10 CFR 140.21(e)

VIRGINIA ELECTRIC AND POWER COMPANY
RICHMOND, VIRGINIA 23261

March 29, 1990

Director, Nuclear Reactor Regulation
United States Nuclear Regulatory Commission
Washington, D. C. 20555

Serial No.	90-161
NL/RPC	
Docket Nos.	50-280
	50-281
	50-338
	50-339
License Nos.	DPR-32
	DPR-37
	NPF-4
	NPF-7

Gentlemen:

VIRGINIA ELECTRIC AND POWER COMPANY
SURRY POWER STATION UNITS 1 AND 2
NORTH ANNA POWER STATION UNITS 1 AND 2
PRICE-ANDERSON ACT

Pursuant to 10 CFR 140.21(e) regarding licensee guarantees of payment of deferred premiums, we are providing the following information:

1. Annual Report to Securities and Exchange Commission on Form 10-K for 1989.

2. Comparative Statement of Income for the three months ended December 31, 1989 and 1988.

3. Internal cash flow projection for calendar year 1990 with certification by officer of the Company.

4. Statement ensuring availability of funds for payment of retrospective premiums without curtailment of required nuclear construction expenditures.

In accordance with 10 CFR 140.7, we submitted a check to the NRC for $1,000 on October 31, 1989, which is the minimum required premium for the period November 15,1989, through November 14, 1990.

Very truly yours,

W. L. Stewart
Senior Vice President - Nuclear

Enclosures

M004
1/1

cc: U. S. Nuclear Regulatory Commission
Region II
101 Marietta Street, N. W.
Suite 2900
Atlanta, Georgia 30323

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, D. C. 20555

Mr. W. E. Holland
NRC Senior Resident Inspector
Surry Power Station

Mr. J. L. Caldwell
NRC Senior Resident Inspector
North Anna Power Station

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 1989 **Commission file number 1-2255**

VIRGINIA ELECTRIC AND POWER COMPANY

(Exact name of registrant as specified in its charter)

VIRGINIA	**54-0418825**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
One James River Plaza Richmond, Virginia	**23261-6666**
(Address of principal executive offices)	*(Zip Code)*

(804) 771-3000
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Preferred Stock (cumulative) $100 liquidation value:	New York Stock Exchange
$5.00 dividend	
$7.72 dividend	
$7.45 dividend	
$7.20 dividend	
$7.72 dividend (1972 Series)	
$8.60 dividend	

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of January 31, 1990 was zero.

As of January 31, 1990, there were issued and outstanding 147,077 shares of the registrant's common stock, without par value, all of which were held, beneficially and of record, by Dominion Resources, Inc.

DOCUMENTS INCORPORATED BY REFERENCE.
None

VIRGINIA ELECTRIC AND POWER COMPANY

PART I

ITEM 1. BUSINESS
THE COMPANY

Virginia Electric and Power Company was incorporated in Virginia in 1909 and has its principal office at One James River Plaza, Richmond, Virginia 23261-6666, telephone (804) 771-3000. It is a wholly-owned subsidiary of Dominion Resources, Inc. (Dominion Resources), a Virginia corporation.

Virginia Electric and Power Company 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 transacts business under the name *Virginia Power* in Virginia and under the name *North Carolina Power* in 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. As used herein, the terms "Virginia Power" and the "Company" shall refer to the entirety of Virginia Electric and Power Company, including, without limitation, its Virginia and North Carolina operations.

The Company has nonexclusive franchises or permits for electric operations in substantially all cities and towns now served. It also has certificates of convenience and necessity from the Virginia State Corporation Commission (the Virginia Commission) for service in all territory served at retail in that State. The North Carolina Utilities Commission (the North Carolina Commission) has assigned territory to the Company for substantially all of its retail service outside certain municipalities in that State.

The Company owns its principal properties in fee (except as indicated below), subject to defects and encumbrances that do not interfere materially with their use. Substantially all of its property is subject to the lien of a mortgage securing its First and Refunding Mortgage Bonds. Right-of-way grants from the apparent owners of real estate have been obtained for most electric lines, but underlying titles have not been examined except for transmission lines of 69,000 volts or more. Where rights of way have not been obtained, they could be acquired from private owners by condemnation if necessary. Many electric lines are on publicly owned property as to which permission for use is generally revocable. Portions of a 500,000 volt transmission line from the Company's coal-fired station at Mt. Storm, West Virginia, cross national parks and forests under permits entitling the federal government to use, at specified charges, surplus electricity in the line if any exists.

The Company leases combustion turbines and certain buildings and equipment. See Note E to FINANCIAL STATEMENTS.

A wholly-owned subsidiary of the Company, Virginia Power Fuel Corporation (VP Fuel), owns and finances nuclear fuel and related materials for the Company's Surry nuclear units, and sells the heat from such fuel to the Company. See Note O to FINANCIAL STATEMENTS.

The Company strives to operate its generating facilities in accordance with prudent utility industry practice and in conformity with applicable statutes, rules and regulations. Like other electric utilities, the Company's generating facilities are subject to unanticipated or extended outages for repairs, replacements or modifications of equipment or otherwise to comply with regulatory requirements. Such outages may involve significant expenditures not previously budgeted, including replacement energy costs. See *Rates* under BUSINESS and *Nuclear Operations* under LEGAL PROCEEDINGS.

The Company had 12,688 employees on December 31, 1989. Approximately 4,530 of the Company's employees are represented by the International Brotherhood of Electrical Workers under a contract extending to March 31, 1992. The Company considers its relations with its union and nonunion employees to be good.

CAPITAL REQUIREMENTS AND FINANCING PROGRAM

Construction and Nuclear Fuel Expenditures

Virginia Power's estimated construction and nuclear fuel expenditures, including Allowance for Funds Used During Construction (AFC), for the three-year period 1990-1992, total $3.0 billion. It has adopted a 1990 budget for construction and nuclear fuel expenditures as set forth below:

	ESTIMATED 1990 EXPENDITURES (MILLIONS)
New Generating Facilities:	
Chesterfield Unit 7	$ 21
Chesterfield Unit 8	73
Darbytown Combustion Turbines	44
Clover Project	53
Other Production	207
General Support Facilities	59
Transmission	79
Distribution	338
Nuclear Fuel	84
Total Construction Requirements and Nuclear Fuel	958
AFC	8
Total Expenditures	$966

Financing Program

In 1989, Virginia Power obtained $747 million from the sale of securities. Its long-term financings included $250 million of First and Refunding Mortgage Bonds, $75 million of preferred stock, $322 million of unsecured notes having maturities ranging from 2 to 12 years and $100 million of Common Stock sold to Dominion Resources. From the proceeds of the 1989 securities sales, the Company retired $114.6 million of securities through mandatory debt maturities and sinking fund requirements, retired an additional $37 million of debt financing and preferred stock through optional redemptions and sinking fund payments and reduced borrowings by $198.7 million under the Virginia Power Financing Trust, which was terminated on March 27, 1989. See *Liquidity and Capital Resources* under MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Virginia Power's 1990 capital requirements, exclusive of AFC and refundings, are estimated to be $958 million, as detailed above. Of this amount, it is expected that approximately $463 million will be obtained from internal sources. The remaining $495 million of capital requirements, as well as the $160 million of debt and preferred stock maturities and sinking fund requirements, will be financed by a combination of sales of securities and borrowings under an inter-company credit agreement with Dominion Resources. See *Liquidity and Capital Resources* under MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RATES

The Company was subject to electric rate regulation in 1989 as follows:

		1989	
		Percent of Electric Revenues	Percent of Kwh Sales
Virginia retail:			
Non-Governmental customers...	Virginia Commission	81	78
Governmental customers.......	Not regulated (negotiated agreements)	11	13
North Carolina retail........	North Carolina Commission	4	4
Wholesale....................	Federal Energy Regulatory Commission (FERC)	4	5
		100%	100%

All of the Company's electric sales are subject to recovery of changes in fuel costs either through fuel adjustment factors or periodic adjustments to base rates, each of which requires prior regulatory approval. Rate relief obtained by the Company is frequently less than requested.

The principal rate proceedings in which the Company was involved in 1989 are described below by jurisdiction.

Virginia

On March 31, 1989, the Company filed with the Virginia Commission an application for a rate increase of $95 million, requesting a May 1, 1989 effective date under the Virginia Commission's rules for expedited rate proceedings. On May 1, 1989, the proposed rates were placed in effect on an interim basis, subject to refund pending the Virginia Commission's Final Order. On January 12, 1990, the Virginia Commission entered its Final Order in the proceeding. The Virginia Commission approved a rate increase of $64.4 million on a 1988 test year, an amount $8.4 million more than recommended by the Hearing Examiner but $30.6 million less than the Company requested. Refunds of amounts collected in excess of the amount approved are required to be made, with interest, by April 1, 1990.

On January 30, 1990, the Company notified the Virginia Commission of its intention to file an application on March 30, 1990 for a rate increase to take effect on May 1, 1990. The Company did not specify the amount of the rate increase it will seek.

North Carolina

On October 5, 1989, North Carolina Power filed an application for an increase in the fuel factor with the North Carolina Commission. Utilities in North Carolina undergo an annual fuel cost proceeding in which fuel costs from the past test year are reviewed and a fuel cost factor for the current test year is set. One element in determining the fuel factor consists of comparing the nuclear performance capacity factor for the test year with a target nuclear performance capacity factor defined by North Carolina law. The Company filed testimony in this proceeding seeking approval of a net fuel component of 1.398 cents per kilowatt-hour. On November 14, 1989, the Company filed revised testimony modifying the net fuel component to 1.391 cents per kilowatt-hour. These rates went into effect, subject to refund, effective with the billing month of January 1990. The Company's testimony indicated that the outages at the Surry Power Station during the past test year caused the Company's nuclear operations to fall short of the target capacity factor. The Public Staff of the North Carolina Commission and the Attorney General of North Carolina conducted investigations into the Surry Power Station outages and other aspects of the Company's nuclear operations related to fuel costs. The Company is attempting to negotiate a settlement among all of the parties to this proceeding but, in the absence of such a settlement, a hearing is scheduled to begin on March 13, 1990.

County and Municipal Customers

On February 15, 1989, Virginia Power reached agreement on the terms of a three-year contract governing rates for county and municipal customers in Virginia, which will continue through June 30, 1991. Pursuant to this contract and effective with the billing month of February 1989, a decrease of $25.5 million for the period from July 1, 1988 to June 30, 1989 was implemented and adequately reserved on the books of the Company. An increase of $4 million became effective July 1, 1989, and another increase of $4 million will become effective July 1, 1990.

Governmental-Commonwealth of Virginia

Governmental base rates for the Commonwealth of Virginia are unregulated but follow the methodology approved by the Virginia Commission for jurisdictional base rates. On May 1, 1989, existing rates were placed under bond, subject to refund, in anticipation of a slight rate decrease based upon the allocation methodology of the rates filed in Virginia on March 31, 1989.

SOURCES OF POWER

Company Generating Units

Name of Station, Units and Location	Years Installed	Type of Fuel	Winter Capability Mw
Nuclear:			
Surry Units 1 & 2, Surry, Va.	1972-73	Nuclear	1,562
North Anna Units 1 & 2, Mineral, Va.	1978-80	Nuclear	1,830(a)
Total nuclear stations			3,392
Fossil:			
Bremo Units 3 & 4, Bremo Bluff, Va.	1950-58	Coal	234
Chesterfield Units 3-6, Chester, Va.	1952-69	Coal	1,280
Mt. Storm Units 1-3, Mt. Storm, W. Va.	1965-73	Coal	1,635
Chesapeake Units 1-4, Chesapeake, Va.	1953-62	Coal	605
Possum Point Units 3 & 4, Dumfries, Va.	1955-62	Coal	326
Yorktown Units 1 & 2, Yorktown, Va.	1957-59	Coal	346
Possum Point Units 1, 2, & 5, Dumfries, Va.	1948-75	Oil	946
Yorktown Unit 3, Yorktown, Va.	1974	Oil & Gas	820
Total fossil stations			6,192
Combustion Turbines	1967-89	Oil & Gas	906
Hydroelectric:			
Gaston Units 1-4, Roanoke Rapids, N.C.	1963	Conventional	225
Roanoke Rapids Units 1-4, Roanoke Rapids, N.C.	1955	Conventional	104
Other	1930-87	Conventional	3
Bath County Units 1-6	1985	Pumped Storage	1,260(b)
Total hydro stations			1,592
Total Company generating units capability.			12,082
Utility Purchases			1,380
Non-Utility Generation			376
Total Capability			13,838

(a) Includes an undivided interest of 11.6 percent (212 Mw) owned by Old Dominion Electric Cooperative (ODEC).

(b) Includes only the Company's 60 percent undivided interest in the 2,100 Mw station. A 40 percent undivided interest in the facility is owned by Allegheny Generating Company, a subsidiary of Allegheny Power System, Inc. (APS).

The Company's highest one-hour integrated service area winter peak demand was 12,697 Mw established on December 22, 1989, and the highest one-hour integrated summer peak demand was 11,945 Mw established on July 11, 1989. At the time of these peaks, the Company had an aggregate winter capability of 13,838 Mw and an aggregate summer capability of 13,841 Mw, in each case including utility purchases and non-utility generation.

The Company and certain other utilities in the mid-Atlantic and Northeast regions of the United States experienced difficulties in 1988 in obtaining purchased power from sources to the west. The principal reasons for this were (i) high demand for purchased power due to growth and hot weather, (ii) outages at certain generating facilities in the Northeast and mid-Atlantic areas and (iii) full capacity usage of the transmission facilities through which the power flows from west to east. The installation of four peaking units, two of which began operation during June 1989 and the remaining two units in November 1989 will help alleviate this situation.

For financial data as to the property, plant and equipment of the Company, see Schedule V to FINANCIAL STATEMENTS Schedules.

SOURCES OF ENERGY USED AND FUEL COSTS

For information as to energy supply mix and the average fuel cost of energy supply, see *Results of Operations* under MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Nuclear Fuel Supply

Virginia Power's nuclear fuel supply and related services are expected to be adequate to support current and planned nuclear generation requirements. A combination of long-term contracts and spot purchases is utilized by the Company to fulfill its nuclear fuel needs. The Company continually evaluates market conditions in order to assure adequate nuclear fuel supply. Current agreements, inventories and market conditions will support planned fuel cycles into the mid-1990s.

See *Nuclear Operations* under LEGAL PROCEEDINGS for information relating to spent fuel storage and disposal and the effect thereof on continued operations.

Coal Supply

In 1989, Virginia Power consumed approximately 11.0 million tons of coal. As with nuclear fuel, the Company utilizes both long-term contracts and spot purchases to support its needs. The central Appalachian coal market, from which the Company purchases most of its coal, continues to produce coal supplies sufficient for the Company's needs. The Company presently anticipates that sufficient coal supplies at reasonable prices will be available at least into the mid-1990s.

Coal Conversions

Since 1975, twelve of Virginia Power's generating units (aggregating 2,503 Mw) have been converted from oil to coal. The Company presently has four operating oil-fired generating units (Yorktown Unit 3 and Possum Point Units 1, 2 & 5, aggregating 1,747 Mw). Possum Point Unit 1 (74 Mw), the last oil-fired unit to undergo renovation, was completed and returned to service in June 1989.

Purchases and Sales of Power

Virginia Power reduces fossil fuel costs by purchasing power from other utility systems when it is available at a cost lower than the Company's own generation costs. Conversely, it seeks to sell energy to other utilities when the proceeds from such sales will reduce its fuel expenses. It also relies upon purchases of power to meet an increasing amount of its capacity requirements.

Under contracts effective January 1, 1985, Virginia Power agreed to purchase 400 Mw of electricity through 1999 from Hoosier Energy Rural Electric Cooperative, Inc. (Hoosier), and agreed to purchase 500 Mw of electricity during 1987-99 from certain operating subsidiaries of American Electric Power Company, Inc. (AEP).

In late 1988, the Company contracted to purchase 200 Mw of electricity through 1990 from South Carolina Public Service Authority (SCPSA). The SCPSA contract requires the Company to purchase the power during the summer and winter peak seasons of 1989 and 1990 and during any other six non-peak months during the two-year period, totaling required purchases for 18 of the 24 months. In May 1989, the Company contracted with Carolina Power and Light Company to purchase 250 Mw of electricity during June, July, and August of 1989 and 1990; 350 Mw for December 1989 through February 1990; and 100 Mw for December 1990 through February 1991. In late 1989, the Company contracted with South Carolina Electric & Gas to purchase 200 Mw of short-term power during January and February and from June through September 1990.

As of December 31, 1989, Virginia Power also has 31 non-utility power purchase contracts with a combined dependable capacity of 376 Mw (see Note N to FINANCIAL STATEMENTS).

INTERCONNECTIONS

The Company and its neighboring utilities maintain major interconnections and arrangements for coordinated planning, operation, emergency assistance and exchanges of capacity and energy.

FUTURE SOURCES OF POWER

Virginia Power is committed to obtaining new sources of reliable and economic generating capacity. This capacity may be built, owned and operated by others and sold to the Company under a competitive bid process or may be built by Virginia Power if the Company determines it can build capacity at a lower overall cost.

The Company presently anticipates that system load growth will require approximately 5,000 Mw of additional capacity through 1997. The Company has pursued several options to provide that capacity and maintain a high degree of service reliability.

On January 26, 1989, the Company filed with the Virginia Commission an application for approval to construct a second combined cycle generating unit (Chesterfield Unit 8, 218 Mw) at its Chesterfield Power Station. On March 15, 1989, the Company filed with the Virginia Commission an application for approval of construction of four combustion turbine units aggregating from 325 to 340 Mw of generating capacity. On March 20, 1989, the Virginia Commission consolidated this proceeding with the earlier application for approval to construct Chesterfield Unit 8. A combined hearing was held before the Virginia Commission on July 5-7, 1989, and on August 25, 1989 the Virginia Commission approved construction of Chesterfield Unit 8 and the four combustion turbine units. The proceeding, however, was continued on the Virginia Commission's docket for investigation of the Company's capacity planning process. On January 22, 1990, a Hearing Examiner issued a report criticizing the Company's capacity planning and recommending that it be monitored more closely by the Virginia Commission's staff.

On August 15, 1989, the Company applied to the Virginia Commission for permission to construct, along with ODEC, a 786 Mw coal-fired generating station. The station will include two 393 Mw units scheduled to be completed in December 1993 and December 1994. The Company and ODEC are presently negotiating purchase and operating agreements under which each company will own a 50 percent interest in the units and the Company will operate the station. A hearing on the proposed units was held on October 30 and 31, 1989 and approval was granted on December 28, 1989.

On January 8, 1990, the Company filed with the Virginia Commission an application for approval of construction of three or four additional combustion turbines with an aggregate capacity of 325-340 Mw. A hearing on the application has been set for June 12, 1990.

On January 29, 1988, the Virginia Commission issued an Order approving in concept the voluntary use of competitive bidding for procuring new capacity. Virginia Power supported such a result. Notwithstanding its Order, the Virginia Commission allowed, as a transition to competitive bidding, certain third parties to retain the right to negotiate contracts for the sale of power to the Company from planned facilities aggregating approximately 750 Mw. The Company has reached agreement with the developers of several of these projects to purchase approximately 250 Mw of power. The developer of a project aggregating approximately 350 Mw is continuing discussions with the Company while the remainder have withdrawn. On October 18, 1989, a developer petitioned the Virginia Commission for an arbitration and award of a power purchase agreement for a 316 Mw facility outside of the competitive bidding process. The Company has opposed the petition, but the Virginia Commission has set the matter for oral argument for March 14, 1990.

In 1987, the Company signed agreements for the purchase of approximately 1,300 Mw of additional capacity from six non-utility power producers. In 1988, as a result of a competitive bidding solicitation, the Company entered into 19 contracts for 2,086 Mw of additional capacity for initial delivery at various dates through 1994. These contracts are generally for a duration of 25 years after initial delivery. The projects cover a variety of technologies, fuel supplies, pricing mechanisms and in-service dates. Although approximately 900 Mw are now under construction, none of the generating facilities discussed in this paragraph has been completed. Each agreement for the purchase of power contains provisions which require the project developers to keep the Company informed of construction progress. These agreements also contain liquidated damage provisions that may be invoked if the electricity is not available as scheduled. The Company is developing a contingency plan to meet the demand for power in the event that the growth in demand exceeds present forecasts or in the event of a failure of any of these power purchase agreements to be performed. The Company also issued a Request for Proposals on August 15, 1989 for competitive bids for an additional 1,100 Mw of power to come on line during 1995-1997. Bids were received in January 1990. The Company received proposals from 38 developers for 78 projects aggregating 11,600 Mw of capacity. About 70 percent of the proposed capacity would be fired by coal or coal waste, about 25 percent fired by natural gas or oil and the remaining 5 percent would be fired by municipal solid waste, peat or wood products. The Company is in the process of evaluating the proposals, and contracts are expected to be executed in the summer of 1990.

The Company's continuing program to meet future energy requirements is summarized in the following table:

Company Owned Generation

Name of Units	Capability Mw	Expected In-Service Date	Status
Darbytown Combustion Turbines 1-4	344	6/1990	On schedule for completion
Chesterfield 7	214	6/1990	On schedule for completion
Chesterfield 8	218	6/1992	On schedule for completion
Clover Project:			
Unit 1	393	12/1993	(*)
Unit 2	393	12/1994	

Non-Utility Generation

	Number of Projects	Mw
Contracts Executed	77	3,607
Projects Financed	11	992

*The Company and ODEC have signed a non-binding agreement in principle to develop jointly two 393 Mw units at Clover, Virginia with each having 50 percent ownership of each unit, subject to negotiation of final documentation. The Application for a Certificate of Convenience and Necessity filed with the Virginia Commission was granted on December 28, 1989.

COMPETITION

Competition is playing an increasingly important role in the Company's business. Public utilities such as the Company have been granted exclusive franchises to serve all classes of retail customers within designated service areas in return for a commitment to provide adequate service on a fair and reasonable basis. This traditional arrangement is being altered due to changing federal and state governmental regulations, technological developments, rising costs of constructing generating facilities and alternative energy sources. As a result of these factors, some industrial and municipal customers of the Company are presented with a greater variety of power supply options. The Company now has, and in the future will have, increased opportunities to obtain power from sources other than its own generating facilities (see *Future Sources of Power* under BUSINESS). In particular, the Public Utility Regulatory Policies Act of 1978 (PURPA) has encouraged non-utilities to enter the business of producing electricity. The Company supports a competitive system for utilities to buy capacity to meet future demand.

Technological developments have given some retail customers increased opportunities to obtain power through self-generation. But the Company's relatively low retail rates make widespread use of this option unlikely for the foreseeable future. Competition for retail customers would require fundamental changes in law and regulatory policies that are not currently under consideration. The Company is committed to maintaining high standards of service at competitive rates for all classes of customers.

ITEM 2. PROPERTIES

See *Company Generating Units* under *Sources Of Power* under BUSINESS and Schedule V of the FINANCIAL STATEMENTS Schedules.

ITEM 3. LEGAL PROCEEDINGS

Regulation-General

The Company is presently subject to regulation by the Virginia Commission and the North Carolina Commission, Department of Energy (DOE), the Environmental Protection Agency (EPA), FERC, the Nuclear Regulatory Commission (NRC), the Army Corps of Engineers and other federal, state and local authorities.

Virginia Power may not construct, or incur financial commitments for construction of, any substantial generating facilities or large capacity transmission lines without the prior approval of state and federal governmental agencies having jurisdiction over various aspects of its business. Such approvals relate to, among other things, the environmental impact of such activities, the relationship of such activities to the need for providing adequate utility service and the design and operation of proposed facilities.

Operating licenses issued by the NRC are subject to revocation, suspension or modification, and operation of a nuclear unit may be suspended if the NRC determines that the public interest, health or safety so requires.

From time to time, the Company may be in violation of or in default under orders, statutes, rules or regulations relating to protection of the environment, compliance plans imposed upon or agreed to by the Company or permits issued by various local, state and federal agencies for the construction or operation of facilities. There may be pending from time to time administrative proceedings involving violations of state or federal environmental regulations that the Company believes are not material with respect to it and for which its aggregate liability for fines or penalties will not exceed $100,000. There are no material agency enforcement actions or citizen suits pending or, to the Company's present knowledge, threatened against the Company.

Water Quality Control

From 1957 through 1974, fly ash from Virginia Power's Yorktown Power Station was deposited at sites near Chisman Creek, York County, Virginia. Pursuant to the Superfund Act, EPA identified the site as a Superfund site. EPA and the Company entered into consent decrees in 1987 and 1989 for cleanup of the site. The Company has substantially completed the actions required under those consent decrees. Future EPA costs and site operation and maintenance costs are not expected to be material.

In 1986, Virginia Power began a project to expand the capacity of two existing ash disposal ponds at its Possum Point Power Station. As a condition of the environmental permitting process, on April 14, 1987, the Company accepted a special order, issued by the Virginia Water Control Board (VWCB), requiring it to perform a six-month evaluation of groundwater quality in the vicinity of the two ponds. The study, which has been completed and submitted to the VWCB, concluded that the quality of groundwater near existing domestic wells adjacent to the site was good and met all health-based EPA primary drinking water standards. However, some groundwater contamination associated with the disposal of certain fossil fuel by-products at the facilities was identified. In order to remedy this impact, the Company has proposed a course of action that includes removal and relocation of certain wastes, back-fitting impermeable liners and additional monitoring to measure improvement in site groundwater. The proposed action is estimated to cost up to $3.5 million. The Company believes that this is the most practicable and scientifically sound means of protecting groundwater quality while managing waste disposal in an environmentally responsible manner.

Before the introduction of natural gas into the Company's system, various divisions of the Company and their predecessors manufactured gas for heating and lighting from coal. Various organic materials associated with the production of coal gas, generally referred to as coal tar, are regulated under various federal and state laws, and a contingent liability may exist for their remediation. Four sites involving the presence of such materials have been identified by the Company. Preliminary work at the sites indicates that a contingent liability (estimated to be between $3 million and $8 million) may exist because of the presence on the sites of coal tar. The significance, if any, of finding coal tar constituents off of the sites is unknown at this time. On June 12, 1989, Dominion Resources and Virginia Natural Gas, Inc. (VNG) entered into a Stock Purchase Agreement (the Agreement) with Consolidated Natural Gas Company (CNG) whereby CNG will purchase from Dominion Resources all of VNG's common and preferred stock. Under certain provisions of the Agreement (which was amended on January 23, 1990) that relate to the sharing of costs associated with remediation at the sites, the contingent liability related to the sites, as currently estimated, would be limited for the Company to approximately $4 million. VNG was sold to CNG on February 15, 1990.

From time to time, the Company may be identified as a potentially responsible party with respect to a Superfund site. EPA (or a state) can either (a) allow such a party to conduct and pay for a remedial investigation and feasibility study and remedial action or (b) conduct the remedial investigation and action and then seek reimbursement from the parties. Each party can be held jointly, severally and strictly liable for all costs, but the parties can then bring contribution actions against each other. As a result of the Superfund Act, the Company may be required to expend amounts on remedial investigations and actions, which amounts cannot be determined at the present time but could ultimately prove to be significant.

Permits under the Clean Water Act and state laws have been issued for all of the Company's steam generating stations now in operation. Such permits are subject to reissuance and continuing review.

Air Quality Control

The Company is subject to the Clean Air Act (the Air Act), which provides the statutory basis for ambient air quality standards. In order to maintain compliance with such standards and reduce the impact of emissions on ambient air quality, the Company may be required to incur additional expenditures, the amount of which is not presently determinable but which could be significant, in constructing new facilities or in modifying existing facilities.

There are presently bills pending in Congress that would substantially amend the Air Act. The most significant proposals relate to acid emission control and air toxics. While many changes in the proposed legislation may occur between now and final passage, it appears likely that legislation will be passed amending the Air Act during this session of Congress. The Company's emissions of sulfur dioxide and nitrogen dioxide are relatively low in comparison to many companies. Nevertheless, the cost impacts from the proposed amendments could be significant.

Nuclear Operations

Surry Unit 1 was taken out of service on September 1988 for a maintenance outage because of concerns with emergency diesel generators. Surry Unit 2 was taken out of service in September 1988 for a scheduled refueling. These outages were extended to undertake safety system inspections and upgrades, as well as engineering and support analysis. Surry Unit 1 returned to service on July 7, 1989 and Surry Unit 2 returned to service on September 19, 1989.

On May 19, 1989, the NRC imposed fines on Virginia Power totaling $500,000 at the Surry Power Station for twelve violations of NRC rules and regulations during inspections conducted at that station between September 12, 1988 and March 4, 1989. The Company initiated significant corrective actions and made management changes designed to prevent recurrence of these problems in the future. In June 1989, the Company paid the imposed fine without protest and advised the NRC staff in writing of the corrective actions it has taken to avoid further violations and the date by which full compliance with NRC rules and regulations will be achieved.

On June 1, 1989, the NRC placed the Company's Surry Units 1 and 2 in the second category out of three categories on a list of nuclear power stations that are to receive increased attention by the NRC staff. Stations in the second category are authorized to operate under monitoring by the regional office and the Office of Nuclear Reactor Regulation of the NRC.

On September 22, 1989, the NRC issued a performance assessment report based upon an evaluation of the Surry Power Station during the period between May 1, 1988 and June 30, 1989. This NRC report covered most of the period when both Surry units were out of service. The report evaluated Surry's performance in seven functional areas. The report indicated that over the evaluation period, the Surry overall performance was mixed and did not significantly exceed minimal regulatory requirements. The report noted that while performance during the first half of the assessment period was generally poor, it improved significantly toward the end of the period. It was recognized in the report that extensive management changes in the nuclear operations area have resulted in increased attention to detail and improving trends were noted during the latter part of the evaluation period in all of the functional areas assessed. The NRC staff noted an increased sensitivity and a positive attitude toward nuclear power plant operations by the Company.

The Nuclear Waste Policy Act of 1982 (the Nuclear Waste Act) requires the federal government to create a permanent repository for high-level radioactive waste and spent nuclear fuel. The permanent repository is being financed from a fee imposed on licensees (including the Company) of 1.0 mill per kilowatt-hour of net nuclear generation on and after April 7, 1983, and an equivalent fee for spent nuclear fuel discharged or in the reactor prior to that date. The Company has paid the one time fee for spent fuel discharged or in the reactor prior to April 7, 1983, and continues to pay the quarterly fee of 1.0 mill per kilowatt-hour on nuclear generation. The fees collected by DOE are credited to a Nuclear Waste Fund and are invested in government securities. All of the costs of the permanent disposal are being paid from this fund. DOE performs periodic studies of the adequacy of the fee, and the fee for future nuclear generation can be increased.

The Nuclear Waste Act required the DOE to complete the permanent repository and begin accepting spent fuel by January 31, 1998. However, DOE has stated that the repository will not be completed by 1998 and announced in a recent report to Congress that the repository will not be completed until 2008. DOE has stated that it is still committed to meeting the 1998 date for beginning to accept spent fuel by construction of a Monitored Retrievable Storage facility. Completion of a Monitored Retrievable Storage facility by 1998 will require Congressional action.

The Company has licensed and is currently operating an Independent Spent Fuel Storage Installation at the Surry Power Station that utilizes large metal dry storage casks and is designed and licensed to provide adequate interim storage capacity for the current licensed life of the Surry Power Station. If DOE acceptance of spent fuel is delayed significantly beyond 1998, a similar interim storage facility may be required for the Company's North Anna Power Station in the late 1990's.

The NRC has adopted stringent requirements for emergency planning, personnel training, procedures and facilities for prevention of and minimizing the effect of nuclear accidents, and staffing of nuclear operations. The NRC has also required, and the Company has made, certain modifications in the Company's operating nuclear generating units. If the NRC were to adopt further requirements for changes in the design and operation of nuclear reactors, this could result in substantial increases in the costs of operating and maintaining the Company's nuclear generating units.

For details regarding nuclear insurance and certain contingent liabilities related thereto, as well as a NRC rule that requires proceeds from certain insurance policies to be used first to pay stabilization and decontamination expenses, see Note N to FINANCIAL STATEMENTS.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

All of the Company's Common Stock is owned by Dominion Resources.

During 1989 and 1988, the Company paid quarterly cash dividends on its Common Stock as follows:

	1st	2nd	3rd	4th
		(Millions)		
1989..................	$ 74.3	$ 75.0	$ 75.2	$ 78.4
1988..................	$ 71.7	$ 71.6	$ 71.3	$ 74.5

ITEM 6. SELECTED FINANCIAL DATA

	1989	1988	1987 (Millions)	1986	1985
Operating revenues	$ 3,459	$ 3,098	$ 3,078	$ 2,960	$ 2,712
Operating income	759	737	737	693	600
Net income	435	460	456	428	391
Balance available for Common Stock	375	407	407	380	340
Total assets	10,086	9,495	9,256	8,750	8,295
Total net utility plant	8,498	7,998	7,639	7,228	6,805
Long-term debt, noncurrent capital lease obligations and preferred stock subject to mandatory redemption	4,331	4,089	4,052	3,978	3,426
Utility plant expenditures (including nuclear fuel)	905	807	836	835	679

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

The Company's major sources of financing during 1989 were the issuance of $250 million of First and Refunding Mortgage Bonds, $75 million of Money Market Cumulative Preferred Stock, $322 million of Medium-Term Notes and $100 million of Common Stock sold to Dominion Resources. From these proceeds, the Company retired $114.6 million of securities through mandatory debt maturities and sinking fund requirements, retired an additional $17.2 million of high cost debt and preferred stock through optional sinking fund payments and retired borrowings of $198.7 million under the Virginia Power Financing Trust. In addition, the Company redeemed at par all of its outstanding $20 million First and Refunding Mortgage Bonds of 1984, Series D, 11.5 percent, due 1991. At December 31, 1989, the Company's borrowing from Dominion Resources under the inter-company credit agreement was $84.0 million.

From 1987 to 1989, the Company's major sources of financing were as follows:

	1989	1988 (Thousands)	1987
Common Stock	$ 99,999	$ 34,994	$ 79,990
Preferred stock	75,000	75,000	175,000
Mortgage bonds	250,000	150,000	200,000
Medium-term notes	322,000	118,000	121,850
Pollution control financings (including refunding)			108,000

Funds used in investing activities during 1987 through 1989 (most of which were from operating activities) were as follows:

	1989	1988 (Thousands)	1987
Utility plant expenditures (excluding AFC-other funds)	$870,186	$743,270	$677,539
Nuclear fuel expenditures (excluding AFC-other funds)	34,552	63,444	158,201

The acquisition and ownership of certain nuclear fuel is financed by VP Fuel, a wholly-owned subsidiary of the Company, through the sale of commercial paper that is guaranteed by the Company. The total amount of commercial paper outstanding at December 31, 1989, was $125.8 million, of which $39.3 million was classified as short-term debt, representing the Company's estimated cost of the nuclear fuel to be consumed by the Company during 1990. The increase in the long-term debt portion of VP Fuel for 1989 was $20 million.

The Company has significant capital requirements due to its program of maintenance, upgrading and expansion of facilities, and the need for working capital and cash requirements for the retirement of maturing debt and sinking fund obligations (see Note N to FINANCIAL STATEMENTS).

The 1990 construction requirements (excluding AFC) include $874 million for construction expenditures and $84 million for nuclear fuel expenditures. Other capital requirements are for $111.9 million of securities due within one year, plus an additional $48.1 million of sinking fund payments. These obligations, as well as those construction requirements not met by internal cash generation, are expected to be financed by a combination of sales of Virginia Power's securities and borrowings under its inter-company credit agreement with Dominion Resources. The Company presently estimates that approximately 48 percent of its 1990 construction requirements, including nuclear fuel expenditures, will be met by internal cash generation and that the balance will be financed. In 1990, the Company estimates an equity contribution from Dominion Resources of up to $175 million.

The Company's construction costs for new generating facilities for 1990 through 1992 will constitute a larger portion of the Company's total capital requirements than in the past three years in order to meet future customer needs. Projected construction and nuclear fuel expenditures for the next three years are $3.0 billion. Actual construction costs may vary from this estimate because of such factors as design changes, modifications of environmental regulations, revised load projections, the cost and efficiency of construction labor, equipment and materials and the cost of capital.

At the end of 1989, the Company's capital structure, excluding securities due within one year, consisted of 40.0 percent common equity, 9.8 percent preferred stock and 50.2 percent long-term debt (including noncurrent capital leases). By the end of 1990, management projects the capital structure to consist of approximately 41 percent common equity.

Results of Operations

The following is a discussion of results of operations for the years ended 1989 as compared to 1988, and 1988 as compared to 1987.

1989 Compared to 1988

Operating revenues were $361.3 million higher in 1989 due principally to a $88.5 million increase in 1989 attributable to increased fuel rates, $82.4 million in 1989 as a result of increased unit sales resulting from new customer connections, $72.0 million as a result of increased customer usage, $50.0 million attributable to an increase in base rates, effective May 1, 1989 and the effect of a one-time refund in 1988 of approximately $80 million attributable to a reduction of certain deferred income tax balances ordered by the Virginia Commission. The effect of these items, among others, on operating revenues is shown in the following table.

	Increase (Decrease) From Prior Years (Millions)		
	1989	1988	1987
Kwh sales..................	$161.3	$69.1	$161.2
Base and fuel rates........	196.9	(57.3)	24.7
Other, net.................	3.1	7.6	3.0
Total....................	$361.3	$19.4	$188.9

Purchased and interchanged power, net increased in 1989 due to the reduced availability of Company-owned generation.

The average fuel cost of energy supply is shown below (a):

	Mills Per Kilowatt-hour		
	1989	1988	1987
Nuclear........................	4.30	5.72	6.05
Coal-Mt. Storm (mine-mouth)....	13.47	13.12	13.47
-Other.....................	15.59	15.54	16.42
Oil............................	29.21	30.04	32.81
Purchased and interchanged (b).	26.15	26.21	26.94
Gas............................	25.33	26.31	27.84
Combustion turbines............	62.01	60.88	65.40
Average fuel costs.............	16.04	14.13	15.02

Energy supply mix is shown below (a):

	Estimated	Actual		
	1990	1989	1988	1987
Nuclear (c).................	33%	22%	34%	32%
Coal........................	46	47	45	45
Oil.........................	4	7	4	5
Purchased and interchanged..	15	23	16	17
Other.......................	2	1	1	1
	100%	100%	100%	100%

(a) The table does not include any explicit reference to the Bath County Pumped Storage Station, which uses electricity generated from other fuel sources to pump water from a valley reservoir to another reservoir at the top of an adjacent mountain. The water stored in the upper reservoir is used to generate electricity when the water flows through a hydroelectric generator into the lower reservoir. Accordingly, the Bath County Pumped Storage Station may be viewed as storing previously generated electricity for later use. Hydroelectric generation is included in determining average fuel costs.

(b) Excludes costs attributable to capacity charges paid under long-term power purchase agreements.

(c) Excludes ODEC's 11.6 percent ownership interest in the North Anna Power Station (see Note F to FINANCIAL STATEMENTS).

Deferred fuel expenses, net decreased in 1989 because fuel costs subject to deferral accounting increased due to a more expensive energy supply mix resulting from the nuclear unit outages during the year, offset in part by a higher level of recovery of previously deferred fuel expenses.

Other operation expenses increased as a result of the increased operation costs related to the extended refueling and repair outages at Surry Units 1 and 2, and the establishment of a regulatory liability ($11.2 million at December 31, 1989) associated with the rate treatment of a gain resulting from the 1988 settlement of a portion of the projected benefit obligation under the Retirement Plan, offset in part by the excellent performance of coal-fired generating units.

Maintenance expenses increased as a result of the extended refueling and repair outages at Surry Units 1 and 2 and the normal refueling outages at North Anna Units 1 and 2 in 1989, offset in part, by the establishment of a regulatory asset ($19.5 million at December 31, 1989) for nonrecurring costs incurred during 1988 and 1989 associated with the extended outages at the Surry Nuclear Power Station.

Federal income taxes increased primarily as a result of the one-time refund to customers in 1988 for reductions in certain deferred income tax balances as ordered by the Virginia Commission. For additional information with respect to *Federal income* and *other taxes*, see Notes B and D to FINANCIAL STATEMENTS.

Other taxes-operating increased $26.2 million primarily due to $12.4 million resulting from a change in law which had the effect of increasing the West Virginia Business and Occupation taxes on power generation, $7.0 million attributable to increased gross receipts taxes due to increased revenues, $3.3 million for a provision for an estimated Virginia Sales and Use taxes audit deficiency, which is being contested by the Company, and $3.1 million due to increased property taxes resulting from an increase in Company-owned property.

Other income-miscellaneous, net decreased approximately $31.4 million as a result of the income received during 1988 from ODEC to compensate for the 300 Mw load reduction effective January 1, 1988.

Interest on long-term debt increased primarily as a result of the issuance of First and Refunding Mortgage Bonds and Medium-Term Notes, offset in part, by the termination of the Virginia Power Financing Trust.

1988 Compared to 1987

Operating revenues were $19.4 million higher in 1988 as a result, in part, of increased unit sales resulting from weather conditions and a continuing high level of new customer connections. This increase is offset, in part, by a decrease in sales to ODEC, primarily as a result of the reduction of ODEC's purchases by 300 Mw (see *Results of Operations*, Other income-miscellaneous, net and income taxes associated with miscellaneous, net under MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS) and a reduction in electric rates, including the effect of a one-time refund of approximately $80 million attributable to a reduction in certain deferred income tax balances ordered by the Virginia Commission.

Deferred fuel expenses, net increased as a result of: (1) a higher level of recovery in current rates for previously deferred fuel expenses, (2) deferral in 1987 of $33 million of certain capacity costs which were written off in 1988 as ordered by the Virginia Commission and (3) a decrease in fuel cost subject to deferral accounting in 1988 attributable to a lower cost of fossil fuel and an improved energy supply mix consisting of more economical nuclear generation.

Depreciation expenses increased as a result of an increase in depreciable plant in service, due, in part, to the placing in service of additional distribution facilities, a higher level of decommissioning accrual approved by the Virginia Commission effective September 14, 1987 and an increase in the amortization of leasehold improvements and computer software.

Federal income taxes decreased primarily as a result of the effect of a one-time refund to customers for reductions in certain deferred income tax balances as ordered by the Virginia Commission and the reduction in tax rates under the Tax Reform Act of 1986. For additional information with respect to *Federal income* and *other taxes*, see Notes B and D to FINANCIAL STATEMENTS.

Other income-miscellaneous, net and *income taxes associated with miscellaneous, net* reflect the payments received from ODEC. Virginia Power and ODEC entered into an agreement, approved by the Virginia Commission, allowing ODEC to reduce its purchases of supplemental power from the Company by 300 Mw, effective January 1, 1988. This reduction, for which the Company received compensation from ODEC over a period of one year approximating $29 million, is expected to benefit the Company's remaining customers over the long term by avoiding increased costs that would have been incurred to purchase such power from other sources.

FUTURE ISSUES

Recently Issued Accounting Standards

In December 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes." As a result of subsequent amendments, the provisions of SFAS No. 96 must be adopted by the Company no later than 1992. The objective of the new standard is to recognize the amount of current and deferred taxes payable and refundable for all events that have been recognized in the financial statements based on enacted tax laws at the date of the financial statements. (For the effect of adopting these provisions, see Note A to FINANCIAL STATEMENTS, Significant Accounting Policies, Federal Income Taxes.)

Activity Review and Resource Allocation Study

The Company pursues the most cost-effective means of meeting the growing electric power needs of its customers. In 1989, the Company completed an activity review and resource allocation study. As a result of this review, the Company eliminated 824 positions and released several hundred contractors, and added 148 company positions to strengthen the nuclear operations area. The annual savings from this review are estimated to be approximately $28 million. A regulatory asset of $8.1 million was established as of December 31, 1989, for the Virginia jurisdictional balance of deferred severance costs which have not yet been recovered through savings.

Future Sources of Power

The Company is committed to filling a portion of its total requirements for new generating capacity through the purchase of power as an alternative to the construction of power plants when it proves economically advantageous to do so or when required by federal or state regulations.

Utility Rate Regulation

The lack of rate relief in 1988 coupled with nuclear plant outages in 1989 has adversely impacted the Company's revenues and earnings during 1989. A rate increase of $64.4 million, effective May 1, 1989, on the Company's request for $95.0 million was approved by the Virginia Commission on January 12, 1990.

Rate relief, especially in Virginia, continues to be of great importance to the Company, and it is a major variable that can materially affect its financial results. The Virginia Commission fixes rates based on a past test year, and in a period of increasing costs, such ratemaking methodology causes attrition in earnings, especially if the utility is engaged in a large construction program. The Virginia Commission has traditionally allowed certain ratemaking adjustments that tend to offset such attrition, although in recent cases changes have been required that have diminished the attrition adjustments to some extent. Failure by the Virginia Commission to allow adequate attrition adjustments, which the Company will vigorously pursue, will have an adverse effect on the Company's financial results.

In its Order of January 12, 1990, the Virginia Commission indicated its intent to review, as part of the Company's next rate request, costs associated with the 1988-1989 outages at the Surry Nuclear Power Station. The result of such a review presently cannot be determined.

Other Trends

Operation and maintenance expenses are expected to increase in the future due to changing regulations and costs associated with customer growth. However, with its four nuclear units in full service at the end of 1989, the Company anticipates a more economical energy supply mix in 1990. In addition, the buy/build strategy of meeting the growing demand for electric power should continue to provide a low cost energy mix.

For more information on commitments and contingencies, see Note N to FINANCIAL STATEMENTS.

Environmental Matters

The Company is subject to increasing costs resulting from a steadily increasing number of federal, state, and local laws and regulations designed to protect human health and the environment by imposing stringent controls with regard to planning and construction activities, land use, air pollution, water pollution, and in recent years by comprehensively governing the use, treatment, storage, and disposal of hazardous or toxic materials. These laws and regulations affect future planning and existing operations. In response, the Company has undertaken specific compliance efforts, the costs of which have historically been recovered through the ratemaking process.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX

Schedules other than those listed above have been omitted since they are not required, are inapplicable or are unnecessary due to the presentation of the required information in the financial statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Virginia Electric and Power Company:

We have audited the accompanying financial statements of Virginia Electric and Power Company as of December 31, 1989 and 1988 and for the years then ended listed in the index on page 22. These financial statements and the supplemental schedules discussed below are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements present fairly, in all material respects, the financial position of Virginia Electric and Power Company at December 31, 1989 and 1988 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits also comprehended the supplemental schedules of Virginia Electric and Power Company for the years ended December 31, 1989 and 1988 listed in the index on page 22. In our opinion, such supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

DELOITTE & TOUCHE

Richmond, Virginia
February 2, 1990

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
of Virginia Electric and Power Company:

We have examined the financial statements and the financial statement schedules of Virginia Electric and Power Company as of and for the year ended December 31, 1987 as listed in the index on page 22 of this Form 10-K. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the results of operations and cash flows of Virginia Electric and Power Company for the year ended December 31, 1987 in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. In addition, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein.

COOPERS & LYBRAND

Richmond, Virginia
February 5, 1988

REPORT OF MANAGEMENT

The Company's management is responsible for all information and representations contained in the Financial Statements and other sections of the Company's report on Form 10-K. The 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 Form 10-K is consistent with that in the Financial Statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that the Company's 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.

The Financial Statements have been audited by Deloitte & Touche (for the years ended December 31, 1989 and 1988) and Coopers & Lybrand (for the year ended December 31, 1987), independent auditors, whose designation was approved by the Board of Directors. Their audits were conducted in accordance with generally accepted auditing standards and included a review of the Company's accounting systems, procedures and internal controls, and the performance of tests and other auditing procedures sufficient to provide reasonable assurance that the Financial Statements are not materially misleading and do not contain material errors.

The Audit Committee of the Board of Directors, composed entirely of directors who are not officers or employees of the Company, meets periodically with the independent auditors, the internal auditors and management to discuss auditing, internal accounting control and financial reporting matters and to ensure that each is properly discharging its responsibilities. Both the independent auditors and the internal auditors periodically meet alone with the Audit Committee and have free access to the Committee at any time.

Management recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the Company's Code of Ethics, which is distributed throughout the Company. The Code of Ethics addresses, among other things, the importance of ensuring open communication within the Company; potential conflicts of interest; compliance with all domestic and foreign laws, including those relating to financial disclosure; and the confidentiality of proprietary information.

VIRGINIA ELECTRIC AND POWER COMPANY

VIRGINIA ELECTRIC AND POWER COMPANY

STATEMENTS OF INCOME

	For The Years Ended December 31,		
	1989	1988 (Thousands)	1987
Operating revenues	$3,458,928	$3,097,579	$3,078,180
Operating expenses:			
Operation:			
Fuel used in current generation	595,452	562,732	578,458
Purchased and interchanged power, net	536,841	396,737	412,647
Deferred fuel expenses, net	(6,989)	38,026	(128,440)
Other	485,656	414,374	430,827
Maintenance	295,436	271,883	275,047
Depreciation	347,646	322,738	293,612
Amortization of terminated construction project costs	53,061	62,068	57,349
Taxes-Federal income	185,128	110,780	243,272
-Other	207,867	181,713	177,963
Total	2,700,098	2,361,051	2,340,735
Operating income	758,830	736,528	737,445
Other income:			
Allowance for other funds used during construction	3,703	1,845	1,966
Miscellaneous, net	36,005	71,401	35,930
Income taxes associated with miscellaneous, net	(4,823)	(28,901)	(12,093)
Total	34,885	44,345	25,803
Income before interest charges	793,715	780,873	763,248
Interest charges:			
Interest on long-term debt	344,520	313,625	301,022
Other	16,258	8,757	12,853
Allowance for borrowed funds used during construction	(2,529)	(1,615)	(6,482)
Total	358,249	320,767	307,393
Net income	435,466	460,106	455,855
Preferred dividends	60,226	53,095	49,195
Balance available for Common Stock	$ 375,240	$ 407,011	$ 406,660

The accompanying notes are an integral part of the financial statements.

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VIRGINIA ELECTRIC AND POWER COMPANY

BALANCE SHEETS

Assets

		At December 31, 1989		1988
		(Thousands)		
UTILITY PLANT:				
Electric (includes $745,369 plant under construction in 1989 and $641,491 in 1988)		$11,135,791		$10,353,800
Less accumulated depreciation		2,880,084		2,615,011
		8,255,707		7,738,789
Nuclear fuel (less accumulated amortization of $576,840 in 1989 and $525,623 in 1988)		242,237		258,888
Total net utility plant		8,497,944		7,997,677
PLANT AND PROPERTY UNDER CAPITAL LEASES (less accumulated amortization of $41,892 in 1989 and $40,000 in 1988)		41,536		47,982
INVESTMENTS:				
Non-utility property (less accumulated depreciation of $239 in 1989 and 1988)		5,528		5,632
Notes receivable		25,959		30,733
Pollution control project funds		40,151		87,062
Nuclear decommissioning trust funds		98,920		69,079
Other		1,838		3,206
Total net investments		172,396		195,712
CURRENT ASSETS:				
Cash		17,977		10,557
Accounts receivable:				
Customers	$321,597		$277,505	
Other	33,324		36,938	
	354,921		314,443	
Less allowance for doubtful accounts	1,148	353,773	1,286	313,157
Accrued unbilled revenues		177,304		134,419
Materials and supplies at average cost or less:				
Plant and general	172,981		158,123	
Fossil fuel	99,928	272,909	90,258	248,381
Other		35,602		38,186
Total current assets		857,565		744,700
DEFERRED DEBITS AND OTHER ASSETS:				
Terminated construction project costs (less accumulated amortization of $410,706 in 1989 and $357,645 in 1988)		246,992		276,214
Deferred fuel expenses		142,077		135,832
Other		127,023		97,101
Total deferred debits and other assets		516,092		509,147
Total assets		$10,085,533		$ 9,495,218

The accompanying notes are an integral part of the financial statements.

VIRGINIA ELECTRIC AND POWER COMPANY

BALANCE SHEETS

Capitalization and Liabilities

	At December 31, 1989	1988
	(Thousands)	
CAPITALIZATION:		
Long-term debt (see Statements of Capitalization)	$ 3,977,649	$3,695,545
Preferred stock subject to mandatory redemption	318,652	349,743
Preferred stock not subject to mandatory redemption	469,014	394,014
Common stockholder's equity:		
Common Stock, no par	2,197,506	2,096,671
Other paid-in capital	17,985	18,666
Earnings reinvested in business	980,606	910,335
Total common stockholder's equity	3,196,097	3,025,672
Total capitalization	7,961,412	7,464,974
OBLIGATIONS UNDER CAPITAL LEASES	34,667	43,350
CURRENT LIABILITIES:		
Securities due within one year (see Statements of Capitalization)	159,976	114,622
Short-term debt	39,295	35,640
Obligations under capital leases due within one year	6,869	6,301
Accounts payable, trade	197,407	202,946
Cash due to banks	49,424	48,807
Customer deposits	43,645	40,245
Payrolls accrued	46,131	36,374
Taxes accrued	93,856	55,681
Interest accrued	104,958	86,579
Other	70,366	84,193
Total current liabilities	811,927	711,388
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes:		
Liberalized depreciation	695,963	625,648
Terminated construction project costs	27,439	29,090
Other	129,771	155,585
Deferred investment tax credits	385,341	409,621
Other	39,013	55,562
Total deferred credits and other liabilities	1,277,527	1,275,506
COMMITMENTS AND CONTINGENCIES		
Total capitalization and liabilities	$10,085,533	$9,495,218

The accompanying notes are an integral part of the financial statements.

VIRGINIA ELECTRIC AND POWER COMPANY

STATEMENTS OF EARNINGS REINVESTED IN BUSINESS

	For the Years Ended December 31, 1989	1988	1987
		(Thousands)	
Balance at beginning of year	$ 910,335	$ 795,107	$ 668,966
Net income (see Statements of Income)	435,466	460,106	455,855
Total	1,345,801	1,255,213	1,124,821
Cash dividends:			
Preferred stock subject to mandatory redemption	28,668	30,480	30,670
Preferred stock not subject to mandatory redemption	31,234	23,646	18,798
Common Stock	302,994	289,101	272,284
Other dividends to Dominion Resources:			
Preferred stock received on sale of Laurel Run Mining Company			4,000
Total dividends	362,896	343,227	325,752
Other deductions, net	2,299	1,651	3,962
Balance at end of year	$ 980,606	$ 910,335	$ 795,107

The accompanying notes are an integral part of the financial statements.

VIRGINIA ELECTRIC AND POWER COMPANY
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1989	1988	1987
		(Thousands)	
Cash Flow From Operating Activities:			
Net income	$ 435,466	$ 460,106	$ 455,855
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	458,372	489,928	428,631
Allowance for other funds used during construction	(3,703)	(1,845)	(1,966)
Deferred income taxes	35,358	(27,843)	109,739
Deferred investment tax credits, net	(24,279)	(10,270)	3,893
Pretax loss on sale of West Virginia territory			3,784
Partial settlement-pension plan	11,200	(17,287)	
Noncash return on terminated construction project costs-pretax	(24,980)	(27,995)	(30,726)
Deferred fuel expenses	(6,245)	37,976	(128,346)
Changes in current assets and liabilities(*):			
Accounts receivable	(40,616)	(36,549)	(32,253)
Accrued unbilled revenues	(42,885)	(12,733)	(433)
Materials and supplies	(24,528)	87,341	(68,869)
Accounts payable, trade	(5,539)	47,905	(19,196)
Accrued expenses	66,311	32,961	(43,554)
Other	(13,976)	15,911	(1,328)
Net Cash Flow From Operating Activities	819,956	1,037,606	675,231
Cash Flow From (To) Financing Activities:			
Common Stock	99,999	34,994	79,990
Preferred stock	75,000	75,000	175,000
Long-term debt	592,589	273,258	491,170
Short-term debt	3,655	(6,664)	41,804
Inter-company credit agreement	55,500	1,500	(22,600)
Repayment of long-term debt and preferred stock	(350,501)	(267,095)	(264,295)
Common Stock dividend payments	(302,994)	(289,101)	(272,284)
Preferred stock dividend payments	(59,902)	(54,126)	(49,468)
Principal payments under capital lease obligations	(6,301)	(6,009)	(37,083)
Other	(3,521)	(2,356)	(4,805)
Net Cash Flow From (To) Financing Activities	103,524	(240,599)	137,429
Cash Flow (Used in) Investing Activities:			
Utility plant expenditures (excluding AFC-other funds)	(870,186)	(743,270)	(677,539)
Nuclear fuel (excluding AFC-other funds)	(34,552)	(63,444)	(158,201)
Pollution control project funds	46,911	34,613	9,508
Nuclear decommissioning trust funds	(29,841)	(24,839)	(15,617)
Nuclear fuel progress payments			(28,997)
Sales of nuclear fuel to lessor			25,982
Sale of West Virginia service territory			23,013
Other	(29,009)	11,170	21,785
Net Cash Flow (Used in) Investing Activities	(916,677)	(785,770)	(800,066)
Increase in cash and cash equivalents	6,803	11,237	12,594
Cash and cash equivalents at beginning of year	(38,250)	(49,487)	(62,081)
Cash and cash equivalents at end of year	$ (31,447)	$ (38,250)	$ (49,487)

(*) Does not include reclassification as current liabilities of maturing long-term debt and cash sinking fund obligations of debt and preferred stock as follows: 1989-$159,976; 1988-$114,622; and 1987-$150,663.

(Continued)

VIRGINIA ELECTRIC AND POWER COMPANY
STATEMENTS OF CASH FLOWS
(Continued)

	1989	1988	1987
		(Thousands)	
CASH PAID DURING THE YEAR FOR:			
Interest (reduced for the net cost of borrowed funds capitalized as AFC)	$350,003	$329,091	$314,028
Income taxes	145,352	146,391	202,029
NONCASH TRANSACTIONS FROM INVESTING AND FINANCING ACTIVITIES:			
Capital lease obligations:			
Additions			26,299
Retirements	4,554		106,385
Sale of Laurel Run Mining Company:			
Cash received			623
Preferred stock received			4,000
Noncash dividends to Dominion Resources:			
Preferred stock received on sale of Laurel Run Mining Company			4,000

DISCLOSURE OF ACCOUNTING POLICY:
For purposes of the Statements of Cash Flows, the Company considers cash and cash equivalents to include cash on hand, cash due to banks and temporary investments purchased with a maturity of three months or less.

The accompanying notes are an integral part of the financial statements.

VIRGINIA ELECTRIC AND POWER COMPANY

STATEMENTS OF CAPITALIZATION

	At December 31, 1989 (Thousands)	At December 31, 1988 (Thousands)
Long-term debt:		
First and refunding mortgage bonds (1):		
Series P, 4.625%, due 1990	$ 25,000	$ 25,000
Series Q, 4.875%, due 1991	30,000	30,000
1984 Series D, 11.5%, due 1991(2)		20,000
Series R, 4.375%, due 1993	30,000	30,000
Series S, 4.5%, due 1993	29,985	29,985
1984 Series A, 13.3%, due 1994	66,000	66,000
1984 Series B, 13.25%, due 1994	75,000	75,000
1987 Series B, 9.375%, due 1994	100,000	100,000
Various series, 4.5%-15.75%, due 1995-1999	629,890	535,640
Various series, 7.375%-12.85%, due 2000-2004	564,700	581,200
Various series, 6.75%-10.25%, due 2005-2009	682,000	691,396
Various series, 8.5%-9.875%, due 2015-2019	500,000	350,000
Total first and refunding mortgage bonds	2,732,575	2,534,221
Other long-term debt:		
Bank loans, notes and term loans:		
Fixed interest rate, 6.85%-12.375%, due 1990-2003	809,823	563,591
Pollution control financings:		
Fixed interest rate, 5.625%, due 2002	21,500	22,000
Money Market Municipals, due 2008-2017 (3)	388,600	388,600
Virginia Power Financing Trust (4)		198,695
Inter-company credit agreement (5)	84,000	28,500
Nuclear fuel financing (6)	86,519	65,930
Total other long-term debt	1,390,442	1,267,316
	4,123,017	3,801,537
Less amounts due within one year:		
First and refunding mortgage bonds	25,000	
Bank loans, notes and term loans	86,910	74,860
Sinking fund obligations (7)	22,783	21,679
Total amount due within one year	134,693	96,539
Less unamortized discount, net of premium	10,675	9,453
Total long-term debt	3,977,649	3,695,545
Preferred stock	812,949	761,840
Less amounts due within one year-sinking fund obligations	25,283	18,083
Total preferred stock	787,666	743,757
Common stockholder's equity (8)	3,196,097	3,025,672
Total capitalization	$7,961,412	$7,464,974

(Continued)

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

(2) On December 4, 1989, the Company called for redemption all of its outstanding First and Refunding Mortgage Bonds of 1984, Series D, at a redemption price of 100 percent of the principal amount.

(3) Interest rates vary based on short-term tax-exempt market rates. Pollution control bonds subject to remarketing within one year are classified as long-term debt to the extent that the Company's intention to maintain the debt is supported by long-term bank commitments.

(4) In April 1986, the Company established the Virginia Power Financing Trust, a $400 million multi-option credit facility to replace the $250 million Bath County Pumped Storage Station financing, two floating rate bank loans aggregating $100 million and $50 million of inter-company borrowings from Dominion Resources. On March 27, 1989, the Trust was terminated and the borrowings thereunder retired principally with the proceeds of the Company's First and Refunding Mortgage Bonds of 1989, Series A. The weighted average interest rate for 1989, including fees for supporting letters and lines of credit, for borrowings made through the Trust was 9.9 percent.

(5) Under the terms of an agreement with Dominion Resources, the Company may borrow funds from Dominion Resources on a daily basis and repay all or any part of the loan at any time during the term of the agreement, presently due to expire on July 1, 1991. Borrowings under the agreement are limited to $300 million. The weighted average interest rate for 1989 was 9.24 percent.

(6) In October 1987, VP Fuel, a wholly-owned subsidiary of the Company, entered into a four-year standby revolving credit agreement, in support of its commercial paper financing of nuclear fuel used at the Company's Surry Power Station. Subject to the terms of the revolving credit agreement, which is unconditionally guaranteed by the Company, VP Fuel may borrow and reborrow up to $200 million at any one time, minus the aggregate amount of outstanding commercial paper. The weighted average interest rate for VP Fuel financing in 1989, including bank facility fees, was 9.58 percent.

(7) $8,383,250 of the annual sinking fund requirements on the First and Refunding Mortgage Bonds may be satisfied by waiving the privilege to issue an equal amount of bonds and by substituting property therefor. The Company intends to exercise such waiver in 1990.

(8) Common Stock was represented by 147,077 shares outstanding at December 31, 1989 (300,000 shares authorized).

Maturities (including preferred stock cash sinking fund obligations) through 1994 are as follows: 1990-$159,976,400; 1991-$237,960,451; 1992-$98,991,400; 1993-$175,601,400 and 1994-$337,616,400.

The accompanying notes are an integral part of the financial statements.

VIRGINIA ELECTRIC AND POWER COMPANY

NOTES TO FINANCIAL STATEMENTS

A. Significant Accounting Policies:

General:

The Company's accounting practices are prescribed by the Uniform System of Accounts promulgated by the regulatory commissions having jurisdiction.

The Company is a wholly-owned subsidiary of Dominion Resources, a Virginia corporation. The financial statements include the accounts of the Company and VP Fuel, with all significant inter-company transactions and accounts being eliminated in consolidation.

Revenues:

Operating revenues are recorded on the basis of service rendered.

Utility Plant and Depreciation:

Utility plant is recorded at original cost which includes labor, materials, services, AFC and other indirect costs.

Depreciation of utility plant (other than nuclear fuel) is computed on 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 is based on weighted average depreciable plant using rates of 3.2 percent for 1989 and 1988 and 3.3 percent for 1987.

The cost of maintenance and repairs is charged to the appropriate operating expense and clearing accounts. The cost of additions and replacements is charged to the appropriate utility plant account, except that the cost of minor additions and replacements is charged to maintenance expense.

Nuclear Decommissioning:

Based on the most recent decommissioning cost study completed in 1986, future decommissioning costs for the Company's four nuclear units are approximately $665 million, as measured in 1986 dollars. Funds collected in 1984-1989 have been placed in a special trust in order that the Company may avail itself of certain federal income tax benefits. Pre-1984 collections have been placed in a separate trust. Trust funds will be invested with earnings generated and accumulated in the trusts for funding of future decommissioning obligations. Additional funds needed for decommissioning will be collected as approved by the jurisdictional regulatory commissions. The accumulated provision for decommissioning of $98.7 million and $71.8 million is included in Utility Plant Accumulated Depreciation at December 31, 1989 and 1988, respectively. Provisions for decommissioning of $21.3 million, $21.2 million and $15.9 million applicable to 1989, 1988 and 1987, respectively, are included in Depreciation Expense.

Nuclear Fuel:

Operating expenses include amortization of nuclear fuel, which is provided on a unit of production basis sufficient to fully amortize, over the estimated service life, the cost of the fuel plus future storage and disposal costs.

Federal Income Taxes:

The Company files a consolidated federal income tax return with Dominion Resources.

The Company's practice is to reduce the current provision for federal income taxes to reflect the tax benefit resulting from the use of the accelerated depreciation methodology for property additions. Prior to 1974, the Company flowed through to income the tax effect of most timing differences between book and tax accounting. Effective with property additions placed in service in 1974, deferred income taxes have been provided on the effects of accelerated depreciation and, subsequently, deferred taxes have been provided on most other timing differences between book income and federal taxable income to the extent permitted by the regulatory commissions having jurisdiction.

To the extent timing differences have arisen in prior periods which have not been normalized, the tax increase or decrease will be recorded when the timing differences reverse. The Company's only significant non-normalized timing difference pertains primarily to accelerated tax depreciation of plant placed in service prior to 1974. Deferred tax provisions have not been recorded on these timing differences (with the exception of FERC jurisdictional operations) because they are not allowed for ratemaking purposes. As of December 31, 1989, the cumulative net amount of such timing differences was approximately $749.8 million. The tax effect of this amount is not recorded currently, but such costs are expected to be reflected in rates when the timing differences reverse.

Deferred investment tax credits are being amortized over the service lives of the property giving rise to such credits. The Tax Reform Act of 1986 repealed the investment tax credit, effective January 1, 1986, except for certain transitional property qualifying for the credit.

In December 1987, the FASB issued SFAS No. 96, "Accounting for Income Taxes." As a result of subsequent amendments, the provisions of SFAS No. 96 must be adopted by the Company no later than 1992. The objective of the new standard is to recognize the amount of current and deferred taxes payable and refundable for all events that have been recognized in the financial statements based on enacted tax laws at the date of the financial statements. Implementation of the standard may be accomplished by either restating financial statements for prior periods or reporting the cumulative effect of the change in income of the current year.

The Company has preliminarily determined that the net effect provided by adoption of the standard will be recording of additional deferred income tax liabilities on the Company's balance sheet. These additional deferred income tax liabilities represent the tax effects of those differences between book income and federal taxable income for which deferred income taxes have not been provided and differences in bases of assets and liabilities for book and income tax purposes. At the time the Company records these additional deferred income taxes, a regulatory receivable will also be recorded. The Company will recognize the tax effects in future customer rates when such differences reverse.

Allowance for Funds Used During Construction:

The applicable regulatory Uniform System of Accounts defines AFC as the net cost during the construction period of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

The Company separately determines rates and reports amounts applicable to borrowed funds, calculated on a net-of-tax basis, and to equity funds. Aggregate AFC rates of 8.95 percent, 8.89 percent and 8.26 percent were used for 1989, 1988 and 1987, respectively. Substantially all of the Company's construction work in progress is now included in rate base, and a cash return is collected currently thereon.

Deferred Fuel and Capacity:

Approximately 78 percent of fuel expenses is subject to a deferral method of accounting. Under this method, the difference between actual fuel expenses and the level of fuel expenses included in current rates is deferred and matched against anticipated future fuel-related rate increases.

During 1987, the Company, based on regulatory authorization, deferred approximately $33 million of capacity charges in excess of the level of such charges included in base rates. Subsequently, in Virginia's base rate proceeding, the Company sought recovery of these deferred capacity charges over a two-year period. On December 30, 1988, the Virginia Commission denied recovery of these costs in its Order. As a result, these capacity costs were expensed in 1988.

Pollution Control Project Funds:

Pollution control project funds represent unexpended proceeds, plus interest earned thereon, from the sale of pollution control securities. These funds are placed in a trust for the benefit of the Company, until the Company requisitions monies from the trustee for the reimbursement of qualified project expenditures. For certain regulatory jurisdictions, investment earnings generated from the unused portion of such funds are recorded as interest income.

Reclassification:

Certain amounts in the 1988 and 1987 financial statements have been reclassified to conform to the 1989 presentation.

B. Federal Income Taxes:

Details of federal income tax expense are as follows:

	Years 1989	1988 (Thousands)	1987
Current expense	$ 168,005	$ 151,726	$ 132,609
Deferred expense, resulting from timing differences:			
Plant related items:			
Liberalized depreciation	69,672	58,809	80,649
Indirect construction costs	(20,854)	(13,924)	(9,576)
Cost of removal-property retirements	5,501	4,788	3,120
Nuclear decommissioning costs	(188)	1,928	(4,563)
Other	3,189	(2,439)	(3,978)
Deferred fuel adjustment	2,297	(15,167)	50,844
Unbilled revenues	(4,127)	(4,127)	32,614
Terminated construction project costs	(13,142)	(15,976)	(19,067)
Customer accounts reserve	3,474	(333)	(11,932)
Refund of certain deferred tax balances pursuant to regulatory order (1)	(4,906)	(49,062)	(5,436)
Other	486	4,827	(7,418)
	41,402	(30,676)	105,257
Deferred investment tax credits:			
Gross	(5,644)	10,969	30,483
Amortization	(18,635)	(21,239)	(25,077)
Net deferred investment tax credits	(24,279)	(10,270)	5,406
Federal income tax expense-operating income	185,128	110,780	243,272
Federal income tax expense associated with nonoperating income:			
Current	10,867	26,068	9,124
Deferred	(6,044)	2,833	4,482
Net deferred investment tax credits			(1,513)
	4,823	28,901	12,093
Total federal income tax expense	$ 189,951	$ 139,681	$ 255,365

(1) Represents the effect of a refund to customers for a reduction in certain deferred income tax balances as ordered by the Virginia Commission. (See Item 1, Rates under BUSINESS.)

Total federal income tax expense differs from the amount computed by applying the statutory federal income tax rate to pretax income for the following reasons:

	Years					
	1989		1988		1987	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
	(Thousands, except percentages)					
Computed federal tax expense at statutory rate on income (1)	$212,642	34.0%	$203,928	34.0%	$284,132	39.9%
Increases (decreases) resulting from:						
Utility plant differences (2)	6,876	1.1	(2,753)	(0.5)	(4,931)	(0.7)
Ratable amortization of investment tax credits	(18,635)	(3.0)	(21,239)	(3.5)	(26,590)	(3.7)
Refund of certain deferred tax balances pursuant to regulatory order (3)	(4,906)	(0.8)	(49,062)	(8.2)	(5,436)	(0.8)
Terminated construction project costs (2)	8,285	1.3	8,880	1.5	6,208	0.9
Other, net	(14,311)	(2.2)	(73)	0.0	1,982	0.3
	(22,691)	(3.6)	(64,247)	(10.7)	(28,767)	(4.0)
Total federal income tax expense	$189,951	30.4%	$139,681	23.3%	$255,365	35.9%

(1) Net income plus total federal income tax expense.

(2) Items for which deferred taxes had not been provided in prior years, net of amortization of certain deferred tax provisions recorded at higher levels than the current statutory rate.

(3) Represents the effect of a refund to customers for a reduction in certain deferred income tax balances as ordered by the Virginia Commission. (See Item 1, Rates under BUSINESS.)

C. Terminated Construction Project Costs:

Costs, net of taxes, incurred in connection with terminated construction projects are summarized as follows:

Nuclear Unit	Date Construction Terminated	Net Cost Incurred	Unamortized Balance At December 31, 1989	Period of Amortization In Rates
		(Thousands)		
North Anna 3	November 1982	$387,583	$203,073	(*)
North Anna 4	November 1980	85,641	16,410	10 years
Surry 3 & 4	March 1977	54,611	70	10 years

(*) The amounts deferred are being amortized over 15 years for Virginia and FERC jurisdictional customers and over a ten-year period in the North Carolina jurisdiction.

D. Supplementary Income Statement Information:

Taxes other than federal income taxes charged to expenses were as follows:

	Years		
	1989	1988	1987
		(Thousands)	
Real estate and property	$ 60,832	$ 57,714	$ 51,746
State and local gross receipts	87,480	81,438	87,410
Payroll related	27,684	26,659	24,756
Other	31,871	15,902	14,051
Total	$207,867	$181,713	$177,963

E. Leases:

The Company has leases for certain property and equipment that meet the criteria for capitalization under the provisions of SFAS No. 13, "Accounting for Leases," which require recognition of all capital leases. Plant and property under capital leases at December 31, 1989 and 1988 included the following:

	1989	1988
	(Thousands)	
Combustion turbines.............................	$42,601	$42,601
Office buildings (*)............................	40,827	40,827
Data processing equipment and other.............		4,554
Total plant and property under capital leases.	83,428	87,982
Less accumulated amortization...................	41,892	40,000
Net plant and property under capital leases.....	$41,536	$47,982

(*) The Company currently leases one building from its parent, Dominion Resources. The capitalized cost of the property under that lease, net of accumulated amortization, represented $29.2 million and $29.9 million at December 31, 1989 and 1988, respectively. Rental payments for such lease were $3.0 million for each of the three years ended December 31, 1989, 1988 and 1987.

The Company is responsible for expenses in connection with the leased turbines and buildings noted above, including insurance, taxes and maintenance.

Future minimum lease payments for each of the next five years and in the aggregate under noncancellable capital leases and for operating leases that have initial or remaining lease terms in excess of one year as of December 31, 1989, are as follows:

	Capital Leases	Operating Leases
	(Thousands)	
1990....................................	$10,048	$ 8,204
1991....................................	10,048	3,371
1992....................................	3,603	2,281
1993....................................	3,603	1,523
1994....................................	3,603	1,293
After 1994..............................	40,661	5,358
Total future minimum lease payments...........	71,566	$22,030
Less interest element included above..........	28,216	
Present value of future minimum lease payments	$43,350	

Rents on leases have been charged to fuel used in current generation (payments under nuclear fuel heat supply contracts) and other operation expenses (all other leases) and included the following:

	1989	1988 (Thousands)	1987
Interest on capital lease obligations..........	$ 3,271	$ 3,723	$ 9,949
Amortization of property under capital leases.	4,402	4,417	40,183
Rental expense relating to capital leases (*).	7,673	8,140	50,132
Rental expense relating to operating leases...	10,450	10,878	11,218
Less: sublease rentals.......................	56	59	52
Total..	$18,067	$18,959	$61,298

(*) In October 1987, the Company terminated several heat supply contracts for nuclear fuel used at its Surry Power Station that qualified as capital leases. Upon termination of these heat supply contracts, the nuclear fuel subject to the contracts was acquired by VP Fuel (see Note O to FINANCIAL STATEMENTS).

F. Jointly Owned Plants:

The following information relates to the Company's proportionate share of jointly owned plants at December 31, 1989:

	Bath County Pumped Storage Station	North Anna Power Station
Ownership interest.....................	60.0%	88.4%
	(Millions)	
Utility plant in service...............	$1,069.6	$2,074.4
Accumulated depreciation...............	86.7	907.9
Construction work in progress..........	1.5	156.8

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 proportion as their respective ownership interests. The Company's share of operating costs is classified in the appropriate operating expense (fuel, maintenance, depreciation, taxes, etc.) in the Statements of Income.

G. **Preferred Stock Subject to Mandatory Redemption:**

Preferred stock subject to mandatory redemption, $100 liquidation preference, at December 31, 1989, was represented by the following:

		Entitled Per Share Upon Voluntary Liquidation Redemption			Annual Sinking Fund Requirements at $100 Per Share
Dividend	Authorized and Outstanding Shares	Amount	Through	And Thereafter To Amounts Declining In Steps To	Shares
$ 7.30	500,000	$107.30	4/14/93	$100.00 after 4/14/02	(a)
7.325	484,419	101.00			28,000
7.58	600,000	107.58	6/19/92	100.00 after 6/19/93	(b)
8.40	576,000	104.20	3/31/90	100.00 after 3/31/04	32,000
8.20	390,000	103.28	9/20/90	100.41 after 9/20/96	30,000
8.60	252,432	105.00	12/19/92	100.00 after 12/19/97	11,834
8.625	240,500	104.68	6/20/90	100.00 after 6/20/02	18,500
8.925	196,000	105.95	9/20/90	100.00 after 9/20/09	10,500
10.25	200,000	102.00	4/20/90	101.00 after 4/20/90	(c)
	3,439,351				
Less shares due within one year	252,834				
Total	3,186,517				

(a) 15,000 shares annually commencing in June 1992.

(b) 120,000 shares annually commencing in June 1992.

(c) 150,000 and 50,000 shares in April 1990 and 1991, respectively.

Maturities through 1994 are as follows: 1990-$25,283,400; 1991-$18,083,400; 1992-$26,583,400; 1993-$26,583,400; and 1994-$26,583,400.

In 1989, 47,581 shares of the $7.325 Dividend Preferred Stock and 10,500 shares of the $8.925 Dividend Preferred Stock were redeemed through an optional sinking fund.

In 1988, 32,000 shares of the $8.40 Dividend Preferred Stock were redeemed through an optional sinking fund.

In 1987, 500,000 shares of $7.30 Dividend Preferred Stock were issued and 32,000 shares of the $8.40 Dividend Preferred Stock were redeemed through an optional sinking fund.

The total number of authorized shares for all preferred stock is 10,000,000 shares. Upon involuntary liquidation, all presently outstanding preferred stock is entitled to receive $100 per share plus accrued dividends. Dividends are cumulative.

H. Preferred Stock Not Subject to Mandatory Redemption:

Preferred stock not subject to mandatory redemption, $100 liquidation preference, at December 31, 1989, was represented by the following:

Dividend	Authorized And Outstanding Shares	Entitled Per Share Upon Voluntary Liquidation Redemption Amount	Through	And Thereafter To
$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		
7.72	350,000	101.50		
7.45	400,000	101.00		
7.20	450,000	101.00		
7.72 (1972 Series)	500,000	101.00		
Money Market Preferred (January 1987 Series) (*)	500,000	101.00	1/21/90	$100.00 after 1/21/90
Money Market Preferred (June 1987 Series) (*)	750,000	101.00	6/22/90	$100.00 after 6/22/90
Money Market Preferred (October 1988 Series)(*)	750,000	100.00		
Money Market Preferred (June 1989 Series) (*)	750,000	100.00		
Total	4,690,140			

(*) Dividend rates are variable and are set every 49 days via an auction process. The combined weighted average rates for these series in 1989 and 1988, including fees for broker/dealer agreements, were 7.45 percent and 6.39 percent, respectively.

I. Common Stock:

During the years 1987 through 1989 the following changes in Common Stock occurred:

	Years					
	1989		1988		1987	
	(Thousands, except shares)					
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding	Amount
Balance at January 1........	142,433	$2,096,671	140,788	$2,060,841	136,885	$1,980,015
Transfer from Other Paid-in Capital.........		836		836		836
Issuance to Dominion Resources...............	4,644	99,999	1,645	34,994	3,903	79,990
Balance at December 31......	147,077	$2,197,506	142,433	$2,096,671	140,788	$2,060,841

J. Short-Term Debt:

		Year End		Daily Average Outstanding		
	Maturity	Amount	Interest Rate(a)	Amount	Interest Rate(a)	Maximum Outstanding
	(Thousands, except percentages)					
1989						
Nuclear fuel financing.......	(b)	$ 39,295	(c)	(c)	9.46%	(c)
Real estate notes............	(d)			$ 525	10.00%	$ 825
Total......................		$ 39,295				
1988						
Nuclear fuel financing.......	(b)	$ 34,815	(c)	(c)	7.66%	(c)
Real estate notes............	(d)	825	10.00%	$ 2	10.00%	$ 825
Total......................		$ 35,640				
1987						
Nuclear fuel financing.......	(b)	$ 42,304	(c)	(c)	7.68%	(c)
Pollution control notes......	(d)			$ 661	4.61%	$ 1,000
Total......................		$ 42,304				

(a) Weighted average.

(b) Maximum 270 days.

(c) The total amount of commercial paper outstanding under this arrangement at December 31, 1989, 1988 and 1987 was $125.8 million, $100.7 million and $103.6 million, respectively. The totals include amounts classified as other long-term debt of $86.5 million, $65.9 million and $61.3 million at December 31, 1989, 1988 and 1987, respectively (see Note (6) to the Statements of Capitalization). The amount of such debt that is classified as short-term is based on the Company's estimate of the cost of the nuclear fuel to be consumed during the subsequent twelve-month period.

(d) Maximum 364 days.

K. Effect of Rate Changes on Operating Revenues:

See Item 1, *Rates* under BUSINESS.

L. Retirement Plan and Postretirement Benefits:

The Company participates in Dominion Resources' Retirement Plan (the Retirement Plan), a defined benefit pension plan. The Retirement Plan covers virtually all employees of Dominion Resources and its subsidiaries, including the Company. The Company's disclosure regarding participation by its employees in the Retirement Plan is provided in accordance with guidelines applicable to plans of a controlled group of corporations. The benefits are based on years of service and the employee's final average compensation.

For 1989, the pension plan expense was $6.7 million and funding was provided in the amount of $6.7 million. In 1988, the pension plan expense was $2.5 million; no funding was provided to the Retirement Plan in accordance with the full funding limitation of the Employee Retirement Income Security Act of 1974 (ERISA). Adoption of SFAS No. 87, "Employers' Accounting for Pensions," had the effect of eliminating the need for any pension plan funding or expense provision in 1987.

In November 1988, $72.2 million of the Retirement Plan's projected benefit obligation was settled by purchasing nonparticipating insured annuities for certain retirees. The settlement was accounted for in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Plans and for Termination Benefits." As a result, a gain of $11.4 million (net of associated taxes of $5.9 million) attributable to the Company's allocable portion of the transaction was recognized in 1988 and reported as a reduction of Other Operating Expenses. In September 1989, the Company established a regulatory liability associated with the rate treatment of the gain resulting from the settlement. As a result, the balance available for Common Stock was decreased by $8.2 million (net of associated taxes of $4.2 million). This included the amortization of $2.0 million of the liability for May through September 1989.

In addition to providing pension benefits, Dominion Resources and its subsidiaries, including the Company, provide certain health care and life insurance benefits for retired employees. Generally, employees remain eligible at retirement for certain health and life insurance benefits if they reach retirement age while working for the Company. These and similar benefits for active employees are provided through insurance companies with annual premiums based on benefits paid during the year. The Company recognizes the cost of providing health care and life insurance benefits by expensing the annual insurance premiums. The approximate number of retired employees for 1989, 1988 and 1987 was 2,400, 2,100 and 1,900, respectively. Health care premiums attributable to these retirees were $6.3 million, $3.0 million and $2.7 million for 1989, 1988 and 1987, respectively. Beginning in 1989, health care premiums for retirees were based on the separate claims experiences of retirees, whereas in previous years premiums were based on the combined claims experiences of employees and retirees. In 1989, the cost of life insurance premiums was $4.3 million. Prior to 1989, the cost of providing life insurance benefits for retirees was not separable from the cost of providing benefits for active employees. As a result of life insurance benefit claims being paid from reserve funds held by the insurance company, the Company paid no premiums for this coverage in 1987. During 1988, the Company resumed premium payments and paid

$1.2 million, covering approximately 13,000 active and 1,700 retired employees. From time to time in the past, the Company has changed benefits. Some of these changes have reduced benefits. Under the terms of its benefits plans, the Company reserves the right to change, modify or terminate the plans.

In February 1989, FASB issued an exposure draft of a proposed SFAS, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The proposed statement would require companies to accrue for the estimated future cost of postretirement health care and other non-pension benefits during the working careers of their active employees rather than recognizing the cost of such benefits after employees have retired and when the benefits are actually paid. The proposed accounting would be effective for fiscal years beginning after December 15, 1991. The Company is unable to assess the ultimate outcome of the proposal. Therefore, management is not able to determine the financial and regulatory impacts that a final statement may have on the Company.

M. Activity Review and Resource Allocation Study:

As a result of the activity review and resource allocation study completed in 1989, the Company eliminated 824 positions and released several hundred contractors but added 148 Company positions to strengthen the nuclear operations area. Based on this study the estimated annual savings is approximately $28 million. A regulatory asset of $8.1 million was established as of December 31, 1989 for the Virginia jurisdictional balance of deferred severance costs which have not yet been recovered through savings.

N. Commitments and Contingencies:

Construction Program:

The Company has made substantial commitments in connection with its construction program and nuclear fuel expenditures. Those commitments are estimated to total $958 million (excluding AFC) for 1990. Additional financing is contemplated in connection with this program.

Purchased Power Contracts:

The Company has an agreement with Hoosier for the purchase of 400 Mw of electricity through 1999, and an agreement with certain operating subsidiaries of AEP for the purchase of 500 Mw of electricity through 1999. The AEP agreement also provides for the transmission of the power purchased from Hoosier. In late 1988, the Company contracted to purchase 200 Mw of electricity through 1990 from the South Carolina Public Service Authority (SCPSA). The SCPSA contract requires the Company to purchase the power during the summer and winter seasons of 1989 and 1990, and during any other six non-peak months during the two-year period, totaling required purchases for 18 of the 24 months. In May 1989, the Company contracted with Carolina Power and Light to purchase 250 Mw of electricity during June, July and August of 1989 and 1990; 350 Mw for December 1989 through February 1990 and 100 Mw for December 1990 through February 1991. In late 1989, the Company committed to purchase 200 Mw of short-term power from South Carolina Electric and Gas Company during January and February and from June through September 1990. The Company also has 31 contracts as of December 31, 1989, producing 376 Mw of electricity from non-utility generating facilities.

In 1987, the Company signed agreements for the purchase of approximately 1,300 Mw of additional capacity from six non-utility power producers. As a result of the 1988 competitive bidding solicitation, the Company entered into 19 contracts for 2,086 Mw of additional capacity for initial delivery at various dates through 1994. These contracts are generally for a duration of 25 years after initial delivery. The Company also issued a Request for Proposal on August 15, 1989, for competitive bids from all supply side sources for an additional 1,100 Mw of power to come on line during 1995-1997. Bids were received in January 1990 with contracts expected to be executed in the summer of 1990.

The table below reflects the Company's minimum commitments for power purchases from utility and non-utility suppliers that are currently operating or have obtained construction financing. The table does not reflect the remainder of the above-mentioned contracts, where necessary financing for the generating facility has not yet been obtained. This minimum purchase commitment includes both capacity payments and the minimum required energy payments.

Year	Commitment (Millions)
1990	$ 411.0
1991	486.8
1992	525.1
1993	571.8
1994	597.2
Later years	18,534.1
Total	$21,126.0
Present value of the total	$ 5,294.0

In addition to the minimum purchase commitments in the table above, under some of these contracts the Company may purchase, at its option, additional power as needed. Actual payments for purchased power (including economy, emergency, limited term, short-term and long-term purchases and interchange received) for the years 1989, 1988 and 1987 were $559.1 million, $410.3 million and $430.6 million, respectively.

Coal and Uranium Purchases:

The Company's estimated coal and uranium contract purchases for the next five years for system generation are as follows (millions): 1990-$318.7; 1991-$273.8; 1992-$211.3; 1993-$187.2 and 1994-$153.7.

Nuclear Insurance:

The Price-Anderson Amendments Act of 1988 amends and extends for fifteen years the federal mandates regarding compensation of the public in the event of an accident at a federally licensed nuclear reactor. The current limit imposed by the Price-Anderson Act for the public liability of an owner of a nuclear power plant for a single nuclear incident, including the 5 percent surcharge if funds are insufficient to pay the claims, is $7.8 billion as of December 31, 1989.

The Company's insurance coverages and maximum retrospective assessments for its nuclear operations are as follows:

Type and Source of Coverage	Coverage	Maximum Retrospective Assessments for a Single Incident
	(Millions)	
Public Liability:		
American Nuclear Insurers....................	$ 200	
Federal Government (a)........................	7,607	$264.6(b)
	$7,807	$264.6
New Nuclear Workers:		
American Nuclear Insurers (c)................	$ 400	$ 13.1
Property Damage (per site):		
Nuclear Mutual Limited (d)....................	$ 500	$ 44.8
Nuclear Electric Insurance Limited (NEIL) (d).	975	16.2
American Nuclear Insurers....................	400	
	$1,875	$ 61.0
Replacement Power:		
NEIL..	$1,074	$ 16.5

(a) Retrospective premium program under the Price-Anderson Liability provisions of the Atomic Energy Act of 1954, as amended. Subject to retrospective assessment with respect to loss from a nuclear incident at any licensed nuclear reactor in the United States.

(b) $66.15 million for each of the four reactors owned by the Company with assessments not to exceed $10 million per year per reactor for any one nuclear incident. This assessment is subject to inflation indexing every fifth year based on the consumer price index. There is no limit on the number of nuclear incidents for which the licensee of a reactor may be retroactively assessed.

(c) Includes one automatic reinstatement of $200 million. Provides coverage against claims, except those arising out of an extraordinary nuclear occurrence, made by nuclear workers first hired after January 1, 1988. The maximum coverage is for the entire nuclear industry and not just the Company. The amount of the maximum retrospective assessment is the most the Company could be assessed under the Master Worker insurance program which is effective from January 1, 1988 through December 31, 1992.

(d) Mutual insurance companies of which the Company is a member. The Company is subject to retrospective assessment with respect to loss at any nuclear generating station covered by such insurance.

For any property losses in excess of the $1.9 billion property coverage, and to the extent that insurance proceeds would be unavailable for property coverage because they must be used for decontamination as required by the NEIL Decontamination Liability and Excess Property Program, the Company has the financial responsibility for the losses.

A 1988 NRC rule requires licensees of nuclear plants, including the Company, to maintain at least $1.06 billion of property insurance on each reactor site. It also requires that the insurance proceeds be used first to pay stabilization and decontamination expenses and that the proceeds required to be used for decontamination be paid by the insurer into a special trust. The effect of the rule is to prevent the use of property insurance proceeds for the rebuilding of damaged facilities or the payment of holders of the Company's First and Refunding Mortgage Bonds (which are secured in part by such facilities) until after stabilization and decontamination are completed. The NRC has exempted the Company and other similarly situated utilities from implementing this rule until April 4, 1990. Prior to such date, the NRC will review petitions filed by the Company's insurers and others suggesting alternatives to the rule in its current form.

As part 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.

Chisman Creek Superfund Cleanup:

See Item 3, *Water Quality Control* under LEGAL PROCEEDINGS.

O. Corporate Restructuring:

On March 1, 1987, the Company sold its West Virginia service territory to UtiliCorp United Inc. for $22.3 million and a related transmission line to Appalachian Power Company for $0.7 million.

VP Fuel, a wholly-owned subsidiary of the Company, was incorporated in Virginia on October 8, 1987. VP Fuel was formed for the purpose of purchasing nuclear fuel, the heat from which is sold to the Company for use in electric generation at the Company's Surry Power Station. The acquisition and ownership of the nuclear fuel is financed by VP Fuel through the sale of commercial paper that is guaranteed by the Company. A heat supply contract between the parties provides that the Company will make quarterly payments to VP Fuel for the thermal output of the nuclear fuel plus financing costs.

P. ODEC Load Loss

See *Results of Operations*, Other income miscellaneous, net and income taxes associated with miscellaneous, net under MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

Q. Quarterly Financial Data (Unaudited):

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

Quarter	Operating Revenues	Operating Income (Thousands)	Balance Available for Common Stock
1989			
1st	$ 851,695	$ 181,249	$ 88,107
2nd	798,363	136,880	40,858
3rd	943,179	242,146	138,415
4th	865,691	196,597	107,860
1988			
1st	$ 744,594	$ 208,405	$ 118,997
2nd	707,005	141,169	70,849
3rd	876,819	227,185	144,847
4th	769,161	159,769	72,318

Results for interim periods may fluctuate as a result of weather conditions, rate relief and other factors.

In the third quarter of 1989, the Company established a regulatory liability associated with the rate treatment of a gain resulting from the fourth quarter 1988 settlement of project benefit obligations for certain retirees. Operating income and balance available for Common Stock were decreased by $8.2 million (net of associated taxes of $4.2 million). This included the amortization of $2.0 million of the liability for May through September 1989.

In the fourth quarter of 1988, a portion of the Retirement Plan's projected benefit obligation was settled. As a result, operating income and balance available for Common Stock increased by $11.4 million (net of associated taxes of $5.9 million). (See Note L to FINANCIAL STATEMENTS.)

In December 1988, the Virginia Commission found that the Company had earned a reasonable rate of return in 1987, and, therefore, had fully recovered the approximately $33 million of capacity charges previously deferred in 1987. As a result, in the fourth quarter of 1988, the Company expensed such costs, resulting in a decrease in operating income and balance available for Common Stock of $19.8 million (net of associated taxes of $13.2 million).

SCHEDULE IV

VIRGINIA ELECTRIC AND POWER COMPANY

SCHEDULE IV INDEBTEDNESS OF AND TO RELATED PARTIES NOT CURRENT
For the years ended December 31, 1989, 1988 and 1987

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F	Col. G	Col. H	Col. I
	Indebtedness of				Indebtedness to			
Name of person	Balance at Beginning	Additions	Deductions	Balance at End (Thousands)	Balance at Beginning	Additions	Deductions	Balance at End
Dominion Resources:								
1989...............					$ 28,500	$1,344,200	$1,288,700	$ 84,000
1988...............					$ 27,000	$ 504,006	$ 502,506	$ 28,500
1987...............					$ 49,600	$1,096,000	$1,118,600	$ 27,000

See Note (5) to the Statements of Capitalization included herein.

SCHEDULE V

VIRGINIA ELECTRIC AND POWER COMPANY

SCHEDULE V PROPERTY, PLANT AND EQUIPMENT
For the year ended December 31, 1989

Col. A Classification	Col. B Balance at Beginning of Period	Col. C Additions at Cost	Col. D Retirements or Sales (Thousands)	Col. E Other Changes Add (Deduct)	Col. F Balance at End of Period
Utility plant:					
Electric plant:					
In service:					
Intangible..................	$ 43,220	$ 13,524	$ 7,686		$ 49,058
Production..................	5,504,370	313,943	31,634	$ 778	5,787,457
Transmission................	972,486	42,818	5,046	(251)	1,010,007
Distribution................	2,675,825	326,511	38,633	228	2,963,931
General.....................	469,152	72,547	8,885	(101)	532,713
Total electric plant in service................	9,665,053	769,343	91,884	654	10,343,166
Construction work in progress.	641,491	103,878(*)			745,369
Held for future use...........	4,478				4,478
Electric plant acquisition adjustment.................	42,778				42,778
Total electric plant......	10,353,800	873,221	91,884	654	11,135,791
Nuclear fuel....................	784,511	34,566			819,077
Total utility plant.......	$11,138,311	$ 907,787	$ 91,884	$ 654	$11,954,868
Non-utility property.............	$ 5,871		$ 15	$ (89)	$ 5,767
Capital leases....................	$ 87,982		$ 4,554		$ 83,428

(*)Includes additions of $873.2 million net of $769.3 million transferred to plant in service.

VIRGINIA ELECTRIC AND POWER COMPANY

SCHEDULE V PROPERTY, PLANT AND EQUIPMENT
For the year ended December 31, 1988

Col. A Classification	Col. B Balance at Beginning of Period	Col. C Additions at Cost	Col. D Retirements or Sales (Thousands)	Col. E Other Changes Add (Deduct)	Col. F Balance at End of Period
Utility plant:					
Electric plant:					
In service:					
Intangible...............	$ 36,226	$ 11,904	$ 4,910		$ 43,220
Production...............	5,379,668	136,599	13,778	$ 1,881	5,504,370
Transmission............	920,103	58,848	6,229	(236)	972,486
Distribution............	2,404,886	304,757	33,934	116	2,675,825
General..................	418,617	62,633	12,068	(30)	469,152
Total electric plant in service...........	9,159,500	574,741	70,919	1,731	9,665,053
Construction work in progress.................	488,674	152,817(*)			641,491
Held for future use........	4,050	659	13	(218)	4,478
Electric plant acquisition adjustment...............	42,778				42,778
Total electric plant...	9,695,002	728,217	70,932	1,513	10,353,800
Nuclear fuel..................	720,752	64,797	1,038		784,511
Total utility plant....	$10,415,754	$ 793,014	$ 71,970	$ 1,513	$11,138,311
Non-utility property...........	$ 6,309		$ 2	$ (436)	$ 5,871
Capital leases................	$ 87,982				$ 87,982

(*) Includes additions of $727.5 million net of $574.7 million transferred to plant in service.

VIRGINIA ELECTRIC AND POWER COMPANY

SCHEDULE V PROPERTY, PLANT AND EQUIPMENT
For the year ended December 31, 1987

Col. A Classification	Col. B Balance at Beginning of Period	Col. C Additions at Cost	Col. D Retirements or Sales (Thousands)	Col. E Other Changes Add (Deduct)	Col. F Balance at End of Period
Utility plant:					
Electric plant:					
In service:					
Intangible..................	$ 18,661	$ 18,263	$ 698		$ 36,226
Production..................	4,962,922	450,380	33,953	$ 319	5,379,668
Transmission................	905,481	19,305	5,070	387	920,103
Distribution................	2,158,666	309,129	62,413	(496)	2,404,886
General.....................	279,892	152,490	13,779	14	418,617
Total electric plant in service.................	8,325,622	949,567	115,913	224	9,159,500
Construction work in progress	766,350	(277,676)(a)			488,674
Held for future use...........	861	3,189			4,050
Electric plant acquisition adjustment..................	42,063			715	42,778
Total electric plant......	9,134,896	675,080	115,913	939	9,695,002
Nuclear fuel....................	545,344	44,099		131,309(b)	720,752
Total utility plant.......	$ 9,680,240	$ 719,179	$ 115,913	$ 132,248	$10,415,754
Non-utility property.............	$ 7,999			$ (1,690)	$ 6,309
Capital leases:					
Nuclear fuel....................	$ 198,425	$ 26,299	$ 224,724(b)		
Other...........................	89,182		1,200(c)		$ 87,982
Total capital leases........	$ 287,607	$ 26,299	$ 225,924		$ 87,982

(a) Includes additions of $671.9 million net of $949.6 million transferred to plant in service.

(b) In October 1987, the Company terminated several heat supply contracts that qualified as capital leases and the nuclear fuel subject thereto was acquired by VP Fuel. Also includes the reclassification of nuclear fuel progress payments to nuclear fuel (see Note O to FINANCIAL STATEMENTS).

(c) The Herndon District office building was repurchased on June 30, 1987.

VIRGINIA ELECTRIC AND POWER COMPANY

SCHEDULE VI ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
For the years ended December 31, 1989, 1988 and 1987

Col. A Classification	Col. B Balance at Beginning of Period	Col. C Additions Charged to Costs & Expenses	Col. D Retirements (Thousands)	Col. E Other Changes Add (Deduct)	Col. F Balance at End of Period
1989					
Accumulated depreciation and amortization of electric plant...	$2,615,011	$319,110	$ 84,177	$ 30,140	$2,880,084
Accumulated amortization of capital leases..................	$ 40,000	$ 6,446	$ 4,554		$ 41,892
Accumulated amortization of Nuclear fuel....................	$ 525,623	$ 51,217			$ 576,840
1988					
Accumulated depreciation and amortization of electric plant...	$2,350,065	$300,706	$ 65,959	$ 30,199	$2,615,011
Accumulated amortization of capital leases..................	$ 33,854	$ 6,144		$ 2	$ 40,000
Accumulated amortization of nuclear fuel....................	$ 426,721	$ 98,902			$ 525,623
1987					
Accumulated depreciation and amortization of electric plant...	$2,085,648	$345,642	$114,848	$ 33,623	$2,350,065
Accumulated amortization of capital leases:					
Nuclear fuel....................	$ 87,516	$ 31,497	$119,013		
Other..........................	27,262	5,586	526	$ 1,532	$ 33,854
Total........................	$ 114,778	$ 37,083	$119,539	$ 1,532	$ 33,854
Accumulated amortization of nuclear fuel....................	$ 366,153	$ 43,392		$ 17,176	$ 426,721

Note:

Provision for depreciation of automobiles and trucks is charged to transportation expense clearing account and redistributed to operation expense, utility plant and other accounts.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On November 10, 1987, Deloitte & Touche (formerly Deloitte Haskins & Sells) was engaged to audit the 1988 financial statements of the Company. The 1987 and earlier year financial statements had been audited by Coopers & Lybrand, whose engagement as auditors was terminated by the Company effective with the conclusion of the audit of the Company's 1987 financial statements. The engagement of Deloitte & Touche was recommended by the Audit Committee and approved by the Board of Directors of the Company at their respective meetings on October 24, 1987.

In the last two fiscal years that Coopers & Lybrand served as auditors, there were no disagreements with Coopers & Lybrand on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure. Coopers & Lybrand's reports on the financial statements for those fiscal years contained no adverse opinion, disclaimer of opinion or qualification as to uncertainty, audit scope or accounting principles. Coopers & Lybrand furnished the Company with a letter addressed to the Securities and Exchange Commission stating that it agreed with the statements made in this paragraph. A copy of this letter was filed as an exhibit to the Company's Quarterly Report to the Securities and Exchange Commission (Form 10-Q) for the quarter ended September 30, 1987.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Information concerning directors of Virginia Electric and Power Company is as follows:

Name and Age	Principal Occupation for Last 5 Years, Directorships in Public Corporations	Year First Elected a Director
William W. Berry (57)	Chairman of the Board of Directors of Virginia Electric and Power Company and Dominion Resources (from May 1, 1985 to July 1, 1986, Chairman of the Board of Directors and Chief Executive Officer of Dominion Resources and Virginia Electric and Power Company; prior to May 1, 1985, President and Chief Executive Officer of Dominion Resources and Virginia Electric and Power Company). He is a Director of Dominion Resources, Sovran Financial Corporation, Ethyl Corporation and Universal Corporation.	1980

Name and Age	Principal Occupation for Last 5 Years, Directorships in Public Corporations	Year First Elected a Director
Thos. E. Capps (54)	Vice Chairman of the Board of Directors of Virginia Electric and Power Company (from November 1, 1986 to April 1, 1989, President and Chief Operating Officer of Dominion Resources; prior to November 1, 1986, Executive Vice President of Virginia Electric and Power Company). He is a Director of Dominion Resources, Signet Banking Corporation and Bassett Furniture Industries, Incorporated.	1989
James T. Rhodes (48)	President and Chief Executive Officer of Virginia Electric and Power Company (from January 1, 1988 to April 1, 1989, Senior Vice President-Finance; from May 1, 1985 to January 1, 1988, Senior Vice President-Power Operations; prior to May 1, 1985, Vice President-Personnel). He is a director of Dominion Resources.	1989
John B. Adams, Jr. (45)	President and Chief Executive Officer of A. Smith Bowman Distillery, Inc., Fredericksburg, Virginia, a manufacturer and bottler of alcoholic beverages, December 27, 1989 to date; (prior December 27, 1989 Vice President and Director).	1987
Anna Ruth Inskeep (64)	Battle Park Farms, Rapidan, Virginia, a dairy farm and milk hauling business. She is involved in numerous civic activities.	1987
Dr. Allix B. James (67)	Chancellor of Virginia Union University, Richmond, Virginia, January 1, 1986 to date (prior to January 1, 1986, President Emeritus and Henderson-Griffith Professor of Pastoral Theology). He is a Director of Consolidated Bank & Trust Company.	1971
Harvey L. Lindsay, Jr. (60)	Chairman and Chief Executive Officer of Harvey Lindsay Commercial Real Estate, a commercial real estate development firm, Norfolk, Virginia.	1986

Name and Age	Principal Occupation for Last 5 Years, Directorships in Public Corporations	Year First Elected a Director
Shirley S. Pierce (66)	Chairman of the Board and President of The Ahoskie Fertilizer Company, Inc., Ahoskie, North Carolina, a manufacturer and distributor of fertilizer and agricultural products. He is a Director of Planters National Bank and Trust Company.	1972
William T. Roos (62)	President of Penn Luggage, Inc., retail specialty stores, Hampton, Virginia.	1975
William G. Thomas (50)	President of Hazel, Thomas, Fiske, Beckhorn & Hanes, P.C., Alexandria, Virginia, a law firm. He is a Director of Perpetual Savings Bank, F.S.B.	1987

Each Director holds office until the next Annual Meeting of Shareholders or until his successor is duly elected.

(b) Information concerning the executive officers of Virginia Electric and Power Company is as follows:

Name and Age	Business Experience Past Five Years
William W. Berry (57)	Chairman of the Board of Directors, July 1, 1986 to date; Chairman of the Board of Directors and Chief Executive Officer, May 1, 1985 to July 1, 1986; President and Chief Executive Officer prior to May 1, 1985.
Thos. E. Capps (54)	Vice Chairman of the Board of Directors, April 1, 1989 to date; President and Chief Operating Officer of Dominion Resources, Inc., November 1, 1986 to April 1, 1989; Executive Vice President prior to November 1, 1986.
James T. Rhodes (48)	President and Chief Executive Officer, April 1, 1989 to date; Senior Vice President-Finance, January 1, 1988 to April 1, 1989; Senior Vice President-Power Operations, May 1, 1985 to January 1, 1988; Vice President-Personnel prior to May 1, 1985.

Name and Age	Business Experience Past Five Years
John I. Oatts (60)*	Executive Vice President-Staff, January 1, 1986 to January 1, 1990; Executive Vice President-Operations, May 1, 1985 to January 1, 1986; Senior Vice President-Power Operations prior to May 1, 1985.
John A. Ahladas (47)	Senior Vice President-Corporate Services, January 1, 1990 to date; Senior Vice President-Corporate Technical Services, April 1, 1988 to January 1, 1990; Vice President-Engineering, April 1, 1985 to April 1, 1988; Manager, Maintenance and Performance Services prior to April 1, 1985.
Larry W. Ellis (49)	Senior Vice President-Power Operations and Planning, January 1, 1990 to date; Vice President-System Planning & Power Supply, March 18, 1988 to January 1, 1990; Manager, System Planning & Power Supply, October 1, 1986 to March 18, 1988; Manager, Power Supply prior to October 1, 1986.
Robert F. Hill (54)	Senior Vice President-Commercial Operations.
B. D. Johnson (57)	Senior Vice President-Finance & Controller, January 1, 1990 to date; Vice President and Controller prior to January 1, 1990.
William L. Stewart (46)	Senior Vice President-Nuclear, January 1, 1990 to date; Senior Vice President-Power, April 1, 1988 to January 1, 1990; Vice President-Nuclear Operations prior to April 1, 1988.
William H. Blackwell, Jr. (60)*	Vice President-Eastern Division.
Charles A. Brown (47)	Vice President-Procurement, September 1, 1988 to date; Manager, Materials Management, May 1, 1988 to September 1, 1988; Manager, Contracts, prior to May 1, 1988.
William R. Cartwright (47)	Vice President-Fossil and Hydro Operations, January 1, 1990 to date; Vice President-Nuclear Operations, September 1, 1988 to January 1, 1990; Vice President-Fossil and Hydro, March 1, 1986 to September 1, 1988; Manager, Maintenance and Performance Services, June 1, 1985 to March 1, 1986; Manager, Nuclear Operations Support prior to June 1, 1985.

Name and Age	Business Experience Past Five Years
Thomas L. Caviness, Jr. (44)	Vice President-Eastern Division, November 1, 1989 to date; Executive Project Director, November 1, 1988 to November 1, 1989; Manager, Productivity prior to November 1, 1988.
James T. Earwood, Jr. (46)	Vice President-Division Services, September 1, 1986 to date; Vice President-Central Division, July 1, 1985 to September 1, 1986; Vice President-Southern Division prior to July 1, 1985.
Paul G. Edwards (51)	Vice President-Public Affairs.
James R. Frazier, Jr. (48)	Vice President-Southern Division, July 1, 1985 to date; Manager, Community and Government Affairs prior to July 1, 1985.
Earl R. Gore (49)	Vice President-Northern Division, September 1, 1988 to date; Manager, Operations and Construction, January 1, 1986 to September 1, 1988; District Manager (Metro) prior to January 1, 1986.
E. Wayne Harrell (43)	Vice President-Nuclear Operations, January 1, 1990 to date; Vice President-Fossil & Hydro Operations, September 1, 1988 to January 1, 1990; Manager, Fossil & Hydro Operation Support, April 1, 1988 to September 1, 1988; Station Manager, Nuclear prior to April 1, 1988.
Horace A. Keever, Jr. (58)	Vice President-Human Resources, September 1, 1986 to date; Vice President-Division Services prior to September 1, 1986.
Donald T. Herrick, Jr. (46)	Transferred to Dominion Resources as Vice President, January 1, 1990 to date; Vice President-Information Systems, April 1, 1985 to January 1, 1990; Executive Manager, Management Information Services prior to April 1, 1985.
Randolph D. McIver (59)	Vice President-Central Division, September 1, 1988 to date; Vice President-Northern Division, prior to September 1, 1988.
F. Kenneth Moore (48)	Vice President-Power Engineering Services, March 18, 1988 to date; Manager, Purchasing, May 1, 1985 to March 18, 1988; Manager, Projects-Fossil & Hydro prior to May 1, 1985.

Name and Age	Business Experience Past Five Years
Irene M. Moszer (46)	Vice President, Treasurer and Corporate Secretary, January 1, 1990 to date; Vice President-Administrative Services prior to January 1, 1990.
James P. O'Hanlon (46)	Vice President-Nuclear Services, June 15, 1989 to date; Vice President, United Energy Services Corporation, February 1, 1985 to June 15, 1989; Division Deputy Director, Institute of Nuclear Power Operations prior to February 1, 1985.
Thomas J. O'Neil (47)	Vice President-Regulation, August 1, 1988 to date; Vice President-Western Division, May 1, 1985 to August 1, 1988; District Manager, Peninsula prior to May 1, 1985.
Robert E. Rigsby (40)	Vice President-Information Systems, January 1, 1990 to date; Vice President-Western Division, August 1, 1988 to January 1, 1990; General Auditor, July 19, 1985 to August 1, 1988; Assistant Controller prior to July 19, 1985.
Linwood R. Robertson (50)	Transferred to Dominion Resources as Vice President and Treasurer, January 1, 1990 to date; Vice President, Treasurer and Corporate Secretary, June 1, 1985 to January 1, 1990; Corporate Secretary prior to June 1, 1985.
Johnny V. Shenal (44)	Vice President-Western Division, January 1, 1990 to date; Manager, Transmission and Substation Engineering, August 1, 1988 to January 1, 1990; District Manager, Alexandria, January 1, 1986 to August 1, 1988; Manager, Operations and Construction prior to January 1, 1986.
Eva S. Teig (45)	Vice President-Government Affairs, January 1, 1990 to date; Secretary of Health and Human Resources, Commonwealth of Virginia, January 11, 1986 to January 1, 1990; Division Manager, Community and Government Affairs, October 1, 1985 to January 11, 1986; Commissioner of Labor and Industry Commonwealth of Virginia prior to October 1, 1985.
Jack L. Wilson (59)	Assistant Vice President-Nuclear, April 21, 1989 to date; Manager, Nuclear Operations Support, April 1, 1985 to April 21, 1989; Manager, Forecasting Analysis prior to April 1, 1985.

*Retired January 1, 1990

There is no family relationship between any of the persons named in response to Item 10.

ITEM 11. EXECUTIVE COMPENSATION

The following table lists all cash compensation paid by the Company for services rendered in 1989 to each of the five most highly compensated executive officers and to all executive officers as a group.

Name and Capacity in Which Served	Cash Compensation
William W. Berry, Chairman of the Board and Director..........	$ 270,840
James T. Rhodes, President and Chief Executive Officer and Director..	218,120
John I. Oatts, Executive Vice President*......................	285,976
Robert F. Hill, Senior Vice President..........................	194,587
B. D. Johnson, Senior Vice President..........................	166,753
Executive officers of the Company as a group 29 persons (including those named above).........	3,861,675

*Retired January 1, 1990

Certain executive officers of the Company are eligible to participate in one of two annual incentive plans. The Virginia Power Management Incentive Plan (the Management Incentive Plan) has been in effect since 1981 and provides incentive compensation for designated executives and employees of the Company. The Dominion Resources, Inc. Short-Term Incentive Plan (the Dominion Resources Incentive Plan) provides incentive compensation for designated executives of the Company who are employees of Dominion Resources, including Mr. Berry. The Company's Board of Directors' Organization and Compensation Committee administers and establishes the rules of eligibility, participants' goals and actual awards for the Management Incentive Plan. The Dominion Resources' Board of Directors' Organization and Compensation Committee performs the same administrative function for the Dominion Resources Incentive Plan.

Under both incentive plans, annual awards to participants are based on the achievement of individual and corporate performance goals that are adopted annually. The individual component of each incentive plan is based on the achievement of individual management goals. To the extent that awards paid by the Dominion Resources Incentive Plan are for the achievement of corporate performance goals related to the Company, that portion of the award is paid by the Company.

The 1989 Management Incentive Plan provided for incentive compensation based on (1) individual management goals, (2) achieving a stated return on equity and (3) a comparison of the annual change in expenses per kilowatt-hour to the annual change in the Consumer Price Index. For executives of the Company, the 1989 Dominion Resources Incentive Plan included return on equity objectives for the Company. Payments under the 1989 Management Incentive Plan will be made in March 1990 to the executive officers of the Company, except for Mr. Berry, who received a payment under the 1989 Dominion Resources Incentive Plan in February 1990. These payments are includes in the cash compensation table above. Amounts earned for the year 1988 under the Management Incentive Plan were paid in March 1989 and were reported in the 1988 Form 10-K and are not included in the above compensation table.

A Performance Achievement Plan (the Performance Plan) was established effective January 1, 1985, and was approved by the Dominion Resources Stockholders at the 1985 Annual Meeting. The Performance Plan awards shares of Dominion Resources Common Stock for the achievement of specific long-term goals and strategies that are approved by the Organization and Compensation Committee (the Committee) of the Board of Directors of the Company. Distributions of stock under the Performance Plan may not exceed 10,000 shares times the number of participants in the Performance Plan on the relevant date. The duration of each performance period is three years, and a new performance period and set of goals are initiated annually. Participants in the Performance Plans for the periods of 1987-89, 1988-90 and 1989-91 include the President and all Vice Presidents of the Company and do not include the Chairman or Vice Chairman of the Board of Directors. Subject to the Committee's approval and within certain time periods established in the Performance Plan, each participant may elect to receive up to 50 percent of any award in cash and to defer all or part of any award. To be eligible for an award, an employee must occupy a qualifying position for an entire performance cycle. Individual awards will be determined on the basis of goal achievement, positions held during the performance period, the salary grade mid-points of those positions and the average price of the Common Stock on the last day of September, October and November of the year before the start of the performance cycle. Following the conclusion of each performance period, the Committee determines the level of achievement of the goals for that performance period. The Board of Directors must approve each participant's award, and may approve pro rata awards to participants who retire, die, become disabled, or transfer during a performance cycle and Dominion Resources' Board of Directors must approve any award for any participant who is also an officer or director of Dominion Resources. In the 1987-1989 Performance Plan cycle, the following executive officers of Dominion Resources were executive officers of the Company and will receive pro rata awards: Tyndall L. Baucom, who was Vice President of the Company prior to his election as an executive officer of Dominion Resources in September 1988; Jack H. Ferguson, who was President of the Company prior to his retirement on March 31, 1989; and Ronald H. Leasburg, who was Senior Vice President of the Company until his election as an executive officer of Dominion Resources in April 1988 and who retired from Dominion Resources on October 1, 1989.

Awards for the 1987-89 performance period were made in February 1990 and were based on (1) the performance of Virginia Power's return on equity over the three-year period as compared to the average for comparable electric utilities, and (2) a comparison between the increase in expenses per kilowatt-hour and the increase in the Consumer Price Index over the three-year period. The following awards of Dominion Resources Common Stock and cash were made for the 1987-89 performance period: James T. Rhodes: 358 shares and $6,962; John I. Oatts: 527 shares; Robert F. Hill: 198 shares and $9,009; and B. D. Johnson: 278 shares; and 4,210 shares and $81,673 for the 23 participating executive officers as a group.

No awards can be determined or made under the 1988-90 and the 1989-91 performance periods of the Performance Plans until March 1991 and 1992, respectively. In addition, Messrs. Baucom, Ferguson and Leasburg are eligible for pro rata awards under the 1988-90 performance cycle, and Mr. Ferguson is also eligible for a pro rata award under the 1989-91 performance cycle.

An Employee Savings Plan (the Savings Plan) has been in effect since 1963 and was revised effective July 1, 1987 to incorporate a salary reduction provision under Section 401(k) of the Internal Revenue Code of 1986 (the Code) for officers and employees. Effective January 1, 1989, this plan was amended by separating it into a savings plan for salaried employees and a savings plan for nonsalaried employees. The two plans are identical in all material respects. Under the Savings Plan, employees who have attained age 18 and completed six months of service may make contributions of between 2 percent and 6 percent of their base compensation, and the Company contributes an amount equal to 50 percent of such contributions. Employees may also make additional contributions, which are not matched by their employer. (In accordance with Section 401(k) of the Code, the Savings Plan provides participants with the option to reduce their gross income for federal income tax purposes and the Company contributes that amount to the Savings Plan on behalf of the employee.) Participants' contributions and deferrals under Section 401(k) are subject to certain limitations prescribed in the Code. The compensation table above includes amounts deferred pursuant to Section 401(k). The employees may direct that their contributions be allocated between an interest bearing fund, which invests primarily in U.S. Government securities, and a stock fund, which invests in Dominion Resources Common Stock. All of the Company's matching contributions to the Savings Plan are invested in Dominion Resources Common Stock. Effective January 1, 1989, the Savings Plan was amended to provide for the vesting of the Company's matching contributions at the earlier of (a) the beginning of the third year following the year in which the contribution was made and (b) the date the participant completes five years of service with the Company. However, matching contributions vest immediately for participants aged 55 or older. Amounts shown in the Cash Compensation table above do not include any Company matching contributions. The following Company matching contributions vested under the Savings Plan during 1989: William W. Berry: 525 shares; James T. Rhodes: 25 shares; John I. Oatts: 387 shares; Robert F. Hill: 332 shares; B. D. Johnson: 291 shares; and 5,964 shares to the 29 executive officers as a group.

The Retirement Plan provides retirement benefits for all eligible officers and employees of Virginia Power who have attained age 21 and completed six months of service. The Retirement Plan is a contributory defined benefit plan that provides for vesting of retirement benefits upon completion of five years of vesting service or, if earlier, upon attainment of age 50. Employer contributions to the Retirement Plan are determined actuarially. Benefits under the Retirement Plan, as of December 31, 1989, are based on (i) average base compensation over the consecutive 60-month period in which pay is highest, (ii) years of credited service, (iii) age at retirement, and (iv) the offset of Social Security Benefits. For years beginning in 1989, no compensation in excess of $200,000 may be taken into account under the Plan. Benefits under the Retirement Plan are payable as a straight life benefit or a joint and survivor benefit. Due to changes in the Internal Revenue Code that apply to the Retirement Plan, the benefit formula must be changed for 1989 and future years. Benefit accruals under the Retirement Plan's present benefit formula have ceased as of December

31, 1988, for certain highly compensated employees of the Company. Benefits will accrue for these individuals under the new formula retroactive to January 1, 1989.

The table below sets forth the estimated annual straight life benefit that would be paid following retirement under the Retirement Plan's benefit formula. Certain officers have entered into retirement agreements that give additional credited years of service for retirement and retirement life insurance purposes, contingent upon the officer reaching a specified age and remaining in the employ of the Company. At this time, credited years of service under the Retirement Plan and such retirement agreements (excluding contingent years) for the individuals named in the compensation table on page 61 are as follows: William W. Berry: 30, James T. Rhodes: 18; John I. Oatts: 30; Robert F. Hill: 18; and B. D. Johnson: 30. Estimated annual benefit figures are based on the formulas in effect under the Retirement Plan as of December 31, 1988.

Estimated Annual Benefits Payable Upon Retirement*

	Credited Years of Service			
Final Average Earnings**	15	20	25	30
$ 75,000	$ 18,990	$ 25,320	$ 31,650	$ 37,980
100,000	26,490	35,320	44,150	52,980
125,000	33,990	45,320	56,650	67,980
150,000	41,490	55,320	69,150	82,980
175,000	48,990	65,320	81,650	97,980
200,000	56,490	75,320	94,150	112,980
250,000	71,490	95,320	119,150	142,980
300,000	86,490	115,320	144,150	172,980
350,000	101,490	135,320	169,150	202,980
400,000	116,490	155,320	194,150	232,980
450,000	131,490	175,320	219,150	262,980
500,000	146,490	195,320	244,150	292,980
550,000	161,490	215,320	269,150	322,980
600,000	176,490	235,320	294,150	352,980

*Based on normal retirement at age 65.

**Final Average Earnings is one-fifth of the earnings during the 60 consecutive calendar months during which the individual's earnings are the highest.

For purposes of the above table, based on 1989 compensation, final average earnings for each of the individuals named in the compensation table on page 61 would be as follows: William W. Berry: $330,029; James T. Rhodes: $147,388; John I. Oatts: $185,053; Robert F. Hill: $161,495; and B. D. Johnson: $141,800.

The Internal Revenue Code limits the annual retirement benefit that may be paid from a qualified retirement plan. To the extent that benefits determined under the Retirement Plan's benefit formula exceed the limitations imposed by the Internal Revenue Code, they will be paid from general funds as an operating expense.

The Company also provides an Executive Supplemental Retirement Plan (the Supplemental Plan) to its elected officers designated to participate by the Board of Directors. The Supplemental Plan provides an annual retirement benefit equal to 25 percent of a participant's final compensation (base pay plus annual incentive plan payments and Directors' fees). The normal form of benefit is payable in equal monthly installments for 120 months to a participant with 60 months of service, who (i) retires at or after age 55 from the employ of the Company, (ii) has become permanently disabled, or (iii) dies. In case of a participant who dies while employed, the normal form of benefit will be paid to a designated beneficiary. If a participant dies while retired, but before receiving all benefit payments, the remaining installments will be paid to a designated beneficiary. In order to be entitled to benefits under the Supplemental Plan, an employee must be employed as an elected officer of the Company until death, disability or retirement.

Based on 1989 compensation, the increase to the estimated annual benefit figures for each of the executive officers under the Supplemental Plan would be as follows: William W. Berry: $146,705; James T. Rhodes: $68,575; John I. Oatts: $69,965; Robert F. Hill: $48,105; and B. D. Johnson: $46,270.

The Company has purchased an insurance policy that provides certain managers and all elected officers with accidental death and dismemberment insurance. The policy provides a benefit to managers and officers ranging from $25,000 to $250,000, with the specific dollar amount of coverage being determined on the basis of the covered employee's position. The policy also provides accidental death and dismemberment insurance to the spouses of all officers who are Vice Presidents or higher in rank, and the benefit ranges from $50,000 to $150,000 (depending on the officer's position). This insurance coverage is provided at no cost to covered employees.

The Company has entered into employment agreements (the Agreements) with key management executives, including the officers named above. Each agreement has a three-year term and thereafter is automatically extended on its anniversary date for an additional year unless notified that the agreement will not be extended by the Company. If, following a change in control of Dominion Resources (as defined in the Agreements), an executive's employment is terminated by the Company without cause, or voluntarily by the executive within sixty days after a material reduction in the executive's compensation, benefits or responsibilities, the Company will be obligated to pay to the executive continued compensation equaling the average base salary and cash incentive bonuses for the thirty-six full month period of employment preceding the change in control or employment termination. In addition, the terminated executive will continue to be entitled to any benefits due under any stock or benefit plans. The Agreements do not alter the compensation and benefits available to an executive whose employment with the Company continues for the full term of the executive's Agreement. The amount of benefits provided under each executive's Agreement will be reduced by any compensation earned by the executive from comparable employment by another employer during the thirty-six months following termination of employment with the Company. An executive shall not be entitled to the above benefits in the event termination is for cause.

The Company has transferred cash, and in its discretion may make future transfers of cash or other property, to an irrevocable trust. The assets of the trust must be used to satisfy employee benefit and similar obligations to employees and former employees of the Company, including the obligations described above for executive employees.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN

BENEFICIAL OWNERS AND MANAGEMENT

The table below sets forth as of December 31, 1989, except as noted, the number of shares of Common Stock of Dominion Resources owned by directors of Virginia Electric and Power Company.

Name	Shares of Common Stock Beneficially Owned
William W. Berry....................	17,868(a)
Thos. E. Capps......................	9,336(b)
James T. Rhodes.....................	1,222(c)
John B. Adams, Jr...................	465
Anna Ruth Inskeep...................	1,888
Allix B. James......................	2,648
Harvey L. Lindsay, Jr...............	0
Shirley S. Pierce...................	2,014
William T. Roos.....................	310
William G. Thomas...................	0

(a)A member of Mr. Berry's family is a beneficiary of a trust that owns an additional 827 shares of Common Stock. Also includes 2,580 shares represented by options awarded and exercisable under the Dominion Resources, Inc. Long-Term Incentive Plan.

(b)A member of Mr. Capp's family is a beneficiary of a trust that owns an additional 1,000 shares of Common Stock. Also includes 1,575 shares represented by options awarded and exercisable under the Dominion Resources, Inc. Long-Term Incentive Plan.

(c)Ownership as of February 16, 1990.

All current Directors and officers as a group (29 persons) beneficially own, in the aggregate, less than 1 percent of each class of Dominion Resources and the Company's equity securities, respectively.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES,

AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Form 10-K:

1. **Financial Statements**

   See Index on page 22.

2. **Financial Statement Schedules**

   See Index on page 22.

3. **Exhibits**

3(i)	-Restated Articles of Incorporation, as amended, as in effect on June 16, 1989 (Exhibit 3(i), Form 10-Q for the quarter ended September 30, 1989, File No. 1-2255, incorporated by reference).
3(ii)	-Bylaws, as amended, as in effect on April 1, 1989 (Exhibit 3(i), Form 10-Q for quarter year ended March 31, 1989, File No. 1-2255, incorporated by reference).
4(i)	-See Exhibit (3(i)) above.
4(ii)	-Indenture of Mortgage of the Company, dated November 1, 1935, as supplemented and modified by fifty-eight Supplemental Indentures, Exhibit 4(ii), Form 10-K for the fiscal year ended December 31, 1985, File No. 1-2255, incorporated by reference; Fifty-Ninth Supplemental Indenture, Exhibit 4(ii), Form 10-Q for the quarter ended March 31, 1986, File No. 1-2255, incorporated by reference; Sixtieth Supplemental Indenture, Exhibit 4(ii), Form 10-Q for the quarter ended September 30, 1986, File No. 1-2255, incorporated by reference; Sixty-First Supplemental Indenture, Exhibit 4(ii), Form 10-Q for the quarter ended June 30, 1987, File No. 1-2255, incorporated by reference; Sixty-Second Supplemental Indenture, Exhibit 4(ii), Form 8-K, dated November 3, 1987, File No. 1-2255, incorporated by reference; Sixty-Third Supplemental Indenture, Exhibit 4(i), Form 8-K, dated June 8, 1988, File No. 1-2255, incorporated by reference; Sixty-Fourth Supplemental Indenture, Exhibit 4(i), Form 8-K, dated February 8, 1989, File No. 1-2255, incorporated by reference and Sixty-Fifth Supplemental Indenture, Exhibit 4(i), Form 8-K, dated June 22, 1989, File No. 1-2255, incorporated by reference.
4(iii)	-Indenture, dated April 1, 1985, between Virginia Electric and Power Company and Crestar Bank (formerly United Virginia Bank) (Exhibit 4(i), File No. 2-96772, incorporated by reference).
4(iv)	-Indenture dated as of June 1, 1986, between Virginia Electric and Power Company and Chemical Bank (Exhibit 4(i), File No. 33-5763, incorporated by reference).

4(v)	-Indenture, dated April 1, 1988, between Virginia Electric and Power Company and Chemical Bank (Exhibit 4(i), File No. 33-21319, incorporated by reference) as supplemented and modified by a First Supplemental Indenture, dated August, 1989, (Exhibit 4(ii), File No. 33-30532, incorporated by reference).
4(vi)	-Virginia Electric and Power Company agrees to furnish to the Commission upon request any other instrument with respect to long-term debt as to which the total amount of securities authorized thereunder does not exceed 10 percent of Virginia Electric and Power Company's total assets.
10(i)	-Operating Agreement, dated June 17, 1981, between Virginia Electric and Power Company and Monongahela Power Company, The Potomac Edison Company, West Penn Power Company and Allegheny Generating Company (Exhibit 10(vi), Form 10-K for the fiscal year ended December 31, 1983, File No. 1-2255, incorporated by reference).
10(ii)	-Purchase, Construction and Ownership Agreement, dated as of December 28, 1982 as amended and restated on October 17, 1983, between Virginia Electric and Power Company and Old Dominion Electric Cooperative (Exhibit 10(viii), Form 10-K for the fiscal year ended December 31, 1983, File No. 1-2255, incorporated by reference).
10(iii)	-Interconnection and Operating Agreement, dated as of December 28, 1982 as amended and restated on October 17, 1983, between Virginia Electric and Power Company and Old Dominion Electric Cooperative (Exhibit 10(ix), Form 10-K for the fiscal year ended December 31, 1983, File No. 1-2255, incorporated by reference).
10(iv)	-Nuclear Fuel Agreement, dated as of December 28, 1982 as amended and restated on October 17, 1983, between Virginia Electric and Power Company and Old Dominion Electric Cooperative (Exhibit 10(x), Form 10-K for the fiscal year ended December 31, 1983, File No. 1-2255, incorporated by reference).
10(v)	-Heat Supply Contract, dated as of October 14, 1987, between Virginia Electric and Power Company and Virginia Power Fuel Corporation (Exhibit 10(v), Form 10-K for the fiscal year ended December 31, 1987, File No. 1-2255, incorporated by reference).
10(vi)	-Credit Agreement, dated as of October 14, 1987, among Virginia Power Fuel Corporation, Algemene Bank Nederland N.V., New York Branch, as Facility Agent, and the Banks named therein (Exhibit 10(vi), Form 10-K for the fiscal year ended December 31, 1987, File No. 1-2255, incorporated by reference).
10(vii)	-Guarantee, dated as of October 14, 1987, by Virginia Electric and Power Company in favor of Algemene Bank Nederland N.V., as Facility Agency, and the Banks named therein (Exhibit 10(vii), Form 10-K for the fiscal year ended December 31, 1987, File No. 1-2255, incorporated by reference).
10(viii)	-Inter-Company Credit Agreement, dated July 1, 1986, as amended and restated as of September 1, 1987 between Dominion Resources and Virginia Electric and Power Company (Exhibit 10(viii), Form 10-K for the fiscal year ended December 31, 1987, File No. 1-2255, incorporated by reference).

10(ix)	-Credit Agreement, dated December 1, 1985, between Virginia Electric and Power Company and Old Dominion Electric Cooperative (Exhibit 10 (xix), Form 10-K for the fiscal year ended December 31, 1985, File No. 1-2255, incorporated by reference).
10(x)	-Agreement for Northern Virginia Services, dated as of November 1, 1985, between Potomac Electric Power Company and Virginia Electric and Power Company (Exhibit 10(xxi), Form 10-K for the fiscal year ended December 31, 1985, File No. 1-2255, incorporated by reference).
22	-Subsidiaries of Virginia Electric and Power Company (not included because Virginia Electric and Power Company's subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a "significant subsidiary" under Rule 1-02(v) of Regulation S-X as of the end of the year covered by this report).
24(i)	-Consent of Hunton & Williams (filed herewith).
24(ii)	-Consent of Jackson & Kelly (filed herewith).
24(iii)	-Consent of Coopers & Lybrand (filed herewith).
24(iv)	-Consent of Deloitte & Touche (filed herewith).

(b) Report on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIRGINIA ELECTRIC AND POWER COMPANY

BY WILLIAM W. BERRY
(William W. Berry, Chairman of the Board of Directors)

Date: February 16, 1990

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
WILLIAM W. BERRY William W. Berry	Chairman of the Board of Directors and Director	February 16, 1990
THOS. E. CAPPS Thos. E. Capps	Vice Chairman of the Board of Directors and Director	February 16, 1990
J. T. RHODES J. T. Rhodes	President (Chief Executive Officer) and Director	February 16, 1990
JOHN B. ADAMS, JR. John B. Adams, Jr.	Director	February 16, 1990
ANNA RUTH INSKEEP Anna Ruth Inskeep	Director	February 16, 1990
ALLIX B. JAMES Allix B. James	Director	February 16, 1990
HARVEY L. LINDSAY, JR. Harvey L. Lindsay, Jr.	Director	February 16, 1990
SHIRLEY S. PIERCE Shirley S. Pierce	Director	February 16, 1990
WILLIAM T. ROOS William T. Roos	Director	February 16, 1990
WILLIAM G. THOMAS William G. Thomas	Director	February 16, 1990
B. D. JOHNSON B. D. Johnson	Senior Vice President and Controller (Principal Accounting Officer)	February 16, 1990
IRENE M. MOSZER Irene M. Moszer	Vice President and Treasurer (Chief Financial Officer)	February 16, 1990

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VIRGINIA ELECTRIC AND POWER COMPANY
STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended December 31, 1989	Three Months Ended December 31, 1988
	(000's)	
Operating Revenues	$865,691	$769,162
Operating Expenses:		
Operation - Fuel used in electric generation	146,037	147,347
- Purchased and interchanged power	100,554	98,759
- Other	155,521	125,663
Maintenance	59,247	76,546
Depreciation	89,193	76,886
Amortization of abandoned project costs	12,452	15,497
Taxes - Federal income	53,990	24,375
- Other	50,142	44,319
Total	667,136	609,392
Operating Income	198,555	159,770
Other Income:		
Allowance for other funds used during construction	701	655
Miscellaneous, net	8,699	18,540
Income taxes associated with miscellaneous, net	3,957	(9,684)
Total	13,357	9,511
Income Before Interest Charges	211,912	169,281
Interest Charges:		
Interest on long-term debt	86,934	79,408
Other	2,210	2,282
Allowance for borrowed funds used during construction	(404)	1,018
Total	88,740	82,708
Net Income	123,172	86,573
Preferred Dividends	15,312	14,255
Balance Available for Common Stock	$107,860	$ 72,318

VIRGINIA ELECTRIC AND POWER COMPANY

1990 ESTIMATED INTERNAL CASH FLOW

(Millions of Dollars)

	January through March	April through June	July through September	October through December	Estimated 1990 Total
Cash Receipts	$952.6	$815.2	$973.7	$ 889.8	$3,631.3
Less:					
Cash for Operations	402.5	414.2	466.5	505.0	1,788.2
Taxes paid	85.1	189.8	99.1	212.4	586.4
Interest paid	80.5	95.7	88.4	127.3	391.9
Dividends paid					
- Preferred Stock	13.9	15.5	13.4	15.1	57.9
- Common Stock	81.4	81.3	82.5	82.9	328.1
Decommissioning Trust	5.5	5.5	5.5	5.5	22.0
Changes in working capital	89.8	(10.5)	6.3	(92.2)	(6.6)
Internal cash flow	193.9	23.7	212.0	33.8	463.4
Plus:					
Proceeds from sale of 11.6% of North Anna to Old Dominion Electric Co-op	1.2	1.2	1.2	1.2	4.8
Total Cash Flow(1)	$195.1	$ 24.9	$213.2	$ 35.0	$ 468.2

(1) Before financing and construction requirements.

VIRGINIA ELECTRIC AND POWER COMPANY

CERTIFICATE

I, the undersigned B. D. Johnson, do hereby certify, pursuant to the guarantee requirements set forth in the Commission's letter dated June 15, 1977, that the cash flow projection for 1990, provided herewith, is based on the best available information and is a reasonably accurate projection of the Company's 1990 cash flow.

B. D. Johnson

B. D. Johnson
Senior Vice President-Finance
and Controller

Sworn to and subscribed before me
this 23 day of March 1990.

Jana M. Gilmer

Notary Public

My commission expires: 6/30/93

NOTARIAL SEAL

VIRGINIA ELECTRIC & POWER COMPANY

STATEMENT

The Company currently estimates 1990 construction and nuclear fuel expenditures to be $958 million. In addition, the Company must provide $160 million for debt maturities and mandatory sinking fund payments. The Company expects to raise about $650 million through the sale of securities and through borrowings under its inter-company credit agreement with Dominion Resources. The Company is reasonably assured that, based on the best available cash flow projections which are provided herewith, curtailment of capital expenditures for required nuclear programs would not be required to cover the Price-Anderson maximum retrospective premium assessment for a single incident of $264.6 million ($66.15 million for each of the four reactors owned by the Company with assessments not to exceed $10 million per reactor per year) currently in force.