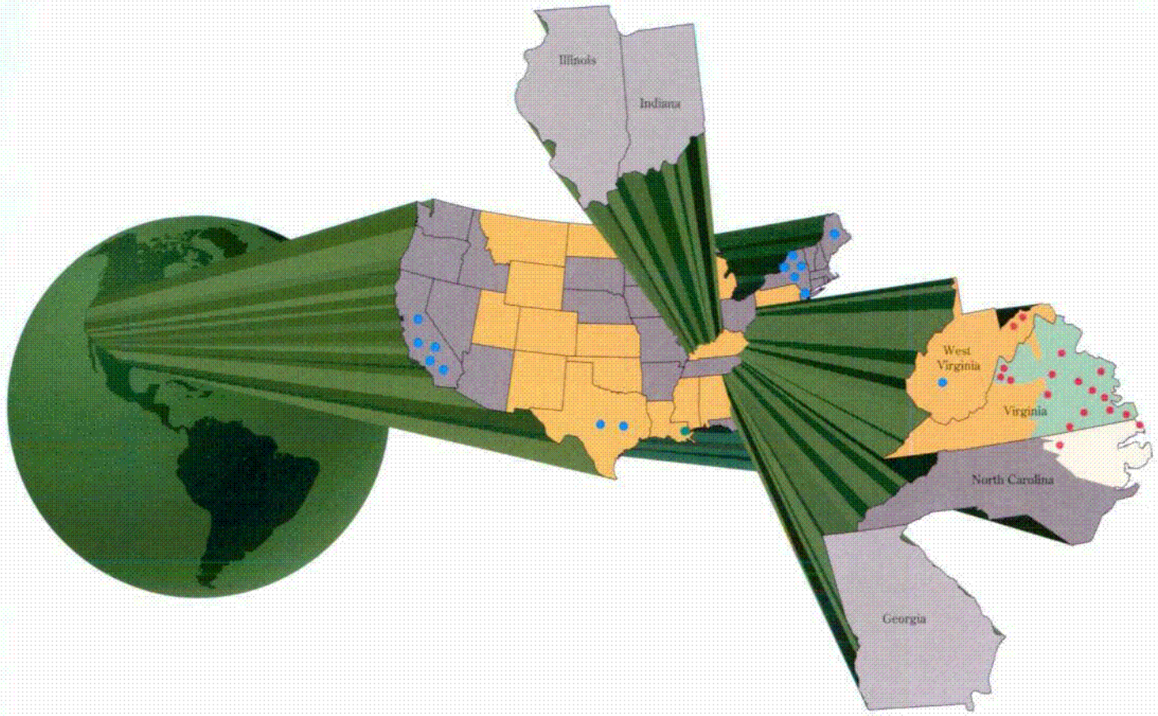
Dominion Resources, Inc. At a Glance



- Virginia Power Service Area
- North Carolina Power Service Area
- States with Gas Reserves
- Virginia Power Generating Stations
- Dominion Energy Independent Power Interests
- Dominion Capital Vidalia Hydroelectric Station

Virginia Power Service Area

Virginia Power's strategy to remain a low-cost producer is evidenced through our electric rates and service, both of which helped bring new major businesses to our area. Some recent examples: Motorola is building a $3 billion semiconductor plant near Richmond. IBM and Toshiba will open a $1.2 billion chip plant in the northern Virginia town of Manassas, Ford Motor Company is expanding its truck manufacturing plant in Norfolk and Gateway 2000 is opening an $18 million assembly plant in the eastern Virginia town of Hampton.

Virginia Power unveiled its EVANTAGE division for retail energy services. EVANTAGE provides its customers with comprehensive and innovative packages of energy services and programs, ranging from fuel procurement and energy production to energy use analysis and management. EVANTAGE is establishing energy partnerships with industrial, commercial and governmental customers in Virginia and nationally.

Georgia

Virginia Power's initiative to become a full-service energy company was carried out through the acquisition of two energy services divisions of A&C Enercom of Atlanta. The two business units acquired by Virginia Power are A&C Enercom Services and TriTech. A&C Enercom Services provides design, implementation and management services to utilities nationwide in a wide range of customer service, marketing and energy management programs. TriTech provides expertise in technology, processes, energy and the environment to help commercial and industrial companies improve their performance and increase their competitiveness.

Indiana

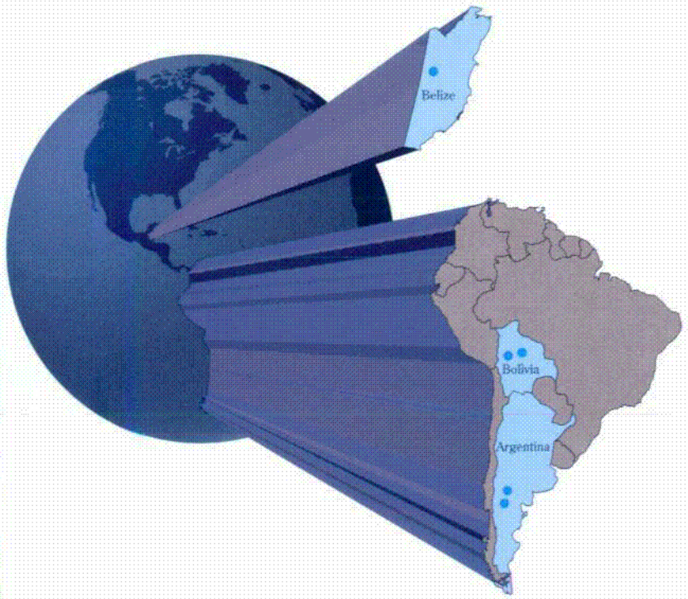
Virginia Power is marketing power supply that it purchases under long-term contract from an Indiana electric cooperative and selling it to utilities in the Midwest during periods when Virginia Power does not require power from all of its available sources. It is part of our strategy to develop a power marketing business whose sole focus is the purchase and sale of wholesale electric power in the open market. The Wholesale Power Group has expanded our trading range beyond the geographic limits of our service area, and has recently developed trading relationships with utilities in Illinois, Missouri, Indiana, Kentucky, Ohio, Vermont, Michigan and Tennessee in addition to most states in the Mid-Atlantic area.

West Virginia

Dominion Energy's focus on becoming a major player in competitive regional markets for natural gas was realized through the purchase and consolidation of three natural gas companies in the Appalachian Basin that were managing properties we owned. This is Dominion Energy's first move into actual daily operations and management of active properties–a principal strategy enabling the company to capture new efficiencies, exploit natural synergies and decrease operating costs while improving marketing position. The acquisition cost was $11 million and adds nearly 50 billion cubic feet of reserves to Dominion Energy's assets, nearly doubling its holdings in the Appalachian Basin.

Illinois

Dominion Capital's strategy to narrow the number of business lines it has in order to focus on growth in its financial services investments was followed through its joint venture in First Source Financial. This new business will serve the nation's growing demand for loans from mid-sized corporations who are the strongest growth sector of our economy. The business strategy is to provide loans based on a company's strength in cash flows, rather than in assets. First Source Financial, headquartered in Chicago, has a solid and diversified portfolio of loans to well-established, non-high tech, manufacturing companies totaling $600 million.

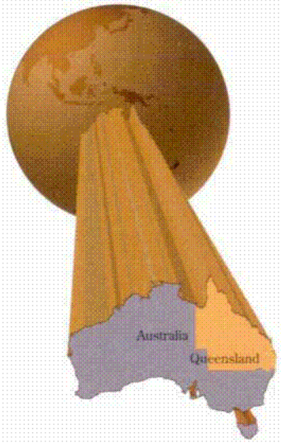


Argentina

Dominion Energy has upgraded its power plant at Alto Valle, Argentina, making it more competitive in that nation's privatized market. Argentina uses a national economic dispatch program, which is simply starting with the most efficient, least costly plant to meet load requirements and going down the list from there. To be a competitive player in this international energy market, Dominion Energy instituted a combined cycle program which lowered the current generation cost of $20 per megawatt-hour to around $12 per megawatt-hour. This bumps Alto Valle up about 15 plants in terms of dispatch sequence for supplying electricity.

Bolivia

Dominion Energy added two more generating facilities as part of our goal to expand in growing Latin American power markets. We acquired a 50 percent interest in and management control of Empresa Corani, a Bolivian power company that owns and operates two hydroelectric plants totaling 126 megawatts. Under the capitalization program, our winning bid of $58 million will be invested in new generating expansions during the next few years. Planning has already begun.



Australia

Dominion Energy's strategy to pursue overseas natural gas production opportunities was carried out through a joint venture with Enron. The companies will explore coal fields of Queensland, Australia for coal bed methane reserves that could be marketed to support commercial and industrial growth in the eastern cities of Brisbane, Gladstone and Townsville and the western mining area of Mount ISA. Under the joint venture, Enron and Dominion Energy could spend up to $80 million apiece if further testing and initial efforts yield encouraging results. Two wells have just been drilled and will be tested through the first quarter of 1996.

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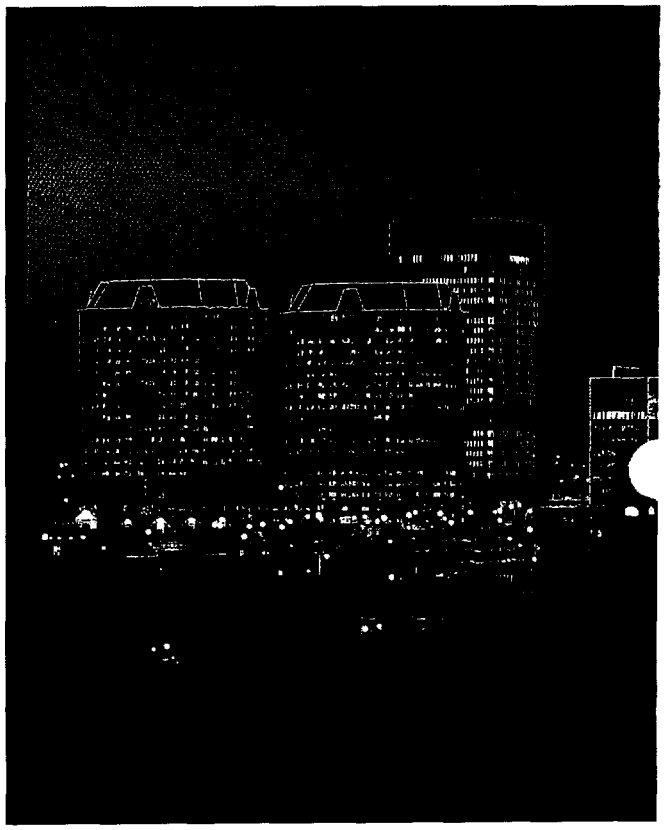
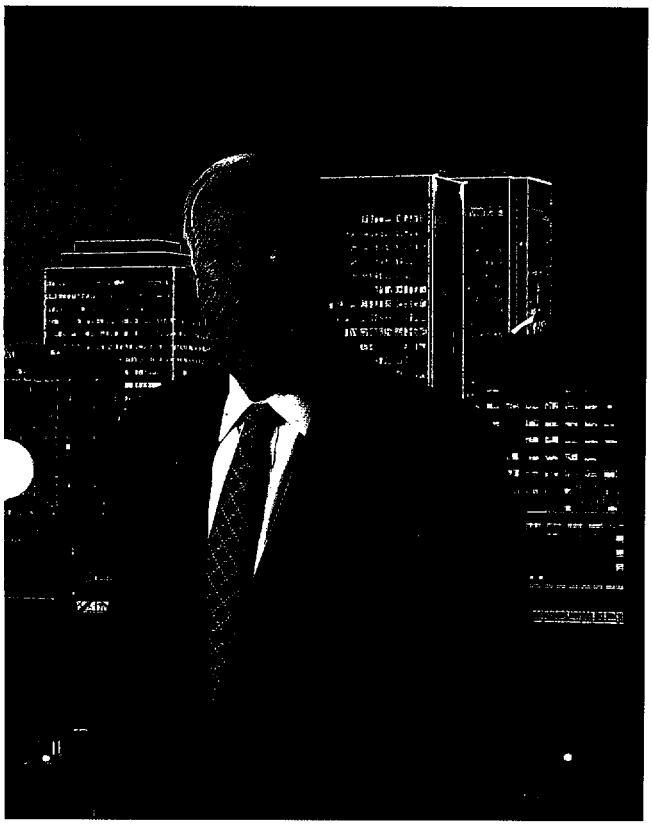
To Our Shareholders

Reflecting on your company's last year, I am reminded of the opening sentence from *A Tale of Two Cities* by Charles Dickens: "It was the best of times, it was the worst of times, it was an age of wisdom..." It was the best of times, first, because we began to see reflected in earnings the results of increased efficiency and prior reductions we had made in staffing and capital expenditures. Also, the weather was kinder to us in 1995. We had a hot summer and a cold fourth quarter. As a result, earnings from operations, or earnings adjusted for restructuring or other charges or gains, jumped to $2.91 per share from $2.80 per share in 1994, an increase of about 4 percent. This occurred even though Virginia Power completed a coal-fired unit, replaced some nuclear steam generators, and marked our third successive year without a base rate increase. It was also a good year because Virginia Power plants ran exceptionally well. Our low-cost nuclear stations operated 8 percent better than the most recent industry average. Our network of coal plants also topped the industry average by 8 percent. As a result, in part, of new initiatives to take advantage of emerging market opportunities, we tripled electricity sales outside of our traditional customer base. Through our Vision 2000 program, Virginia Power built on its fundamental strength as a low-cost generator. Your utility has largely reorganized itself into business units to reflect its increasingly distinct business lines. We have increased efficiency, lowered expenses and improved service by reducing staff, re-engineering activities and outsourcing what can be done more cost effectively by others. Virginia Power has aggressively expanded our traditional power wholesaling to take advantage of new opportunities. And we have undertaken a wide range of new activities to give customers–both long-time and newly acquired customers–innovative services tailored to their needs. In short, Virginia Power is

Virginia Power is swiftly acting on many fronts to compete even more profitably in both price and service quality.



swiftly acting on many fronts to compete even more profitably in both price and service quality. It was also the "best of times" because your nonutility companies continued their consistent records of profitability. Dominion Energy again grew its nonutility power business in 1995. We began operating our Belize project, acquired two generating units in Bolivia, and were selected for a major addition to our generating capability in the United States. As important to Dominion Energy's strategy as the assets we acquired are those we did not acquire. Dominion Energy refuses to pay prices that sacrifice reasonable profit expectations for the sake of gaining market share. Our primary objective is to continue to grow, not just in assets held and electricity sold, but in return to shareholders. In line with this objective, Dominion Energy is highly selective about the countries in which we seek to invest. In our natural gas business, Dominion Energy took actions to increase our reserves at home and abroad and to broaden our scope. We have been successful in our natural gas business and are in it for the long term. Increasingly, Dominion Energy will seek arrangements that combine our natural gas production with our power generation so that the combination has greater value than the sum of the separate elements. Dominion Capital refocused our business toward financial services and the increased generation of sustained, rather than transactional, income. First Source Financial, formed in 1995 but already contributing sustainable profits, represents the kind of niche where Dominion Capital will apply our expertise. Similar new ventures are on the drawing boards. From a cold start about a decade ago, we have built Dominion Energy and Dominion Capital into businesses with combined assets of about $2 billion, with records of consistent profits and superior returns to shareholders. I am confident this progress will continue. Unfortunately, the impressive strides that we made in implementing Virginia Power's Vision 2000 in 1995 were



Thos. E. Capps

Increasingly, Dominion Energy will seek arrangements that combine our natural gas production with our power generation.

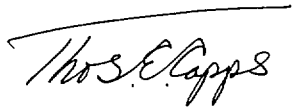
not without pain and cost. It was "the worst of times" because it was very painful for us to part with employees who had provided valuable service. Even with fair severance provisions, there was regrettable hardship for those people. And yet we could not have done otherwise and fulfilled our responsibilities to our owners, our customers and our other employees. Other sectors of the American industry found themselves barely able to compete in a world market just a few years ago. Productivity had not kept pace with worldwide competitors. Thus began the "downsizing," "rightsizing," "re-engineering," or whatever one chooses to call the painful process.

But the extensive initiatives that we undertook in 1995 should pave the way for the earnings growth that will lower our payout ratio–without any dividend cut–and allow us to again increase your dividends in the future.

But the American industrial sector today is probably the most efficient and productive in the world as a result. Now the utility industry will face competition for the first time. It finds itself in the same position as the other sectors found themselves earlier. Letting excess employees go is painful, but absolutely necessary if your company is to survive in a competitive market. As the industrial sector found, good quality and service are taken for granted: price is what sells. So will it be with the electric industry. Electricity will sell on price. To get our price as low as possible we must go after costs with a vengeance. This is what we are doing. And on top of that, we are creating innovative services that increase our competitiveness even more. Thank goodness the bulk of our restructuring costs are now behind us. You can look to our operating income as a key sign of our fundamental strengths.

Regrettably, we could not increase your dividend in 1995 because we must gradually lower the percentage of earnings that we pay out as dividends. But the extensive initiatives that we undertook in 1995 should pave the way for the earnings growth that will lower our payout ratio–without any dividend cut–and allow us to again increase your dividends in the future. I am pleased and proud of the strides we made in 1995 in implementing our strategic plans to build value for you, the owners of Dominion Resources. It was not only the age of wisdom: it was a time when we acted boldly based on wise plans.

Sincerely,



Thos. E. Capps
Chairman of the Board, President
and Chief Executive Officer

Focused Growth

New World, New Markets

Your company's strategic planning and vigorous implementation of those plans in 1995 enhanced its outlook for success in the exciting and increasingly competitive world of power and energy.

At Virginia Power, we're putting ourselves through a major restructuring process known as Vision 2000—which is intensifying our focus on our customers and their needs. We're cutting costs and downsizing. We're reconfiguring ourselves to do the same things better and more quickly, and have added new skills and business capabilities too. We're putting the finishing touches on our strategies for offense and defense to develop new revenues and keep existing ones.

On defense, the strategies protect our existing market share by keeping production costs low while offering customers even better prices. We're also improving customer service to ensure loyalty to the Virginia Power brand and by signing customers to long-term contracts. On offense, the strategies promote revenue growth through bulk power sales in broadening wholesale markets and new lines of customized energy services through a corporate unit named EVANTAGE. EVANTAGE is rolling out new products and services for valued commercial, governmental and industrial customers, the first groups planning to shop in the forming energy supermarket.

Construction of the energy supermarket is still under way. A wholesale generation section is already open and could grow quite rapidly under anticipated federal regulatory changes. Other sections for marketing and customer services are still in progress. Nobody knows when federal and state regulations will open the store to everyone, or how it will ultimately look, but Virginia Power is preparing an impressive product line.

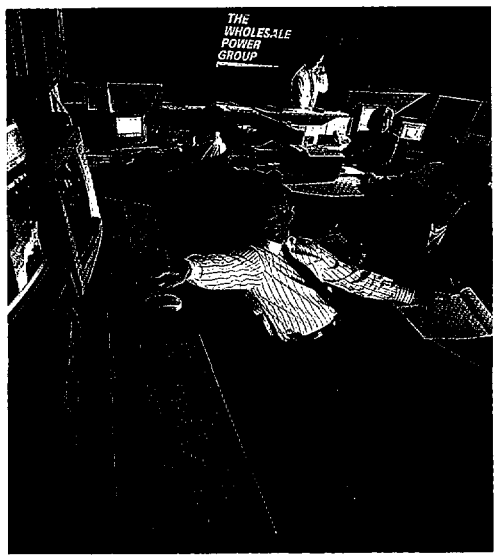
As our strategy succeeds in the competitive future, we will continue to be guided by our five core values: customer focus, performance, innovation, teamwork and integrity.

Our teams at Dominion Energy and Dominion Capital are also increasing the value of your company shares through successful competition in markets for independent electric power in other states and nations, natural gas, financial services and real estate. Once Dominion Energy and Dominion Capital were viewed by many as a simple boost to earnings from the core utility business. Now we're substantial, established businesses in our own right, with $2 billion in assets producing 10 percent of your company's income, with our own strategic plans. We're focusing on operating earnings at both companies by directly managing more ventures that produce steady streams of income. There will be fewer one-time transactions and passive investments. In all cases, we'll build on past successes with ventures that produce enduring shareholder value.

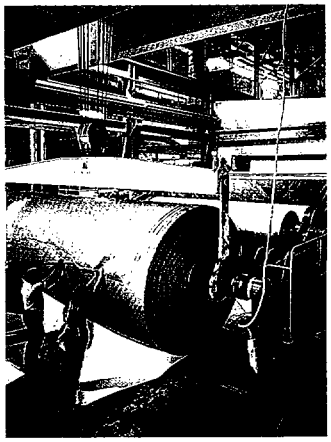
At all business units of Dominion Resources, we'll accomplish that with focused growth—growth that firmly links increased sales and expansions into new markets on one hand with growing profits and shareholder returns on the other.

Virginia Power:

At Virginia Power, we moved aggressively in 1995 to carry out our strategy for success. We're working to be first in customer choice–through high-value products and energy services from a team guided by innovation, high performance standards and integrity in all that we do in the competitive marketplace. On offense, we've studied that marketplace carefully and determined its needs. As a result, we've created and launched EVANTAGE, a division that incorporates new attitudes and skills to offer enhanced services to existing customers. EVANTAGE wants to help them sharpen their competitive edge through better energy management by selling a full range of energy products and services. EVANTAGE is ready to advise customers on energy use and management, fuel procurement, and electrical system maintenance, for example, or to produce energy on their behalf. In short, EVANTAGE will be their energy expert and energy partner. Consider the complex and costly process of designing, permitting and building a power plant–something we know quite well. It's why Chesapeake Paper Products Co. has turned to EVANTAGE to build and own a generator to serve the energy needs of a major paper facility in eastern Virginia. The project marked several important firsts in the new world of power. It's the new group's first major agreement. It's the first application of an innovative program to site and build generators on the property of major customers that want to self-generate their power. And it is among the first times that a major industrial customer has turned to its utility for expert help in designing and constructing one. Another example of teamwork and innovation at EVANTAGE is found in a newly signed contract to design and construct a transmission line for an electrical service cooperative–one of the many utility, commercial, industrial and governmental customers that make up a robust potential market within Virginia Power's economically vibrant service area. We will be building our team and our skills as we grow. In early 1996 Virginia Power acquired two energy services divisions from A&C Enercom, an Atlanta-based consulting firm specializing in serving the utility industry and its commercial and industrial customers. The company provides expertise in marketing, technology, processes and the environment, among others. Its addition to our team will help us to provide superior and wide-ranging services



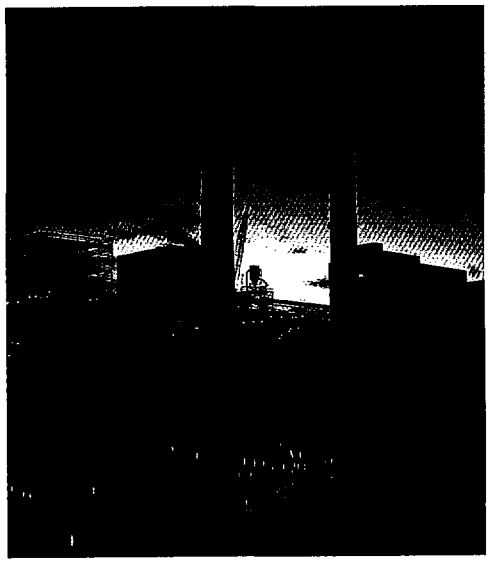
The Wholesale Power Group is an aggressive and innovative part of our energy services business which has succeeded in a competitive market. The group has won bids to sell 300 megawatts of peaking power to other utilities as well as provide significant spot and short-term sales to both utilities and power marketers. In 1995, our power marketing revenues totaled more than $80 million.



Chesapeake Paper Products Co. is EVANTAGE's first national energy partner. EVANTAGE will build and own a 38-megawatt generating unit to provide steam and electricity for Chesapeake's production facility in the town of West Point, Virginia.

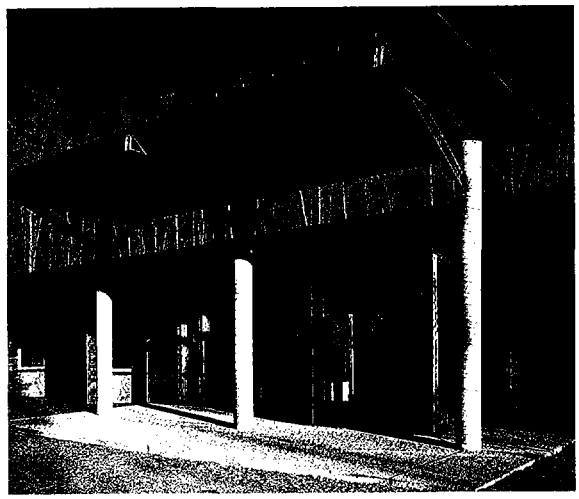
Evantage is designed to give its customers a competitive *advantage* in energy.

Virginia Power in December unveiled the name EVANTAGE for its retail energy services business. The division provides customers with comprehensive and innovative packages of energy services and programs, from fuel procurement and energy production to energy use analysis and management. EVANTAGE initially seeks to establish energy partnerships with industrial, commercial and governmental customers of Virginia Power. Services will be custom-designed to meet the needs of individual clients. In the future, EVANTAGE will seek to serve growing numbers of customers as well as explore energy partnership opportunities outside Virginia Power's service area. Utilities today can't stop with merely selling electricity. They must become full-service energy companies, able to help their customers save money and use energy more efficiently in a complicated and changing market. Virginia Power intends to be a winner in the new energy market. Our Evantage division is on the cutting edge of providing exciting and effective new programs for clients.



Stronger relationships with wholesale customers are exemplified by the operation of the 832-megawatt Clover Power Station, a joint venture with Old Dominion Electric Cooperative. One unit entered service in 1995 and the second will come on line in 1996. Environmental safeguards make it one of the cleanest coal-fired stations in the country.

as part of our customer focus, in our service area and beyond. Some companies resist change. We see it as an opportunity for focused growth. So when changes in federal law created new opportunities for bulk transactions in wholesale power, Virginia Power acted swiftly. We found five times more trading partners and tripled our sales of wholesale power to more than 2 million megawatt-hours. We moved more than 1 million megawatt-hours of power over our transmission lines for use by other utilities and power marketers. We won bids to provide 300 megawatts of peaking power to Ohio Edison and Kentucky Utilities and responded to demand created by last summer's heat wave by making short-term sales to markets as far afield as Chicago and St. Louis. That's sound offense. It's possible because Virginia Power has an advantage as one of America's low-cost producers. We repeated another year of superior plant performance at our nuclear, fossil-fuel and hydroelectric facilities, easily beating industry efficiency averages in 1995. Low-cost production is the foundation on which ultimate success lies. It takes teamwork–like the teamwork demonstrated by the dedicated staff at our fossil fuel and hydroelectric stations who've accomplished a 30 percent reduction in operating and maintenance expenses while undergoing workforce reductions of 30 percent; or the teamwork of our nuclear generation staff who carried out a major steam generator replacement in a world-record 68 days–and $16 million under budget. Moreover, these steps to assure low-cost production have allowed us to grow earnings without an increase in customer rates since 1992 and to actually reduce our fuel rates last year by more than $107 million. But we're well aware that other producers are striving to catch up. That's why Virginia Power is carrying out even more restructuring and still cutting costs aggressively, reducing its total workforce some 25 percent since 1987 without sacrifices in safety or reliability. Specific core functions that were formerly blended into the overall organization are being set up as entirely separate business units. This will help all employees in a given unit to see more clearly how their drive for superior performance contributes to overall



Energy consulting services are an important part of Virginia Power's customer focus. With our help, the Wildlife Center of Virginia selected a geothermal heating and cooling system for its new building. Geothermal systems not only save money, but are also friendly to the environment–a feature which matches the mission of the Wildlife Center.

Our strategy

is to *ensure* that we remain a low-cost, high-performance *industry leader.*

Virginia Power is recognized as one of the nation's lowest-cost producers of electricity because of its generating efficiency. Last year our four nuclear units operated at 85 percent of their theoretical capacity, while our fossil and hydro units had equivalent availabilities of 89 percent. As a result of strong plant performance, we were able to bring our cost of producing electricity down to 1.7 cents per kilowatt-hour. And, thanks largely to this excellent operating record, we reduced the fuel portion of our customers' rates in Virginia by $107 million a year. In addition, we have not sought a base rate increase since 1992. To keep our future rates competitive, we're looking to our cost reductions to substantially offset the higher costs from replacing steam generators at North Anna and the startup of the first unit at the Clover Power Station in 1995.

profitability. By the end of 1995 separate business units were in place for nuclear generation, fossil and hydroelectric generation, energy services and commercial operations. Commercial operations directs the part of our business most visible to customers on a daily basis: transmission, distribution and customer service activities. Work to streamline commercial operations further is still under way. We started a major re-engineering effort in 1995, and important savings have already been realized: five separate geographic divisions that made up the commercial operations structure were consolidated into three. Another change that improved both efficiency and customer service took place when we cut costs and made it more convenient for the large group of individual customers who prefer to pay their power bills in person. Traditional business offices are being closed. Opening in their place is a customer-focused network of conveniently located payment stations at grocery stores and drug stores that operate weekdays and weekends. As a further part of our defensive plan we've been rethinking our services and relationships with our 25 largest industrial customers–so large, in fact, that they produce $300 million in annual revenues. Last year Virginia Power made this vital group an offer to improve pricing flexibility. Known as Real-Time Pricing, it bases a portion of the bill each day on the actual cost of daily generation, and it's catching on. So far, nine companies have taken advantage of or said they plan to take advantage of the program, which requires a five-year customer commitment. Cooperatives and other wholesale customers that purchase power on a wholesale basis are another big and important group that produces about $200 million in annual revenues. So Virginia Power has negotiated long-term contracts that contain "win-win" terms for both parties. By the end of 1995, virtually all major wholesale customers had signed power-purchase contracts ranging from eight to 10 years in duration. On both sides of the competitive playing field, Virginia Power is poised to emerge a winner.

Ed Clark, president and director of the Wildlife Center, discusses the benefits of energy efficiency with Rob Smith of Virginia Power. Company employees from our Western Division area volunteered to construct flight cages for the care of large birds, such as eagles, during their rehabilitation.

Dominion Energy:

At Dominion Energy, the focus remains on growth in electric power and natural gas markets beyond Virginia Power's service area. We've built our share of the world's fast-growing independent power market, closing the year as one of the 20 largest nonutility power companies. We expanded our position as a leader in generation in Latin America in 1995 by acquiring a hydroelectric business that operates two stations in Bolivia. Additional future opportunities may be found in Latin America–a region familiar to Dominion Energy–where governments are turning to the private sector to help meet fast-growing and, in some instances, explosive demand for new power by improving operations of their existing facilities or by building new ones. There is also a potential market for Dominion Energy in the United States. As the energy supermarket evolves, some utilities will want to turn their power plants over to the independent power industry. The

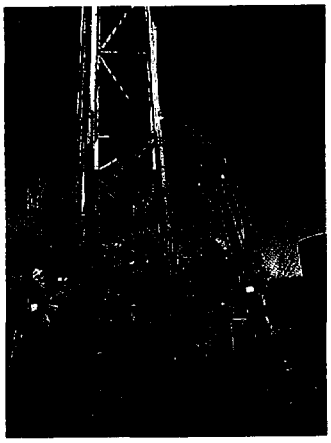
Real-Time Pricing gives

our industrial customers

cost savings through

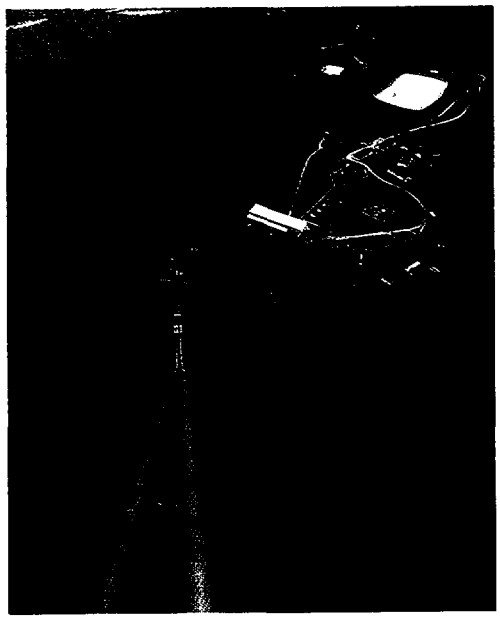
flexible hourly rates.

Our Real-Time Pricing initiative provides industrial customers with more market-based rates while helping them lower their energy costs and improve their competitiveness. A number of customers have already signed up for this flexible pricing program in which firm hourly electricity pricing is provided one day ahead based on expected marginal generating costs, plus a markup. We estimate that Real-Time Pricing could save our largest customers about $400,000 a year on average–or about 5 percent of their annual electric bill. It can also help promote stable rates for all customer classes, and possibly enhance Virginia Power's off-peak sales as well.



Dominion Energy purchased and consolidated three natural gas companies in the Appalachian Basin. This is our first move into actual daily operations and management of active gas properties. The consolidation enables us to decrease operating costs and improve our marketing position in that region.

idea will be to let the independents revitalize and retune the stations in preparation for competition in open markets. At home in the U.S., we were selected as the preferred bidder to own and manage a 1,108-megawatt coal-fired station in Illinois, which will double the number of company-owned nonutility megawatts when the transaction obtains regulatory approval in late 1996. **W**e're tempering our growth in new markets with prudence–the view of an experienced international company now entering its seventh year of foreign business. And we recognize that success takes more than growth. It requires consistently reliable operation at existing generating stations–a standing goal that we accomplished again in 1995 at plants in the U.S. and Latin America. **I**n our profitable natural gas division, we also stepped up the pace and scope of our activities in the U.S. and abroad, another key part of the company's strategic plan. We entered an exploratory venture with another major U.S. corporation in Queensland, Australia, marking our first step into a potentially rewarding international market. In West Virginia, Dominion Energy bought and merged three companies, doubling its Appalachian Basin reserves and creating one of the larger operating companies now doing business there. Dominion Appalachian Development, Inc. is producing more than 15 million cubic feet of natural gas each day. By supplementing our investments in gas reserves with the creation of operating companies like this, we'll build future value. Our investments in low-risk developmental drilling in Michigan, Utah and the Appalachian Basin continue to add current value. So now we're expanding into other regions of the U.S. where the risk and rewards are higher than past activities, but the potential of even more value is realistic. New drilling programs will start in Indiana, Kansas, Oklahoma, other states and offshore Louisiana. We'll also explore foreign markets, with the venture in Australia representing the first such step. **A**t Dominion Energy, we will evaluate investment opportunities in each of these related activities–as we continue the business of focused growth in independent power and natural gas.



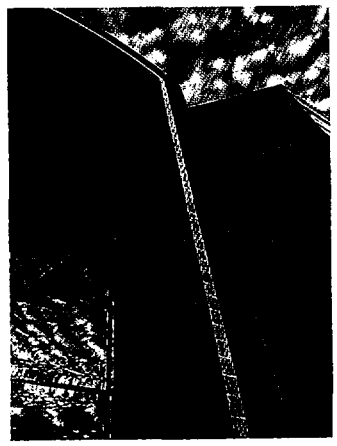
In 1995, the government of Bolivia selected Dominion Energy to acquire half-ownership and management control of the nation's two largest hydroelectric stations, with 126 megawatts of generating capability. With a winning bid of $58.7 million, the company expanded its position as a leader in generation in Latin America in a nation with annual growth in demand between 6 and 7 percent.

Our efforts in *Latin America* may lead to *opportunities* to combine our power generation & natural gas operations.

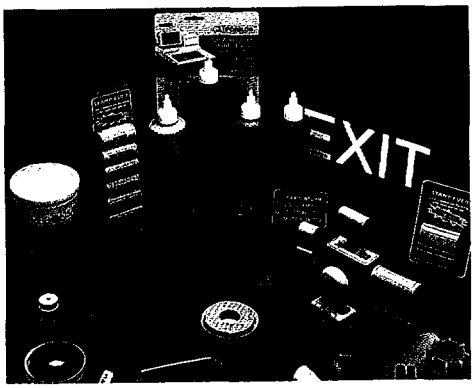
At Dominion Energy, we are selectively expanding our international power investments in the primary market of Latin America, evident by our winning bid to acquire Empresa Corani, a power company that owns and operates two hydroelectric plants in Bolivia totaling 126 megawatts. Latin America has an attractive mix of features: strong growth generating demand for more power, opportunities through government privatizations of utility assets, and open markets to make sales at competitive rates. Latin America is also a region rich in natural gas, and it is an area where gas activities and the independent power business can complement each other. If we are successful in finding gas, power generation may be the dominant way in which we're going to give value to those reserves. By working together, our gas and power businesses can add value to one another because of the similarities in the way those operations do business. As commodities, our fuel capabilities and electric generation can combine to be competitive with other players in world markets.

Dominion Capital:

We've set the stage at Dominion Capital for sustained growth in financial services, including energy-sector and commercial-sector lending, an area familiar to the company where it can earn superior returns and ongoing operating income. Demand for loans among mid-sized companies is up. This "market niche" can be served profitably with manageable risk. Last year began operations for our Chicago-based First Source Financial lending venture to middle-sized companies, which we carried out with Household Commercial Financial Services, Inc. First Source is poised to contribute ongoing income growth with nearly $600 million in loans and expected growth to nearly $1 billion by the end of 1996. We have decided to duplicate the idea of focused financial services by specializing in the energy sector. In partnership with three other companies, we are forming a new venture in 1996 to serve the financial needs of small- to medium-sized gas and oil companies. Like First Source Financial, the venture provides one-stop shopping for loans of various terms and conditions. Our existing energy-related investments sustained their excellent performance record in 1995. The 192-megawatt Vidalia hydroelectric station in Louisiana produced another year of reliable, environmentally friendly generation while providing vital flood control services on the Mississippi River. There was continuing and consistent strong performance from our Rincon portfolio of preferred stocks, which are deployed mainly in the securities of the utility industry. We had more profitability and growth in our real estate activities–including Goodman Segar Hogan Hoffler, the Norfolk-based full-service commercial real estate firm. The company leases and manages more than 17 million square feet of commercial property in the Southeast. Goodman Segar closed the year positioned for growth with properties under management totaling more than $1.3 billion. It also combined operations with an important commercial firm serving the fast-growing Research Triangle area in North Carolina. At our residential real estate unit, we completed a townhouse complex in Alexandria, positioned ourselves for more growth in Northern Virginia by obtaining needed zoning at a well-located tract on the Potomac River, and announced plans to develop a residential complex between Richmond and Williamsburg. In financial services, energy and real estate, we're looking to our second decade with a focused strategy and optimism for continued strong results.



Goodman Segar Hogan Hoffler entered the fast-growing Research Triangle Park market in Raleigh-Durham, N.C. by merging with Vanguard Associates. The merger positions Goodman Segar Hogan Hoffler as one of the largest full-service real estate companies in Virginia and a leader in the North Carolina market.



First Source Financial has a focused business strategy that concentrates on one-stop senior and subordinated loans to middle-market companies based on their strength in cash flows from operations. Micropore, Inc., an established client of First Source Financial, is a leading researcher and developer of highly specialized imaging components and systems.

Investments in financial services related and unrelated to energy businesses will be a *growth area for the future.*

First Source Financial is a strong operating company that will be a sustaining contributor to future profits. This venture continues Dominion Capital's role as a financial investment and services company, but moves the company toward long-term cash returns and earnings and away from transaction-dependent income. We will continue these investments only if our company, and its partners, possess the skills to thoroughly analyze an opportunity and successfully manage it. We believe that companies planning to prosper in the competitive future need business lines with the flexibility to identify opportunities for shareholder growth beyond their core businesses. Dominion Capital provides such flexibility.

Dominion Resources, Inc.

1995 Financial Presentation

Contents

Selected Consolidated Financial Data

(millions, except per share amounts and percentages)	1995	1994	1993	1992	1991	1990
Revenues and other income	**$ 4,651.7**	$ 4,491.1	$ 4,433.9	$ 3,791.1	$ 3,785.7	$ 3,532.5
Income before cumulative effect of a change in accounting principle	**$ 425.0**	$ 478.2	$ 516.6	$ 428.9	$ 459.9	$ 445.7
Cumulative effect on prior years of changing the method of accounting for income taxes				15.6		
Net income	**$ 425.0**	$ 478.2	$ 516.6	$ 444.5	$ 459.9	$ 445.7
Total assets	**$13,903.3**	$13,562.2	$13,349.5	$12,615.1	$11,201.4	$10,990.9
Long-term debt, preferred stock subject to mandatory redemption and preferred securities of a subsidiary trust	**$ 4,926.9**	$ 4,934.2	$ 4,976.7	$ 4,667.4	$ 4,668.2	$ 4,697.3
Common stock data:						
Earnings per share before cumulative effect of a change in accounting principle	**$ 2.45**	$ 2.81	$ 3.12	$ 2.66	$ 2.94	$ 2.92
Cumulative effect on prior years of changing the method of accounting for income taxes				.10		
Earnings per share	**$ 2.45**	$ 2.81	$ 3.12	$ 2.76	$ 2.94	$ 2.92
Dividends paid per share	**$ 2.58**	$ 2.55	$ 2.48	$ 2.40	$ 2.32	$ 2.23
Market value per share at year-end	**41.25**	36.00	45.38	39.50	38.00	31.25
Book value per share at year-end	**26.88**	26.60	26.38	25.21	24.41	23.41
Return on equity—average	**9.2%**	10.6%	12.2%	11.2%	12.4%	12.6%
Payout ratio	**105.3%**	90.7%	79.5%	87.0%	78.9%	76.4%
Price/earnings ratio at year-end	**16.8**	12.8	14.5	14.3	12.9	10.7
Outstanding shares of common stock						
—average	**173.8**	170.3	165.7	161.1	156.5	152.5
—actual (year-end)	**176.4**	172.4	168.1	163.8	158.8	154.8
Capitalization:*						
Long-term debt	**$ 4,348.9**	$ 4,384.1	$ 4,219.5	$ 4,111.8	$ 4,025.6	$ 4,105.2
Preferred securities	**135.0**					
Preferred stock	**689.0**	816.1	819.5	845.6	761.7	775.9
Common equity	**4,742.0**	4,586.1	4,435.9	4,131.3	3,877.8	3,623.9
Total capitalization	**$ 9,914.9**	$ 9,786.3	$ 9,474.9	$ 9,088.7	$ 8,665.1	$ 8,505.0
*Capitalization excludes:						
Nonrecourse-nonutility financing	**$ 684.7**	$ 727.1	$ 726.8	$ 593.4	$ 545.7	$ 494.8
Short-term debt	**$ 236.6**	$ 146.0	$ 262.8	$ 125.2	$ 154.0	$ 142.4
Property, plant and equipment:						
Electric utility	**$14,201.6**	$13,896.6	$13,376.1	$12,930.6	$12,397.7	$11,822.4
Nuclear fuel	**836.0**	817.2	814.1	754.6	766.4	732.9
Other	**939.8**	701.6	724.5	451.4	213.4	108.8
Total	**15,977.4**	15,415.4	14,914.7	14,136.6	13,377.5	12,664.1
Less accumulated depreciation, depletion and amortization	**5,655.1**	5,170.0	4,802.1	4,459.5	4,110.5	3,725.5
Net property, plant and equipment	**$10,322.3**	$10,245.4	$10,112.6	$ 9,677.1	$ 9,267.0	$ 8,938.6
CWIP included in property, plant and equipment	**$ 512.1**	$ 828.2	$ 913.1	$ 840.9	$ 736.1	$ 691.7

Consolidated Statements of Income and Retained Earnings

For The Years Ended December 31, *(millions, except per share amounts)*	**1995**	1994	1993
Operating revenues and income:			
Electric utility	**$4,350.4**	$4,170.8	$4,187.3
Nonutility	**301.3**	320.3	246.6
Total operating revenues and income	**4,651.7**	4,491.1	4,433.9
Operating expenses:			
Fuel, net	**1,006.9**	973.0	959.5
Purchased power capacity, net	**688.4**	669.4	646.1
Restructuring	**121.5**		
Other operation	**724.0**	739.6	647.8
Maintenance	**260.5**	263.2	279.5
Depreciation, depletion and amortization	**551.0**	533.1	509.5
Other taxes	**273.8**	274.6	264.2
Total operating expenses	**3,626.1**	3,452.9	3,306.6
Operating income	**1,025.6**	1,038.2	1,127.3
Other income	**7.3**	13.5	15.1
Income before fixed charges and federal income taxes	**1,032.9**	1,051.7	1,142.4
Fixed charges:			
Interest charges, net	**381.7**	360.3	373.5
Preferred dividends of Virginia Power	**44.1**	42.2	42.1
Total fixed charges	**425.8**	402.5	415.6
Income before provision for federal income taxes	**607.1**	649.2	726.8
Provision for federal income taxes	**182.1**	171.0	210.2
Net income	**$ 425.0**	$ 478.2	$ 516.6
Retained earnings, January 1	**1,455.2**	1,417.8	1,319.1
Common dividends and other deductions:			
Dividends	**(448.7)**	(434.7)	(411.2)
Other deductions	**(3.9)**	(6.1)	(6.7)
Retained earnings, December 31	**$1,427.6**	$1,455.2	$1,417.8
Earnings per common share	**$ 2.45**	$ 2.81	$ 3.12
Dividends paid per common share	**$ 2.58**	$ 2.55	$ 2.48
Average common shares outstanding	**173.8**	170.3	165.7

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

Management's Discussion and Analysis of Operations:

(Unaudited)

Overview

Dominion Resources achieved earnings of $425.0 million in 1995 or $2.45 per average common share, compared with earnings of $478.2 million in 1994 or $2.81 per share. Virginia Power contributed $2.24 per share in 1995, down 14 cents from $2.38 per share in 1994. Dominion Resources' nonutility businesses contributed 21 cents per share in 1995, down 22 cents from 43 cents per share in 1994.

EPS

	1995	Change	1994	Change	1993
Virginia Power	**$2.24**	**(5.9)%**	$2.38	(15.6)%	$2.82
Nonutility	**.21**	**(51.2)%**	.43	43.3 %	.30
Consolidated	**$2.45**	**(12.8)%**	$2.81	(9.9)%	$3.12

Net Income

(millions)	1995	Change	1994	Change	1993
Net income	**$425.0**	**(11.1)%**	$478.2	(7.4)%	$516.6
Shares	**173.8**	**2.1 %**	170.3	2.8 %	165.7
ROE	**9.2%**		10.6%		12.2%

The 1995 results were affected by a number of factors described below:

Virginia Power

Earnings Impacts Included:
—increase in kilowatt-hour (kwh) sales from both retail and wholesale customers; and
—increase in operating expenses attributable to restructuring costs, which reduced earnings by 44 cents per share (see Note O).

Nonutility Businesses

Earnings Impacts Included:
—decrease in income from Dominion Energy attributable to the sale of the Black Warrior Trust units, which increased earnings by 17 cents per share in 1994.
—increase in Dominion Resources' holding company expenses attributable to restructuring costs and other charges, which reduced earnings by 5 cents per share in 1995.

Virginia Power

Virginia Power's Operating Results
As part of the Vision 2000 program, Virginia Power recorded $117.9 million of restructuring charges in 1995 (see Note O). Restructuring charges included severance costs, purchased power contract cancellation and negotiated settlement costs, capital project cancellation costs and other costs. Without restructuring costs, balance available for common stock in 1995 would have increased by $76.6 million.

Virginia Power will incur additional restructuring charges in 1996. However, the amount of restructuring charges yet to be incurred is not known at this time. Savings to be realized will be reflected in lower construction expenditures, as well as lower operation and maintenance expenses.

Virginia Power in 1994 recognized a net cost of $41.6 million associated with voluntary separation and early retirement packages accepted by about 1,400 employees. In addition, lower base revenues when compared with 1993 contributed to a decrease in the balance available for common stock in 1994.

(millions)	1995	Change	1994	Change	1993
Revenues	**$4,350.4**	**4.3 %**	$4,170.8	(0.4)%	$4,187.3
Operating expenses	**3,375.8**	**5.0 %**	3,216.4	3.1 %	3,120.4
Balance available for common stock	**388.7**	**(4.0)%**	404.9	(13.3)%	466.9

Virginia Power's Operating Revenues
In 1995 Virginia Power's revenues increased primarily due to the weather experienced in the last six months of 1995, increased customer growth and increased sales to wholesale customers.

Revenues decreased in 1994 primarily because of lower base revenues for Virginia jurisdictional and County and Municipal customers. In February 1994, Virginia Power received a final order from the Virginia Commission in its 1992 base rate case that lowered the allowed return on equity to 11.4%.

Operating Revenues

	Increase (decrease) from prior year	
(millions)	**1995**	1994
Customer growth	**$ 76.2**	$ 22.5
Weather	**81.6**	(8.8)
Change in base revenues	**6.3**	(35.0)
Fuel cost recovery	**(8.9)**	(7.9)
Other	**24.4**	12.7
Total	**$179.6**	$(16.5)

During 1995, Virginia Power had 44,955 new connections to its system compared to 46,741 in 1994.

Kilowatt-Hour Sales

(millions)	1995	Change	1994	Change	1993
Residential	**22,512**	**4.1%**	21,621	(1.0)%	21,846
Commercial	**19,486**	**3.6%**	18,801	1.5 %	18,526
Industrial	**10,606**	**3.6%**	10,235	4.0 %	9,840
Other	**8,261**	**3.9%**	7,950	(0.3)%	7,971
Total retail	**60,865**	**3.9%**	58,607	0.7 %	58,183
Wholesale	**8,088**	**13.4%**	7,134	4.1 %	6,853
Total sales	**68,953**	**4.9%**	65,741	1.1 %	65,036

Degree-Days

	1995	1994	Normal
Cooling degree days	1,667	1,613	1,534
Percentage change compared to prior year	3.3%	(5.2)%	
Heating degree days	3,790	3,515	3,662
Percentage change compared to prior year	7.8%	(8.3)%	

The increase in kilowatt-hour sales in 1995 as compared to 1994 reflects increased customer growth and the weather experienced in the last six months of 1995, partially offset by the milder weather experienced in the first six months of 1995.

The increase in kilowatt-hour sales in 1994 as compared to 1993 reflects the extreme weather experienced in January 1994, partially offset by lower sales during the second half of 1994 because of milder weather.

The increase in sales to wholesale customers in 1995 as compared to 1994 was primarily due to weather experienced in surrounding regions by other utilities during the last six months of 1995 and increased marketing efforts by Virginia Power.

Virginia Power's Operating Expenses

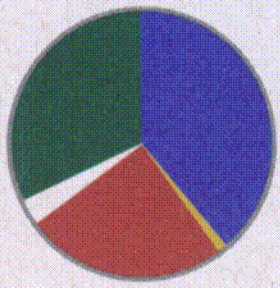
(excluding federal income taxes)

	1995	Change	1994	Change	1993
Fuel, net	$1,006.9	3.5 %	$ 973.0	1.4 %	$ 959.5
Purchased power capacity, net	688.4	2.8 %	669.4	3.6 %	646.1
Other operation	543.8	(5.8)%	577.4	9.8 %	525.7
Maintenance	260.5	(1.0)%	263.2	(5.8)%	279.5
Restructuring	117.9				
Depreciation and amortization	503.5	4.7 %	480.7	3.8 %	462.9
Taxes, other than income	254.8	0.8 %	252.7	2.4 %	246.7
Total	$3,375.8	5.0 %	$3,216.4	3.1 %	$3,120.4

Other operation and maintenance expenses decreased in 1995 as compared to 1994.

Expenses during 1994 included payroll and voluntary separation costs for those employees who elected to terminate service with Virginia Power under the 1994 Early Retirement and Voluntary Separation Programs, offset in part by recognition of insurance policyholder distributions. Expenses in 1995 reflected a decrease in payroll costs due to reduced staffing levels and weather-related overtime offset by 1995 salary increases and the impact of employees being reassigned from capital to operation and maintenance activities. In addition, 1995 expenses include expenses associated with the North Branch Power Station, increased obsolete inventory costs, increased accruals for employee benefits, and increased nuclear outage costs.

Virginia Power 1995 System Energy Output



- Nuclear 32%
- Coal 39%
- Oil 1%
- Purchased Power 25%
- Other 3%

Nonutility

Nonutility Operating Results

The nonutility net income decreased in 1995 as compared to 1994 because of the sale of the Black Warrior Trust units. The sale of the units, which hold royalty interests in proven, developed natural gas properties, provided a net gain of $28.9 million in the second quarter of 1994.

Dominion Resources also recorded $3.6 million in restructuring expenses and $8.8 million in other charges in the fourth quarter of 1995. These expenses included restructuring costs at the holding company as well as litigation and other costs. All outstanding shareholder claims that were made in 1994 have been resolved.

Without restructuring costs, net income in 1995 would have increased by $2.3 million and without other charges, net income in 1995 would have increased by $5.8 million.

The nonutility companies increased net income in 1994 as compared to 1993 by 47.7% because of Dominion Energy's sale of the Black Warrior Trust units.

(millions)	1995	Change	1994	Change	1993
Revenues	$301.3	(5.9)%	$320.3	29.9%	$246.6
Operating expenses	244.6	4.8 %	233.4	28.7%	181.4
Net income	36.3	(50.5)%	73.4	47.7%	49.7

Nonutility Operating Revenues

Nonutility revenues decreased in 1995 because of the sale of the Black Warrior Trust units in 1994, partially offset by revenues at Dominion Capital's financial services company, First Source Financial, which began operating in April 1995.

The $8.3 million gain from the sale of the remaining Black Warrior Trust units in 1995 also partially offset the decrease in nonutility revenues.

The 1994 revenue increase was attributable to the sale of the Black Warrior Trust units, partially offset by lower revenues from the Vidalia hydroelectric plant when compared with extraordinary water flows experienced in 1993.

Nonutility Operating Expenses

Operating expenses increased in 1995 because of restructuring and other charges which were incurred by Dominion Resources' holding company.

The increase in 1994 operating expenses was consistent with revenue increases.

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Consolidated Non-operating Items

Income Taxes

Income taxes increased in 1995 compared to 1994 primarily because of decreases in nonconventional fuel credits and other tax benefits. The nonutility companies recorded tax credits of $33.0 million in 1995. They were primarily generated from investments in low-income housing projects and natural gas production activities.

Income taxes decreased in 1994 compared to 1993 primarily because of decreased pre-tax book income from the utility. This was partially offset by a tax increase from the nonutility companies because of the sale of the Black Warrior Trust units. The nonutility companies recorded tax credits of $36.6 million in 1994.

Interest Charges

Interest charges increased in 1995 as compared to 1994 primarily as a result of higher interest rates on the utility's First and Refunding Mortgage Bonds and Pollution Control Notes and as a result of a reduction of $10.6 million in the interest accrued for prior years on certain tax obligations in 1994.

Interest charges decreased in 1994 as compared to 1993 as a result of the utility's reduction of $10.6 million in the interest accrued for prior years on certain tax obligations, and the utility's refinancing activities in current and prior years.

Future Issues

Recently Issued Accounting Standards

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which must be adopted by the company by January 1, 1996. This statement requires the company to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and requires rate-regulated companies to write off regulatory assets against earnings whenever those assets no longer meet the criteria for recognition of a regulatory asset as defined by SFAS No. 71.

Based on the company's current operating environment, adoption of SFAS 121 is not expected to have a material impact. However, the Virginia Commission has established a proceeding to examine the issue of competition and the regulatory framework in Virginia. In addition, the Federal Energy Regulatory Commission (FERC) has initiated proceedings to address open-access transmission policy. If future regulatory reform should provide for a departure from cost-based regulation, regulators, electric utilities and other parties involved in the restructuring of the electric industry would face significant issues. One such issue is concerned with potential "stranded investment." Stranded investment represents costs incurred or commitments made by utilities under traditional cost-based regulation based on an obligation to serve supported by an implicit promise to recover prudently incurred costs that may not be reasonably expected to be recovered. Regulatory assets recognized under SFAS 71, unrecovered investment in power plants and commitments such as long-term purchased power contracts are items that may become stranded investment if prices for electric services are based on market rather than the cost of providing that service.

Virginia Power expects to continue to operate under regulation and to recover its cost of providing traditional electric service. However, the form of cost-based rate regulation, under which Virginia Power operates, may evolve in the future to accommodate changes in the industry and to address issues such as recovery of potential stranded investment. At this time, company management can predict neither the ultimate outcome of the regulatory reform initiatives in the electric utility industry nor the impact such changes would have on the company.

In 1995, the Financial Accounting Standards Board issued SFAS No. 123 "Accounting for Stock Based Compensation." The company has decided to continue to apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," for recognition and measurement purposes.

Utility Issues

Regulatory Policy: Regulatory policy continues to be of fundamental importance to Virginia Power. The cost of purchased capacity constitutes a large category of cost incurred in Virginia Power's operations. The Virginia Commission has authorized rates providing for the current recovery of the ongoing levels of capacity payments. Moreover, the Commission has established and reaffirmed deferral accounting that is intended to ensure dollar for dollar recovery of reasonably incurred capacity costs.

Competition: In light of existing and potential threats and opportunities brought about by increased competition in the wholesale and retail markets for electricity, Virginia Power has undertaken cost-cutting measures to maintain its position as a low-cost producer of electricity, engaged in re-engineering efforts of its core business processes, and pursued a strategic planning initiative called Vision 2000 to encourage innovative approaches to serving traditional markets and to prepare appropriate methods by which to service future markets. In furtherance of these initiatives, Virginia Power has established separate business units for its nuclear operations, fossil and hydroelectric operations, commercial operations, as well as its energy services business. It has gained regulatory approval of innovative pricing proposals for industrial loads in Virginia and North Carolina, entered into an energy partnership with a key industrial customer, and in January 1996, acquired two energy services divisions of A & C Enercom of Atlanta, Georgia, which Virginia Power formed into a non-regulated subsidiary, A & C Enercom, Inc.

As part of its Vision 2000 program, Virginia Power has developed a regulatory/legislative strategy intended to establish an orderly transition to a more competitive environment.

It supports a number of legislative proposals that have been introduced during the 1996 session of the Virginia General Assembly that are aimed at achieving greater flexibility for both the Virginia Commission and Virginia Power.

Virginia Power will continue to be affected by the developing competitive market in wholesale power. Under the Energy Policy Act of 1992, any participant in the wholesale market can obtain a FERC order to provide transmission services, under certain conditions.

In 1995 a wholesale power group was formed within Virginia Power to engage in the purchase and sale of wholesale electric power. The group has already developed trading relationships beyond the geographic limits of Virginia Power's retail service territory.

In 1995, FERC issued a Notice of Proposed Rulemaking (NOPR) regarding open-access transmission service and a NOPR regarding real-time information networks and standards of conduct. The real-time information network would provide transmission users data concerning the availability of transmission service on a same-time basis. Virginia Power filed comments in both proceedings supporting FERC's objective to promote comparable open-access transmission service, however, the company urged FERC to rethink its suggestion of functional unbundling to insure the continued reliability of the transmission system.

At present, competition for retail customers is limited. It arises primarily from the ability of certain business customers to relocate among utility service territories, to substitute other energy sources for electric power and to generate their own electricity. While the Energy Policy Act bans federal orders of transmission service to ultimate customers, broader retail competition that would allow customers to choose among electric suppliers is the subject of intense debate in legislative and regulatory forums. If such competition were to develop, it would have the potential to shift costs among customer classes and to create significant transitional costs.

Potential competition also exists for Virginia Power's sales to its wholesale cooperative and municipal customers. However, nearly all of this service is under contracts with multi-year notice provisions. To date, Virginia Power has not experienced any material loss of load, revenues or net income due to competition for its wholesale customers. The utility believes it has a strong capability to meet future competition.

The City of Falls Church, Virginia, has indicated that it intends to pursue the establishment of a municipal electric system. In response to a Virginia Power petition, the Commission has ruled that it has jurisdiction over the City and that the City must seek approval from the Commission prior to implementing plans to condemn Virginia Power facilities within the City. Revenues from retail sales within the City of Falls Church account for less than 0.2% of Virginia Power's total revenues. As a result, Virginia Power will not experience a material loss of revenues or net income should a municipal electric system be created. No other city has communicated to Virginia Power any interest in forming a municipal electric system.

In accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," the company's financial statements reflect assets and costs based on current cost-based ratemaking regulations. Continued accounting under SFAS No. 71 requires that the following criteria be met:

a) A utility's rates for regulated services provided to its customers are established by, or are subject to approval by, an independent third-party regulator;

b) The regulated rates are designed to recover specific costs of providing the regulated services or products; and

c) In view of the demand for the regulated services and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover a utility's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

A utility's operations or portion of operations can cease to meet these criteria for various reasons, including a change in the method of regulation or a change in the competitive environment for regulated services. A utility whose operations or portion of operations cease to meet these criteria should discontinue application of SFAS No. 71 and write off any regulatory assets and liabilities for those operations that no longer meet the requirements of SFAS No. 71. The company's operations currently satisfy the SFAS No. 71 criteria. However, if events or circumstances should change so that those criteria are no longer satisfied, management believes that a material adverse effect on the Company's results of operations and financial position may result.

Environmental Matters: Virginia Power is subject to rising costs resulting from a steadily increasing number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. They can result in increased capital, operating and other costs as a result of compliance, remediation, containment, and monitoring obligations of Virginia Power. These costs have been historically recovered through the ratemaking process; however, should material costs be incurred and not recovered through rates, Virginia Power's results of operations and financial condition could be adversely impacted.

Virginia Power incurred expenses of $68.3 million, $67.3 million and $72.2 million (including depreciation) during 1995, 1994 and 1993, respectively, for environmental protection facilities and expects these expenses to be approximately $68.3 million in 1996. In addition, capital expenditures to limit or monitor hazardous substances were $23.4 million, $47.3 million and $94.4 million for 1995, 1994 and 1993, respectively. The amount estimated for 1996 for these expenditures is $24.5 million.

The Clean Air Act, as amended in 1990, requires Virginia Power to reduce its emissions of sulfur dioxide and nitrogen oxides. Beginning in 1995, the sulfur dioxide reduction program is based on the issuance of a limited number of sulfur dioxide emission allowances, each of which may be used as a

permit to emit one ton of sulfur dioxide into the atmosphere or may be sold to someone else. The program is administered by the Environmental Protection Agency (EPA). Virginia Power has installed sulfur dioxide (SO2) control equipment on Unit 3 at Mt. Storm Power Station. The SO2 control equipment began operation on October 31, 1994. The cost of this and related equipment was $147 million. Virginia Power has completed its compliance plan for Phase II of the Clean Air Act, with the exception of some additional studies concerning Phase II nitrogen oxide (NOx) controls. The plan will involve switching to lower sulfur coal, purchase of emission allowances and additional NOx and SO2 controls. Maximum flexibility and least-cost compliance will be maintained through annual studies. Capital expenditures on Clean Air Act compliance over the next 5 years are projected to be approximately $61 million.

Electromagnetic Fields: The possibility that exposure to electromagnetic fields (EMFs) emanating from power lines, household appliances and other electric sources may result in adverse health effects has been a subject of increased public, governmental and media attention. A considerable amount of scientific research has been conducted on this topic without definitive results. Research is continuing to resolve scientific uncertainties. It is too soon to tell what, if any, impact EMFs may have on the company's financial condition.

Nuclear Operations: Three normal refueling outages are currently scheduled for 1996. Refueling outages typically occur every 18 months and last for approximately 48 days. Virginia Power's goal is to reduce refueling outages from an average of 48 days to 35 days. When nuclear units are refueled, Virginia Power replaces the nuclear-generated power with other more expensive sources. A reduction in the length of the outage should result in increased availability of low-cost nuclear generation, thereby lowering generation expenses.

The Nuclear Regulatory Commission revised the nuclear power plant license renewal rules issued in 1991. Virginia Power intends to work with industry groups on license renewal programs and to apply for renewal of the current 40-year licenses by 1999.

Nonutility Issues

Independent Power: The major emphasis in expanding Dominion Energy's core independent power business is international. With investments in Argentina, Bolivia and Belize and growing interest elsewhere, the related risks include currency fluctuations, developments in national markets, and governmental actions. Dominion Energy is managing these risks by limiting its investments to stable countries and by avoiding over-commitment to one country or region. In the United States, the continuing industry trend toward deregulation will offer opportunities to acquire existing assets.

Dominion Energy's U.S. independent power contracts generally are not variable based on current market prices. To date, none of the company's contractual purchasers have sought to modify the terms of any of the company's independent power contracts. If any of these contracts were to be challenged and unfavorably modified there could be a significant impact on the company's results of operations. Although, in the future, there could be challenges to the enforceability of these power sales contracts, management has evaluated all of its significant independent power contracts and concluded that the terms of such contracts are enforceable.

Natural Gas: Natural gas operations are now making a significant contribution to Dominion Energy's earnings and are expected to continue to do so. Since Dominion Energy has acquired and developed primarily proven and/or producing reserves, the trend of financial performance will depend largely on the market price of natural gas. The market price of any commodity is influenced by many factors outside of the control of Dominion Energy. However, because of the advantageous cost basis of Dominion Energy's reserves and the related tax credits, the natural gas operations are profitable at today's market prices. Since the majority of the reserves have associated tax credits based on production, future profitability could be impacted adversely by federal legislation that would eliminate the tax credit before its current expiration in 2002.

Real Estate Investments: Dominion Capital's investments in real estate have historically been a relatively minor part of the nonutility business. Residential property development primarily targets the middle- to upper-price market. The critical risk to financial performance in this market is the regional economy, which affects both market price and the rate at which the market absorbs the developed product.

Commercial Lending: Dominion Capital's joint venture, First Source Financial LLP, lends to middle-market companies. First Source serves the nation's demand for loans to businesses which need funds for expansion, recapitalization and acquisition. The critical risk to financial performance of First Source is a decline in the general economy and competitive forces affecting individual borrowers. This risk is reduced through a policy of diversification of the lending portfolio. First Source has assembled a proven management team, identified a specific market and established a strategic plan for growth in the commercial lending arena.

Corporate Issues

Dominion Resources is unable to predict how changing industry conditions may affect future results and that it is possible that in order to address changing conditions in ways that are designed to improve the ability of Dominion Resources and Virginia Power to compete and to serve the goal of preserving and enhancing shareholder value, it may be necessary to effect structural changes either within Virginia Power or with respect to the holding company structure.

During 1995, in a proceeding instituted by the Virginia Commission in 1994 into the relationship between Dominion Resources and Virginia Power, the Commission Staff filed a Final Report, making numerous recommendations on corporate governance, intercompany relationships and regulatory tools for the Commission. The Commission entered a consent order, effective until July 2, 1996, requiring Commission approval before Dominion Resources may take certain corporate actions involving Virginia Power. The two companies have responded to the Final Report. The Staff's final response is due March 15, 1996. Dominion Resources is unable to predict the outcome of these matters.

Consolidated Balance Sheets

Assets

At December 31, *(millions)*	1995	1994
Current assets:		
Cash and cash equivalents	$ 66.7	$ 146.7
Trading securities	10.8	110.8
Customer accounts receivable, net	362.6	202.7
Other accounts receivable	104.2	83.2
Accrued unbilled revenues	179.5	97.4
Materials and supplies at average cost or less:		
Plant and general	160.2	186.6
Fossil fuel	71.2	122.9
Other	141.5	136.2
	1,096.7	1,086.5
Investments:		
Investments in affiliates	436.2	282.8
Available-for-sale securities	285.5	286.5
Nuclear decommissioning trust funds	351.4	260.9
Investments in real estate	133.0	107.5
Other	236.6	222.4
	1,442.7	1,160.1
Property, plant and equipment:		
(includes plant under construction of $512.1 [1994-$828.2])	15,977.4	15,415.4
Less accumulated depreciation, depletion and amortization	5,655.1	5,170.0
	10,322.3	10,245.4
Deferred charges and other assets:		
Regulatory assets	816.4	871.0
Other	225.2	199.2
	1,041.6	1,070.2
Total assets	$13,903.3	$13,562.2

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

Liabilities and Shareholders' Equity

At December 31, *(millions)*	1995	1994
Current liabilities:		
Securities due within one year	$ 420.8	$ 399.1
Short-term debt	236.6	146.0
Accounts payable, trade	336.7	343.5
Accrued interest	110.5	106.3
Accrued payrolls	77.7	59.5
Severance costs accrued	42.5	
Customer deposits	55.4	55.0
Other	114.0	128.0
	1,394.2	1,237.4
Long-term debt:		
Utility	3,889.4	3,910.4
Nonrecourse-nonutility	523.5	640.2
Other	199.0	160.0
	4,611.9	4,710.6
Deferred credits and other liabilities:		
Deferred income taxes	1,661.1	1,613.6
Investment tax credits	272.2	289.2
Deferred fuel expenses	57.7	51.5
Other	340.2	257.7
	2,331.2	2,212.0
Total liabilities	8,337.3	8,160.0
Commitments and contingencies		
Virginia Power obligated mandatorily redeemable preferred securities of subsidiary trust*	135.0	
Preferred stock:		
Virginia Power stock subject to mandatory redemption	180.0	222.1
Virginia Power stock not subject to mandatory redemption	509.0	594.0
Common shareholders' equity:		
Common stock—no par authorized 300,000,000 shares, outstanding—176,414,110 shares at 1995 and 172,405,049 shares at 1994	3,303.5	3,157.6
Retained earnings	1,427.6	1,455.2
Allowance on available-for-sale securities	(6.7)	(47.8)
Other paid-in capital	17.6	21.1
	4,742.0	4,586.1
Total liabilities and shareholders' equity	$13,903.3	$13,562.2

**As described in Note L, the 8.05% Junior Subordinated Notes totaling $139.2 million principal amount constitute 100% of the Trust's assets.*

Consolidated Statements of Cash Flows

For The Years Ended December 31, *(millions)*	**1995**	1994	1993
Cash flows from (to) operating activities:			
Net income	**$ 425.0**	$ 478.2	$ 516.6
Adjustments to reconcile net income to net cash:			
Depreciation, depletion and amortization	**633.5**	610.7	593.9
Deferred income taxes	**26.4**	68.2	34.7
Investment tax credits, net	**(16.9)**	(17.1)	(19.2)
Allowance for other funds used during construction	**(6.7)**	(6.4)	(5.1)
Deferred fuel expenses	**6.2**	(2.6)	(36.1)
Deferred capacity expenses	**6.4**	26.5	72.8
Restructuring expenses	**96.2**		
Non-cash return on terminated construction project costs—pre-tax	**(8.4)**	(10.3)	(11.9)
Gain on sale of trust units	**(8.7)**	(49.0)	
Changes in current assets and liabilities:			
Accounts receivable	**(38.7)**	19.1	(56.6)
Accrued unbilled revenues	**(27.7)**	11.9	(6.3)
Materials and supplies	**61.1**	(6.5)	27.4
Accounts payable, trade	**(37.6)**	32.6	26.5
Accrued interest and taxes	**33.6**	(46.5)	31.1
Provision for rate refunds	**(12.2)**	(89.5)	(87.6)
Other changes	**39.8**	(27.5)	16.8
Net cash flows from operating activities	**1,171.3**	991.8	1,097.0
Cash flows from (to) financing activities:			
Issuance of common stock	**161.7**	186.7	196.6
Issuance of preferred stock			150.0
Preferred securities of subsidiary trust	**135.0**		
Issuance of long-term debt:			
Utility	**240.0**	464.0	1,035.0
Nonrecourse-nonutility	**54.3**	18.7	288.4
Issuance (repayment) of short-term debt	**101.1**	(117.0)	133.4
Repayment of long-term debt and preferred stock	**(553.0)**	(349.6)	(1,241.6)
Common dividend payments	**(448.7)**	(434.7)	(411.2)
Other	**(20.5)**	(8.0)	(8.8)
Net cash flows from (to) financing activities	**(330.1)**	(239.9)	141.8
Cash flows from (used in) investing activities:			
Utility capital expenditures (excluding AFC-equity funds)	**(577.5)**	(660.9)	(712.8)
Acquisition of natural gas and independent power properties	**(128.5)**	(60.4)	(316.8)
Sale of accounts receivable, net	**(160.0)**	(40.0)	
Sale of trust units	**16.4**	128.4	
Other investments	**(71.6)**	(74.3)	(189.6)
Net cash flows used in investing activities	**(921.2)**	(707.2)	(1,219.2)
Increase (decrease) in cash and cash equivalents	**$ (80.0)**	$ 44.7	$ 19.6
Cash and cash equivalents at beginning of the year	**146.7**	102.0	82.4
Cash and cash equivalents at end of the year	**$ 66.7**	$ 146.7	$ 102.0

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

Management's Discussion and Analysis of Cash Flows and Financial Condition:

(Unaudited)

Consolidated

Financing Activity

Each of Dominion Resources' subsidiaries—Virginia Power, Dominion Capital, and Dominion Energy—obtains capital primarily through cash from operations, financings and equity contributed by the parent. The utility and nonutility companies obtain financing based on their individual credit profiles and ability to repay the debt. In no way are the other companies contingently liable for each other's indebtedness.

Commercial Paper

To finance working capital for operations, proceeds from the sale of Dominion Resources commercial paper in regional and national markets are made available to its nonutility subsidiaries under the terms of intercompany credit agreements. To support these borrowings, Dominion Resources had available bank lines of credit totaling $300.8 million at the end of 1995. Amounts borrowed by the subsidiaries are repaid to Dominion Resources through cash flows from operations and through proceeds from permanent financings.

Common Equity

Dominion Resources made no underwritten public offerings of common stock in 1995, but did raise capital from sales of common stock through an Automatic Dividend Reinvestment and Stock Purchase Plan, a Customer Stock Purchase Plan, and an Employee Savings Plan. Dominion Resources will continue to raise capital through these plans in 1996. Proceeds from these plans were (in millions): 1995-$136.9; 1994-$166; and 1993-$196.6. Reflected in the amounts of proceeds from these plans were the repurchases of 685,500 shares of common stock in 1995 for an aggregate price of $24.8 million, and 566,000 shares in 1994 for an aggregate price of $20.7 million. Dominion Resources is authorized to repurchase up to 5 million shares of its common stock.

Virginia Power

Liquidity and Capital Resources

Liquidity is important to Virginia Power because of the capital intensive nature of its business, which requires large investments in long-lived assets. Cash from operations has accounted for, on average, 72 percent of Virginia Power's cash requirements during the past three years. Virginia Power's major external sources of financing during 1995 were the issuances of $200 million of First and Refunding Mortgage Bonds, $135 million of preferred securities of a subsidiary trust, and $40 million of unsecured medium term notes. The proceeds from these financings were used for redemptions of various series of Dividend Preferred Stock having an aggregate principal value of $126.7 million, and payment of a portion of Virginia Power's mandatory debt maturities and capital requirements. During the year, Virginia Power retired $312.3 million of securities through mandatory debt maturities.

Cash Flows

(millions)	**1995**	1994	1993
Sources of cash:			
Cash from operations	**$1,125.4**	$1,018.3	$1,022.9
Common stock		75.0	50.0
Preferred securities of a subsidiary trust	**135.0**		
Preferred stock			150.0
Long-term debt	**240.0**	464.0	1,035.0
Other	**177.4**	6.9	76.2
	$1,677.8	$1,564.2	$2,334.1
Uses of cash:			
Utility plant	**$ 519.9**	$ 580.9	$ 644.9
Nuclear fuel	**57.6**	80.0	67.9
Repayment of long-term debt and preferred stock	**439.0**	334.3	1,072.1
Dividends	**438.6**	438.2	421.1
Nuclear decommissioning contributions	**28.5**	24.5	24.4
Other	**194.2**	106.3	103.7
	$1,677.8	$1,564.2	$2,334.1

These transactions, among other factors, had the effect of raising Virginia Power's embedded cost of debt from 7.65 percent to 7.73 percent in 1995.

Virginia Power's common equity portion of its capitalization was 43.8 percent at December 31, 1995.

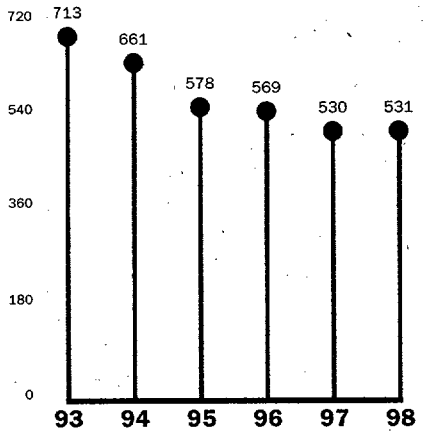
Virginia Power's commercial paper program is supported by a $300 million revolving credit facility. The program's debt limit is $300 million. Proceeds from the sale of commercial paper are primarily used to finance working capital for operations. Net borrowings under the commercial paper program were $169 million at the end of 1995.

In 1995, Virginia Power paid common stock and preferred stock dividends of $394.3 million and $44.3 million, respectively.

Capital Requirements

Virginia Power presently anticipates that kilowatt-hour sales will grow approximately two percent a year through 2010. Capacity needed to support this growth will be provided through a combination of generating units constructed by Virginia Power and purchases from nonutility generators and other utility generators. Each of these options plays an important role in Virginia Power's overall plan to meet capacity needs. After 1996, no new base load generation is expected to be needed until the end of the next decade. From 2000 until 2009, Virginia Power will need to add peaking or intermediate units to meet anticipated demand.

Virginia Power Capital Expenditures
(Millions of Dollars)



Construction continues on the Clover project in which Virginia Power has a 50 percent ownership interest. Virginia Power's share of construction costs is estimated to be $514.7 million. As of December 31, 1995, Virginia Power had incurred $500.7 million in construction expenditures. Clover Unit 1 began commercial operation in October 1995 and Clover Unit 2 is expected to be in service by April 1996.

In 1995, with the near completion of the 832 megawatt coal-fired power station near Clover, Virginia, Virginia Power began a period in which internal cash generation will exceed construction expenditures.

The internal generation of cash in 1994 and 1993 provided 88 percent and 84 percent, respectively, of the funds required for Virginia Power's capital requirements.

Virginia Power will require $259.6 million to meet long-term debt maturities in 1996. Virginia Power presently estimates that, for 1996, all of its construction expenditures, including nuclear fuel expenditures, will be met through cash flow from operations. Other capital requirements will be met through a combination of sales of securities and short-term borrowings.

Projected construction and nuclear fuel expenditures for the next three years are expected to total approximately $1.6 billion, including allowance for funds used during construction (AFC).

Nonutility

Liquidity and Capital Resources

Current capital requirements for nonutility operations are funded from: internally generated funds; intercompany credit agreements with Dominion Resources; a $200 million medium-term note facility; $185 million in bank revolving credit agreements and a $90 million commercial paper program. In 1995, net borrowings decreased by $121.5 million, primarily due to the cash inflow from the equity contributions of Dominion Resources. In 1994, net borrowings decreased by $33.7 million, primarily due to the cash inflow from the sale of the Black Warrior Trust units. Net borrowings increased by $264.2 million during 1993. These funds were borrowed principally for investments in marketable securities, natural gas acquisitions, land acquisitions and independent power projects.

Cash Flows

(millions)	**1995**	1994	1993
Sources of cash:			
Cash from operations	**$ 91.5**	$ 48.1	$116.9
Issuance of debt	**48.7**	81.3	415.5
Sale of trust units	**16.4**	128.4	
Contribution from parent	**299.3**	4.9	35.0
Other	**13.6**	55.9	91.9
	$469.5	$318.6	$659.3
Uses of cash:			
Investments	**$ 52.8**	$ 39.8	$ 61.7
Independent power properties	**60.2**		214.1
Natural gas properties	**68.3**	60.4	102.7
Land and land development	**11.7**		0.6
Repayment of debt	**170.2**	115.0	151.3
Dividends	**54.3**	39.1	32.9
Other	**52.0**	64.3	96.0
	$469.5	$318.6	$659.3

In 1995 Dominion Capital and Dominion Energy received $150 million and $149.3 million, respectively, from Dominion Resources to finance operations.

Nonutility capital requirements in 1996 are expected to be funded primarily by equity contributions and cash flows from operations.

Financial Position

(millions)	**1995**	1994	1993
Marketable securities	**$ 296.3**	$ 397.3	$ 436.9
Hydroelectric project	**129.6**	123.5	116.6
Enron/Dominion Cogen Corp.	**91.6**	86.2	90.0
Energy partnerships	**120.5**	124.0	125.6
Venture partnership	**97.5**		
Financing partnership	**59.0**		
Real estate partnerships	**15.8**	11.2	10.3
Other	**155.6**	140.3	102.4
Total investments	**$ 965.9**	$ 882.5	$ 881.8
Land and land development	**122.2**	97.2	104.7
Independent power properties	**370.8**	240.0	243.1
Natural gas properties	**314.7**	279.3	326.7
Other assets	**337.8**	472.1	303.0
Total assets	**$2,111.4**	$1,971.1	$1,859.3
Total long-term debt	**$ 523.5**	$ 640.2	$ 700.6

Notes to Consolidated Financial Statements

Note A Significant Accounting Policies

General: Dominion Resources, Inc. is a holding company headquartered in Richmond, Virginia. Its primary business is Virginia Electric and Power Company, which is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within a 30,000 square mile area in Virginia and northeastern North Carolina. It sells electricity to retail customers (including governmental agencies) and to wholesale customers such as rural electric cooperatives and municipalities. The Virginia service area comprises about 65 percent of Virginia's total land area, but accounts for over 80 percent of its population.

The company also operates business subsidiaries active in independent power production; the acquisition and sale of natural gas reserves; in financial services, and in real estate. Some of the independent power and natural gas projects are located in foreign countries. Net assets of approximately $200 million are involved in independent power production operations in Latin America.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Dominion Resources is currently exempt from regulation as a registered holding company under the Public Utility Holding Company Act of 1935.

Accounting for the utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by federal agencies and the commissions of the states in which the utility business operates.

Consolidation: The Consolidated Financial Statements include the accounts of Dominion Resources and its subsidiaries. In consolidation, all significant inter-company transactions and accounts have been eliminated.

Operating Revenues and Income: Utility revenues are recorded on the basis of service rendered. Dividend income on securities owned is recognized on the ex-dividend date.

Investments in common stocks of affiliates representing 20 percent to 50 percent ownership, and joint ventures and partnerships representing generally 50 percent or less ownership interests, are accounted for under the equity method.

Property, Plant and Equipment: Utility plant is recorded at original cost, which includes labor, materials, services, AFC (where permitted by regulators), and other indirect costs.

The cost of acquisition, exploration and development of natural resource properties is accounted for under the successful efforts method.

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 1995, 1994 and 1993, $14.1 million, $13.8 million, and $11.1 million of interest cost was capitalized, respectively. Capitalized interest includes AFC-other funds for certain regulatory jurisdictions of $6.7 million, $6.4 million and $5.1 million for the years ended December 31, 1995, 1994 and 1993, respectively.

Major classes of property, plant and equipment and their respective balances are:

At December 31, *(millions)*	1995	1994
Utility:		
Production	$ 7,340.0	$ 6,916.6
Transmission	1,316.1	1,301.2
Distribution	4,215.7	3,989.8
Other electric	817.7	860.8
Construction work-in-progress	512.1	828.2
Nuclear fuel	836.0	817.2
Total utility	15,037.6	14,713.8
Nonutility:		
Natural gas properties	395.7	331.6
Independent power properties	462.7	253.0
Construction work-in-progress		45.6
Other	81.4	71.4
Total nonutility	939.8	701.6
Total property, plant and equipment	$15,977.4	$15,415.4

Depreciation, Depletion and Amortization: Depreciation of utility plant (other than nuclear fuel) is computed using the straight-line method based on projected useful service lives. The cost of depreciable utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation. The provision for depreciation on utility plant was based on weighted average depreciable plant using a rate of 3.2 percent for 1995, 1994, and 1993.

Owned nuclear fuel is amortized on a unit-of-production basis sufficient to amortize fully, over the estimated service life, the cost of the fuel plus permanent storage and disposal costs.

Costs in excess of net assets acquired from equity investments are amortized over periods not to exceed 40 years.

Nuclear Decommissioning: Nuclear plant decommissioning costs are accrued and recovered through rates over the expected service lives of Virginia Power's nuclear generating units. The amounts collected from customers are being placed in trusts, which, with the accumulated earnings thereon, will be utilized solely to fund future decommissioning obligations.

	North Anna		Surry	
	Unit 1	Unit 2	Unit 1	Unit 2
NRC license expiration year	2018	2020	2012	2013
Method of decommissioning	DECON	DECON	DECON	DECON
(millions)				
Current cost estimate (1994) dollars	$247.0	$253.6	$272.4	$274.0
External trusts balance at December 31, 1995	84.1	78.9	96.2	92.2
1995 contribution to external trusts	6.1	5.7	8.0	8.7

Approximately every four years, site-specific studies are prepared to determine the decommissioning cost estimate for Virginia Power's four nuclear units. The current cost estimate is based on the DECON method, which assumes the activities associated with the decontamination or prompt removal of radioactive contaminants will begin shortly after cessation of operations so that the property may be released for unrestricted use.

The accumulated provision for decommissioning of $351.4 million and $260.9 million is included in accumulated depreciation, depletion and amortization at December 31, 1995 and 1994, respectively. Provisions for decommissioning of $28.5 million, $24.5 million and $24.4 million applicable to 1995, 1994 and 1993, respectively, are included in depreciation, depletion and amortization expense. The net unrealized gain of $40.7 million and a net unrealized loss of $5.2 million associated with securities held by Virginia Power's Nuclear Decommissioning trust at December 31, 1995 and 1994, respectively, are included in the accumulated provision for decommissioning.

Earnings of the trust funds were $15.9 million, $15.2 million and $16.3 million for 1995, 1994 and 1993, respectively, and are included in other income in the Consolidated Financial Statements.

The accretion of the accumulated provision for decommissioning, equal to the earnings of the trust funds, is also recorded in other income.

The Financial Accounting Standards Board (FASB) is reviewing the accounting for nuclear plant decommissioning. If current electric utility industry practices for such decommissioning are changed, annual provisions for decommissioning could increase. FASB has tentatively determined that the estimated cost of decommissioning should be reported as a liability rather than as accumulated depreciation and that a substantial portion of the decommissioning obligation should be recognized earlier in the operating life of the nuclear plant.

During its deliberations, FASB has expanded the scope of this project to include similar unavoidable obligations to perform closure and post-closure activities incurred as a condition to operate assets other than nuclear power plants. Whether this position, if adopted, would impact other assets of Virginia Power cannot be determined at this time. Furthermore, the FASB has tentatively determined that it would be inappropriate to account for cost of removal as negative salvage; thus, any forthcoming standard may also cause changes in industry plant depreciation practices.

Federal Income Taxes: Dominion Resources and its subsidiaries file a consolidated federal income tax return.

Dominion Resources adopted SFAS No. 109, "Accounting for Income Taxes" in 1992 which requires companies to measure and record deferred tax assets and liabilities for all temporary differences. Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in future periods. The regulatory treatment of temporary differences can differ from the requirements of SFAS No. 109. Accordingly, Virginia Power recognizes a regulatory asset if it is probable that future revenues will be provided for the payment of those deferred tax liabilities. Similarly, in the event a deferred tax liability is reduced to reflect changes in tax rates, a regulatory liability is established if it is probable that a future reduction in revenue will result.

Due to regulatory requirements, Virginia Power accounts for investment tax credits under the "deferral method" which provides for the amortization of these credits over the service lives of the property giving rise to the credits.

Allowance for Funds Used During Construction: The applicable regulatory Uniform System of Accounts defines AFC as the cost during the construction period of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

The pre-tax AFC rates for 1995, 1994 and 1993 were 8.9, 8.9 and 9.4 percent, respectively. Approximately 83 percent of Virginia Power's construction work in progress (CWIP) is now included in rate base and a cash return is collected currently thereon.

Deferred Capacity and Fuel Expenses: Approximately 90 percent of fuel expenses and 80 percent of capacity expenses are subject to deferral accounting. Under this method, the difference between reasonably incurred actual expenses and the level of expenses included in current rates is deferred and matched against future revenues.

Amortization of Debt Issuance Costs: Dominion Resources defers and amortizes any expenses incurred in the issuance of long-term debt including premiums and discounts associated with such debt over the lives of the respective issues. Any gains or losses resulting from the refinancing of Virginia Power debt are also deferred and amortized over the lives of the new issues of long-term debt as permitted by the appropriate regulatory commission. At Virginia Power, gains or losses resulting from the redemption of debt without refinancing are amortized over the remaining lives of the redeemed issues.

Marketable Securities: Dominion Resources adopted, effective January 1, 1994, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The standard requires companies to account for and classify investments in equity securities that have readily determinable fair values and for all investments in debt securities based on management's intent. The investments are to be classified into three categories and accounted for in the following manner.

Debt securities which are intended to be held to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities purchased and held with the intent of selling them in the current period are classified as trading securities. They are reported at fair value and unrealized gains and losses are included in earnings. Debt and

equity securities that are neither held-to-maturity or trading are classified as available-for-sale securities. These are reported at fair value with unrealized gains and losses reported in shareholders' equity, net of tax.

This standard is to be applied on a prospective basis effective with fiscal years after December 15, 1993 and can not be applied retroactively to the prior year's financial statements.

Nonrecourse-Nonutility Financings: Dominion Resources' nonutility subsidiaries issue debt to finance their operations and obtain financings that generally are secured by the assets of the nonutility subsidiaries. However, Dominion Resources may be required to provide contingent equity support or to maintain a minimum net worth at the nonutility subsidiaries. These financings have been segregated on the accompanying financial statements to distinguish their nonrecourse nature.

Cash: Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 1995 and 1994, the company's accounts payable included the net effect of checks outstanding but not yet presented for payment of $70.1 million and $72.2 million, respectively.

For purposes of the Consolidated Statements of Cash Flows, Dominion Resources considers cash and cash equivalents to include cash on hand and temporary investments purchased with a maturity of three months or less.

Supplementary Cash Flows Information:

(millions)	**1995**	1994	1993
Cash paid during the year for:			
Interest (reduced for net costs of borrowed funds capitalized)	**$376.0**	$355.9	$375.8
Federal income taxes	**159.6**	154.2	187.8
Non-cash transactions from investing and financing activities:			
Exchange of long-term marketable securities	**12.3**	11.8	169.8
Assumption of obligations and acquisition of utility property		26.3	
Other		3.1	(0.4)

Reclassification: Certain amounts in the 1994 and 1993 Consolidated Financial Statements have been reclassified to conform to the 1995 presentation.

Note B Sale of Receivables

Virginia Power has an agreement to sell, with limited recourse, certain accounts receivable including unbilled amounts, up to a maximum of $200 million. Additional receivables are continually sold, at Virginia Power's discretion, to replace those collected up to the limit. At December 31, 1995 no amount was outstanding; however, at December 31, 1994, $160 million of receivables had been sold and were outstanding under this agreement. The limited recourse is provided by Virginia Power's assignment of an additional undivided interest in accounts receivable to cover any potential losses to the purchaser due to uncollectible accounts. Virginia Power has provided for the estimated amount of such losses in its accounts.

Note C Taxes

(millions, except percentages)	**1995**	1994	1993
Taxes other than federal income tax:			
Real estate and property	**$ 91.2**	$ 83.9	$ 84.8
State and local gross receipts	**104.8**	104.9	100.8
Payroll	**31.1**	33.9	31.3
Other	**46.7**	51.9	47.3
	$273.8	$274.6	$264.2

Provision for federal income taxes:			
Included in operating expenses:			
Current	**$179.8**	$120.8	$197.2
Tax effects of temporary/timing differences:			
Liberalized depreciation	**56.6**	61.3	50.6
Indirect construction costs	**(13.8)**	(21.5)	(23.2)
Other plant related items	**12.1**	4.0	19.9
Deferred fuel	**(2.2)**	0.8	11.8
Deferred capacity	**(3.8)**	(9.0)	(24.7)
Separation costs	**(12.4)**		
Customer accounts reserve		36.8	(34.9)
Intangible drilling costs	**3.6**	4.1	15.3
Other, net	**(20.9)**	(9.2)	17.4
	19.2	67.3	32.2
Net deferred investment tax credits—amortization	**(16.9)**	(17.1)	(19.2)
Total provision for federal income tax expense	**$182.1**	$171.0	$210.2

Computation of provision for federal income tax:			
Pre-tax income	**$607.1**	$649.2	$726.8
Tax at statutory federal income tax rate of 35% applied to pre-tax income	**$212.5**	$227.2	$254.4
Changes in federal income taxes resulting from:			
Preferred dividends of Virginia Power	**15.4**	14.8	14.8
Amortization of investment tax credits	**(16.9)**	(17.1)	(16.1)
Nonconventional fuel credit	**(28.2)**	(32.0)	(30.5)
Other, net	**(0.7)**	(21.9)	(12.4)
Total provision for federal income tax expense	**$182.1**	$171.0	$210.2
Effective tax rate	**30%**	26.3%	28.9%

Dominion Resources net noncurrent deferred tax liability is attributable to:

(millions)	1995	1994
Assets:		
Deferred investment tax credits	$ (96.4)	$ (102.4)
Liabilities:		
Depreciation method and plant basis differences	$1,403.5	$1,349.7
Income taxes recoverable through future rates	171.6	172.9
Partnership basis differences	111.5	104.3
Other	70.9	89.1
Total deferred income tax liability	1,757.5	1,716.0
Net deferred income tax liability	$1,661.1	$1,613.6

Note D Regulatory Assets

Certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets and are recognized in income as the related amounts are included in rates and recovered from customers. The company's regulatory assets included the following:

At December 31, (millions)	1995	1994
Income taxes recoverable through future rates	$484.5	$488.2
Cost of decommissioning DOE uranium enrichment facilities	78.5	83.7
Deferred losses (gains) on reacquired debt, net	99.3	107.0
North Anna Unit 3 project termination costs	101.8	128.5
Other	52.3	63.6
Total	$816.4	$871.0

Income taxes recoverable through future rates represent principally the tax effect of depreciation differences not normalized. These amounts are amortized as the related temporary differences reverse.

The costs of decommissioning Department of Energy's (DOE) uranium enrichment facilities have been deferred and represent the unamortized portion of Virginia Power's required contributions to a fund for decommissioning and decontaminating the DOE's uranium enrichment facilities. Virginia Power is making such contributions over a 15-year period with escalation for inflation. These costs are being recovered in fuel rates.

Losses or gains on reacquired debt are deferred and amortized over the lives of the new issues of long-term debt. Gains or losses resulting from the redemption of debt without refinancing are amortized over the remaining lives of the redeemed issues.

The construction of North Anna 3 was terminated in November 1982. All retail jurisdictions have permitted recovery of the incurred costs. For Virginia and FERC jurisdictional customers, the amounts deferred are being amortized from the date termination costs were first includible in rates.

The incurred costs underlying these regulatory assets may represent expenditures by Virginia Power or may represent the recognition of liabilities that ultimately will be settled at some time in the future. For some of those regulatory assets representing past expenditures that are not included in Virginia Power's rate base or used to adjust Virginia Power's capital structure, Virginia Power is not allowed to earn a return on the unrecovered balance. Of the $816.4 million of regulatory assets at December 31, 1995, approximately $123 million represent past expenditures that are effectively excluded from the rate base by the Virginia State Corporation Commission that has primary jurisdiction over Virginia Power's rates. However, of that amount $101.8 million represent the present value of amounts to be recovered through future rates for North Anna Unit 3 project termination costs, and thus reflect a reduction in the actual dollars to be recovered through future rates for the time value of money. Virginia Power does not earn a return on the remaining $21.2 million of regulatory assets, effectively excluded from rate base, to be recovered over various recovery periods up to 23 years, depending on the nature of the deferred costs.

Note E Jointly Owned Plants

The following information relates to Virginia Power's proportionate share of jointly owned plants at December 31, 1995:

	Bath County Pumped Storage Station	North Anna Power Station	Clover Power Station
Ownership interest	60.0%	88.4%	50.0%
(millions)			
Utility plant in service	$1,074.8	$1,798.5	$289.6
Accumulated depreciation	188.6	635.7	1.5
Nuclear fuel		405.1	
Accumulated amortization of nuclear fuel		387.3	
CWIP	0.7	110.9	211.1

The co-owners are obligated to pay their share of all future construction expenditures and operating costs of the jointly owned facilities in the same proportions as their respective ownership interest. Virginia Power's share of operating costs is classified in the appropriate expense category in the consolidated statements of income.

Note F Short-Term Debt

Dominion Resources and its subsidiaries have credit agreements with various expiration dates. These agreements provided for maximum borrowings of $885.8 million and $705.8 million at December 31, 1995 and 1994, respectively. At December 31, 1995 and 1994, $48.6 million and $135.2 million, respectively, was borrowed under such agreements and classified as long-term debt.

Dominion Resources credit agreements supported $199 million and $224 million of Dominion Resources commercial paper at December 31, 1995 and 1994, respectively.

Virginia Power credit agreements, which in September 1995 replaced the intercompany credit agreement with Dominion Resources, supported $169 million of Virginia Power commercial paper at December 31, 1995. No Virginia Power commercial paper was outstanding at December 31, 1994.

A subsidiary of Dominion Capital also had $91 million and $90.7 million of nonrecourse commercial paper outstanding at December 31, 1995 and 1994, respectively. A total of $289 million and $250 million of the commercial paper was classified as long-term debt at December 31, 1995 and 1994, respectively. The commercial paper is supported by revolving credit agreements that have expiration dates extending beyond one year.

Dominion Resources and its subsidiaries pay fees in lieu of compensating balances in connection with these credit agreements. A summary of short-term debt outstanding at December 31 follows:

(millions, except percentages)	Amount Outstanding	Weighted Average Interest Rate
1995		
Commercial paper	**$169.0**	**5.79%**
Term-notes	**67.6**	**11.7%**
Total	**$236.6**	
1994		
Commercial paper	$ 64.0	6.08%
Term-notes	82.0	7.38%
Total	$146.0	

Note G Marketable Securities

Effective January 1, 1994, Dominion Resources adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). The standard prescribes how companies are to account for and report investments in equity securities that have readily determinable fair values and for all investments in debt securities. This standard is effective for fiscal years beginning after December 15, 1993.

Securities classified as available-for-sale as of December 31 follow:

Security Type *(millions)*	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
1995				
Equity	**$288.3**	**$ 8.0**	**$ 16.5**	**$279.8**
Debt	**5.8**		**0.1**	**5.7**
1994				
Equity	$334.5	$ 1.3	$ 54.2	$281.6
Debt	5.5		0.6	4.9

Maturities of debt securities classified as available-for-sale as of December 31, 1995:

Security *(millions)*	Aggregate Type Cost	Fair Value
Tax exempt obligations:		
0-5 years	**$0.3**	**$0.3**
After five years	**5.1**	**5.0**
Temporary investments and deposits:		
0-5 years	**$0.1**	**$0.1**
After five years	**0.3**	**0.3**

For the years ended December 31, 1995 and 1994, the proceeds from the sales of available-for-sale securities were $49.4 million and $35.8 million, respectively. The gross realized gains and losses were $10.4 million and $0.1 million for 1995 and $0.4 million and $1.6 million for 1994, respectively. The basis on which the cost of these securities was determined is specific identification. For 1994, the gross gains included in earnings from transfers of securities from the available-for-sale category into the trading category was $0.8 million. The changes in net unrealized holding gain or loss on available-for-sale securities has resulted in an increase in the separate component of shareholders equity during the year ended December 31, 1995 of $41.1 million, net of tax, and a decrease of $47.2 million, net of tax, for the year ended December 31, 1994. The changes in net realized holding gain or loss on trading securities increased earnings during the year ended December 31, 1995 by $2.1 million and decreased earnings by $10 million for the year ended December 31, 1994.

In 1993, the company accounted for marketable securities as prescribed in SFAS No. 12, "Accounting for Certain Marketable Securities." A net realized gain of $12.5 million on the sale of marketable securities was included in net income for the year ended December 31, 1993.

economically advantageous to do so. Virginia Power also negotiated settlements with several other parties to terminate their rights to sell power to Virginia Power. The cost of contract cancellations and negotiated settlements was $8.1 million in 1995. Based on contract terms and estimated quantities of power that would have otherwise been delivered, the cancellation of these contracts and rights to sell power to Virginia Power has the effect of reducing Virginia Power's future purchased power costs, including energy payments, by up to $214 million annually. The cost of alternative sources of power that might ultimately be required as a result of these settlements are expected to be significantly less than $214 million.

Restructuring charges reported in 1995 included $37.3 million for the cancellation of a project to construct a facility to handle low level radioactive waste at Virginia Power's North Anna Power Station. As a result of reevaluating the handling of low level radioactive waste, Virginia Power concluded that the facility should not be completed due to the additional capital investment required, decreased Virginia Power volumes of low level radioactive waste resulting from improvements in station procedures and the availability of more economical offsite processing.

As a regulated utility, Virginia Power provides service to its customers at rates based on its cost of operations and an opportunity to earn a return on its shareholder's investment. From time to time, Virginia Power reviews its cost of providing regulated services and files such information with certain regulatory commissions having jurisdiction. Virginia Power or the regulatory commissions may initiate proceedings to review rates charged to Virginia Power jurisdictional customers. The incurrence of restructuring charges and the savings resulting therefrom in subsequent periods are elements of Virginia Power's cost of operations. Accordingly, Vision 2000 costs and related savings will be considered in any future review of Virginia Power's overall regulatory cost of service.

Note P Commitments and Contingencies

As the result of issues generated in the course of daily business, the company is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies. While some of the proceedings involve substantial amounts of money, management believes that the final disposition of these proceedings will not have an adverse material effect on operations or the financial position of the company.

Virginia Power

Federal Energy Regulatory Commission Audit: The Federal Energy Regulatory Commission (FERC) has recently conducted a compliance audit of Virginia Power's financial statements for the years 1990 to 1994. Virginia Power has received a preliminary draft of the audit report in which certain compliance exceptions were noted. Virginia Power has supplied information to the FERC staff relating to these preliminary exceptions, but no final audit report has been issued. Based on information available at this time, the disposition of these issues is not expected to have a significant effect on Virginia Power's financial position or results of operations.

Construction Program: Virginia Power has made substantial commitments in connection with its construction program and nuclear fuel expenditures, which are estimated to total $569.3 million (excluding AFC) for 1996. Additional financing is contemplated in connection with this program.

Purchased Power Contracts: Since 1984, Virginia Power has entered into contracts for the long-term purchase of capacity and energy from other utilities, qualifying facilities and independent power producers. As of December 31, 1995, there were 67 nonutility generating facilities under contract to provide Virginia Power 3,493 megawatts of dependable summer capacity. Of these, 66 projects (aggregating 3,295 megawatts) were operational at the end of 1995, with the remaining project to become operational before 1998. The following table shows the minimum payments expected to be made under these contracts. The totals include payments for capacity, which are subject to generating performance as provided by the contracts, and payments for the minimum amounts of energy Virginia Power is obligated to buy and the producers provide.

	Commitments	
(millions)	Capacity	Other
1996	$ 738.3	$ 207.4
1997	784.7	213.2
1998	788.8	219.8
1999	791.6	224.2
2000	707.4	163.6
After 2000	11,106.3	1,200.9
Total	**$14,917.1**	**$2,229.1**
Present value of the total	**$ 6,860.7**	**$1,243.4**

In addition to the commitments listed above, under some contracts, Virginia Power may purchase, at its option, additional power as needed. Payments for purchased power (including economy, emergency, limited-term, short-term, and long-term purchases) for the years 1995, 1994 and 1993 were $1,093 million, $1,025 million and $958 million, respectively.

Fuel Purchase Commitments: Virginia Power's estimated fuel purchase commitments for the next five years for system generation are as follows: 1996–$348 million; 1997–$319 million; 1998–$205 million; 1999–$137 million; and 2000–$151 million.

Environmental Matters: Environmental costs have been historically recovered through the ratemaking process; however, should material costs be incurred and not recovered through rates, Virginia Power's results of operations and financial condition could be adversely impacted.

The EPA has identified Virginia Power and several other entities as Potentially Responsible Parties (PRPs) at two Superfund sites located in Kentucky and Pennsylvania. The estimated future remediation costs for the sites are in the range of $46.5 million to $134.6 million. Virginia Power's proportionate share of the costs is expected to be in the range of $0.5 million to $6.7 million, based upon allocation formulas and the volume of waste shipped to the sites. As of December 31, 1995, Virginia Power accrued a reserve of $1.4 million to meet its obligations at these two sites.

Based on a financial assessment of the PRPs involved at these sites, Virginia Power has determined that it is probable that the PRPs will fully pay the costs apportioned to them.

Virginia Power and Dominion Resources along with Consolidated Natural Gas have remedial action responsibilities remaining at two coal tar sites. Virginia Power and Dominion Resources have accrued a $2 million reserve to meet their estimated liability based on site studies and investigations performed at these sites. In addition, on December 13, 1995, a civil action was instituted against the City of Norfolk and Virginia Power by a landowner who alleges that his property has been contaminated by toxic pollutants originating from one of these sites, which is now owned by the City of Norfolk. The plaintiff seeks compensatory damages of $10 million and punitive damages of $5 million from Virginia Power. The Company filed its answer denying liability on January 10, 1996.

Virginia Power generally seeks to recover its costs associated with environmental remediation from third party insurers. At December 31, 1995 pending claims were not recognized as an asset or offset against recorded obligations.

Nuclear Insurance: The Price-Anderson Act limits the public liability of an owner of a nuclear power plant to $8.9 billion for a single nuclear incident. The Price Anderson Amendments Act of 1988 allows for an inflationary provision adjustment every five years. Virginia Power has purchased $200 million of coverage from commercial insurance pools with the remainder provided through a mandatory industry risk-sharing program. In the event of a nuclear incident at any licensed nuclear reactor in the United States, Virginia Power could be assessed up to $81.7 million (including a 3 percent insurance premium tax for Virginia) for each of its four licensed reactors not to exceed $10.3 million (including a 3 percent insurance premium tax for Virginia) per year per reactor. There is no limit to the number of incidents for which this retrospective premium can be assessed.

Nuclear liability coverage for claims made by nuclear workers first hired on or after January 1, 1988, except those arising out of an extraordinary nuclear occurrence, is provided under the Master Worker insurance program. (Those first hired into the nuclear industry prior to January 1, 1988 are covered by the policy discussed above.) The aggregate limit of coverage for the industry is $400 million ($200 million policy limit with automatic reinstatements of an additional $200 million). Virginia Power's maximum retrospective assessment is approximately $12.5 million (including a 3 percent insurance premium tax for Virginia).

Virginia Power's current level of property insurance coverage ($2.55 billion for North Anna and $2.4 billion for Surry) exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per reactor site, and includes coverage for premature decommissioning and functional total

loss. The NRC requires that the proceeds from this insurance be used first to return the reactor to and maintain it in a safe and stable condition, and second to decontaminate the reactor and station site in accordance with a plan approved by the NRC. Virginia Power's nuclear property insurance is provided by Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL), two mutual insurance companies, and is subject to retrospective premium assessments in any policy year in which losses exceed the funds available to these insurance companies. The maximum assessment at the first incident of the current policy period is $42.7 million. The maximum assessment related to a second incident is an additional $15.4 million. Based on the severity of the incident, the boards of directors of Virginia Power's nuclear insurers have the discretion to lower the maximum retrospective premium assessment or eliminate either or both completely. For any losses that exceed the limits, or for which insurance proceeds are not available because they must first be used for stabilization and decontamination, Virginia Power has the financial responsibility.

Virginia Power purchases insurance from NEIL to cover the cost of replacement power during the prolonged outage of a nuclear unit due to direct physical damage of the unit. Under this program, Virginia Power is subject to a retrospective premium assessment for any policy year in which losses exceed funds available to NEIL. The current policy period's maximum assessment is $9 million.

As a joint owner of the North Anna Power Station, ODEC is responsible for its proportionate share (11.6 percent) of the insurance premiums applicable to that station, including any retrospective premium assessments and any losses not covered by insurance.

Dominion Resources

Under the terms of an investment agreement, Dominion Resources must provide contingent equity support to Dominion Energy in the amount of $56.5 million. Management believes the possibility of such support to Dominion Energy is remote.

Dominion Energy

Dominion Energy has general partnership interests in certain of its energy ventures. Accordingly, Dominion Energy may be called upon to fund future operation of these investments to the extent operating cash flow is insufficient.

Note Q Quarterly Financial and Common Stock Data (Unaudited)

The following amounts reflect all adjustments, consisting of only normal recurring accruals (except as disclosed below), necessary in the opinion of Dominion Resources' management for a fair statement of the results for the interim periods.

Quarterly Financial and Common Stock Data—Unaudited

(in millions, except per share amounts)	**1995**	1994
Revenues		
First Quarter	**$1,129.3**	$1,167.0
Second Quarter	**1,042.8**	1,109.7
Third Quarter	**1,345.0**	1,209.8
Fourth Quarter	**1,134.6**	1,004.6
Year	**$4,651.7**	$4,491.1
Income before provision for Federal Income Taxes		
First Quarter	**$ 151.9**	$ 197.5
Second Quarter	**107.3**	188.9
Third Quarter	**295.1**	234.5
Fourth Quarter	**52.8**	28.3
Year	**$ 607.1**	$ 649.2
Net Income		
First Quarter	**$ 108.5**	$ 141.4
Second Quarter	**78.1**	136.2
Third Quarter	**197.9**	161.3
Fourth Quarter	**40.5**	39,3
Year	**$ 425.0**	$ 478.2
Earnings Per Share		
First Quarter	**$ 0.63**	$ 0.84
Second Quarter	**0.45**	0.80
Third Quarter	**1.14**	0.94
Fourth Quarter	**0.23**	0.23
Year	**$ 2.45**	$ 2.81
Dividends Per Share		
First Quarter	**$ 0.645**	$ 0.635
Second Quarter	**0.645**	0.635
Third Quarter	**0.645**	0.635
Fourth Quarter	**0.645**	0.645
Year	**$ 2.58**	$ 2.55
Stock Price Range		
First Quarter	**39¼-35½**	45⅜-39⅝
Second Quarter	**38⅝-35⅞**	42½-35⅞
Third Quarter	**37⅞-34⅞**	38⅜-34⅞
Fourth Quarter	**41⅝-37⅝**	38⅛-35⅛
Year	**41⅝-34⅞**	45⅜-34⅞

As part of the Vision 2000 program (see Note O), Virginia Power recorded $117.9 million of restructuring charges in 1995. Restructuring charges included severance costs, purchase power contract cancellation and negotiated settlement costs, capital project cancellation costs, and other costs incurred directly as a result of the Vision 2000 initiatives. Virginia Power expensed $3.5 million, $1.8 million, $30.6 million and $82 million during the first, second, third and fourth quarters, respectively. The impact of the write-off reduced net income by $2.3 million, $1.1 million, $19.9 million and $53.3 million for the first, second, third, and fourth quarters, respectively.

In the fourth quarter of 1995, Dominion Resources incurred at the holding company restructuring expenses amounting to $3.6 million and other charges amounting to $8.8 million. The other charges included litigation costs which were incurred to resolve the shareholder claims made in 1994. The impact of the restructuring expenses reduced net income by $2.3 million and the other charges reduced net income by $5.8 million.

During December 1995, Dominion Energy settled certain outstanding disputes with a supplier and renegotiated the terms of related long term supply contracts. As a result, the fourth quarter earnings include gains from these changes which total $6.2 million, net of tax.

In June 1995, Dominion Resources Black Warrior Trust units were sold to third parties amounting to a gain of $5.4 million, net of tax. These were the remaining ownership units of a trust established in June 1994 when Dominion Energy transferred from Dominion Black Warrior Basin to Dominion Resources Black Warrior Trust a 65 percent overriding royalty interest in coal seam gas properties.

In 1994, Virginia Power offered an early retirement program to employees aged 50 or older and offered a voluntary separation program to all regular full-time employees. Approximately 1,400 employees accepted offers under these programs. The costs associated with these programs were $90.1 million. Virginia Power capitalized $25.9 million to construction work in progress based upon regulatory precedent and expensed $2.8 million, $10.4 million and $51 million during the second, third and fourth quarters, respectively. The impact of the write-off was to reduce net income by $1.8 million, $6.7 million and $33.1 million for the second, third and fourth quarters, respectively.

On June 28, 1994, Dominion Energy transferred a 65% overriding royalty interest in coal seam gas properties then owned by Dominion Black Warrior Basin, a wholly owned subsidiary of Dominion Energy, to Dominion Resources Black Warrior Trust, which is sponsored by Dominion Resources. Units in the trust were sold in the second quarter to third parties, culminating in a gain of $28.9 million, net of tax. Total federal and state taxes for this transaction amounted to $20.1 million.

Report of Management's Responsibilities

The management of Dominion Resources, Inc. is responsible for all information and representations contained in the Consolidated Financial Statements and other sections of the annual report. The Consolidated Financial Statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that Dominion Resources' and its subsidiaries' assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed and recorded in accordance with established procedures. Management recognizes the inherent limitations of any system of internal accounting control, and therefore cannot provide absolute assurance that the objectives of the established internal accounting controls will be met.

This system includes written policies, an organizational structure designed to ensure appropriate segregation of responsibilities, careful selection and training of qualified personnel, and internal audits. Management believes that during 1995 the system of internal control was adequate to accomplish the intended objectives.

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, independent auditors, whose designation by the Board of Directors was ratified by the shareholders. Their audits were conducted in accordance with generally accepted auditing standards and include a review of Dominion Resources' and its subsidiaries' accounting systems, procedures and internal controls, and the performance of tests and other auditing procedures sufficient to provide reasonable assurance that the Consolidated Financial Statements are not materially misleading and do not contain material errors.

The Audit Committees of the Boards of Directors, composed entirely of directors who are not officers or employees of Dominion Resources or its subsidiaries, meet periodically with independent auditors, the internal auditors and management to discuss auditing, internal accounting control and financial reporting matters and to ensure that each is properly discharged. Both independent auditors and the internal auditors periodically meet alone with the Audit Committees and have free access to the Committees at any time.

Management recognizes its responsibility for fostering a strong ethical climate so that Dominion Resources' affairs are conducted according to the highest standards of personal corporate conduct. This responsibility is characterized and reflected in Dominion Resources' Code of Ethics, which addresses potential conflicts of interest, compliance with all domestic and foreign laws, the confidentiality of proprietary information, and full disclosure of public information.

Dominion Resources, Inc.

Thos. E. Capps
Chairman, President and
Chief Executive Officer

James L. Trueheart
Vice President and Controller

Report of Independent Auditors

To the Shareholders and Board of Directors of Dominion Resources, Inc.

We have audited the accompanying consolidated balance sheets of Dominion Resources, Inc. and subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of income and retained earnings and of cash flows for each of the three years in the period ended December 31, 1995. These Consolidated Financial Statements are the responsibility of the company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

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

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Dominion Resources, Inc. and subsidiaries as of December 31, 1995 and 1994 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Richmond, Virginia
February 2, 1996

Deloitte & Touche LLP

Directors and Officers

Outside Directors

4
5

John B. Adams, Jr., 51 (DRI/VP)
President & Chief Executive Officer of The Bowman Companies, manufacturer and bottler of alcoholic beverages, Fredericksburg, Virginia. Chairman of the Board of Virginia Power. Director since 1987.

Tyndall L. Baucom, 54
(DRI/VP/DEI/DCI)
Retired President & Chief Operating Officer of Dominion Resources. Director since 1994.

2
4

John B. Bernhardt, 66 (DRI/DCI)
Managing Director, Bernhardt/Gibson Financial Opportunities financial services, Newport News, Virginia. Director since 1981.

2
3

James F. Betts, 63 (VP)
Management Consultant, Richmond, Virginia. Director since 1978.

2
4

Kenneth A. Randall, 68 (DRI/DEI)
Corporate director for various financial companies, Williamsburg, Virginia. Director since 1971.

2
3
1
3
4

William T. Roos, 68 (DRI/VP/DCI)
Retired President of Penn Luggage, Inc., retail specialty stores, Hampton, Virginia. Director since 1975.

1
3
4

Frank S. Royal, M.D., 56 (DRI/DCI)
Physician, Richmond, Virginia. Director since 1994.

1
2

Judith B. Sack, 47 (DRI/DEI)
Senior Adviser, Morgan Stanley & Co., Inc., an investment banking firm, New York, New York. Director since 1989.

Inside Directors

Thos. E. Capps, 60 (DRI/DEI/DCI)
Chairman of the Board, President & Chief Executive Officer of Dominion Resources. Director since 1986.
11 years of service.

James T. Rhodes, 54 (VP)
President & Chief Executive Officer of Virginia Power. Director since 1989.
24 years of service.

Nonutility Presidents

Thomas N. Chewning, 50
President of Dominion Energy & Senior Vice President of Dominion Resources.
8 years of service.

David L. Heavenridge, 49
President of Dominion Capital & Senior Vice President of Dominion Resources.
21 years of service.

Dominion Resources Officers

Paul J. Bonavia, 44
Senior Vice President–Corporate
4 years of service.

Linwood R. Robertson, 56
Senior Vice President–Finance, Treasurer, Corporate Secretary & Chief Financial Officer.
26 years of service.

Thomas F. Farrell, II, 41
Vice President & General Counsel.
1 year of service.

Donald T. Herrick, Jr., 52
Vice President.
25 years of service.

Elizabeth A. Martin, 36
Vice President–Planning & Investment Analysis.
3 years of service.

Everard Munsey, 62
Vice President–Public Policy.
14 years of service.

James L. Trueheart, 44
Vice President & Controller.
18 years of service.

Virginia Power Officers

Robert E. Rigsby, 46
Executive Vice President.
24 years of service.

William R. Cartwright, 53
Senior Vice President–Fossil & Hydro.
30 years of service.

Larry W. Ellis, 55
Senior Vice President–Energy Services.
34 years of service.

Larry M. Girvin, 52
Senior Vice President–Commercial Operations.
25 years of service.

John W. Harris, 48 (DCI)
President, The Harris Group, a consulting & real estate development firm, Charlotte, North Carolina.
Director since 1994.

1 1 2

Benjamin J. Lambert, III, 59 (DRI/VP)
Optometrist, Richmond, Virginia.
Director since 1992.

1 2 4

Richard L. Leatherwood, 56 (DRI/VP/DEI)
Retired, Baltimore, Maryland.
Director since 1994.

1 3 1 3

Harvey L. Lindsay, Jr., 66 (DRI/VP)
Chairman & Chief Executive Officer, Harvey Lindsay Commercial Real Estate, Norfolk, Virginia.
Director since 1986.

1

S. Dallas Simmons, 56 (DRI/DCI)
President, Virginia Union University, Richmond, Virginia.
Director since 1992.

3 4 2 3

Robert H. Spilman, 68 (DRI/VP/DEI)
Chairman & Chief Executive Officer, Bassett Furniture Industries, Inc., Bassett, Virginia.
Director since 1994.

2 4

William G. Thomas, 56 (VP)
President, Hazel & Thomas, a law firm, Alexandria, Virginia.
Director since 1987.

David A. Wollard, 58 (DCI)
President, Bank One Colorado, N.A., Denver, Colorado.
Director since 1994.

Companies:

DRI *Dominion Resources*
VP *Virginia Power*
DEI *Dominion Energy*
DCI *Dominion Capital*

Dominion Resources Committees:

1 *Audit*
2 *Finance*
3 *Nominating*
4 *Organization & Compensation*

Virginia Power Committees:

1 *Audit*
2 *Finance*
3 *Nominating*
4 *Organization & Compensation*
5 *Ex Officio, All Committees*

James P. O'Hanlon, 52
Senior Vice President–Nuclear.
6 years of service.

Edgar M. Roach, Jr., 47
Senior Vice President–Finance & Regulation and General Counsel.
2 years of service.

Charles A. Brown, 53
Vice President–Central Division.
13 years of service.

Thomas L. Caviness, Jr., 50
Vice President–Retail Energy Services.
27 years of service.

J. Kennerly Davis, Jr., 50
Vice President–Finance & Administrative Services, Treasurer & Corporate Secretary, 14 years of service.

James T. Earwood, Jr., 52
Vice President–Energy Efficiency & Division Services.
29 years of service.

Thomas A. Hyman, Jr., 44
Vice President–Eastern Division & North Carolina Power.
23 years of service.

Michael R. Kansler, 41
Vice President–Nuclear Engineering & Services.
18 years of service.

William S. Mistr, 48
Vice President–Information Technology.
26 years of service.

F. Kenneth Moore, 54
Vice President–Fossil & Hydro Services.
28 years of service.

Thomas J. O'Neil, 53
Vice President–Human Resources.
30 years of service.

Robert F. Saunders, 52
Vice President–Nuclear Operations.
20 years of service.

Johnny V. Shenal, 50
Vice President–Northern & Western Divisions. 26 years of service.

Eva S. Teig, 51
Vice President–Public Affairs.
6 years of service.

Shareholder Information

Shareholder Inquiries

Shareholders can reach us 24 hours a day.

Shareholder Administration
1-800-552-4034 (callers anywhere in the U.S.)
775-2500 (callers in Richmond, Virginia)

Our automated telephone system offers the following information:
—Stock price
—Dividend price
—Our mailing address
—Transfer agent's address
—Dividend reinvestment plan information
—Transfer instructions
—Replacement of lost certificates

If you call between 9:00 a.m. and 4:00 p.m. (EST or EDT) Monday through Friday, a representative can assist you directly if you press "0" after hearing the stock price. If you press "0" for a representative, please have your Social Security number or account code ready. We cannot give information about a shareholder's account to a third party without the shareholder's prior approval or appropriate documents.

If you prefer, you may write Shareholder Administration at our mailing address:

Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

Common Stock Listing

New York Stock Exchange
Trading symbol: D
Newspaper listing: DominRes, DomRs

Common Stock Price Range

	1995		1994	
	High	**Low**	High	Low
First Quarter	**39¼**	**35½**	45⅜	39⅝
Second Quarter	**38⅝**	**35⅞**	42½	35⅞
Third Quarter	**37⅞**	**34⅞**	38⅜	34⅞
Fourth Quarter	**41⅝**	**37⅝**	38⅛	35⅛
Year	**41⅝**	**34⅞**	45⅜	34⅞

Where to Buy Stock

Dominion Resources common stock may be purchased through a brokerage firm. Individuals who do not have access to a stockbroker may consider consulting a bank for assistance. Common shareholders of record may purchase common stock through the Dominion Resources automatic dividend reinvestment and stock purchase plan. (Please refer to "Dividend Reinvestment Plan" in the next column for details.)

Dividend Reinvestment Plan

Dominion Resources provides holders of common stock a convenient means of purchasing additional shares of the company's common stock by reinvesting all or a portion of their quarterly dividends and by making optional cash investments. An automatic dividend reinvestment and stock purchase plan prospectus and an enrollment card are automatically mailed to all new shareholders of record. These materials can also be obtained by contacting the Shareholder Administration Department.

This plan also permits beneficial owners of Dominion Resources common stock to make optional cash investments. (Please refer to "Beneficial Owners" at the bottom of this column.)

Dividends

Dividends per share	**1995**	1994
First Quarter	**$0.645**	$0.635
Second Quarter	**0.645**	0.635
Third Quarter	**0.645**	0.635
Fourth Quarter	**0.645**	0.645
Year	**$2.58**	$2.55

Cash dividends on Dominion Resources common stock are paid as declared by the Board of Directors. Dividends are typically paid on the 20th day of March, June, September and December.

If you do not receive your dividend check within 10 business days after the payment date, or if your check is lost or destroyed, please notify Shareholder Administration for a replacement. Checks should be deposited or cashed promptly.

Address Changes

It is important that we have your current address on file so that you do not become a "lost" shareholder. Please contact Shareholder Administration promptly with any address changes.

Beneficial Owners

When you purchase stock and it is held for you by your broker, it may be listed with the company in the broker's name, also known as the "street name." This qualifies you as a beneficial owner. If you are a beneficial owner, you will receive all dividend payments, annual reports and proxy materials through your broker.

Transfer Agent and Registrar

Chemical Mellon Shareholder Services
85 Challenger Road
Ridgefield, New Jersey 07660-2104

Consolidating Multiple Accounts

Multiple accounts for shareholders exist when:

—A shareholder owns stock in variations of the same name (for example, John E. Smith and John Edward Smith), or

—A shareholder owns stock in his or her name alone but also owns stock with another shareholder.

When such multiple accounts exist, the company is required by law to create a separate account for each name and to mail separate dividend checks and proxy material for each account. To consolidate any multiple accounts, please contact Dominion Resources for instructions.

Sale or issuance of stock

If you want to sell certificate shares of Dominion Resources common stock, you must provide the stock certificates and a Letter of Transmittal and Sale of Shares Request card, which we will provide. Or you may write a letter of instruction listing the certificate numbers and requesting sale of the shares. All owners must have their signatures medallion guaranteed on the Letter of Transmittal or personal letter.

Another option would be to take the certificates to a stockbroker to sell for you.

To sell shares held in the dividend reinvestment plan or to have stock certificates issued, you must provide written instructions. To expedite these transactions, please use the "Authorization Form" attached to your quarterly statement and the envelope enclosed with your statement.

We cannot take requests to sell shares or issue certificates over the phone.

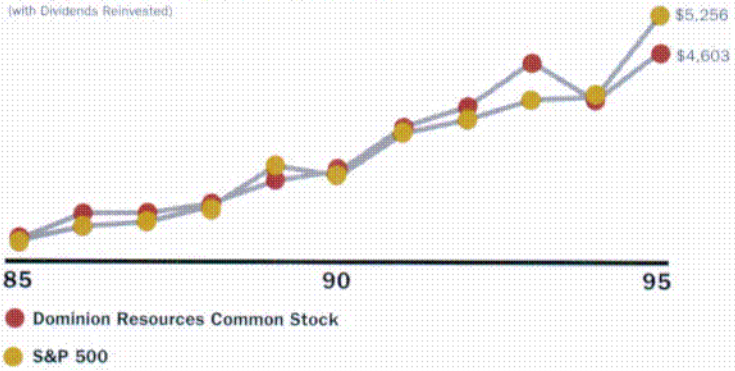
Custodial Deposit of Certificate Shares

Participants in the dividend reinvestment plan may send certificate shares for safekeeping, which offers the advantage of protection against loss, theft or inadvertent destruction of certificates—as well as convenience if and when the shares are sold through the plan.

To deposit your certificates for safekeeping under the plan, you must submit the certificates and a Letter of Transmittal, which will be provided to you upon request, to Shareholder Administration. Or you may write a letter asking us to deposit your certificate shares. Whether you use a Letter of Transmittal or write your own letter, all owners must sign the letter and have their signatures medallion guaranteed. Please do not sign the certificates.

Total Return $1000 Invested

(with Dividends Reinvested)



Annual Meeting

The 1996 Annual Meeting of Shareholders of Dominion Resources, Inc. will be held Friday, April 19, at 1:30 p.m. in Kill Devil Hills, North Carolina, at First Flight Middle School, 109 Veterans Drive.

Corporate Street Address

Dominion Resources, Inc.
Riverfront Plaza—West Tower
901 East Byrd Street
Richmond, Virginia 23219-4069

Independent Auditors

Deloitte & Touche LLP
Richmond, Virginia

Additional Information

Dominion Resources will provide, without charge, a copy of any of the following items:

—1995 SEC Form 10-K.

—1995 Statistical Summary and Financial Forecast.

—Prospectus for the automatic dividend reinvestment and stock purchase plan.

Requests for these items should be made by writing to:

Investor Relations Department
Dominion Resources, Inc.
P. O. Box 26532
Richmond, Virginia 23261-6532

Security Analyst Inquiries

Institutional investors and security analysts seeking information about Dominion Resources and its subsidiaries should call:

William C. Hall, Jr.
1-804-775-5813
1-804-775-5819 (Fax)

Mark C. Stevens
1-804-775-5740
1-804-775-5819 (Fax)

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Dominion Resources

P.O. Box 26532
Richmond, Virginia 23261

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EVANTAGE

To find out how EVANTAGE can help your company use energy to gain a competitive edge, call 1-800-259-7601.

Or E-mail us at:
evantage@vapower.com

EXHIBIT G

Resumes of James P. O'Hanlon and David A. Christian

JAMES P. O'HANLON

President & Chief Operating Officer – Dominion Energy

James P. O'Hanlon was named president and chief operating officer of Dominion Energy on January 28, 2000. O'Hanlon previously served as chief operating officer of Dominion Generation, a generating unit of Dominion Resources, upon its formation on May 1, 1999.

O'Hanlon joined subsidiary Virginia Power in 1989. He is a native of Livermore Falls, Maine. He received his bachelor's degree in marine engineering from the U.S. Naval Academy in 1965 and did graduate work at Pennsylvania State University.

He served eight years in the U.S. Navy Nuclear Program. His last position was engineering officer of a nuclear submarine. He joined Metropolitan Edison Company in 1973 as lead nuclear engineer at Three Mile Island Unit One. He also held the position of chairman of the on-site nuclear safety review group and refueling outage coordinator.

He received his Senior Reactor Operator License from the Nuclear Regulatory Commission in 1976. He was promoted to technical support superintendent in 1976 before becoming TMI Unit One superintendent. In 1978, he joined Arkansas Power & Light as general manager of Arkansas Nuclear One.

In 1982 he became department manager at the Institute of Nuclear Power Operations. He was promoted to deputy director of the Evaluation and Assistance Division in 1983. In 1985, O'Hanlon joined United Energy Service Corporation as operations division manager and he was promoted to vice president in 1987.

In 1989, O'Hanlon joined Virginia Power as vice president-Nuclear Services. He became vice president-Nuclear Operations in 1992, and assumed the position of senior vice president-Nuclear in June 1994.

In his present position, O'Hanlon manages Dominion Energy's assets, including fossil, nuclear and hydroelectric units owned and operated in Virginia, West Virginia and North Carolina and generating facilities in five other U.S. states, plus Virginia Power's wholesale trading operations and independent power contracts.

DAVID A. CHRISTIAN

Senior Vice President & Chief Nuclear Officer – Virginia Power

David A. Christian, Senior Vice President & Chief Nuclear Officer, joined Virginia Power in 1976. He is a native of Fairfax, Virginia.

Christian received his bachelor's degree in Mechanical Engineering with an option in Nuclear Science and Engineering from Virginia Polytechnic Institute and State University in 1976.

Christian became a Registered Professional Engineer in the State of Virginia in 1980.

He was licensed by the USNRC as a Senior Reactor Operator at Surry Power Station in 1982.

Christian graduated in 1990 from the INPO Senior Plant Management Course.

He completed The Executive Program of the Darden Graduate School of Business Administration at the University of Virginia and received his master's degree in Business Administration from Averett College in 1997.

Christian joined Virginia Power in 1976 as an Engineer, and was appointed Engineering Supervisor in 1979, Assistant Shift Supervisor in 1980, Superintendent Technical Services in 1981 and Superintendent Operations in 1983. He was then transferred to Chesapeake Energy Center as Fossil & Hydro Specialist in 1987 and Superintendent Operations (fossil & hydro) in late 1987. In 1989 he returned to nuclear in the position of Assistant Station Manager (Operations and Maintenance). In 1994 he was promoted to Station Manager and subsequently, Site Vice President. He became Vice President – Nuclear Operations in 1998 and assumed his current position in May, 2000.

As Senior Vice President & Chief Nuclear Officer, Christian is responsible for all areas of the company's nuclear program.

EXHIBIT H

Dominion Nuclear Connecticut
Post-Acquisition Organization
Millstone 1, 2, 3

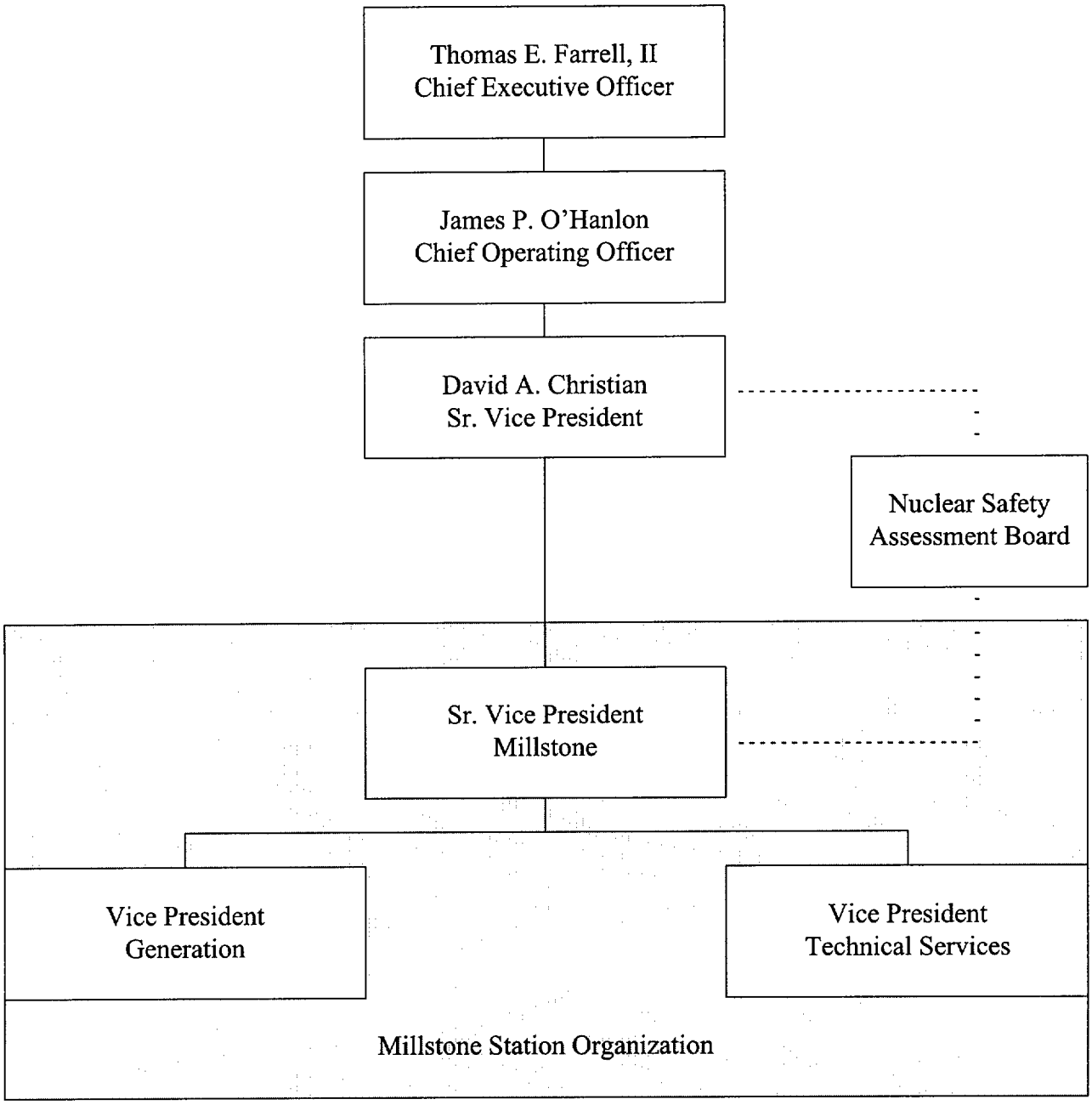

EXHIBIT I

MILLSTONE PROJECTED INCOME STATEMENT
($000's)

Operating Revenue	**2001 (from 4/1)**	**2002**	**2003**	**2004**	**2005**
Sales - Contract	$ 321,107	$ 6,064	$ -	$ -	$ -
Sales - Market	$ 56,899	$ 464,775	$ 564,073	$ 583,949	$ 596,554
Total Revenue	$ 378,006	$ 470,839	$ 564,073	$ 583,949	$ 596,554
Operating Expense					
O&M	$ 208,523	$ 291,085	$ 249,036	$ 255,884	$ 262,921
Fuel	$ 56,205	$ 69,829	$ 74,551	$ 76,601	$ 78,707
Depreciation	$ 40,821	$ 17,648	$ 18,253	$ 18,755	$ 19,271
Other	$ 14,500	$ 19,913	$ 20,510	$ 21,074	$ 21,654
Total Operating Expenses	$ 320,050	$ 398,475	$ 362,350	$ 372,315	$ 382,554
Operating Income (loss)	$ 57,957	$ 72,364	$ 201,723	$ 211,634	$ 214,001
Other Income (Deductions)					
Other Income					
Interest Income/(Expense)	$ (43,143)	$ (62,324)	$ (61,749)	$ (61,260)	$ (60,852)
Total Other Income	$ (43,143)	$ (62,324)	$ (61,749)	$ (61,260)	$ (60,852)
Income Before Income Taxes	$ 14,814	$ 10,040	$ 139,974	$ 150,374	$ 153,149
Taxes Based On Income	$ 5,907	$ 4,003	$ 55,815	$ 59,962	$ 61,068
Net Income	$ 8,907	$ 6,036	$ 84,159	$ 90,413	$ 92,081

DPUC Approved Market Price Forecast ($/MWH) (Includes Capacity & Energy)	$30.84	$32.05	$35.92	$37.59	$40.04

EXHIBIT J

Projected Consolidated Opening Balance Sheet (Millstone 1, 2 & 3)
($000's)

ASSETS		LIABILITIES	
Current Assets		**Current Liabilities**	
Cash & Accounts Receivable	$ 43,413	Accounts Payable	$ 34,966
Inventory	$ 56,605	Other Liabilities	$ 20,000
Total Current Assets	$ 100,018	Total Current Liability	$ 54,966
Fixed Assets		**Non-Current Liabilities**	
Plant	$ 895,045	Long-Term Note Payable	$ 756,208
Fuel	$ 103,967	Decommissioning Liability	$ 459,316
Total Fixed Assets	$ 999,012	Total Non-Current Liabilities	$ 1,215,524
Other		**Total Liabilities**	$ 1,270,490
Decom Fund	$ 768,071		
Deferred Charges	$ 22,105	**OWNERS EQUITY**	
		Equity	$ 618,716
Total Assets	$ 1,889,206	**Total Liabilities & Owners Equity**	$ 1,889,206

EXHIBIT K

Decommissioning Funding Worksheets for Units 2 and 3

MILLSTONE UNIT 2

Balances at Transaction Closing				
Qualified Fund Balance as of 4/01/2001			$231,380,000	
Non- Qualified Fund Balance as of 4/01/2001			$21,564,000	
Total Qualified and Non-Qualified at Closing			$252,944,000	
Millstone Unit 2 License Expiration Year			2015	
Year	**Beginning Balance**	**Growth %**	**Earnings [1]**	**Ending Balance**
2001	$252,944,000	2%	$3,794,160	$256,738,160
2002	$256,738,160	2%	$5,134,763	$261,872,923
2003	$261,872,923	2%	$5,237,458	$267,110,382
2004	$267,110,382	2%	$5,342,208	$272,452,589
2005	$272,452,589	2%	$5,449,052	$277,901,641
2006	$277,901,641	2%	$5,558,033	$283,459,674
2007	$283,459,674	2%	$5,669,193	$289,128,867
2008	$289,128,867	2%	$5,782,577	$294,911,445
2009	$294,911,445	2%	$5,898,229	$300,809,674
2010	$300,809,674	2%	$6,016,193	$306,825,867
2011	$306,825,867	2%	$6,136,517	$312,962,384
2012	$312,962,384	2%	$6,259,248	$319,221,632
2013	$319,221,632	2%	$6,384,433	$325,606,065
2014	$325,606,065	2%	$6,512,121	$332,118,186
2015	$332,118,186	2%	$6,642,364	$338,760,550
[1] Year 2001 pro rata earnings for 9 month period.				
Ending Balance for 2015				$338,760,550
NRC Requirement for Millstone Unit 2				$279,023,699
Trust Funds in Excess of NRC Requirement				$59,736,851

Millstone Unit 2 - NRC Requirement Calculation	
Thermal Power Rating - MWt	2,700
PWR Formula	$(75 + 0.0088P)
Base Cost (January 1986 Dollars)	$99,000,000
Adjustment Factor (2000 Dollars)	2.8184
Adjusted Level (2000 Dollars)	$279,023,699

NRC Adjustment Factor = 0.65L + 0.13E + 0.22B

	Factor L	Factor E	Factor B	Adjustment Factor
Weighting	0.65	0.13	0.22	
2000	1.7194	0.9440	7.173 [1]	
Components	1.1176	0.1227	1.5781	2.8184

[1] Burial Factors for 1998 provided from Table 2.1 NUREG SR 1307 Rev 8 for South Carolina via waste processor.

Labor Adjustment Factor = 2000 value x scaling factor / 1986 value

Region	1986 Ref	Current Year 2000	Scaling Factor	
Northeast	130.5	144.3	1.555	1.7194

Energy Adjustment Factor = [0.58Px + 0.42Fx]

	1986 Ref	Current Year 2000	2000/1986	Weighting
Industrial Electric (Px)	114.2	128.9	1.12872	58%
Light Fuel Oil (Fx)	82	56.5	0.68902	42%

MILLSTONE UNIT 3

Balances at Transaction Closing				
Qualified Fund Balance as of 4/01/2001			$217,451,000	
Non- Qualified Fund Balance as of 4/01/2001			$29,387,000	
Total Qualified and Non-Qualified at Closing			$246,838,000	
Millstone Unit 3 License Expiration Year			2025	
Year	**Beginning Balance**	**Growth %**	**Earnings (1)**	**Ending Balance**
2001	$246,838,000	2%	$3,702,570	$250,540,570
2002	$250,540,570	2%	$5,010,811	$255,551,381
2003	$255,551,381	2%	$5,111,028	$260,662,409
2004	$260,662,409	2%	$5,213,248	$265,875,657
2005	$265,875,657	2%	$5,317,513	$271,193,170
2006	$271,193,170	2%	$5,423,863	$276,617,034
2007	$276,617,034	2%	$5,532,341	$282,149,374
2008	$282,149,374	2%	$5,642,987	$287,792,362
2009	$287,792,362	2%	$5,755,847	$293,548,209
2010	$293,548,209	2%	$5,870,964	$299,419,173
2011	$299,419,173	2%	$5,988,383	$305,407,557
2012	$305,407,557	2%	$6,108,151	$311,515,708
2013	$311,515,708	2%	$6,230,314	$317,746,022
2014	$317,746,022	2%	$6,354,920	$324,100,943
2015	$324,100,943	2%	$6,482,019	$330,582,961
2016	$330,582,961	2%	$6,611,659	$337,194,621
2017	$337,194,621	2%	$6,743,892	$343,938,513
2018	$343,938,513	2%	$6,878,770	$350,817,283
2019	$350,817,283	2%	$7,016,346	$357,833,629
2020	$357,833,629	2%	$7,156,673	$364,990,302
2021	$364,990,302	2%	$7,299,806	$372,290,108
2022	$372,290,108	2%	$7,445,802	$379,735,910
2023	$379,735,910	2%	$7,594,718	$387,330,628
2024	$387,330,628	2%	$7,746,613	$395,077,240
2025	$395,077,240	2%	$7,901,545	$402,978,785
(1) Year 2001 pro rata earnings for 9 month period.				
Ending Balance for 2025				$402,978,785
NRC Requirement for Millstone Unit 3				$295,934,226
Trust Funds in Excess of NRC Requirement				$107,044,559

Millstone Unit 3 - NRC Requirement Calculation	
Thermal Power Rating - MWt	3,411
PWR Formula	$(75 + 0.0088P)
Base Cost (January 1986 Dollars)	$105,000,000
Adjustment Factor (2000 Dollars)	2.8184
Adjusted Level (2000 Dollars)	$295,934,226

NRC Adjustment Factor = 0.65L + 0.13E + 0.22B

	Factor L	**Factor E**	**Factor B**	Adjustment Factor
Weighting	0.65	0.13	0.22	
2000	1.7194	0.9440	7.173 [1]	
Components	1.1176	0.1227	1.5781	2.8184

[1] Burial Factors for 1998 provided from Table 2.1 NUREG SR 1307 Rev 8 for South Carolina via waste processor.

Labor Adjustment Factor = 2000 value x scaling factor / 1986 value

Region	**1986 Ref**	**Current Year 2000**	**Scaling Factor**	**Factor L**
Northeast	130.5	144.3	1.555	1.7194

Energy Adjustment Factor = [0.58Px + 0.42Fx]

	1986 Ref	**Current Year 2000**	**2000/1986**	Weighting
Industrial Electric (Px)	114.2	128.9	1.12872	58%
Light Fuel Oil (Fx)	82	56.5	0.68902	42%

EXHIBIT L

Decommissioning Funding Worksheet for Unit 1

MILLSTONE UNIT 1

Balances at Transaction Closing

Unit 1 Qualified Fund Balance as of 4/01/2001	$263,177,000
Unit 1 Non-Qualified Fund Balance as of 4/01/2001	$5,111,000
Unit 1 Guarantee Amount	$25,423,666
Total Fund Balances at Closing	$293,711,666

Millstone Unit 1 Decommissioning Expenditures

$700,580,827	TLG Site-specific area-by-area decommissioning cost estimate in 1999
	Includes costs to store spent fuel and to restore site to greenfield condition.
$126,100,000	Expenditures made to bring Unit 1 to "Cold and Dark" SAFSTOR condition
$70,000,000	Avoided expenditures for Independent Spent Fuel Storage Facility
$504,480,827	Estimated Decommissioning Cost ("Cold and Dark")
$2,947,285	Annual monitoring cost during SAFSTOR (2000 $)
4.50%	Inflation rate
6.50%	After Tax Earnings

Year	Beginning of Year Balance	Earnings [1]	Unit 1 Expenditures	End of Year Balance
2001	$293,711,666	$14,318,444	$2,309,935	$305,720,175
2002	$305,720,175	$19,871,811	$3,218,509	$322,373,477
2003	$322,373,477	$20,954,276	$3,363,342	$339,964,411
2004	$339,964,411	$22,097,687	$3,514,692	$358,547,406
2005	$358,547,406	$23,305,581	$3,672,853	$378,180,134
2006	$378,180,134	$24,581,709	$3,838,132	$398,923,711
2007	$398,923,711	$25,930,041	$4,010,848	$420,842,904
2008	$420,842,904	$27,354,789	$4,191,336	$444,006,357
2009	$444,006,357	$28,860,413	$4,379,946	$468,486,825
2010	$468,486,825	$30,451,644	$4,577,043	$494,361,425
2011	$494,361,425	$32,133,493	$4,783,010	$521,711,907
2012	$521,711,907	$33,911,274	$4,998,246	$550,624,935
2013	$550,624,935	$35,790,621	$5,223,167	$581,192,389
2014	$581,192,389	$37,777,505	$5,458,209	$613,511,685
2015	$613,511,685	$39,878,260	$5,703,829	$647,686,115
2016	$647,686,115	$42,099,597	$5,960,501	$683,825,212
2017	$683,825,212	$44,448,639	$6,228,724	$722,045,127
2018	$722,045,127	$46,932,933	$6,509,016	$762,469,043
2019	$762,469,043	$49,560,488	$6,801,922	$805,227,609
2020	$805,227,609	$52,339,795	$7,108,009	$850,459,395
2021	$850,459,395	$55,279,861	$7,427,869	$898,311,387
2022	$898,311,387	$58,390,240	$7,762,123	$948,939,504
2023	$948,939,504	$61,681,068	$8,111,419	$1,002,509,153
2024	$1,002,509,153	$65,163,095	$8,476,432	$1,059,195,816
2025	$1,059,195,816	$68,847,728	$8,857,872	$1,119,185,672
2026	$1,119,185,672	$72,747,069	$9,256,476	$1,182,676,264
2027	$1,182,676,264	$76,873,957	$9,673,018	$1,249,877,204
2028	$1,249,877,204	$81,242,018	$10,108,303	$1,321,010,919
2029	$1,321,010,919	$85,865,710	$10,563,177	$1,396,313,452
2030	$1,396,313,452	$90,760,374	$11,038,520	$1,476,035,306

2031	$1,476,035,306	$95,942,295	$11,535,253	$1,560,442,348
2032	$1,560,442,348	$101,428,753	$12,054,340	$1,649,816,761
2033	$1,649,816,761	$107,238,089	$12,596,785	$1,744,458,065
2034	$1,744,458,065	$113,389,774	$13,163,640	$1,844,684,199
2035	$1,844,684,199	$119,904,473	$13,756,004	$1,950,832,668
2036	$1,950,832,668	$126,804,123	$14,375,024	$2,063,261,767
2037	$2,063,261,767	$134,112,015	$15,021,900	$2,182,351,881
2038	$2,182,351,881	$141,852,872	$15,697,886	$2,308,506,867
2039	$2,308,506,867	$150,052,946	$16,404,291	$2,442,155,523
2040	$2,442,155,523	$158,740,109	$17,142,484	$2,583,753,148
2041	$2,583,753,148	$167,943,955	$17,913,896	$2,733,783,207
2042	$2,733,783,207	$177,695,908	$18,720,021	$2,892,759,094
2043	$2,892,759,094	$188,029,341	$19,562,422	$3,061,226,013
2044	$3,061,226,013	$198,979,691	$20,442,731	$3,239,762,973
2045	$3,239,762,973	$210,584,593	$21,362,654	$3,428,984,912
2046	$3,428,984,912	$222,884,019	$22,323,973	$3,629,544,958
2047	$3,629,544,958	$235,920,422	$23,328,552	$3,842,136,829
2048	$3,842,136,829	$249,738,894	$24,378,337	$4,067,497,385
2049	$4,067,497,385	$264,387,330	$25,475,362	$4,306,409,353
2050	$4,306,409,353	$279,916,608	$952,369,490	$3,633,956,472
2051	$3,633,956,472	$236,207,171	$995,226,117	$2,874,937,526
2052	$2,874,937,526	$186,870,939	$1,040,011,292	$2,021,797,173
2053	$2,021,797,173	$131,416,816	$1,086,811,800	$1,066,402,189
2054	$1,066,402,189	$69,316,142	$1,135,718,331	$0

(1) Year 2001 pro rata earnings for 9 month period.

EXHIBIT M

NRC Financial Test for Parent Guarantees (10 CFR Part 30, App. A, § II.A.2)
(All amounts in $ millions)

Financial Test II.A.2
Source: 1999 Annual Report
(i) A current rating for its most recent bond issuance of AAA, AA, A, or BBB as issued by Standard and Poor's or AAA, AA, A, or BAA as issued by Moody's; and

Dominion Resources Standard & Poor's Rating (August 2000)	**BBB+**
Dominion Resources Moody's Rating (August 2000)	**BAA1**

(ii) Tangible net worth each at least six times the current decommissioning cost estimates for the total of all facilities or parts thereof (or prescribed amount if a certification is used), or, for a power reactor licensee, at least six times the amount of decommissioning funds being assured by a parent company guarantee for the total of all reactor units or parts thereof (Tangible net worth shall be calculated to exclude the net book value of the nuclear unit(s)); and

Tangible Net Worth	$4,620
Amount of Decommissioning Funds Assured for Unit 1 (Guarantee Amount)	$26
Ratio of Tangible Net Worth to Guarantee Amount	**177.7**

(iii) Tangible net worth of at least $10 million; and

Tangible Net Worth	$4,620

(iv) Assets located in the United States amounting to at least 90 percent of the total assets or at least six times the current decommissioning cost estimates for the total of all facilities or parts thereof (or prescribed amount if a certification is used), or, for a power reactor licensee, at least six times the amount of decommissioning funds being assured by a parent company guarantee for the total of all reactor units or parts thereof.

Total Assets	$17,747
Total Foreign Assets	$1,205
Total U.S. Assets	$16,542

Amount of Decommissioning Funds Assured for Unit 1 (Guarantee Amount)	$26

Ratio of U.S. Assets to Guarantee Amount	**632.2**

EXHIBIT N

Parent Guaranty

GUARANTY

GUARANTY, dated as of [_____, 200_], made by Dominion Resources, Inc., a Virginia corporation (the "Guarantor") to the U.S. Nuclear Regulatory Commission (the "NRC") on behalf of Guarantor's subsidiary, Dominion Nuclear Connecticut, Inc. ("Licensee"). Except as otherwise defined herein, terms used herein and defined in the Purchase and Sale Agreement (as hereinafter defined) shall be used herein as so defined.

W I T N E S S E T H:

WHEREAS, the Licensee and The Connecticut Light and Power Company, Western Massachusetts Electric Company, The United Illuminating Company, Central Maine Power Company, Chicopee Municipal Lighting Plant, Fitchburg Gas and Electric Light Company, Village of Lyndonville Electric Department, New England Power Company, Public Service Company of New Hampshire, Vermont Electric Generation and Transmission Cooperative, Northeast Nuclear Energy Company, and Connecticut Municipal Electric Energy Cooperative (collectively, the "Sellers") have entered into a Purchase and Sale Agreements, dated as of August 7, 2000 (the "Agreements"), to sell to the Licensee the Acquired Assets; and

WHEREAS, the Licensee is an indirect wholly-owned subsidiary of the Guarantor;

WHEREAS, the NRC has promulgated regulations in Title 10, Chapter 1 of the Code of Federal Regulations ("CFR"), Part 50 which requires that a holder of, or an applicant for, a license issued pursuant to 10 CFR Part 50 provide assurance that funds will be available when needed for required decommissioning activities.

WHEREAS, the Sellers with interests in Millstone Unit 1 will transfer $268.3 million to qualified and non-qualified decommissioning trust funds established and maintained by Licensee for Millstone Unit 1;

WHEREAS, it is estimated that a total of $293.7 million in decommissioning funding assurance is necessary to meet NRC requirements for Millstone Unit 1, and therefore that approximately $26 million in decommissioning funding assurance in addition to the amounts held in the qualified and non-qualified funds is necessary;

WHEREAS, the Guarantor expects to receive substantial indirect benefits from the purchase of the Acquired Assets by the Licensee from the Sellers (which benefits are hereby acknowledged), and accordingly, desires to execute and deliver this Guaranty in order to provide financial assurance for decommissioning activities for Millstone Unit 1 as required by 10 CFR Part 50 and the Agreement;

NOW, THEREFORE, in consideration of the foregoing and other benefits accruing to the Guarantor, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby makes the following representations and warranties to the NRC and hereby covenants and agrees as follows:

1. The Guarantor guarantees to the NRC that if the Licensee fails to perform the required decommissioning activities, as defined by the NRC regulations at 10 CFR 50.2 and as required by NRC License No. DPR-21 for Millstone Unit 1, the Guarantor shall (a) carry out the required activities, or (b) set up a trust fund for the benefit of the NRC in the amount of $26 million (in year 2000 dollars) (the "Guaranteed Obligation"). In addition, Guarantor hereby agrees to pay any and all costs and expenses (including fees and disbursements of counsel) incurred by the NRC in enforcing any rights under this Guaranty.

2. Guarantor's obligation pursuant to this Guaranty is an unconditional guaranty of payment and not of collectibility. This Guaranty shall remain in full force and effect until the date on which the Buyer no longer is required to comply with the applicable assurance requirements of 10 CFR Part 50 for the Facility, or until otherwise earlier terminated in accordance with the provisions of Section 6 below or extinguished by the NRC. No delay or omission by the NRC to exercise any right under this Guaranty shall impair any right, nor shall it be construed to be a waiver thereof. No waiver of any single breach or default under this Guaranty shall be deemed a waiver of any other breach or default.

3. Except for termination or cancellation of this Guaranty under section 6 or action by the NRC extinguishing Guarantor's obligations under this Guaranty, the obligations and liability of the Guarantor under this Guaranty shall be absolute, unconditional and shall remain in full force and effect without regard to, and shall not be released, suspended, discharged, terminated or otherwise affected by, any circumstance or occurrence whatsoever, including, without limitation: (a) any change in time, manner or place of payment of, or in any other term of, the Guaranteed Obligation; (b) any change in ownership of Guarantor or Licensee; (c) any bankruptcy, insolvency, or reorganization of, or other similar proceedings involving Guarantor or Licensee; (d) any other circumstances which might otherwise constitute a legal or equitable discharge of a surety or guarantor; or (e) any amendment or modification of the Millstone Unit 1 license or the NRC-approved decommissioning funding plan for the Facility, the extension or reduction of the time of performance of required activities, or any other modification or alteration

of an obligation of the licensee pursuant to 10 CFR Part 50; provided that, except for the matters set forth in (a)-(e) above, the Guarantor shall be entitled to assert and claim the benefit of any defense, offset or counterclaim which the Licensee may have in law or equity to the payment or performance of the Guaranteed Obligation, as a defense, offset or counterclaim to its obligations under this Guaranty.

4. Guarantor, hereby irrevocably, unconditionally and expressly waives, to the fullest extent permitted by applicable law, promptness, diligence, notice of acceptance and other notice with respect to the Guaranteed Obligation and this Guaranty and any requirement that the NRC protect, secure or perfect any security interest or exhaust any right or first proceed against Licensee or any other person or entity. Likewise, Guarantor expressly waives notice of acceptance of this Guaranty by the NRC and of any amendments or modification of the decommissioning requirements or the license.

5. This Guaranty shall be binding upon Guarantor and its successors and permitted assigns and inure to the benefit of and be enforceable by the NRC and its successors and permitted assigns.

6. This Guaranty shall terminate and be of no further force and effect upon the date on which the Buyer no longer is required to comply with the applicable assurance requirements of 10 CFR Part 50 for the Facility; provided, however, that the Guarantor may terminate this Guaranty by sending notice by certified mail to the NRC and the Licensee, such cancellation to become effective no earlier than 120 days after receipt of such notice by both the NRC and the Licensee. If at the time of cancellation the qualified and nonqualified decommissioning funds maintained by Licensee for Millstone Unit 1 are insufficient to meet NRC requirements and the Licensee fails to provide alternative financial assurance within 90 days of Guarantor's notice of cancellation, the Guarantor will (a) provide such alternate financial assurance in the name of the Licensee, (b) make full payment under the guarantee, or (c) restore the guarantee.

7. Annually within 90 days of the close of Guarantor's fiscal year, Guarantor will submit to the NRC its current financial statements, a current estimate of the decommissioning funding assurance required for Millstone Unit 1 and any corresponding adjustment to this guarantee, and a statement showing compliance with the NRC's financial tests for parent guarantees in 10 CFR Part 30. If at the end of any fiscal year before termination of this guarantee, Guarantor fails to meet such financial test criteria, the Licensee and Guarantor will submit notice to the NRC within 90 days by certified mail that Licensee intends to provide alternative financial assurance as specified in 10 CFR Part 50. If Licensee fails to provide such alternative financial assurance within 30 days after such notice, the Guarantor shall provide the alternative financial assurance in the name of the Licensee.

8. If at any time the NRC notifies Licensee and Guarantor of a determination by the NRC that Guarantor no longer meets the financial test criteria in 10 CFR Part 30, Appendix A, Licensee will within 30 days of such notice provide alternative financial assurance in accordance with the applicable requirements in 10 CFR Part 50. If Licensee fails to provide such alternative financial assurance, Guarantor will provide such assurance in Licensee's name.

9. The Guarantor further represents, warrants and agrees that:

(a) The Guarantor (i) is a duly organized and validly existing corporation in good standing under the laws of the Commonwealth of Virginia, (ii) has the power and authority to own its property and assets and to transact the business in which it is engaged and (iii) is duly qualified as a foreign corporation and in good standing in each jurisdiction where the ownership, leasing or operation of property or the conduct of its business requires such qualification.

(b) The Guarantor has the corporate power to execute, deliver and perform the terms and provisions of this Guaranty and has taken all necessary corporate action to authorize the execution, delivery and performance by it of this Guaranty. The Guarantor has duly executed and delivered this Guaranty, and this Guaranty constitutes its legal, valid and binding obligation enforceable in accordance with its terms.

(c) Neither the execution, delivery or performance by the Guarantor of this Guaranty, nor compliance by it with the terms and provisions hereof, (i) will contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or governmental instrumentality, (ii) will conflict or be inconsistent with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of the Guarantor or any of its subsidiaries pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement, loan agreement or any other agreement, contract or instrument to which the Guarantor or any of its subsidiaries is a party or by which it or any of its property or assets is bound or to which it may be subject or (iii) will violate any provision of the certificate of incorporation or by-laws of the Guarantor or any of its subsidiaries.

(d) No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except as have been obtained previously), or exemption by, any governmental or public body

or authority, or any subdivision thereof (except as have been previously obtained), is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Guaranty or (ii) the legality, validity, binding effect or enforceability of this Guaranty.

(e) Neither the Guarantor nor any of its subsidiaries is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(f) The Licensee is an indirect but wholly-owned subsidiary of Guarantor, and Guarantor has through its wholly-owned subsidiaries majority control of the voting stock of the Licensee.

(g) The Guarantor meets or exceeds the financial test criteria in 10 CFR Part 30, Appendix B, section II.A.2.

10. This Guaranty and the rights and obligations of the NRC and the Guarantor hereunder, shall be governed by and construed in accordance with the domestic laws of the Commonwealth of Virginia without giving effect to any choice or conflict-of-law provision or rule (whether of Virginia or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than Virginia. The Guarantor and the NRC each consent to the exclusive jurisdiction and venue of any state or federal court within the City of Richmond, Virginia for adjudication of any suit, claim, action or other proceeding at law or in equity relating to this Guaranty, or to any transaction contemplated hereby. The Guarantor and the NRC each accept, generally and unconditionally, the exclusive jurisdiction and venue of the aforesaid courts and waive any objection as to venue, and any defense of *forum non conveniens*. The Guarantor hereby irrevocably designates, appoints and empowers [_____], with offices on the date hereof at [_____], as its designee, appointee and agent to receive, accept and acknowledge for and on its behalf, and in respect of its property, service of any and all legal process, summons, notices and documents which may be served in any such action or proceeding. If for any reason such designee, appointee and agent shall cease to be available to act as such, the Guarantor agrees to designate a new designee, appointee and agent in Virginia on the terms and for the purposes of this provision satisfactory to the NRC. The Guarantor further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the Guarantor at its address set forth opposite its signature below, such service to become effective 30 days after such mailing. Nothing herein shall affect the right of the NRC to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the Guarantor in any other jurisdiction. The Guarantor hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in

connection with the Guaranty brought in the courts referred to above and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

11. All notices and other communications hereunder shall be made at the addresses of the NRC and the Guarantor specified opposite their signatures below.

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be executed and delivered as of the date first above written.

Address	Dominion Resources, Inc.
_____	
_____	
_____	
Attention: _____	By _____
	Title:

EXHIBIT O

Interconnection Agreement

INTERCONNECTION AGREEMENT

BY AND BETWEEN

THE CONNECTICUT LIGHT AND POWER COMPANY

AND

[BUYER]

[_____, 2000]

SCHEDULES

Schedule A	-	Interconnection Points, Facilities and Associated Equipment Description
Schedule B	-	Revenue Meters
Schedule C	-	Telecommunications Sharing Agreement
Schedule D	-	CONVEX Operating Instruction No. 6401
Schedule E	-	CONVEX Operating Instructions No. 6913 and 8601
Schedule F	-	CONVEX Operating Instruction No. 0006
Schedule G	-	Insurance Matters
Schedule H	-	Station Service Rates
Schedule I	-	T&D Assets
Schedule J	-	Certain Substation Components

1. PREAMBLE

This Interconnection Agreement ("*Agreement*"), dated [_____], 2000 by and between The Connecticut Light and Power Company, a Connecticut corporation with a principal place of business located at 107 Selden Street, Berlin, Connecticut ("*CL&P*") and [BUYER], a [_____] corporation with its principal place of business at [_____] ("*Buyer*").[1] CL&P and the Buyer are each referred to herein as a "*Party*" or, collectively, the "*Parties.*"

WITNESSETH:

WHEREAS, CL&P and Buyer have entered into a Purchase and Sale Agreement dated [_____], 2000 (the "*Purchase and Sale Agreement*") for the sale of CL&P's ownership interests in Millstone Nuclear Power Station, Units 1, 2 and 3;

WHEREAS, CL&P is currently operating transmission and distribution facilities associated with the Acquired Assets (as hereinafter defined);

WHEREAS, in the Purchase and Sale Agreement, CL&P agreed to transfer to Buyer certain designated real and personal properties, contracts, rights and licenses pertaining to CL&P's generating assets and to retain certain designated real and personal properties, contracts, rights and licenses related to CL&P's transmission and distribution operations;

WHEREAS, the Parties have entered into an Asset Demarcation Agreement evidencing their agreement as to the demarcation between certain of such transferred and retained assets that will not be situated wholly on real property owned or to be owned by the respective owners of

[1]An abbreviation for the name of the Buyer will be substituted for the term "Buyer" throughout this Agreement.

such assets after the Closing under the Purchase and Sale Agreement (*"Asset Demarcation Agreement"*);

WHEREAS, Buyer needs Interconnection Service (as hereinafter defined) from CL&P for the Acquired Assets utilizing the T&D Assets (as hereinafter defined) owned by CL&P and Western Massachusetts Electric Company;

WHEREAS, CL&P and/or its Affiliates need access to parts of the assets being acquired by the Buyer and the Buyer needs access to the assets that are being acquired that are located on the property of the Buyer that is subject to the Seller Reserved Easements; and

WHEREAS, the Parties agreed in the Purchase and Sale Agreement to execute this Agreement in order to provide for CL&P's interconnection service to the Buyer and to define the continuing responsibilities and obligations of each Party with respect to the use of the other Party's property, assets and facilities.

NOW THEREFORE, in order to carry out the transactions contemplated by the Purchase and Sale Agreement, the Asset Demarcation Agreement and this Agreement, and in consideration of the premises and mutual promises herein made, CL&P and the Buyer agree as follows:

2. DEFINITIONS

Whenever used in this Agreement as capitalized terms, the following terms shall have the meanings specified in this section. Capitalized terms used but not otherwise specifically defined herein shall have the meaning ascribed to them in the Purchase and Sale Agreement.

"Access Rights" means all Seller Reserved Easements, all licenses granted pursuant to Section 4.2.1 and all other access rights granted by one Party to the other.

"Acquired Assets" has the meaning set forth in the Purchase and Sale Agreement.

"*AC Service Power*" means the AC service power purchased by the Buyer from its suppliers.

"*Affiliate*" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended.

"*Commercial Arbitration Rules*" has the meaning set forth in Section 14.3.2.

"*Commercially Reasonable Efforts*" means efforts which are designed to enable a Party, directly or indirectly, to satisfy its obligations hereunder or otherwise assist in the consummation of the transactions contemplated by this Agreement and which do not require the performing Party to expend any funds or assume liabilities other than expenditures and liabilities which are customary and reasonable in nature and amount in transactions of the kind and nature contemplated by this Agreement.

"*CONVEX*" means the Connecticut Valley Electric Exchange or any successor organization which operates as a satellite to or for ISO-NE.

"*Dispute Representative*" shall have the meaning set forth in Section 14.3.

"*Distribution System*" means those electric energy delivery facilities not classified as Transmission System that are owned, controlled or operated by CL&P or its Affiliates and that provide delivery service to or from the Transmission System.

"*Emergency*" shall mean (a) with respect to CL&P, a condition or situation which NEPOOL, ISO-NE or CL&P deem imminently likely to (i) endanger public health, life or property, or (ii) adversely affect or impair the reliability of the Transmission System or the reliability of the transmission systems of others to which the Transmission System is directly or indirectly connected, or the reliability of the Distribution System or the reliability of the distribution systems of others to which the Distribution System is directly or indirectly

connected, and which requires under Good Utility Practice that the output of one or more of the Facilities be adjusted to avoid or mitigate such condition or situation, and (b) with respect to the Buyer, a condition or situation which NEPOOL, ISO-NE or the Buyer deems imminently likely to (i) endanger public health, life or property, or (ii) adversely affect or impair one or more of the Facilities. Such a condition or situation includes, but is not limited to, overloading or potential overloading, low voltage from all off-site power sources that impairs a Facility's ability to shut down safely or loss of all off-site power sources needed to safely shut down a Facility.

"Environment" means soil, land surface or subsurface strata, real property, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins and wetlands), groundwater, water body sediments, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life (including fish and all other aquatic life) and any other environmental medium or natural resource.

"Environmental Laws" means all applicable Laws and any binding administrative or judicial interpretations thereof relating to: (a) the regulation, protection and use of the Environment; (b) the conservation, management, development, control and/or use of land (including zoning laws and ordinances), natural resources and wildlife; (c) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, release, threatened release, abatement, removal, remediation, or handling of, or exposure to, any Hazardous Substances; or (d) noise; and includes, without limitation, the following federal statutes (and their implementing regulations): the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended; the Solid Waste Disposal Act, as amended, 42 U.S.C. § 6901 et seq.; the Federal Water Pollution Control Act of 1972, as amended, 33 U.S.C. § 1251 et seq.; the Toxic Substances Control Act of 1976, as amended, 15

U.S.C. § 2601 et seq.; the Clean Air Act of 1966, as amended, 42 U.S.C. § 7401 et seq.; the Federal Insecticide, Fungicide, and Rodenticide Act, as amended, 7 U.S.C. § 136 et seq.; the Coastal Zone Management Act of 1972, as amended, 16 U.S.C. § 1451 et seq.; the Oil Pollution Act of 1990, as amended, 33 U.S.C. § 2701 et seq.; the Rivers and Harbors Act of 1899, as amended, 33 U.S.C. § 401 et seq.; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. § 1801 et seq.; the Endangered Species Act of 1973, as amended, 16 U.S.C. § 1531 et seq.; and the Safe Drinking Water Act of 1974, as amended, 42 U.S.C. § 300(f) et seq.; and all analogous or comparable state statutes and regulations, including, without limitation, the Connecticut Transfer Act, as amended, C.G.S. § 22a-134 et seq.; and the Connecticut Remediation Standard Regulations, RCSA § 22a-133k-1 et seq.

"Environmental Liabilities" means any Liability under or related to former or current Environmental Laws or the common law, whether such liability or obligation or responsibility is known or unknown, contingent or accrued, arising as a result of or in connection with (i) any violation or alleged violation of Environmental Laws, prior to, on or after the Closing Date, with respect to the ownership, operation or use of the Acquired Assets; (ii) loss of life, injury to persons, property or business or damage to natural resources (whether or not such loss, injury or damage arose or was made manifest before the Closing Date or arises or becomes manifest after the Closing Date), caused (or allegedly caused) by the presence or Release of Hazardous Substances at, on, in, under, above, adjacent to or migrating from the Acquired Assets prior to, on or after the Closing Date, including, but not limited to, Hazardous Substances contained in building materials at the Acquired Assets or in the atmosphere, soil, surface water, sediments, groundwater, landfill cells, or in other environmental media at or adjacent to the Acquired Assets; (iii) the investigation and/or Remediation (whether or not such investigation or

Remediation commenced before the Closing Date or commences after the Closing Date) of Hazardous Substances that are present or have been Released prior to, on or after the Closing Date at, on, in, under, above, adjacent to or migrating from the Acquired Assets, including, but not limited to, Hazardous Substances contained in building materials at the Acquired Assets or in the atmosphere, soil, surface water, sediments, groundwater, landfill cells, or in other environmental media at or adjacent to the Acquired Assets; (iv) subject to the provisions of Section 5.15 of the Purchase and Sale Agreement, compliance with applicable Environmental Laws prior to, on or after the Closing Date with respect to the ownership or operation or use of the Acquired Assets; (v) loss of life, injury to persons, property or business or damage to natural resources caused (or allegedly caused) by the offsite disposal, storage, transportation, discharge, Release or recycling, or the arrangement for such activities, of Hazardous Substances, prior to, on or after the Closing Date, in connection with the ownership or operation of the Acquired Assets; and (vi) the investigation and/or remediation of Hazardous Substances that are disposed, stored, transported, discharged, Released, recycled, or the arrangement of such activities, prior to, on or after the Closing Date, in connection with the ownership or operation of the Acquired Assets.

"*Facility*" means any of Millstone Units 1, 2 or 3, including without limitation the generator lead-line to the Interconnection Point and the tie-line from the Interconnection Point to the reserve station service transformer(s) for each such unit, and "*Facilities*" means any two or more of Millstone Units 1, 2 and 3, including without limitation the generator lead-line to the Interconnection Point and the tie-line from the Interconnection Point to the reserve station service transformer(s) for two or more such units.

"FERC" means the Federal Energy Regulatory Commission, or its regulatory successor, as applicable.

"Force Majeure" means acts of God, epidemics, landslides, hurricanes, floods, lightning, earthquakes, storms, perils of the sea, hurricane or storm warnings (to the extent that such warnings cause an evacuation of facilities and restrict service under this Agreement), restraints of any court or governmental or regulatory authorities, including ISO-NE, on the performance of a Party's obligations under this Agreement, acts of civil disorder, acts of industrial disturbance, strike or labor dispute, accidents to any transmission facilities, salinization or freezing of facilities or other equipment, necessities for making repairs or alterations to machinery or equipment, or any event similar to those enumerated above, to the extent that any such event: (i) restricts or prevents performance under this Agreement; (ii) is not reasonably within the control of the Party affected by such event; and (iii) by the exercise of reasonable diligence, such Party is unable to prevent or overcome; provided, however, that Force Majeure shall not include any event or circumstance which merely increases a Party's cost of performance under this Agreement or causes an economic hardship to a Party, including, without limitation, any order by a Governmental Authority (i) rescinding or otherwise impacting the Parties' performance under this Agreement or (ii) otherwise requiring a refund or other change in whole or in part of the price of or conditions of providing services hereunder. In no event shall lack of funds, or inability to obtain funds, or adverse action by any Governmental Authority that limits the availability of funds to a Party be considered Force Majeure.

"Good Utility Practice" means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods or acts which, in the exercise of reasonable judgment in light of

the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practices are not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods or acts generally accepted in the electric utility industry.

"Governmental Authority" means any federal, state, local or other governmental, regulatory or administrative agency, commission, department, board, or other governmental subdivision, court, tribunal, arbitral body or other governmental authority.

"Hazardous Material" or *"Hazardous Materials"* means oil and hazardous materials or wastes, air emissions, hazardous or toxic substances, wastewater discharges and any chemical, material or substance or other emissions that may give rise to liability under, or is listed or regulated under, applicable Laws as a "hazardous" or "toxic" substance or waste, or as a "contaminant," or is otherwise listed or regulated under applicable Laws because it poses a hazard to human health or the environment.

"Hazardous Substance" means any Hazardous Material or Radioactive Material, including any substance that may be both a Hazardous Material and a Radioactive Material.

"Indemnifying Party" has the meaning set forth in Section 11.1.

"*Initial Closing*" has the meaning set forth in the Purchase and Sale Agreement.

"Initial Closing Date" means the date and time at which the Initial Closing actually occurs.

"Interconnection Point" means the points for each Facility at which electric energy generated by such Facility enters CL&P's Transmission System or Distribution System and/or

the AC Service Power enters the Facility. The Interconnection Points are as specified in Schedule A to this Agreement.

"Interconnection Service" means all of the services necessary for the purpose of interconnecting the Buyer's Facilities with the Transmission System or the Distribution System to permit the flow of power, including ancillary services, on the Transmission System and/or Distribution System to and from the Facilities.

"ISO-NE" means ISO New England Inc., the independent system operator for the New England control area, or its successor.

"Joint Tag List" means the personnel approved by Buyer and CL&P who meet the requirements to switch, tag and ground electrical equipment set forth in CONVEX Operating Instruction No. 6401, Protective Switching and Tagging Procedures, effective September 1, 1992, a copy of which is attached hereto as Schedule D.

"*Laws*" means all laws, rules, regulations, codes, injunctions, judgments, orders, decrees, rulings, interpretations, constitutions, ordinances, common law, or treaties, of any federal, state, local, municipal and foreign, international, or multinational government or administration and related agencies.

"Local Services" has the meaning set forth in Section 4.9.1.

"Maintain" means construct, reconstruct, install, inspect, repair, replace, operate, patrol, maintain, use, modernize, expand, upgrade or other similar activities.

"NEPOOL" means the New England Power Pool, established by the NEPOOL Agreement, or its successor.

"*NEPOOL Agreement*" means the New England Power Pool Agreement dated as of September 1971, as amended by the Restated NEPOOL Agreement filed with FERC on July 22, 1998 as finally approved by FERC and as further amended from time to time.

"*NEPOOL Standards*" means the NEPOOL Agreement, NEPOOL Tariff, all market rules and procedures, criteria, rules and standards, and operating procedures from time to time issued or adopted by NEPOOL, while in effect, and all market rules and procedures, criteria, rules and standards, and operating procedures from time to time issued or adopted by ISO-NE, while in effect.

"*NEPOOL Tariff*" means the Restated NEPOOL Open Access Transmission Tariff as filed with FERC on July 22, 1998 and as it may be amended from time to time.

"*NERC*" means the North American Electric Reliability Council, or any successor thereto.

"*NPCC*" means Northeast Power Coordinating Council, or any successor thereto.

"*NRC*" means the United States Nuclear Regulatory Commission, as established by Section 201 of the Energy Reorganization Act of 1974, as amended, 42 U.S.C. Section 5841, or any successor commission, agency or officer.

"*NRC Maintenance Rule*" means the NRC rules and regulations set forth in 10 C.F.R. § 50.65, as may be amended from time to time.

"*NRC Requirements and Commitments*" means all the requirements, obligations, duties and commitments required to be followed and honored by the Buyer pursuant to the Atomic Energy Act of 1954, the regulations of the NRC, the Buyer's facility operating license and nuclear materials licenses, and all other laws, regulations, licenses and commitments to which

the Buyer is or may become subject from time to time as an NRC licensee, as each may be amended from time to time.

"OASIS" means Open Access Same Time Information System.

"*Operating Committee*" has the meaning set forth in Section 5.6.

"*Panel*" has the meaning set forth in Section 14.3.

"Permits" means all certificates, licenses, permits, franchises, approvals, consents, orders, exemptions, decisions and other actions of a Governmental Authority pertaining to a particular Acquired Asset, the Facilities and the sites or the ownership, operation or use thereof.

"Pool Transmission Facilities" or "*PTF*" means the transmission facilities of CL&P and other transmission owners in New England, as defined by the NEPOOL Agreement.

"Primary System" means bulk power equipment such as transformers, circuit breakers, rigid or strain bus, conductors, cables and other equipment operating at 2,400 volts or above.

"Qualified Personnel" has the meaning set forth in 29 C.F.R. § 1910.269(x).

"Radioactive Material" means any material that is radioactive or contaminated with radioactivity.

"Release" means any actual, threatened or alleged spilling, leaking, pumping, pouring, emitting, dispersing, emptying, discharging, injecting, escaping, leaching, dumping, or disposing of any Hazardous Substance into the Environment or within any building, structure, facility or fixture that may cause an Environmental Liability (including the disposal or abandonment of barrels, containers, tanks or other receptacles containing or previously containing any Hazardous Substance).

"Remediation" means any or all of the following activities to the extent required to address the presence or Release of Hazardous Substances: (a) monitoring, investigation,

assessment, treatment, cleanup containment, removal, mitigation, response or restoration work as well as obtaining any permits, consents, approvals or authorizations of any Governmental Authority necessary to conduct any such activity; (b) preparing and implementing any plans or studies for any such activity; (c) obtaining a written notice from a Governmental Authority with competent jurisdiction under Environmental Laws or a written opinion of a (i) Licensed Environmental Professional (as defined in C.G.S. § 22a – 133v) as contemplated by the relevant Environmental Laws and in lieu of a written notice from a Governmental Authority, that no material additional work is required; and (d) any other activities reasonably determined by a party to be necessary or appropriate or required under Environmental Laws.

"Revenue Meters" means all kWh, kVAh, and kVARh meters, pulse isolation relays, pulse conversion relays, associated totalizing and Remote Access Pulse Recorder (RAPR) equipment required to measure the transfer of energy between the Parties.

"Right of Way Access" means use of existing gates, roadways, paths or other means of gaining access, as provided in this Agreement, to each Party's property or facilities.

"Routine Inspection and Maintenance" means any inspection, measurements, meter readings and/or maintenance work in the exercise of Good Utility Practice on either Party's property or facilities to ensure reliable Interconnection Service and substation, Transmission System and Distribution System operations and Transmission System and Distribution System integrity.

"SCADA Equipment" means Supervisory Control and Data Acquisition equipment.

"Secondary Systems" means control, communication or power circuits that operate below 600 volts, AC or DC, including but not limited to any hardware, control or protective devices, cables, conductor, electric raceways, secondary equipment panels, transducers, batteries,

chargers, and voltage and current transformers whose signals or energy may be used by Buyer, CL&P, or their respective Affiliates.

"*Seller Reserved Easements*" has the meaning set forth in the Purchase and Sale Agreement.

"*Station*" means the Millstone Nuclear Power Station, in Waterford, Connecticut and the facilities, structures and assets associated therewith and ancillary thereto, excepting the land on which such facilities, structures and assets are situated.

"*Station Critical Transmission Facility*" means any of those facilities on the Transmission System of CL&P set forth in Appendix VII to Schedule E.

"*Structural Facilities*" has the meaning set forth in Section 4.7.

"*Switching, Tagging and Grounding Rules*" has the meaning set forth in CONVEX Operating Instruction No. 6401, Protective Switching and Tagging Procedures, effective September 1, 1992, or relevant successor provisions as in effect from time to time. A copy of the existing Switching, Tagging and Grounding Rules is attached hereto as Schedule D and incorporated by reference as if fully set forth herein.

"*Third Party*" has the meaning set forth in the Purchase and Sale Agreement.

"*T&D Assets*" means those assets described in Schedule I.

"*Transmission System*" means the PTF and non-PTF owned, controlled or operated by CL&P or its Affiliate for purposes of providing point-to-point transmission service, network integration transmission service and Interconnection Service, including services under the NEPOOL Tariff.

3. TERM OF AGREEMENT AND PERFORMANCE OBLIGATIONS

3.1 Term and Termination of Agreement. The obligations of the Parties under this Agreement shall commence on the Initial Closing Date and shall remain in effect until such time as both Parties mutually agree to terminate them; provided, however, that this Agreement shall terminate with respect to any Facility upon the date such Facility is permanently shut down, or upon termination in accordance with Section 14.2(b).

3.2 Performance Obligations. Except as required by Law, Governmental Authority or any other provision of this Agreement, neither Party shall knowingly take any action which could reasonably be expected to have an adverse effect upon the operations of the Acquired Assets or the T&D Assets, as the case may be, without the prior written notification and agreement between the Parties.

4. CONTINUING OBLIGATIONS AND RESPONSIBILITIES

In recognition and furtherance of Buyer's obligation to maintain a reliable supply of off-site power that satisfies the NRC regulatory requirements applicable to Buyer, and CL&P's obligation to provide reliable transmission service, CL&P and Buyer shall operate, control and maintain their respective facilities that are the subject of the Agreement (i) in a safe and reliable manner; (ii) in accordance with Good Utility Practice; (iii) consistent with applicable regional reliability criteria; and (iv) subject to Section 4.18.1.4 in accordance with NRC Requirements and Commitments.

4.1 Interconnection Service. Subject to the provisions of this Agreement, Buyer has the right to deliver power (including any uprate power) from the Facilities (or any expansion thereof as approved by NEPOOL and/or any Governmental Authority to the extent such approval is necessary to effectuate any expansion) to the Transmission System via each Facility's Interconnection Point. CL&P currently provides and, during the term of this Agreement, shall

continue to provide Interconnection Service to the Acquired Assets in accordance with the operating procedures and practices set forth in Schedules E and F hereto and this Agreement. CL&P shall connect (or continue to connect) the Acquired Assets to the Transmission System or the Distribution System at the respective Interconnection Points specified in Schedule A. Interconnection Service shall enable Buyer to receive AC Service Power from Buyer's supplier at the respective Interconnection Points if Buyer does not supply its own AC Service Power to the Acquired Assets in a manner that does not use the Transmission System or Distribution System. Buyer or its supplier shall be responsible for making arrangements under the applicable tariffs for transmission and ancillary services associated with the delivery of AC Service Power to the Interconnection Point using the Transmission System or Distribution System or the PTF. CL&P shall not enter into any agreement with third parties to provide Interconnection Service to such third party if doing so would be expected to unreasonably interfere with Buyer's operation of the Acquired Assets.

4.2 Access, Easements, Conveyances, Licenses, and Restrictions.

4.2.1 Access. (a) The Parties agree to grant to each other access, including Right of Way Access, to such of their respective facilities, properties, equipment and records as may be necessary to enable each Party to Maintain its respective facilities, properties, equipment and records in a manner consistent with Good Utility Practice. Such access shall be provided in accordance with such procedures and under such terms and conditions as the Party granting access may reasonably require and subject to the applicable NRC Requirements and Commitments, and shall not interfere with the ongoing business operations, rights and obligations of the Party granting access.

(b) Buyer hereby grants to CL&P, under such terms and subject to such procedures as Buyer may reasonably establish and subject to applicable NRC Requirements and Commitments, access for CL&P's Qualified Personnel to all of the Transmission System or Distribution System, Secondary Systems and communications systems and facilities that are located on Buyer's Facilities. Notwithstanding the foregoing, CL&P, its Affiliates, and their employees, contractors, subcontractors and agents may gain access to (i) Buyer's Facilities for purposes associated with the ongoing business of CL&P only upon prior notice and consent of the Buyer, provided such consent by Buyer shall not be unreasonably withheld; and (ii) the T&D Assets located on Seller Reserved Easements for purposes associated with the ongoing business of CL&P upon providing prior notice to Buyer.

(c) CL&P hereby grants to Buyer, under such terms and subject to such procedures as CL&P may reasonably establish, access (including without limitation such access as may be required by applicable NRC Requirements and Commitments and state regulations affecting nuclear generating facilities) for Buyer's Qualified Personnel to all of the Acquired Assets, Secondary Systems and telecommunications systems and facilities located on the property of Buyer to the extent subject to Seller Reserved Easements.

(d) The Access Rights are intended to be permanent and shall not be revoked, nor shall either Party take any action that would impede, restrict, diminish or terminate the rights of access or use granted by such Access Rights, except that a Party may suspend or revoke the Access Rights of any individual if such individual is unqualified or unfit to perform the services for which such individual seeks access to the other Party's facilities or if such individual engages in acts of negligence or misconduct while on such Party's site. Notwithstanding the foregoing, (i) should either Party or its successor decide to permanently abandon the use of any Access

Right or portion thereof, such Party shall give the other Party written notice of its abandonment, shall remove its properties from the area to be abandoned to the extent such properties are not being used by the other Party, perform any Remediation required by applicable Environmental Laws, and shall cause a release of such Access Rights or any portion thereof to be recorded in the appropriate Registry of Deeds; (ii) the Parties may mutually agree to relocate or expand any or all of the Access Rights locations within the Station; provided, however, that the Party requesting the relocation or expansion shall pay all reasonable costs and expenses associated therewith, and the Parties shall execute or obtain, in a form reasonably satisfactory to both Parties, all instruments necessary to establish the new easement location; and (iii) the Parties may agree in writing to modify or terminate any of the Access Rights. Both Parties agree to use their best efforts to establish a mutually agreeable Access Rights location if so requested.

(e) Buyer shall grant CL&P and CL&P shall grant Buyer such additional conveyances, easements or licenses as each may grant under applicable law or regulation as are reasonably necessary for ownership, possession, maintenance, operation or repair of the respective Party's equipment and facilities as long as such conveyances, easements or licenses do not have a material adverse impact upon the other Party's operations and are consistent with the purpose of this Agreement and the Purchase and Sale Agreement and the other Related Agreements.

4.2.2 Neither Party shall make changes to the site topography or accesses, including but not limited to grading or drainage, that could reasonably be expected to materially adversely affect the other Party's facilities or common use drainage or pollution control systems, without the prior written consent of the other Party, such consent not to be unreasonably withheld.

4.2.3 Each Party shall have the right to use and maintain its existing control cables in existing underground duct banks located on the property of the other Party (or property of Buyer which is subject to a Seller Reserved Easement), including duct banks between CL&P's substation and the first point of termination in the Station.

4.3 Facility and Equipment Maintenance.

4.3.1 Each Party shall Maintain its equipment and facilities and perform its maintenance obligations that could reasonably be expected to affect the operations of the other Party pursuant to Good Utility Practice. Buyer shall Maintain all common use roadways and plant accesses in or about the Station. Unless otherwise specified herein, or unless the Parties mutually agree to a different arrangement, neither Party shall be required to Maintain the other Party's equipment or Secondary Systems, regardless of the location of such equipment or Secondary Systems.

4.3.2 CL&P and Buyer, at no cost to either Party, shall cooperate to provide all services, equipment, materials and access, including any services, equipment, materials and access identified in CONVEX Operating Instruction No. 8601, a copy of which is attached hereto as Schedule E, as are necessary to safely and efficiently de-energize all salt contaminated assets.

4.4 Equipment Testing.

Each Party shall perform routine inspection and testing of its facilities and equipment in accordance with Good Utility Practice and as may be necessary to ensure the continued interconnection of each Facility with the Transmission System in a safe and reliable manner. Each Party shall test, calibrate, verify or validate its telemetering, data acquisition, protective relay, control equipment or systems or other equipment or software pursuant to

applicable rules of NEPOOL, NERC or NPCC or, when otherwise applicable, Good Utility Practice or for the purpose of troubleshooting problems on interconnected facilities. Each Party shall be responsible for all costs to test, calibrate, verify or validate its equipment or software at intervals required by NEPOOL, NERC or NPCC. Either Party may request, pursuant to Good Utility Practice, additional testing by the other Party, provided, however, that the requesting Party shall be responsible for all costs of the other Party associated with additional testing. Each Party shall supply the other Party, at no cost to such Party, with copies of the test results, including but not limited to inspection reports, installation and maintenance documents, test and calibration records, verifications and validations of the telemetering, data acquisition, protective relay, or other equipment or software connected to the Transmission System or Distribution System; provided, however, that (i) in a case where the test, calibration, verification or validation reveals that the inspected Party's equipment or facility requires repair, adjustment, calibration or other remedy, the inspected Party shall bear the cost of the test, calibration, verification or validation and (ii) in a case where the test, calibration, verification or validation that has been requested is not required by Good Utility Practice, the requesting Party shall bear the cost of the test. The provision by either Party of any such documents, records and data shall be subject to FERC Order 889 or any other applicable Laws.

4.5 New Construction or Modifications.

CL&P may construct or modify its Transmission System and Distribution System, including associated telecommunication facilities, pursuant to Good Utility Practice, and Buyer may construct or modify its Acquired Assets pursuant to Good Utility Practice. Notwithstanding the foregoing, no modifications to or new construction of facilities or access thereto, including but not limited to rights of way, fences or gates, shall be made by either Party which might

reasonably be expected to adversely affect the other Party with respect to its rights, obligations and responsibilities under this Agreement or its compliance with NRC Requirements and Commitments, without providing the other Party (90) ninety days prior written notification and sufficient information regarding the work prior to commencement to enable such Party to evaluate the effect of the proposed work on its operations.

Both Parties agree to comply with Good Utility Practice in a manner that complies with NEPOOL CRS 43, the NPCC's "Basic Criteria for Design and Operation of Interconnected Power Systems," or any successor criteria, if such criteria are applicable to either Party's planned work on its facilities subject to this Agreement, together with all applicable operating rules, regulations, procedures and interconnection standards of CL&P and Buyer (as the case may be) and all Laws which affect such proposed modifications, as each may be modified from time to time, including, but not limited to, 10 C.F.R. Part 50, Appendix A, Criterion 17, and subject to Section 4.18.1.4 all other applicable NRC Requirements and Commitments. At least once each year, the Operating Committee shall meet and discuss anticipated construction work, major modifications and circuit changes involving new or existing facilities for the upcoming year. For all construction work, major modifications or circuit changes involving new or existing facilities, equipment, systems or circuits that could reasonably be expected to affect the operation of either Party, the Party desiring to perform such work shall provide the other Party with drawings, plans, specifications and other necessary documentation for review at least sixty (60) days prior to the beginning of construction; provided that if either Party contemplates a modification that would require the other Party to make associated changes at its facilities, that Party shall promptly provide written notice thereof to the other Party and shall keep the other Party fully informed as its plans develop. If a proposed modification requires NRC approval or license amendment, the

Parties shall cooperate and use Commercially Reasonable Efforts to obtain such approval or license amendment before making the modification. The Parties shall use Commercially Reasonable Efforts to coordinate the start of construction required by each Party in connection with such proposed modification such that interruptions to service and construction progress are not required or are minimized.

If CL&P constructs new or upgraded transmission facilities at the request of Buyer that benefit Buyer and are approved as part of the NEPOOL planning process or if CL&P constructs new or upgraded distribution facilities at the request of Buyer, Buyer shall pay the costs thereof in accordance with Section 6. If Buyer is required to construct new or upgraded facilities as a result of changes to the Transmission System or Distribution System that are not required by NEPOOL, ISO-NE or Good Utility Practice, CL&P shall pay the costs thereof in accordance with Section 6.

CL&P shall provide advance notice to Buyer's designee as set forth in Section 20 by telephone before CL&P's personnel enter any of the Facilities to begin new construction or modifications. Buyer may request modifications to the Transmission System, Distribution System or interconnection facilities or other property or facilities owned by CL&P in order to satisfy NRC Requirements and Commitments. Subject to the satisfaction of FERC regulatory requirements and the approval of ISO-NE, if required, CL&P shall perform such modifications. Such modifications shall be performed at Buyer's sole cost and expense, except to the extent that CL&P can recover the costs and expenses of performing such modifications under the NEPOOL Agreement.

4.6 Inspections.

4.6.1. Right to Observe Testing. Each Party shall, at its own expense, have the right to observe the testing of any of the other Party's facilities and equipment (in the case of testing conducted by or on behalf of CL&P, such facilities shall include, without limitation and for the purposes of this Section 4.6, the Transmission System and Distribution System) whose performance may reasonably be expected to affect the operation or reliability of the observing Party's facilities and equipment. Each Party shall notify the other Party in advance of its performance of such tests to its facilities and equipment, and the other Party may have a representative attend and be present during such testing.

4.6.2. Observation of Deficiencies. If a Party observes any deficiencies or defects on, or becomes aware of a lack of scheduled maintenance and testing with respect to, the other Party's facilities and equipment that might reasonably be expected to adversely affect the observing Party's facilities and equipment, the observing Party shall provide notice to the other Party that is prompt under the circumstances, and the other Party shall make any corrections required in accordance with Good Utility Practice. No liability shall arise under this Agreement for a Party's failure to notify the Party of an observed deficiency, defect or lack of scheduled maintenance and testing.

4.7 Common Structural Facilities.

The Asset Demarcation Agreement delineates certain facilities that will be part of the Acquired Assets or the T&D Assets, which are supported on or within structures or buildings belonging to the other Party (the "*Structural Facilities*"). Each Party shall maintain the Structural Facilities that it owns in accordance with Good Utility Practice. In the case of Structural Facilities owned by Buyer upon which any of the Transmission System or Distribution System or telecommunications equipment of CL&P is located, CL&P shall have the right to

inspect such Structural Facilities annually pursuant to Section 4.6 and provide Buyer with a report documenting any deficiencies. Buyer shall then make any corrections necessitated by Good Utility Practice. In the case of Structural Facilities owned by CL&P upon which any of the Acquired Assets is located, Buyer shall have the right to inspect such Structural Facilities annually pursuant to Section 4.6 and provide CL&P with a report documenting any deficiencies. CL&P shall then make any corrections necessitated by Good Utility Practice.

4.8 Information Reporting Obligations.

Notwithstanding anything to the contrary in this Agreement, any obligation set forth in this Agreement of Buyer to provide information, reports or data to CL&P shall be subject to the following limitations and shall only be made available to CL&P employees on a "need to know" basis: (a) such information, reports, or data shall be subject to the provisions of Section 8 concerning confidentiality; (b) CL&P shall request information, reports and data from Buyer on a non-discriminatory basis with respect to generators interconnected to the Transmission System or Distribution System, as necessary, in CL&P's reasonable judgment, for the purposes set forth in clause (c), below; (c) CL&P shall use any information provided by Buyer pursuant to this Agreement only for the purposes of operating, maintaining and planning the T&D Assets pursuant to Good Utility Practice; and (d) if and to the extent that any of the functions for which CL&P requires certain information, reports or data is no longer performed by CL&P, which function has been adequately assumed by ISO-NE, Buyer's provision of such information, reports or data to ISO-NE shall satisfy its corresponding obligation under this Agreement.

4.8.1 Buyer shall promptly provide CL&P with all information which could reasonably be expected to affect the Transmission System and which is reasonably requested by

CL&P, NERC, NPCC, NEPOOL, CONVEX or ISO-NE. Consistent with Good Utility Practice and/or Buyer's obligations as a NEPOOL member, Buyer shall also provide to CL&P or to ISO-NE, at CL&P's or ISO-NE's request, all information regarding its generating facilities needed by ISO-NE to model and study Transmission System responses to system contingencies and disturbances.

4.8.2 Buyer shall supply accurate, complete and reliable information in response to data requests necessary for operations, maintenance, regulatory requirements and analysis of the Transmission System or the Distribution System. Such information may include metered values for MW, MVAR, voltage, current, frequency, breaker status indication or any other information reasonably required by CL&P for reliable operation of the Transmission System or of the Distribution System pursuant to Good Utility Practice. To CL&P's knowledge, the equipment for the reporting of real-time information in response to data requests existing on the Initial Closing Date is adequate to meet such information requirements. If such equipment is inadequate to meet real time information requirements for metered MW, MVAR, voltage, current, frequency, breaker status indication or other information required by CL&P for reliable operation of the Transmission System, CL&P shall upgrade such equipment at its sole cost and expense.

4.8.3 Buyer shall gather information pertaining to generation, transmission and distribution operating parameters for transmittal to CL&P using existing remote access systems.

4.8.4 CL&P shall provide to Buyer such information on Transmission System and Distribution System conditions as may affect operation of, and availability of Interconnection Service to, the Acquired Assets, including without limitation, system voltage

levels. CL&P shall provide such information in accordance with FERC Orders 888 and 889 and any successor orders thereto.

4.9 Local Services.

4.9.1 In addition to the Interconnection Service, the Parties agree that, due to the integration of certain Secondary Systems it is desirable to provide each other with the services set forth in Sections 4.10 and 4.11 (*"Local Services"*) at no cost. The Parties shall use Commercially Reasonable Efforts to ensure that such Local Services are available at all times in the manner specified herein. Notwithstanding the foregoing, either Party, upon notice to the other, may change the Local Services it provides, provided that there is no cost to the receiving Party and the quality, reliability and integrity of the replacement Local Services are equivalent to the then existing Local Services. The Party receiving the notice shall have the right to review the proposed modifications and notify the Party proposing the modifications of any identified features that would reasonably be expected to adversely affect its operations, and the Party proposing the modifications shall, to the extent practicable, make any changes reasonably required to address the adverse impact. If service could be interrupted as a result of the change, the Party proposing to make the change shall give ten (10) working days prior written notice of the change to the other Party. Neither Party shall terminate its Local Services without the other Party's written consent; provided, however, if either Party no longer needs or desires a particular Local Service, such Party shall notify the other Party and the Party providing the Local Service shall terminate such service as soon thereafter as practicable.

4.9.2 Temporary Suspension of Section 4.10 and 4.11 Services. The Party providing any Local Service set forth in Sections 4.10 and 4.11 below shall notify and obtain approval from the other Party of any scheduled temporary suspension of such Local Service at

least five (5) working days in advance of such suspension. Such notification shall include an estimated time duration for a return to normal conditions. In the event of any unplanned or forced suspension of any Local Service set forth in Sections 4.10 and 4.11 below, the Party providing such Local Service shall notify the other Party first orally as soon as reasonably practicable under the circumstances, and then in writing within forty-eight (48) hours of providing oral notice. The notifying Party shall use all Commercially Reasonable Efforts to minimize the duration of such suspension. The Parties agree to use all Commercially Reasonable Efforts to complete any repairs, modifications or corrections that are necessary to restore any suspended Local Service pursuant to Section 4.10 and 4.11 below to the other Party as soon as reasonably practicable. The Party temporarily suspending any Local Service shall reimburse the other Party for the reasonable costs incurred by the other Party in obtaining equivalent Local Service.

4.10 CL&P Provided Local Services.

4.10.1 AC Service Power. During such period when a Facility is not generating power, Buyer shall have the right to purchase AC Service Power from other supply sources, and CL&P shall provide all necessary and appropriate delivery services with respect thereto under applicable rates and tariffs.

4.10.2 Relay and Control Service Power. At CL&P's expense, CL&P shall maintain the distribution facilities and other facilities necessary for it to deliver to Buyer the AC Service Power in the quantities, at the levels and in the locations within the T&D Assets where such power is provided over facilities included in the T&D Assets immediately prior to the Initial Closing Date. At no cost to Buyer, CL&P shall allow Buyer's relays and controls that are currently dependent upon CL&P's batteries for DC service power to continue to take such DC

service power from CL&P's facilities (or shall otherwise provide such service) in the quantities, at the levels and in the locations within the T&D Assets where such power is provided from CL&P's facilities immediately prior to the Initial Closing Date.

4.10.3 Building Services. At CL&P's expense, CL&P shall provide Buyer with heating, ventilation, air conditioning, lighting and other building services at the levels in existence for winter and summer conditions immediately prior to the Initial Closing Date, for Buyer's relay or control equipment within the T&D Assets. If Buyer desires a higher level of service, Buyer and CL&P shall mutually agree upon the upgrade and price for such upgrade and Buyer shall pay CL&P for the upgrade.

4.10.4 Metering. Buyer shall acquire and own all Revenue Meters and CL&P shall own all metering equipment for AC Service Power if used solely for that purpose. Buyer shall maintain, control and repair all Revenue Meters and Station service meters, conduct meter accuracy and tolerance tests not less than once every year, and prepare all calibration reports required for equipment that measures energy transfers between Buyer and CL&P. Calibration reports prepared by Buyer shall be in accordance with NEPOOL OP-18, as amended from time to time, and any applicable requirements of the Connecticut Department of Public Utility Control or its successor. The Parties agree that if any meter is not at the same location electrically as the Interconnection Point, the meter shall be compensated to record delivery of electricity in a mutually agreed upon manner that accounts for energy losses occurring between the meter and the Interconnection Point, both when the Facility is delivering energy to CL&P and when CL&P is delivering AC Service Power to the Buyer.

If at any time any meter owned by any Party is found to be inaccurate by a margin of error greater than that allowed under the applicable NEPOOL Standards and such equipment

cannot be repaired, such Party shall cause such meter to be replaced at its expense. Meter readings for the period of inaccuracy shall be corrected so far as corrections can be reasonably ascertained, provided that the period for which such corrections are made shall not exceed twelve (12) months.

If, at any time, any meter owned by any Party indicates that the meter readings are in error by two percent (2%) or more for an induction type meter or 0.5% or more for a solid state meter, the meter readings shall be corrected as follows: (i) determine by testing the meter at approximately ten percent (10%) of the rated current (test amperes) specified for the meter; (ii) determine the error by testing the meter at approximately one hundred percent (100%) of the rated current (test amperes) specified for the meter; (iii) the average meter errors shall then be computed by adding one-fifth (1/5) of the algebraic sum of (aa) the error determined in subsection (i) of this Section 4.10.3 and (bb) four (4) times the error determined in subsection (ii) of this Section 4.10.3. The average meter error shall be used to adjust the bills for the amount of electric energy supplied to the relevant Party for the previous six months, unless Buyer's or CL&P's records conclusively establish that an error existed for a greater or lessor period, in which case the correction shall cover such actual period of error.

Buyer shall provide CL&P with written notice thirty (30) calendar days prior to the commencement of any routine or regularly scheduled test, calibration or maintenance of any Revenue Meter or Station service meter, and CL&P shall provide such notice to Buyer prior to any test, calibration or maintenance of any meter for AC Service Power; provided, however, that for any non-routine testing, calibration or maintenance conducted by either Party to investigate or correct a suspected problem, written notice shall be provided to the other Party seven (7) calendar days prior to the commencement of such investigative and/or corrective action(s). All

such testing, calibration and maintenance shall be performed in accordance with NEPOOL Standards. A Party may elect to have a representative present during the other Party's performance of any test, calibration or maintenance hereunder. In addition to the foregoing, each Party shall comply with any reasonable request of the other concerning the sealing of meters, the presence of a representative of the other Party when the seals are broken and the tests are made, and other matters affecting the accuracy of the measurement of electricity delivered to or from each Acquired Asset. If either Party believes that there has been a meter failure or stoppage, it shall immediately notify the other. Revenue Meter locations at the Initial Closing Date are set forth on Schedule B hereto.

In order for CL&P to meet its reporting obligations to ISO-NE, Buyer shall provide CL&P daily telephone access (or such other form of access to which the Parties may agree) to hourly interval data recording meters enabling CL&P to derive (1) net generation at the Interconnection Point and (2) Facility service loads when a Facility is not generating. The data recording meters may be either net generation meters or a combination of gross generation and Facility service load meters. In the event of telephone communication failure, Buyer shall report the hourly interval net generation data values to CL&P by facsimile by 8:00 a.m. on the day following the day of generation. In the event of meter failure, Buyer shall provide CL&P informed and intelligent estimates of the hourly net generation data by 8:00 a.m. on the day following the day of generation. CL&P shall install, prior to the Initial Closing Date, appropriate Revenue Meters at each location where such meters are required such that all meters and other equipment and facilities necessary for Buyer to comply with its obligations under this paragraph shall be installed by the Initial Closing Date, and Buyer shall be excused from such obligations until such meters and other equipment and facilities are installed.

4.10.5 Line Operation Information. Both Parties shall require remote access to available site specific line operation information at CL&P's facilities. CL&P shall make such information available to Buyer over OASIS in accordance with FERC Orders 888 and 889 and any successor orders thereto.

4.10.6 Relaying Systems. CL&P shall own, maintain and test, at its own expense, all protective relaying equipment that protects its T&D Assets. Where protective relaying equipment protects property of both Parties, the ownership of such equipment shall be as set forth in the Asset Demarcation Agreement.

4.11 Buyer Provided Local Services.

4.11.1 Seller's Facility Support. For so long as any of the Facilities continue to operate as electric generation facilities, at no cost to CL&P, Buyer shall allow CL&P's facilities that are currently dependent upon such Facilities for backup station service to continue to take backup AC station service power from the Facilities in the quantities, at the levels and in the locations where such power is provided from the Facilities immediately prior to the Initial Closing Date. If Buyer decommissions any Facility such that it is no longer operating as an electric generating facility, Buyer shall permit CL&P to continue to obtain backup station service power from Buyer's Facilities, to the extent such power is available, at a cost to be agreed upon by the Parties. Any upgrade in the level of support hereafter requested by CL&P shall be mutually agreed upon by the Parties.

4.11.2 Building Services. At no cost to CL&P, Buyer shall own, repair, maintain and provide CL&P with heating, ventilation, air conditioning, lighting and other building services at the levels in existence for winter and summer conditions, immediately prior to the Initial Closing Date, for areas within Buyer's Acquired Assets used by CL&P for

communications equipment and cables, offices or other related transmission functions. Subject to (i) the prior written consent of Buyer, which consent shall not be unreasonably withheld, and (ii) applicable NRC Requirements and Commitments, CL&P shall have the right to expand its equipment and facilities within Buyer owned and controlled spaces occupied by such equipment at the Initial Closing Date (which it will share with Buyer) upon such terms and conditions as CL&P and Buyer shall agree. If CL&P desires a higher level of service, CL&P and Buyer shall mutually agree upon the upgrade and CL&P shall pay for such upgrade. Buyer will provide CL&P, at no cost to CL&P, with (i) water services to CL&P's switchyard buildings; and (ii) sufficient snow plowing services to enable CL&P to obtain access, at all times, to the switchyard.

4.12 Communications Services.

4.12.1 General. CL&P and Buyer shall acquire and maintain appropriate channels of communication as required by ISO-NE and CONVEX. Buyer may at its option use CL&P's communication equipment for necessary microwave services, on the condition that Buyer will become a participant in the Shared Telecommunications Network (STN) and will abide by the terms and conditions of the STN Agreement dated June 1, 1990, a copy of which is attached hereto as Schedule C and incorporated by reference as if fully set forth herein.

4.12.2 Aerial Corridor Easements. CL&P has retained, in the form of Seller Reserved Easements, such rights, including aerial corridor easements, as may be necessary to enable CL&P to access and utilize CL&P's microwave and fiber optic communication equipment at their present locations.

4.12.3 Upgrades. After providing notice to Buyer in accordance with this Agreement, CL&P, at its own expense, shall have the right to modify, add or upgrade communication equipment including but not limited to antennas, waveguides and cables on

Buyer's Acquired Assets as required for Transmission System or Distribution System operations, provided that such upgrades (1) have no adverse impact upon Buyer's operation of the Acquired Assets, (2) shall not require Buyer to incur any costs, unless reimbursed by CL&P, (3) shall not result in any liability for Buyer, and (4) are installed, operated and maintained by CL&P in accordance with applicable laws, regulations, rules and permits. The Parties shall work cooperatively together in planning, designing, scheduling and installing the upgrades.

4.12.4 Maintenance. CL&P shall be responsible for maintaining, at its own expense, equipment and cables necessary to connect its communication equipment to other equipment in the Buyer's facility to which communication services are provided or to access an outside facility or telecommunication service provider for communication purposes.

4.13 Spare Parts.

Where practicable and available, the Parties shall assist each other in obtaining spare parts in the event of emergencies or equipment failures. In the event a Party provides spare parts to the other, the Parties shall mutually agree upon payment for or replacement of such spare parts. If either Party desires the other Party to maintain spare parts that are not in the other Party's possession, and if the other Party has the physical space to do so, the other Party shall maintain such parts, at the requesting Party's expense.

4.14 Emergency Procedure

CL&P shall provide Buyer's designee under Section 20 with prompt oral notification of Transmission System or Distribution System conditions which may reasonably be expected to affect Buyer's immediate operation of the Acquired Assets, and Buyer shall provide CL&P's designee under Section 20 with prompt oral notification of any Emergency which may reasonably be expected to affect CL&P's operations. Such oral notification shall be followed

within 24 hours by written notification. The written notification shall describe the extent of damage or deficiency, anticipated length of outage and the corrective action. Provision of such notification shall be subject to the requirements of FERC Order 889 or any other applicable standards of conduct.

If, in the good faith judgment of either Party, an Emergency endangers or could endanger life or property, the Party recognizing the problem shall take such action as may be reasonable and necessary to prevent, avoid or mitigate injury, danger or loss in accordance with CONVEX Operating Instructions No. 6401, Section 1.D.

Either Party may, consistent with Good Utility Practice, request that ISO-NE take whatever actions or inactions it deems necessary during an Emergency to: (i) preserve public safety; (ii) preserve the integrity of the Transmission System; (iii) limit or prevent damage; or (iv) expedite restoration of service.

4.15 Interconnection Service Interruptions.

If ISO-NE, CONVEX or, with respect to portions of the Transmission System or the Distribution System subject to CL&P's dispatch, CL&P, reasonably determines that the Buyer's operation of its Acquired Assets will cause an Emergency or interfere with CL&P's safe and reliable operation of the Transmission System or the Distribution System or if ordered to do so by ISO-NE or CONVEX, CL&P may curtail Interconnection Service to the extent required to counter the effects of such Emergency (including Interconnection Service in its entirety if necessary) until the condition which may or has caused the Emergency has been corrected, and subject to complying with the notice and termination provisions set forth in FERC regulations and applicable NRC Requirements and Commitments, if any. To the extent reasonably practicable under the circumstances, CL&P shall give Buyer notice of its intention to curtail

Interconnection Service and allow suitable time for Buyer to remove the curtailing condition before taking action. CL&P's judgment with regard to the interruption of service under this paragraph shall be made pursuant to Good Utility Practice. In the case of such interruption, CL&P shall immediately confer with Buyer regarding the conditions causing such interruption and its recommendation concerning timely correction thereof. Subject to the limitations of Section 19, in the event Interconnection Service is interrupted due to a failure of either Party to perform its obligations under this Agreement, the Party responsible for the interruption shall compensate the other Party for all costs reasonably incurred by the other Party directly attributable to the interruption and restoration of Interconnection Service; provided, however, that such costs shall not include the costs of replacement energy or capacity. CL&P shall restore the Interconnection Service as it existed before the interruption once the interfering condition ceases to exist.

4.16 Non-Dispatchability Notification.

If any Facility is not dispatchable by NEPOOL or ISO-NE, Buyer shall, in accordance with applicable ISO-NE and NEPOOL procedures, notify CL&P, to the extent feasible, at least forty-eight (48) hours in advance of its intent to take the Facility temporarily off-line, and it shall provide CL&P with a schedule of when generation operations are expected to be resumed. In the event of a forced outage, Buyer shall, in accordance with applicable ISO-NE and NEPOOL procedures, notify CL&P of its Facility's temporary interruption of generation as soon as practicable, and Buyer shall provide CL&P, as soon as practicable, with a schedule of when generation will be resumed.

4.17 Scheduled Maintenance Notification and Coordination

4.17.1 Transmission System Maintenance. The Parties shall work cooperatively to schedule outages of their respective facilities and equipment to minimize the impact of such outages on each others' facilities or the provision of Interconnection Service. CL&P shall consult with Buyer regarding timing of scheduled maintenance of the Transmission System, Distribution System or interconnection facilities which might reasonably be expected to affect the Facilities. CL&P shall, to the extent practicable, schedule any testing, shutdown or withdrawal of such facilities to coincide with Buyer's scheduled outages. To facilitate such consultation and to the extent the information is not available from ISO-NE in a timely manner, in June of each year, or on another date mutually acceptable to the Parties, Buyer shall furnish CL&P with non-binding preliminary refueling outage schedules (or other planned outages) covering the upcoming three years. Buyer shall furnish CL&P with non-binding updates to such schedules to reflect significant changes.

In the event CL&P is unable to schedule the outage of its Transmission System, Distribution System or interconnection facilities to coincide with Buyer's schedule, CL&P shall notify Buyer as promptly as practicable of the reasons for the outage, the time scheduled for it to take place, and its expected duration. CL&P shall use due diligence to restore such facilities to operation as quickly as possible. CL&P shall comply with all equipment outage planning procedures in Appendix VII to Schedule E that are not superceded by or inconsistent with the provisions of this Section 4.17.1.

4.17.2 Station Critical Transmission Facilities. To the extent not otherwise required or dictated by ISO-NE, CL&P shall use Commercially Reasonable Efforts to maximize the availability of each Facility's off-site power services by taking out of service a minimum

number of Station Critical Transmission Facilities at any one time and by minimizing the time such facilities are out of service. Except in an Emergency, CL&P shall provide the Buyer with advance notice of any outage of any Station Critical Transmission Facility. In the event of an outage of more than one Station Critical Transmission Facility, CL&P shall use Commercially Reasonable Efforts to promptly restore sufficient facilities to service so that only one Station Critical Transmission Facility is out service.

4.17.3 Local Routine Inspections and Maintenance. CL&P or its Affiliates may gain access to (i) the Buyer's Facilities for Routine Inspection and Maintenance and all other non-disruptive work that does not require equipment outages upon prior notice and consent of the Buyer's designee as described in Section 20, provided such consent by Buyer shall not be unreasonably withheld, and (ii) the T&D Assets located on Seller Reserved Easements for Routine Inspection and Maintenance upon providing prior written notice to Buyer. Buyer shall provide advance notice by telephone to CL&P's dispatch personnel (or equivalent) before Buyer's personnel enter CL&P's T&D Assets for routine measurements, inspections and meter reads. For work that will require equipment outages or that is reasonably expected to affect the security of the other Party's operations, the Party desiring to perform the inspection and maintenance shall provide the other Party with at least 48 hours prior written notification in accordance with Section 20. Notwithstanding the foregoing, to the extent practicable, all maintenance work performed by CL&P shall be scheduled and conducted in accordance with applicable NRC Requirements and Commitments including without limitation the provisions of the NRC Maintenance Rule.

4.18 NRC Maintenance Rule and NRC Commitments and Requirements.

4.18.1 Obligations and Authority.

4.18.1.1 CL&P hereby represents and warrants that the operation by CL&P or its Affiliates of the facilities, components and functions of the T&D Assets covered by the NRC Maintenance Rule and NRC Commitments and Requirements as in effect as of the Initial Closing Date complies with such NRC Maintenance Rule and other NRC Commitments and Requirements. CL&P agrees that it will continue to maintain such compliance at its own cost and expense during the term of this Agreement.

4.18.1.2 In furtherance of Buyer's obligation to comply with the NRC Maintenance Rule, CL&P agrees that Buyer has the authority, control and obligation to: (1) identify all facilities, components and functions covered under the NRC Maintenance Rule, regardless of ownership, and provide such information to CL&P; (2) in cooperation with CL&P, to establish and approve availability and reliability performance criteria and improvement goals for all such facilities, components and functions, regardless of ownership, to permit Buyer to comply with the NRC Maintenance Rule; and (3) in cooperation with CL&P, to approve all improvements, maintenance, inspections, monitoring, operational procedures, or any other activity affecting such facilities, components and functions, regardless of ownership, to permit Buyer to comply with the NRC Maintenance Rule.

4.18.1.3 Compliance with NRC Commitments and Requirements. Subject to 4.18.1.4, CL&P agrees to support Buyer's compliance with applicable NRC Requirements and Commitments. Without limiting the generality of the foregoing, if any of CL&P's services to the Facilities are relied upon to meet NRC Requirements and Commitments, CL&P shall provide priority to the Facilities in restoring any interruptions, subject to applicable ISO-NE requirements, NEPOOL Standards and any requirements of Governmental Authorities.

4.18.1.4 Any incremental costs or expenses of CL&P incurred as a result of a Buyer's request to CL&P for additional or different action with respect to such facilities, components and functions as described in Section 4.18.1.1 above, or in connection with Section 4.18.1.2, Section 4.18.1.3, Section 4.17.3, Section 4.18.2 or any other provision of this Agreement, or arising from such Buyer's compliance with any amendment or modification to, or any change in interpretation of, the NRC Commitments and Requirements after the Initial Closing Date, shall be borne by Buyer.

4.18.2 Schedule of Components. Schedule J to this Agreement sets forth the substation components that, as of the Initial Closing Date, are necessary to fulfill those functions covered by the NRC Maintenance Rule, together with the schedule, as of the Initial Closing Date, for maintenance, inspection and testing of said components. All other substation components will be maintained, inspected and tested in accordance with CL&P's standard procedures for substation maintenance, inspection and testing. In the event the Parties agree that a component not identified in Schedule J should have been included in Schedule J the Parties may, by their mutual agreement, add substation components to Schedule J. In order to comply with the NRC Maintenance Rule, Buyer may, in its sole discretion, add new substation components to Schedule J as appendices to Schedule J, and also may change schedules for maintenance, inspection and testing of such components.

4.18.3 Notice. To the extent CL&P becomes aware of any failure of any substation component identified in Schedule J, CL&P shall provide prompt notice thereof to the Buyer.

4.18.4 Analysis. As required by the NRC Maintenance Rule, the Buyer may, at its discretion and with CL&P's reasonable cooperation, conduct an analysis of a failure of any

substation component identified in Schedule J. CL&P will cooperate with the Buyer and promptly, upon Buyer's request, provide Buyer with all information under CL&P's control and consistent with Good Utility Practices necessary for Buyer to: (1) determine whether the failure was a functional failure; (2) determine whether the failure, if a functional failure, was maintenance preventable; and (3) conduct root cause analyses of those failures as the Buyer deems appropriate. At the request of Buyer, and at Buyer's expense, CL&P shall perform a root cause analysis for any substation component failure identified in Schedule J as Buyer deems necessary.

4.18.5 Testing. As necessary, in accordance with Good Utility Practice, or at Buyer's request, CL&P will arrange for independent testing of any failed CL&P component identified in Schedule J.

4.18.6 Performance Improvement Plan. Buyer shall analyze data supplied by CL&P concerning a failure of a substation component identified in Schedule J and shall notify CL&P if a performance improvement plan is required in accordance with the NRC Maintenance Rule. The Buyer and CL&P will cooperate to develop and implement any such performance plan, the cost of which shall be borne by Buyer.

4.18.7 Records. For the term of this Agreement, CL&P shall provide Buyer with complete and accurate records concerning all preventative and corrective maintenance activities performed by CL&P on all CL&P substation components identified in Schedule J.

4.19 Safety.

4.19.1 General. Subject to the provisions of Section 11, each Party shall be solely responsible for and shall assume all liability for the safety and supervision of its own employees, agents, representatives and subcontractors. All work performed by either Party that

could reasonably be expected to affect the operations of the other Party shall be performed in accordance with all applicable laws, rules and regulations pertaining to the safety of persons or property, including, without limitation, compliance with the safety regulations and standards adopted under the Occupational Safety and Health Act of 1970 (OSHA) as amended from time to time, the National Electrical Safety Code (NESC) as amended from time to time and Good Utility Practice. The Parties shall cause their agents, representatives and subcontractors to perform their work in accordance with these standards.

4.19.2 Switching, Tagging and Grounding. Each Party shall comply with the CONVEX Switching, Tagging and Grounding rules set forth in Schedule D, as in existence on the Initial Closing Date, or as may be modified from time to time within the CONVEX dispatching jurisdiction, when performing work on any facilities or equipment owned or controlled by either Party to which the rules apply. CONVEX dispatching jurisdiction is as described in Schedule E hereto. Each Party will notify the other Party of any changes in its switching, tagging and grounding rules.

4.19.3 Training. Each Party, in accordance with Schedule D, shall be responsible for training, testing and certifying operators for inclusion on a Joint Tag List. Every six months, each Party shall provide the other Party with an updated list of employees qualified for inclusion on the Joint Tag List. Buyer shall Maintain and be responsible for all switching, tagging and grounding on Buyer's side of the Interconnection Point, and CL&P shall Maintain and be responsible for all switching, tagging and grounding at the Interconnection Point and on CL&P's side thereof.

4.20 Environmental Compliance and Procedures.

During the term of this Agreement, each Party shall notify the other Party of any releases of Hazardous Substances, asbestos or lead abatement, or requirements for or commencement of Remediation activities by oral notification within twenty-four (24) hours, followed by written notification within forty-eight (48) hours of discovery or initiation or sooner when necessary to permit the other Party to comply with applicable laws or regulations. Except as required by law or any federal or state agency, neither Party shall knowingly take any action referred to in the next preceding sentence which could reasonably be expected to have a material adverse effect upon the operations of the Acquired Assets or T&D Assets, as the case may be, of the other Party hereunder without prior written notification and agreement between the Parties. The Parties agree to coordinate with each other concerning any site regulatory required plans. Each Party shall promptly remove any oil or diesel fuel remaining from any tank whose use is permanently discontinued, except that CL&P shall have no obligation to remove oil from transformers that are temporarily removed from service. Each Party shall operate, maintain and inspect the cathodic protection systems installed to protect underground tanks under its control from corrosion and shall permit, where necessary, the other Party to review records pertaining to those systems. Each Party shall comply in all respects with all Environmental Laws and obtain and maintain all Permits required under all applicable Environmental Laws with respect to the properties that it owns. To the extent necessary, the Parties shall cooperate in all compliance and filings under Environmental Laws.

4.21 NEPOOL/ISO-NE

From and after the Initial Closing Date, Buyer agrees to maintain membership in good standing in NEPOOL and to submit to the governance of ISO-NE as established by the NEPOOL Agreement. From and after the Initial Closing Date, if the Buyer decides to effect a

permanent or long-term shut-down or substantial reduction in existing generation capacity of the Facilities, to the extent practicable, the Buyer shall give six (6) months prior written notice of such decision to CL&P, the Connecticut Department of Public Utility Control and, in accordance with applicable ISO-NE procedures, to ISO-NE. The Buyer shall fully comply with all rules and regulations of ISO-NE related to shutdown of generating facilities. Other than as set forth in this Section 4.21 or as may be required to preserve system reliability or to comply with the requirements of ISO-NE or NEPOOL, CL&P shall not interfere with Buyer's efforts to expand or modify generation capacity at any of the Sites.

5. OPERATIONS.

5.1 General. The Parties agree to operate all equipment that could reasonably be expected to have an adverse impact on the operations of the other Party or its Affiliates in accordance with all applicable federal, state and local laws, governmental agency rules, regulations, codes, the requirements of ISO-NE and NEPOOL, and Good Utility Practice. Notwithstanding anything to the contrary in this Agreement, any obligation of Buyer to carry out or comply with requests, orders or directives of CL&P shall be subject to the following limitations: (a) CL&P shall issue such requests, orders or directives to Buyer pursuant to Good Utility Practice and applicable tariffs; (b) Buyer may refuse such request, order or directive of CL&P if Buyer reasonably determines that such request, order or directive is contrary to applicable Laws, NRC Requirements and Commitments or Good Utility Practices and provides the basis thereof in a written notice to CL&P; (c) CL&P shall issue requests, orders or directives to Buyer on a non-discriminatory basis with respect to generators interconnected to the Transmission System or the Distribution System, as necessary, in CL&P's judgment, exercised reasonably and in good faith based on information available to CL&P at the time, (i) to operate

the Transmission System and the Distribution System safely, reliably and effectively, or (ii) to conduct necessary inspection, testing, repair, maintenance, modification or replacement of Transmission System or Distribution System facilities. To the extent CL&P ceases to perform any function for which it has been authorized by this Agreement to issue requests, orders or directives to Buyer, which function has been assumed by ISO-NE, Buyer's compliance with the requests, orders and directives of ISO-NE shall satisfy its corresponding obligation under this Agreement.

5.2 Buyer's Operating Obligations.

5.2.1 General. Buyer shall operate the Facilities that are connected to the Transmission System in accordance with the CONVEX Operating Instruction for the Facilities, as revised from time to time. A copy of the CONVEX Operating Instruction for the Facilities (No. 6913) as in effect on the date of this Agreement is attached hereto in Schedule E. Buyer shall carry out all switching orders from CL&P's dispatch personnel, ISO-NE, or CONVEX issued pursuant to the CONVEX Operating Instructions in a reasonably timely manner. Buyer shall keep CL&P advised of each Facility's capabilities of participation in system restoration and if it has black start capability. The electrical supply to the Point of Interconnection shall be in the form of three phase 60 Hertz alternating current. Buyer's equipment shall conform to industry standards for harmonic distortion and voltage fluctuation.

5.2.2 Voltage or Reactive Control Requirements. Unless otherwise agreed by the Parties, Buyer shall operate its existing interconnected Acquired Assets with automatic voltage regulators. The voltage regulators will continuously control voltage at each of the Interconnection Points consistent with the range of voltage set forth in Schedule E as it may be amended by CL&P, ISO-NE or CONVEX from time to time; provided, however, that Buyer's

conforming to such range of voltage does not cause any Facility to operate outside its generating capacity or to violate any electrical constraints. Unless otherwise required by CONVEX or ISO-NE the voltage regulator shall be in automatic mode and continuously regulating the voltage schedules. CL&P is not aware of any material additions to or modifications of the Acquired Assets which are or in the foreseeable future may be required to enable them to operate with automatic voltage regulators of a type which are sufficient to comply with the foregoing requirements. Buyer acknowledges that ISO-NE or CONVEX may direct Buyer to deactivate the automatic voltage regulator and to supply reactive power pursuant to a schedule provided by ISO-NE or CONVEX. If Buyer fails to operate a Facility in accordance with Schedule E, and to the extent the Facility is operating, CL&P will provide written notice to Buyer to remedy that situation; provided, however, Buyer shall not be required to shut down a Facility to correct automatic voltage control if such voltage control may be activated manually, so long as such manual activation shall not continue for a period longer than the period that is acceptable to ISO-NE. Buyer shall notify CONVEX or ISO-NE, to the extent required by CONVEX or ISO-NE, (i) if a Facility reaches a VAR limit; (ii) if there is any deviation from the assigned voltage schedule; (iii) if the voltage regulator is placed in manual mode; or (iv) if any voltage regulator is removed from or restored to service. In addition to voltage regulation, Buyer shall adhere, to the extent possible within its generating capacity, to CONVEX or ISO-NE's service restoration plan and black start criteria, as amended from time to time. A copy of the plan in existence immediately prior to the Initial Closing is attached hereto as Schedule F and is incorporated by reference as if fully set forth herein. Buyer acknowledges that CONVEX and ISO-NE may have the right to require reduced or increased generation from the Facilities in accordance with the NEPOOL Tariff and applicable rules of NEPOOL and ISO-NE, subject to any and all limitations

imposed on Buyer by the NRC or equipment limitations. CL&P shall notify Buyer in advance of any planned modifications to the Transmission System or Distribution System or change in system conditions, including load growth, that may or could affect a Facility's voltage regulating capability to maintain the range of voltage set forth in Schedule E. If necessary, CL&P shall provide Buyer with a new range of voltage for Schedule E so that such Facility can be operated without being required to operate outside of its normal range of reactive generating capability or violating any electrical constraints of the Facility and its associated equipment for power delivery.

5.2.3 Compensation for Reactive Power. At such time as FERC or another regulatory agency with jurisdiction over the sale or provision of reactive power at market based rates accepts a tariff, rate schedule or market mechanism for reactive power services or otherwise permits Buyer to charge CL&P and/or other users for reactive power services provided by Buyer, or in the event of any other change in law or regulation that permits Buyer to assess the market based charges or otherwise seek reimbursement for its provision of reactive power services, Buyer shall be entitled to compensation for reactive power services at such market based rates or tariff rates from its customer using the reactive power services, which may include CL&P, in accordance with the terms and conditions of such tariff, rate schedule, market mechanism or other legal or regulatory scheme.

5.3 Seller's Operating Obligations. All operations, including start-up, shutdown and determination of hourly generation, will be coordinated by ISO-NE, or, if ISO-NE is not doing so, by CL&P's designated agent. CL&P reserves the right, in accordance with Good Utility Practice, to reasonably specify generator controls that affect the Transmission System or the Distribution System, such as excitation, droop and automatic generation control settings, as

modified from time to time. Buyer agrees to comply with such reasonable specifications at Buyer's expense to the extent consistent with Good Utility Practices, NRC Commitments and system limitations and the requirements of ISO-NE and NPCC.

5.4 Interconnection Point Voltage Limits.

5.4.1 Notification. Buyer shall notify CL&P and ISO-NE of each Facility's required voltage limits for off-site power at the Interconnection Points to permit Buyer to ensure that each Facility has suitable voltage to function in accordance with the Buyer's NRC Requirements and Commitments.

5.4.2 Coordination. In the event that either Party becomes aware that voltages at the Interconnection Points are outside of or are threatening to violate Buyer's required voltage limits for off-site power at the Interconnection Points, that Party shall promptly notify ISO-NE and the other Party.

5.4.3 Modifications.

5.4.3.1 Seller's Obligation. CL&P shall notify the Buyer in advance of any planned modifications to the Transmission System that would affect the minimum and maximum voltage values at the Interconnection Points. If necessary, CL&P shall provide the Buyer with new minimum or maximum voltage value(s) for off-site power sources at the Interconnection Points for applicable single contingency conditions. If Buyer determines, in its opinion, that such planned modification may have a material adverse impact on Buyer's ability to operate the Facilities in accordance with Buyer's NRC Requirements and Commitments, then Buyer may require CL&P to seek ISO-NE's approval to make the planned modification. If CL&P fails to seek ISO-NE approval, Buyer may petition ISO-NE to compel CL&P to obtain such approval.

5.4.3.2 Buyer's Obligation. Buyer shall notify CL&P in advance of any planned modification to the Facilities that would affect minimum and maximum voltage values at the Interconnection Points. Buyer shall provide CL&P and ISO-NE with such information as CL&P and ISO-NE reasonably requires to conduct voltage and stability studies. If CL&P determines, in its opinion, that such planned modification may have a material adverse impact on CL&P's and ISO-NE's ability to operate the Transmission and Distribution System in accordance with ISO-NE standards, then CL&P may require Buyer to seek ISO-NE's approval to make the planned modification. If Buyer fails to seek ISO-NE approval, CL&P may petition ISO-NE to compel Buyer to obtain such approval.

5.5 Auditing of Accounts and Records. Within two years following each calendar year, each Party shall have the right to audit at its own expense the other Party's accounts and records pertaining to the transactions under this Agreement. Such audits shall take place at the offices where such accounts and records are maintained during normal business hours. Appropriate notice under Section 20 shall be given prior to any audit. The Party being audited will be entitled to review the audit report and any supporting materials. Any audit hereunder shall be subject to Section 8, and, to the extent that audited information includes confidential information, the auditing Party shall designate an independent auditor to perform such audit.

5.6 Operating Committee.

Buyer and CL&P shall establish an operating committee (the "*Operating Committee*") comprising of four (4) representatives, with each Party appointing one representative and one alternate to such Operating Committee. Each Party shall notify the other Party of its appointment in writing. Such appointments may be changed at any time by similar notice. At least once each year, the Operating Committee shall meet and discuss the duties set forth herein.

The Operating Committee shall hold a meeting within ten (10) business days of the request of either Party, at a time and place agreed upon by the representatives. Each representative and alternate shall be a person working in the day-to-day operations of their respective electrical facilities. The Operating Committee shall represent the Parties in all matters arising under this Agreement which may be delegated to it by mutual agreement of the Parties. The duties of the Operating Committee shall include, but are not limited to, the following: (a) establish and maintain testing, control and operating procedures, including those pertaining to communication and information transfers between the Facilities and CL&P; (b) establish data requirements in accordance with the terms and conditions of this Agreement; (c) review data acquisition equipment, protective equipment and any other equipment or software requirements, standards and procedures; (d) review forecast maintenance and availability schedules of CL&P's and Buyer's facilities at the Interconnection Points; (e) ensure that information is being provided by each Party regarding equipment availability; and (f) perform such other duties as specifically assigned under this Agreement or as may be conferred upon it by mutual agreement of the Parties.

Each Party shall cooperate in providing to the Operating Committee all information required in the performance of the Operating Committee's duties. All decisions and agreements, if any, made by the Operating Committee shall be evidenced in writing. The Operating Committee shall have no power to amend or alter the provisions of this Agreement.

6. COST RESPONSIBILITIES AND BILLING PROCEDURES.

6.1 Buyer's Interconnection Cost Responsibilities.

6.1.1 Leased Telephone Lines. Buyer and CL&P shall share equally the cost of telephone lines used by both Parties to transmit the status of generation and transmission

operations to CONVEX. Buyer and CL&P shall share the costs of telephone lines used by both Parties for other purposes in a manner proportionate to their use of such lines.

6.2 Delivery of AC Service Power. In the event that Buyer elects to obtain AC Service Power from CL&P or an alternative supplier, CL&P shall deliver such AC Service Power to the Facilities under CL&P's applicable tariffs or rate schedules at the appropriate service rate set forth in Schedule H, a copy of which is attached hereto, for demand for AC Service Power up to the maximum demand covered by such rate, or at the appropriate rate applicable to Buyer's actual demand for AC Service Power, plus any applicable NEPOOL charges.

6.3 Cost Responsibilities for Local Services

Each Party shall bear its cost for Local Services provided to the other Party as provided in Sections 4.10 and 4.11. For Local Services that require reimbursement but for which price or rate schedules are not included in this Agreement, the Parties shall agree upon the price or rate to be paid before performing or providing such Local Services. Work performed by CL&P or its Affiliates on Buyer's Facilities shall be paid for by Buyer at applicable rates unless performed for CL&P's purpose or a joint purpose, in which case each Party shall pay its ratable share of the cost. Work performed by Buyer on CL&P's Facilities shall be paid for by CL&P at Buyer's applicable rates unless performed for Buyer's purpose or joint purpose in which case each Party shall pay its ratable share of cost.

6.4 Billing Procedures. Within a reasonable time after the first day of each month, each Party shall prepare an invoice for those reimbursable services rendered to the other Party under this Agreement during the preceding month. Each invoice shall state the month in which the services were rendered, shall be itemized to reflect the nature of the services rendered, and

shall fully describe the services rendered. Each invoice shall be paid within thirty (30) days of receipt. All payments shall be made in immediately available funds payable to the other Party, or by wire transfer to a bank named by such Party.

When payments are made by mail, invoices shall be deemed paid on the date payment is received. Payment of an invoice shall not relieve the paying Party from any responsibilities or obligations it has under this Agreement; nor shall it constitute a waiver of any claims arising hereunder.

6.5 Billing Disputes, Interest on Unpaid Balance. In the event of a good faith billing dispute between CL&P and Buyer, CL&P and Buyer will continue to provide services as long as the other Party continues to make all payments not in dispute. The disputed amount of any bill shall be retained by the disputing Party. Within fifteen (15) days of receiving an invoice, the Party disputing a bill shall provide written notice of the amount in dispute and a detailed description of the specific basis of the dispute. All billing disputes arising out of, or under the terms of, this Agreement shall be resolved pursuant to the dispute resolution procedure in Section 14.3. Upon resolution of such dispute, any amount due shall be promptly paid (but in any event, within twenty (20) days of receipt of an invoice) with interest calculated in accordance with the methodology specified in FERC regulations 18 C.F.R. § 35.19a(a)(2)(iii), as amended, from the payment due date as identified pursuant to Section 6.4 to the date payment is made. A Party's acceptance of a partial payment shall not be deemed a release or waiver by such Party.

7. DOCUMENTATION.

7.1 Obligation to Provide Documentation. Whenever a Party makes a modification to its Facilities, the Transmission System, Distribution System or T&D Assets in accordance with

Section 4.5, as the case may be, that could reasonably be expected to affect the other Party's operations hereunder, the Party making the change shall provide notice to the other party and appropriate documentation for such changes, in the form of written test records, operation and maintenance procedures, drawings, materials lists, or descriptions. Upon completion of any modifications to equipment or facilities that are identified in the Asset Demarcation Agreement, the Party initiating the modifications shall issue "as built" drawings to the other Party. The "as built" drawings shall be issued within 90 days of completion, unless otherwise agreed by the Parties. Each Party shall be responsible for its own equipment, inspections, maintenance, construction and modifications, and the other Party's review of or comments on any document provided by the initiating Party shall not relieve the initiating Party of its responsibility for the correctness and adequacy of the work to be performed.

7.2 Drawings. Before the Initial Closing Date CL&P shall identify, number and provide Buyer with a duplicate set of the most current drawings, labeled as "Common" that represent equipment or facilities that are identified as in the Asset Demarcation Agreement. Such drawings shall consist, at a minimum, of one or more of the following:

System One-Lines	Single page format drawings used for dispatch and operation purposes.
One-Line Drawings	Prints used in conceptual design which provide detail on Interconnection Points.
Meter and Relay Drawings	Prints which provide a higher level of detail than one-line drawings and identify on a single line basis current and voltage transformer locations, protection relay types, and meter and control connections.
Bill of Materials	Material listing of all electrical devices/components including current transformers, protective relays, potential transformers, meters, transducers, switches, terminal blocks, terminal and auxiliary relays

	by vendor, type and model.
Current and Voltage Drawings	Prints which provide the highest level of detail for the facilities in a three line format with specific current and voltage transformer connections, relay and meter terminations.
Control Drawings	Prints which provide information on apparatus controls, switch developments, etc.
Secondary Wiring Drawings	Prints which describe the physical panel layout, relay, terminal block and device locations, wiring and other construction details.
Other Physical Drawings	Prints which include information on foundations, equipment layouts, grounding, panel construction, etc.

Each Party shall be responsible for updating and correcting its own drawings and shall provide copies of all updated and corrected drawings to the other Party as soon as practicable thereafter. CL&P shall provide Buyer with technical maintenance or operations documentation, if available, for protection, communications and primary electrical equipment.

8. CONFIDENTIALITY.

8.1 Confidentiality of Seller. CL&P shall hold in confidence, unless compelled to disclose by judicial or administrative process or other provisions of law, all documents and information furnished to it by Buyer in connection with this Agreement. All such information shall be deemed confidential except to the extent that such information or documents are (i) generally available to the public other than as a result of a disclosure by CL&P, (ii) made available to CL&P on a non-confidential basis prior to disclosure to CL&P by Buyer, (iii) made available to CL&P on a non-confidential basis from a source other than Buyer, provided that such source is not known, and by reasonable effort could not be known, by CL&P to be bound by a confidentiality agreement with Buyer or otherwise prohibited from transmitting the

information to CL&P by a contractual, legal or fiduciary obligation or (iv) CL&P has developed such information independent of the confidential information. CL&P shall not release or disclose such confidential information to any other person, except to its employees on a "need-to-know" basis in connection with this Agreement. Each such employee shall first be advised of the confidentiality provisions of this Section 8.1 and shall agree in writing to comply with such provisions. In no event shall such information be disclosed in violation of the requirements of FERC Orders 888 or 889 or any other applicable standards of conduct and any successor(s) thereto. CL&P shall promptly notify Buyer if it receives notice or otherwise concludes that the production of any information subject to this Section 8.1 is being sought under any provision of law, and CL&P shall, at Buyer's request and expense, contest such disclosure. CL&P may use information subject to this Section 8.1 in any arbitration proceeding under Section 14, subject to a confidentiality agreement with the arbitrator and other participants.

8.2 Confidentiality of Buyer. Buyer shall hold in confidence, unless compelled to disclose by judicial or administrative process or other provisions of law, all documents and information furnished to it by CL&P in connection with this Agreement. All such information shall be deemed confidential except to the extent that such information or documents are (i) generally available to the public other than as a result of a disclosure by Buyer, (ii) made available to Buyer on a non-confidential basis prior to disclosure to Buyer by CL&P, (iii) made available to Buyer on a non-confidential basis from a source other than CL&P, provided that such source is not known, and by reasonable effort could not be known, by Buyer to be bound by a confidentiality agreement with CL&P or otherwise prohibited from transmitting the information to Buyer by a contractual, legal or fiduciary obligation or (iv) Buyer has developed such information independent of the confidential information. Buyer shall not release or disclose

such confidential information to any other person, except its employees on a need-to-know basis in connection with this Agreement. Buyer shall promptly notify CL&P if it receives notice or otherwise concludes that the production of any information subject to this Section 8.2 is being sought under any provision of law, and Buyer shall, at CL&P's request and expense, contest such disclosure. Buyer may use information subject to this Section 8.2 in any arbitration proceeding under Section 14, subject to a confidentiality agreement with the arbitrator and other participants.

8.3 Confidentiality of Audits. An independent auditor performing any audit shall enter into a confidentiality agreement with the Party being audited. Information disclosed to the auditor subject to the confidentiality agreement shall be treated as confidential except to the extent that its disclosure is otherwise permitted under this Agreement. Except as provided herein, neither Party shall disclose audit information to any third party without the other Party's prior written consent. Audit information in the hands of the Party not being audited shall be subject to all provisions of Section 8.1 or 8.2, as applicable.

8.4 Remedies. The Parties agree that monetary damages may be inadequate to compensate either Party for the other Party's breach of its obligations under Section 8.1, 8.2 or 8.3. Each Party accordingly agrees, subject to Section 19, that a Party shall be entitled to seek equitable relief, by way of injunction or otherwise, if the other Party breaches or threatens to breach its obligations under Section 8.1, 8.2 or 8.3.

9. DAMAGE TO CONTROL CABLES FROM SWITCHYARD TO POWER PLANTS.

Costs for physical damage to or destruction of control cables owned by either Party from T&D Asset locations to the first point of termination in any Acquired Asset shall be borne by the Party causing the damage or destruction. If neither Party is at fault or if both Parties are partially at fault, the costs shall be shared by both Parties on a pro rata basis based upon their

use of such cables. The obligations under this section shall not be limited in any way by any limitation on either Party's insurance.

10. PERSONAL INJURY AND PROPERTY DAMAGE.

As between the Parties, each Party shall be liable for any physical damage to or destruction of equipment, facilities or property owned solely by it or its Affiliates, and for any claims for personal injury or death asserted against it or its Affiliates arising out of equipment, facilities or property owned by it or its Affiliates, except to the extent caused by the other Party's or its Affiliates', or their employees' or agents', negligence or willful or wanton acts or omissions. The obligations under this section shall not be limited in any way by any limitation on either Party's insurance.

11. INDEMNIFICATION.

11.1 General. To the extent a Party assumes responsibilities and liabilities pursuant to this Agreement, each Party (the "*Indemnifying Party*") shall indemnify, hold harmless and defend the other Party, its parent and Affiliates and their respective officers, directors, trustees, employees, contractors, subcontractors and agents, from and against any claims or liability for damage to property, injury to or death of any person or any other liability, including all expenses and reasonable attorneys' fees incurred by such indemnified Party, to the extent caused by the negligence or willful or wanton acts or omissions of the Indemnifying Party, its parent and Affiliates and their respective officers, directors, trustees, employees, contractors, subcontractors or agents, arising out of or connected with the operation of the Indemnifying Party's or its Affiliates' facilities, equipment or properties, Acquired Assets or T&D Assets, as the case may be, or the Structural Facilities, or arising out of or connected with the Indemnifying Party's performance or breach under this Agreement; provided, however, the Indemnifying Party shall

not have any liability for damages or losses arising out of negligence or willful misconduct by the other Party, its parent and Affiliates and their respective officers, directors, trustees, employees, contractors, subcontractors or agents.

11.2 Indemnification Procedures. If either Party intends to seek indemnification under this Section 11 from the other Party, the Party seeking indemnification shall give the other Party notice of such claim within fifteen (15) days of the commencement of, or actual knowledge of, such claim or action. Such notice shall describe the claim in reasonable detail, and shall indicate the amount (estimated if necessary) of the claim that has been or may be sustained by such Party. To the extent that the other Party is actually and materially prejudiced as a result of failure to provide such notice, such notice will be a condition precedent to any liability of the other Party under the indemnification provisions of this Agreement. Neither Party may settle or compromise any claim for which it is seeking or intends to seek indemnification under this Section 11 without the prior consent of the other Party; provided, however, such consent shall not be unreasonably withheld. The indemnification obligations of each Party shall continue in full force and effect regardless of whether this Agreement has expired or been terminated or canceled and shall not be limited in any way by any limitation on insurance, on the amount or types of damages, or by any compensation or benefits payable by the Parties under Worker's Compensation Acts, disability benefit acts or other employee acts.

12. INSURANCE.

The Parties agree to maintain, at their own cost and expense, fire, liability, worker's compensation and other forms of insurance relating to their property and facilities in the manner, and amounts set forth in Schedule G attached hereto and incorporated by reference as if fully set forth herein. Schedule G may be amended from time to time by agreement of the Parties. The

Parties agree to furnish each other with certificates of insurance evidencing the insurance coverage set forth in Schedule G, and to notify and provide copies to the other of any policies maintained hereunder written on a "claims made" basis. The Parties shall be required to maintain tail coverage for three (3) years on all policies written on a "claims made" basis. Every contract of insurance providing the coverages required in Schedule G shall contain the following or equivalent clause: "No reduction, cancellation or expiration of the policy shall be effective until sixty (60) days from the date written notice thereof is actually received by the insured." Upon receipt of any notice of reduction, cancellation or expiration, each Party shall immediately notify the other Party in accordance with Section 20. Each Party and its Affiliates shall be named as additional insureds on the general liability insurance policies set forth in Schedule G as it regards liability under this Agreement. Each Party shall have the right to inspect the original policies of insurance applicable to this Agreement at the other Party's place of business during regular business hours. Each Party shall have the right to self-insure all, or a portion, of the required insurances indicated in this Schedule G, to the same amount or extent that it does so in its other insurance programs.

Failure of either Party to comply with the foregoing insurance requirements, or the complete or partial failure of an insurance carrier to fully protect and indemnify the other Party or its affiliates or the inadequacy of the insurance, shall not in any way lessen or affect the obligations or liabilities of each Party to the other. The Parties on behalf of themselves, their parents, and Affiliates, each waive any right of subrogation under their respective insurance policies for any liability each has agreed to assume under this Agreement. Evidence of this requirement shall be noted on all certificates of insurance.

13. FORCE MAJEURE.

Notwithstanding anything in this Agreement to the contrary, Buyer and CL&P shall not be liable in damages or otherwise or responsible to the other for failure to carry out any of its obligations under this Agreement if and only to the extent that it is unable to so perform or is prevented from performing by an event of Force Majeure.

If a Party shall rely on the occurrence of an event of Force Majeure as a basis for being excused from performance of its obligations under this Agreement, then the Party relying on the event or condition shall: (i) provide prompt written notice of such Force Majeure event to the other Party giving an estimation of its expected duration and the probable impact on the performance of its obligations hereunder; (ii) exercise all reasonable efforts to continue to perform its obligations under this Agreement, (iii) expeditiously take action to correct or cure the event or condition excusing performance; provided that settlement of strikes or other labor disputes will be within the sole discretion of the Party affected by such strike or labor dispute; (iv) exercise all reasonable efforts to mitigate or limit damages to the other Party; and (v) provide prompt notice to the other Party of the cessation of the event or condition giving rise to its excuse from performance.

14. DEFAULT AND DISPUTE RESOLUTION.

14.1 Events of Default. Any of the following shall constitute an event of default under this Agreement:

(a) The failure to pay any amount when due, and within ten (10) days thereafter such payment has not been made;

(b) Except as otherwise set forth in Section 5.2.2, a breach of any material term or condition of this Agreement, and within thirty (30) days thereafter (i) such breach is not

cured and (ii) the breaching Party has not commenced and diligently continued in good faith actions to cure such breach within a reasonable time.

(c) Either Party shall commence any voluntary case under federal bankruptcy laws or other proceeding under any similar law of any jurisdiction for the relief of debtors or shall petition or apply for the appointment of a trustee or other custodian, liquidator, or receiver for such Party or for any substantial part of the Facilities, Transmission System, Distribution System or T&D Assets, as the case may be;

(d) A decree or order for relief shall be entered in respect of either Party in an involuntary case under federal bankruptcy laws or in any other proceeding under any similar law of any jurisdiction for the relief of debtors or a decree or order shall be entered appointing a trustee or other custodian, liquidator or receiver for either Party or for any substantial part of the Facilities or T&D Assets, as the case may be;

(e) Either Party shall cease its operations without having an assignee, successor or transferee in place; or

(f) Either Party shall terminate its existence as a corporate entity by acquisition or sale, or if all or substantially all of such Party's assets are transferred to another person or business entity, without complying with Section 15.

14.2 Remedies for Default.

(a) Upon the occurrence of an event of default, the Party not in default may give written notice of default to the defaulting Party. Such notice shall set forth in reasonable

detail the nature of the default and, where known and applicable, the steps necessary to cure such default.

(b) If the defaulting Party fails to cure such default or take such steps as provided hereunder, the following remedies may be exercised: (i) The non-defaulting Party shall be entitled to seek all available legal and equitable remedies, including without limitation damages and, if damages are not adequate to remedy the harm suffered by the non-defaulting Party, specific performance of the defaulting Party's obligations hereunder; provided, however, that unless and until the non-defaulting Party shall have exhausted all available administrative remedies and a court of competent jurisdiction shall have issued a final, non-appealable decision determining that no other remedy will adequately remedy the harm suffered by the non-defaulting Party, termination of this Agreement shall not be a remedy available to either Party, and provided further that termination shall not be effected unless such default remains outstanding for ten (10) days after an order granting termination has been entered; and (ii) with respect to a default by Buyer under Section 14.1(c), (d) or (e), CL&P may elect to operate and/or purchase from Buyer such DC power systems, components of protection and metering circuits, SCADA Equipment, Secondary Systems and related components, communication equipment and building facilities, software, documentation and structural components associated with the foregoing, as are necessary for CL&P or its Affiliates to operate and/or maintain its transmission and distribution business. CL&P's obligations under this Agreement with respect to compliance with NRC Requirements and Commitment shall survive termination of this Agreement.

(c) Notwithstanding the foregoing, upon the occurrence of any event of default, the non-defaulting Party shall have the right (i) to commence an action to enjoin the defaulting Party from continuing with the defaulting action or to require the specific performance of the

defaulting Party's defaulted obligations hereunder, and (ii) to exercise any other rights and remedies as it may have hereunder or at equity or law.

14.3 Dispute Resolution

14.3.1 Any dispute arising out of this Agreement or the consummation of the transactions contemplated hereby involving a monetary claim of less than $25,000, or at the election of both Parties, except as otherwise provided herein or therein, shall be submitted to binding dispute resolution in the following manner. Within ten (10) days following receipt of a written request by one Party to the other, CL&P and Buyer will each select one representative with the particular knowledge and expertise relevant to the technical, financial or other matter in dispute (the *"Dispute Representative"*) to serve on a dispute resolution panel (the *"Panel"*). Each Party will notify the other in writing of its Dispute Representative within such ten (10) day period. Within ten (10) days following the selection of the Dispute Representatives, the Dispute Representatives shall mutually agree upon the selection of a third member of the Panel who shall also possess the particular knowledge and expertise relevant to the subject matter of the dispute. If the Dispute Representatives cannot agree on the selection of a third member of the Panel within ten (10) days after their selection, they will obtain a list of qualified individuals from mutually agreeable professional association or society and each shall have the option of removing names from such list until an acceptable individual is selected as the third member of the Panel. If necessary, this process will be repeated until an acceptable individual is selected as the third member of the Panel. Within fifteen (15) days after the selection of the third member of the Panel, Buyer and CL&P will agree upon a process which is appropriate for the resolution of the dispute, including the presentation of live testimony or documentary evidence, as they deem appropriate, and shall further agree upon such other procedures, such as the presentation of

summation papers or closing argument, as they deem appropriate. The Panel will render a binding decision no later than sixty (60) days following the selection of the third member of such Panel, unless the Parties agree upon an extension of such sixty (60)-day period. The decision of the Panel shall be final and binding on all Parties. All dispute resolution proceedings shall be held in Hartford, Connecticut. All documents, information and other evidence produced for or in connection with such proceeding shall be held in confidence by the Parties. Each Party shall bear the compensation and expenses of its chosen Dispute Representative, and the expenses of the third member of the Panel shall be borne equally by Buyer, on the one hand, and CL&P, on the other hand. Each Party shall bear the compensation and expenses of its legal counsel, witnesses and employees.

14.3.2 Any dispute arising out of this Agreement or the consummation of the transactions contemplated hereby that is not subject to Section 14.3.1 or resolved under Section 14.3.1 or otherwise, shall be settled by arbitration administered by American Arbitration Association under the Commercial Arbitration Rules (the *"Commercial Arbitration Rules"*). The arbitration tribunal shall be composed of three arbitrators (one arbitrator selected by each Party with the third selected by the other two arbitrators). The arbitration proceedings shall be held in Hartford, Connecticut. The decision, judgment and order of the arbitration tribunal shall be final, binding and conclusive as to the Parties involved in such dispute, and their respective Affiliates, and may be entered in any court having jurisdiction thereof. All documents, information and other evidence produced for or in connection with such arbitration proceedings shall be held in confidence by the Parties. Other than the fees and expenses of the arbitrators, which shall be shared equally by the Parties, each Party shall bear the compensation and expenses of its own legal counsel, witnesses and employees.

14.4 FERC Jurisdiction Over Certain Disputes. Nothing in this Agreement shall preclude any Party from filing a petition or complaint with FERC with respect to any arbitrable claim over which FERC has jurisdiction. In such case, the other Party may request FERC to reject or to waive jurisdiction. If FERC rejects or waives jurisdiction with respect to all or a portion of the claim, the portion of the claim not so accepted by FERC shall be resolved through arbitration, as provided in this Agreement. To the extent that FERC asserts or accepts jurisdiction over the claim, the decision, findings of fact or order of FERC shall be final and binding, subject to judicial review under the Federal Power Act, and any arbitration proceedings that may have commenced prior to the assertion or acceptance of jurisdiction by FERC shall be stayed, pending the outcome of the FERC proceedings. An arbitration panel shall have no authority to modify, and shall be conclusively bound by, any decision, finding of fact or order of FERC. However, to the extent that a decision, finding of fact or order of FERC does not provide a final or complete remedy to the Party seeking relief, such Party may proceed to arbitration to secure such remedy, subject to the FERC decision, finding or order.

14.5 Preliminary Injunctive Relief. Nothing in this Section 14 regarding arbitration shall preclude, or be construed to preclude, the resort by either Party to a court of competent jurisdiction solely for the purposes of securing a temporary or preliminary injunction to preserve the status quo or avoid irreparable harm pending arbitration.

15. ASSIGNMENT/CHANGE IN CORPORATE IDENTITY.

15.1 Assignment. Buyer may not assign its rights or obligations under this Agreement without the prior written consent of CL&P, which consent shall not be unreasonably withheld; provided, however, Buyer may assign this Agreement without the consent of CL&P to (i) a trustee or lending institution(s) for the purposes of financing or refinancing (including any lease

financing) the Acquired Assets, including upon or pursuant to the exercise of remedies under such financing or refinancing or by way of assignments, transfers, conveyances or dispositions in lieu thereof, (ii) an entity affiliated with Buyer or (iii) an entity acquiring all or substantially all of the Acquired Assets, provided, in the case of clause (ii) or (iii), that such entity is fully licensed to operate the Facilities. CL&P may not assign its rights or obligations under this Agreement without Buyer's prior written consent, which consent shall not be unreasonably withheld, except to an entity affiliated with CL&P which at the time of such assignment maintained a credit rating at least equivalent to the credit rating of CL&P at the time of such assignment. All provisions of this Agreement shall extend to and be binding on the successors and assigns of the Parties insofar as applicable to the rights and obligations succeeded or assigned, but no succession or assignment shall relieve the assigning or succeeded to Party of its obligations without the written consent of the other Party, which consent shall not be unreasonably withheld or delayed.

15.2 Assumption. Except as set forth in Section 15.1 above, no assignment or transfer of rights or obligations under this Agreement by either the Buyer or CL&P shall relieve such Party from full liability and financial responsibility for the performance thereof after any such transfer or assignment unless and until the transferee or assignee shall agree in writing to assume the obligations and duties of the assigning or transferring Party under this Agreement and the other Party has consented in writing to such assumption, such consent not to be unreasonably withheld.

16. CONTRACTORS AND SUBCONTRACTORS.

Nothing in this Agreement shall prevent either Party from utilizing the services of such contractors or subcontractors as it deems appropriate; provided, however, that all such

contractors or subcontractors shall comply with the terms and conditions of this Agreement. The creation of any contract or subcontract relationship shall not relieve the Party retaining the contractor or subcontractor of any of its obligations under this Agreement. Any obligation imposed by this Agreement upon the Parties, where applicable, shall be equally binding upon and shall be construed as having application to any contractor or subcontractor. No contractor or subcontractor is intended to be deemed a third party beneficiary of this Agreement.

17. LABOR RELATIONS.

Each Party agrees to immediately notify the other Party, orally and then in writing, of any labor dispute or anticipated labor dispute or job action which may reasonably be expected to affect the operations of the other Party.

18. INDEPENDENT CONTRACTOR STATUS.

Nothing in this Agreement shall be construed as creating any relationship between CL&P and Buyer other than that of independent contractors.

19. LIMITATION OF LIABILITY.

To the fullest extent permitted by law and notwithstanding any other provision of this Agreement, neither CL&P nor Buyer, nor their respective officers, directors, trustees, agents, employees, parent or Affiliates, successors or assigns, or their respective officers, directors, trustees, agents or employees, successors or assigns, shall be liable to the other Party or its parent, subsidiaries, Affiliates, officers, directors, agents, employees, successors or assigns, for claims, suits, actions or causes of action for incidental, punitive, special, indirect, multiple or consequential damages (including attorneys' fees or litigation costs) connected with or resulting from performance or non-performance of this Agreement, or any actions undertaken in connection with or related to this Agreement, including without limitation any such damages

which are based upon causes of action for breach of contract, tort (including negligence and misrepresentation), breach of warranty, strict liability, statute, operation of law, or any other theory of recovery. The provisions of this Section 19 shall apply regardless of fault and shall survive termination, cancellation, suspension, completion or expiration of this Agreement. The remedies set forth in this Agreement are the exclusive remedies for the liabilities of each Party arising out of or in connection with this Agreement.

20. NOTICES.

At or prior to the Initial Closing Date, each Party shall indicate to the other Party, by notice, the appropriate person during each eight-hour work shift to contact in the event of an emergency, a scheduled or forced interruption or reduction in services, or Routine Inspections and Maintenance as provided in Section 4.17.3, or any other notice required under this Agreement. The notice last received by a Party shall be effective until modified in writing by the other Party. Unless otherwise specified in this Agreement, all notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and will be deemed to have been duly given if so given) by hand delivery, cable, telecopy (confirmed in writing) or telex, or by mail (registered or certified, postage prepaid) to the respective Parties as follows:

If to CL&P:
The Connecticut Light and Power Company
c/o Northeast Utilities Service Company
107 Selden Street
Berlin, CT 06037
Attention: Vice President — T & D

Copy to:

The Connecticut Light and Power Company
c/o Northeast Utilities Service Company
107 Selden Street
Berlin, CT 06037
Attention: Senior Vice President, Secretary and General Counsel

If to the Buyer:

Copy to:

[BUYER's designated recipient]

or such other address as is furnished in writing by such Party; and any such notice or communication shall be deemed to have been given as of the date so mailed.

21. SURVIVAL.

The liabilities and obligations assumed in Section 4.20, 9, 10, 11, 15, 16 and the limitations on such liabilities in Section 19 of this Agreement with respect to events which occur during the term of this Agreement shall survive the termination of this Agreement.

22. HEADINGS.

The descriptive headings of the sections of this Agreement are inserted for convenience only and do not affect the meaning or interpretation of this Agreement.

23. WAIVER.

Except as otherwise provided in this Agreement, any failure of any Party to comply with any obligation, covenant, agreement or condition herein may be waived by the Party entitled to the benefits hereof only by a written instrument signed by the Party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement, or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

24. COUNTERPARTS.

This Agreement may be executed in two or more counterparts, all of which will be considered one and the same Agreement and each of which will be deemed an original.

25. GOVERNING LAW.

This Agreement and all rights, obligations and performances of the Parties hereunder are subject to all applicable federal and state laws and to all duly promulgated orders and other duly authorized action of governmental authority having jurisdiction. This Agreement will be governed by and construed in accordance with the laws of the State of Connecticut when not in conflict with or pre-empted by federal law, without giving effect to the conflict of law principles thereof. Each of the Parties consents to the exclusive jurisdiction and venue of any state or federal court in the City of Hartford, Connecticut for adjudication of any suit, claim, action or other proceeding at law or in equity relating to this Agreement, or to any transaction contemplated hereby. Each of the Parties accepts, generally and unconditionally, the exclusive jurisdiction and venue of the aforesaid courts and waive any objection as to venue, and any defense of *forum non conveniens*.

26. EQUAL EMPLOYMENT OPPORTUNITY.

The Parties agree to comply with all applicable federal, state and other applicable anti-discrimination laws, the standards and regulations issued thereunder, and the amendments thereto.

27. SEVERABILITY.

In the event that any of the provisions of this Agreement are held to be unenforceable or invalid by any court of competent jurisdiction, the Parties shall, to the extent possible, negotiate an equitable adjustment to the provisions of this Agreement, with a view toward effecting the purpose of this Agreement, and the validity and enforceability of the remaining provisions hereof shall not be affected thereby.

28. AMENDMENTS.

CL&P may unilaterally make application to FERC under Section 205 of the Federal Power Act and pursuant to the FERC rules and regulations promulgated thereunder for a change in any rates, terms and conditions, charges, classification of service, rule or regulation for any services CL&P provides under this Agreement over which FERC has jurisdiction. Buyer may unilaterally exercise its rights under Section 206 of the Federal Power Act and pursuant to FERC rules and regulations promulgated thereunder with respect to any rate, term, condition, charge, classification of service, rule or regulation for any services provided under this Agreement over which FERC has jurisdiction. Except as provided in the foregoing, this Agreement may be amended, modified or supplemented only by written agreement signed by both CL&P and Buyer.

29. ENTIRE AGREEMENT.

This Agreement, together with the Purchase and Sale Agreement and the Related Agreements as defined therein, and the Asset Demarcation Agreement and the Schedules attached thereto, constitutes the entire understanding between the Parties, and supersedes any and all previous understandings, oral or written, which pertain to the subject matter contained herein or therein. If there is any conflict in such documents, the Purchase and Sale Agreement shall have precedence over the others.

IN WITNESS WHEREOF, and intending to be legally bound, the Parties have executed this Agreement by the undersigned duly authorized representatives as of the date first stated above.

[BUYER]

_____ By:_____

_____ Name:_____

Title:_____

THE CONNECTICUT LIGHT AND POWER COMPANY

_____ By:_____

_____ Name:_____

Title:_____

STATE OF [_____])
) ss._____
COUNTY OF [_____])

On this the ____ day of _____, 2000, personally appeared _____, _____ of [BUYER], signer and sealer of the foregoing instrument, and acknowledged the same to be his or her free act and deed as such officer and the free act and deed of said corporation, before me.

_____
Notary Public
My Commission Expires:

STATE OF [_____])
) ss._____
COUNTY OF [_____])

On this the ____ day of _____, 2000, personally appeared _____, _____ of The Connecticut Light and Power Company, signer and sealer of the foregoing instrument, and acknowledged the same to be his or her free act and deed as such officer and the free act and deed of said corporation, before me.

_____
Notary Public
My Commission Expires: