

DOMINION ENERGY INC /VA/
Form 10-Q
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from to

Commission File Number	Exact name of registrants as specified in their charters, address of principal executive offices and registrants' telephone number	I.R.S. Employer Identification Number
001-08489	DOMINION ENERGY, INC. Formerly Known As Dominion Resources, Inc.	54-1229715
000-55337	VIRGINIA ELECTRIC AND POWER COMPANY	54-0418825
001-37591	DOMINION ENERGY GAS HOLDINGS, LLC	46-3639580

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Dominion Energy Gas Holdings, LLC

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Dominion Energy, Inc. Yes No Virginia Electric and Power Company Yes No

Dominion Energy Gas Holdings, LLC Yes No

At July 14, 2017, the latest practicable date for determination, Dominion Energy, Inc. had 642,585,953 shares of common stock outstanding and Virginia Electric and Power Company had 274,723 shares of common stock outstanding. Dominion Energy, Inc. is the sole holder of Virginia Electric and Power Company's common stock. Dominion Energy, Inc. holds all of the membership interests of Dominion Energy Gas Holdings, LLC.

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

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

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GLOSSARY OF TERMS

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

Abbreviation or Acronym	Definition
2013 Equity Units	Dominion Energy's 2013 Series A Equity Units and 2013 Series B Equity Units issued in June 2013
2014 Equity Units	Dominion Energy's 2014 Series A Equity Units issued in July 2014
2016 Equity Units	Dominion Energy's 2016 Series A Equity Units issued in August 2016
AFUDC	Allowance for funds used during construction
AMR	Automated meter reading program deployed by East Ohio
AOCI	Accumulated other comprehensive income (loss)
ARO	Asset retirement obligation
Atlantic Coast Pipeline	Atlantic Coast Pipeline, LLC, a limited liability company owned by Dominion Energy, Duke and Southern Company Gas
BACT	Best available control technology
bcf	Billion cubic feet
bcfe	Billion cubic feet equivalent
Bear Garden	A 590 MW combined cycle, natural gas-fired power station in Buckingham County, Virginia
Brunswick County	A 1,376 MW combined cycle, natural gas-fired power station in Brunswick County, Virginia
CAA	Clean Air Act
CAISO	California Independent System Operator
CCR	Coal combustion residual
CEO	Chief Executive Officer
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980, also known as Superfund
CFO	Chief Financial Officer
CO ₂	Carbon dioxide
COL	Combined Construction Permit and Operating License
Companies	Dominion Energy, Virginia Power and Dominion Energy Gas, collectively
Cooling degree days	Units measuring the extent to which the average daily temperature is greater than 65 degrees Fahrenheit, calculated as the difference between 65 degrees and the average temperature for that day
Cove Point	Dominion Energy Cove Point LNG, LP (formerly known as Dominion Cove Point LNG, LP)
CPCN	Certificate of Public Convenience and Necessity
CWA	Clean Water Act
DECG	Dominion Energy Carolina Gas Transmission, LLC (formerly known as Dominion Carolina Gas Transmission, LLC)
DES	Dominion Energy Services, Inc. (formerly known as Dominion Resources Services, Inc.)
DETI	Dominion Energy Transmission, Inc. (formerly known as Dominion Transmission, Inc.)
DGI	Dominion Generation, Inc. (formerly known as Dominion Energy, Inc.)
DOE	Department of Energy
Dominion Energy	The legal entity, Dominion Energy, Inc. (formerly known as Dominion Resources, Inc.), one or more of its consolidated subsidiaries (other than Virginia Power and Dominion Energy Gas) or operating segments, or the entirety of Dominion Energy, Inc. and its consolidated subsidiaries

Abbreviation or Acronym	Definition
Dominion Energy Gas	The legal entity, Dominion Energy Gas Holdings, LLC (formerly known as Dominion Gas Holdings, LLC), one or more of its consolidated subsidiaries or operating segment, or the entirety of Dominion Energy Gas Holdings, LLC and its consolidated subsidiaries
Dominion Energy Midstream	The legal entity, Dominion Energy Midstream Partners, LP (formerly known as Dominion Midstream Partners, LP), one or more of its consolidated subsidiaries, Cove Point Holdings, Iroquois GP Holding Company, LLC, DECG and Dominion Energy Questar Pipeline (beginning December 1, 2016) or operating segment, or the entirety of Dominion Energy Midstream Partners, LP and its consolidated subsidiaries
Dominion Energy Questar	The legal entity, Dominion Energy Questar Corporation (formerly known as Dominion Questar Corporation), one or more of its consolidated subsidiaries or operating segment, or the entirety of Dominion Energy Questar Corporation and its consolidated subsidiaries
Dominion Energy Questar Combination	Dominion Energy's acquisition of Dominion Energy Questar completed on September 16, 2016 pursuant to the terms of the agreement and plan of merger entered on January 31, 2016
Dominion Energy Questar Pipeline	Dominion Energy Questar Pipeline, LLC (formerly known as Questar Pipeline, LLC), one or more of its consolidated subsidiaries, or the entirety of Dominion Energy Questar Pipeline, LLC and its consolidated subsidiaries
Dominion Iroquois	Dominion Iroquois, Inc., which holds a 24.07% noncontrolling partnership interest in Iroquois
DSM	Demand-side management
Dth	Dekatherm
Duke	The legal entity, Duke Energy Corporation, one or more of its consolidated subsidiaries or operating segments, or the entirety of Duke Energy Corporation and its consolidated subsidiaries
East Ohio	The East Ohio Gas Company
EPA	Environmental Protection Agency
EPS	Earnings per share
FERC	Federal Energy Regulatory Commission
Four Brothers	Four Brothers Solar, LLC, a limited liability company owned by Dominion Energy and Four Brothers Holdings, LLC, a wholly-owned subsidiary of NRG effective November 2016
Fowler Ridge	A wind-turbine facility joint venture between Dominion Energy and BP Wind Energy North America Inc. in Benton County, Indiana
FTA	Free Trade Agreement
FTRs	Financial transmission rights
GAAP	U.S. generally accepted accounting principles
Gal	Gallon
Gas Infrastructure	Gas Infrastructure Group operating segment
GHG	Greenhouse gas
Granite Mountain	Granite Mountain Holdings, LLC, a limited liability company owned by Dominion Energy and Granite Mountain Renewables, LLC, a wholly-owned subsidiary of NRG effective November 2016
Greensville County	An approximately 1,588 MW combined cycle, natural gas-fired power station under construction in Greensville County, Virginia
Heating degree days	Units measuring the extent to which the average daily temperature is less than 65 degrees Fahrenheit, calculated as the difference between 65 degrees and the average temperature for that day
Hope	Hope Gas, Inc.
Iron Springs	

Iron Springs Holdings, LLC, a limited liability company owned by Dominion Energy and Iron Springs Renewables, LLC, a wholly-owned subsidiary of NRG effective November 2016

Iroquois Gas Transmission System, L.P.

Iroquois

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Abbreviation or Acronym	Definition
ISO-NE	Independent System Operator New England
kV	Kilovolt
Liquefaction Project	A natural gas export/liquefaction facility currently under construction by Cove Point
LNG	Liquefied natural gas
Local 69	Local 69, Utility Workers Union of America, United Gas Workers
MATS	Utility Mercury and Air Toxics Standard Rule
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MGD	Million gallons a day
MISO	Midcontinent Independent System Operator, Inc.
MW	Megawatt
MWh	Megawatt hour
NAV	Net asset value
NedPower	A wind-turbine facility joint venture between Dominion Energy and Shell Wind Energy, Inc. in Grant County, West Virginia
NGL	Natural gas liquid
NO _x	Nitrogen oxide
NRC	Nuclear Regulatory Commission
NRG	The legal entity, NRG Energy, Inc., one or more of its consolidated subsidiaries (including, effective November 2016, Four Brothers Holdings, LLC, Granite Mountain Renewables, LLC and Iron Springs Renewables, LLC) or operating segments, or the entirety of NRG Energy, Inc. and its consolidated subsidiaries
NSPS	New Source Performance Standards
Ohio Commission	Public Utilities Commission of Ohio
Order 1000	Order issued by FERC adopting requirements for electric transmission planning, cost allocation and development
PIPP	Percentage of Income Payment Plan deployed by East Ohio
PIR	Pipeline Infrastructure Replacement program deployed by East Ohio
PJM	PJM Interconnection, L.L.C.
Power Delivery	Power Delivery Group operating segment
Power Generation	Power Generation Group operating segment
ppb	Parts-per-billion
PSD	Prevention of Significant Deterioration
Questar Gas	Questar Gas Company
Rider B	A rate adjustment clause associated with the recovery of costs related to the conversion of three of Virginia Power's coal-fired power stations to biomass
Rider BW	A rate adjustment clause associated with the recovery of costs related to Brunswick County
Rider GV	A rate adjustment clause associated with the recovery of costs related to Greensville County
Rider R	A rate adjustment clause associated with the recovery of costs related to Bear Garden
Rider S	A rate adjustment clause associated with the recovery of costs related to the Virginia City Hybrid Energy Center

Abbreviation or Acronym	Definition
Rider T1	A rate adjustment clause to recover the difference between revenues produced from transmission rates
	included in base rates, and the new total revenue requirement developed annually for the rate years effective September 1
Rider US-2	A rate adjustment clause associated with the recovery of costs related to Woodland, Scott Solar and Whitehouse
Rider W	A rate adjustment clause associated with the recovery of costs related to Warren County
Riders C1A and C2A	Rate adjustment clauses associated with the recovery of costs related to certain DSM programs approved in DSM cases
ROE	Return on equity
SBL Holdco	SBL Holdco, LLC, a wholly-owned subsidiary of DGI
Scott Solar	A 17 MW utility-scale solar power station in Powhatan County, Virginia
SEC	Securities and Exchange Commission
Standard & Poor's	Standard & Poor's Ratings Services, a division of McGraw Hill Financial, Inc.
SunEdison	The legal entity, SunEdison, Inc., one or more of its consolidated subsidiaries (including, through November 2016, Four Brothers Holdings, LLC, Granite Mountain Renewables, LLC and Iron Springs Renewables, LLC) or operating segments, or the entirety of SunEdison, Inc. and its consolidated subsidiaries
Terra Nova Renewable Partners	A partnership comprised primarily of institutional investors advised by J.P. Morgan Asset Management-Global Real Assets
Three Cedars	Granite Mountain and Iron Springs, collectively
UEX Rider	Uncollectible Expense Rider deployed by East Ohio
VDEQ	Virginia Department of Environmental Quality
VEBA	Voluntary Employees' Beneficiary Association
VIE	Variable interest entity
Virginia City Hybrid Energy Center	A 610 MW baseload carbon-capture compatible, clean coal powered electric generation facility in Wise County, Virginia
Virginia Commission	Virginia State Corporation Commission
Virginia Power	The legal entity, Virginia Electric and Power Company, one or more of its consolidated subsidiaries or operating segments, or the entirety of Virginia Electric and Power Company and its consolidated subsidiaries
VOC	Volatile organic compounds
Warren County	A 1,342 MW combined-cycle, natural gas-fired power station in Warren County, Virginia
Whitehouse	A 20 MW utility-scale solar power station in Louisa County, Virginia
Woodland	A 19 MW utility-scale solar power station in Isle of Wight County, Virginia

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOMINION ENERGY, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(millions, except per share amounts)				
Operating Revenue	\$2,813	\$2,598	\$6,197	\$5,519
Operating Expenses				
Electric fuel and other energy-related purchases	498	551	1,073	1,185
Purchased (excess) electric capacity	(12)	45	(29)	113
Purchased gas	112	56	417	175
Other operations and maintenance	779	665	1,517	1,368
Depreciation, depletion and amortization	467	361	936	712
Other taxes	168	139	357	303
Total operating expenses	2,012	1,817	4,271	3,856
Income from operations	801	781	1,926	1,663
Other income	60	72	176	126
Interest and related charges	308	239	600	465
Income from operations including noncontrolling interests before income tax expense	553	614	1,502	1,324
Income tax expense	136	152	411	331
Net Income Including Noncontrolling Interests	417	462	1,091	993
Noncontrolling Interests	27	10	69	17
Net Income Attributable to Dominion Energy	\$390	\$452	\$1,022	\$976
Earnings Per Common Share				
Net income attributable to Dominion Energy - Basic	\$0.62	\$0.73	\$1.63	\$1.61
Net income attributable to Dominion Energy - Diluted	0.62	0.73	1.63	1.61
Dividends Declared Per Common Share	\$0.7550	\$0.7000	\$1.5100	\$1.4000

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

DOMINION ENERGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended June 30,	
	June 30, 2017	2016	2017	2016
(millions)				
Net income including noncontrolling interests	\$417	\$462	\$1,091	\$993
Other comprehensive income (loss), net of taxes:				
Net deferred gains (losses) on derivatives-hedging activities ⁽¹⁾	28	(11)	71	42
Changes in unrealized net gains on investment securities ⁽²⁾	35	26	93	41
Amounts reclassified to net income (loss):				
Net derivative gains-hedging activities ⁽³⁾	(18)	(44)	(41)	(107)
Net realized gains on investment securities ⁽⁴⁾	(4)	(8)	(32)	(10)
Net pension and other postretirement benefit costs ⁽⁵⁾	11	8	24	16
Changes in other comprehensive income (loss) from equity method investees ⁽⁶⁾	1	(1)	2	(1)
Total other comprehensive income (loss)	53	(30)	117	(19)
Comprehensive income including noncontrolling interests	470	432	1,208	974
Comprehensive income attributable to noncontrolling interests	27	10	69	17
Comprehensive income attributable to Dominion Energy	\$443	\$422	\$1,139	\$957

(1) Net of \$(17) million and \$7 million tax for the three months ended June 30, 2017 and 2016, respectively, and net of \$(44) million and \$(26) million tax for the six months ended June 30, 2017 and 2016, respectively.

(2) Net of \$(18) million and \$(15) million tax for the three months ended June 30, 2017 and 2016, respectively, and net of \$(53) million and \$(25) million tax for the six months ended June 30, 2017 and 2016, respectively.

(3) Net of \$11 million and \$28 million tax for the three months ended June 30, 2017 and 2016, respectively, and net of \$25 million and \$67 million tax for the six months ended June 30, 2017 and 2016, respectively.

(4) Net of \$2 million and \$5 million tax for the three months ended June 30, 2017 and 2016, respectively, and net of \$18 million and \$6 million tax for the six months ended June 30, 2017 and 2016, respectively.

(5) Net of \$(10) million and \$(6) million tax for the three months ended June 30, 2017 and 2016, respectively, and net of \$(18) million and \$(12) million tax for the six months ended June 30, 2017 and 2016, respectively.

(6) Net of \$--- million tax for both the three months ended June 30, 2017 and 2016, and net of \$(1) million and \$--- million tax for the six months ended June 30, 2017 and 2016, respectively.

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

DOMINION ENERGY, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2017	December 31, 2016 ⁽¹⁾
(millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$260	\$261
Customer receivables (less allowance for doubtful accounts of \$32 and \$18)	1,242	1,523
Other receivables (less allowance for doubtful accounts of \$2 at both dates)	153	183
Inventories	1,469	1,524
Other	787	757
Total current assets	3,911	4,248
Investments		
Nuclear decommissioning trust funds	4,735	4,484
Investment in equity method affiliates	1,808	1,561
Other	315	298
Total investments	6,858	6,343
Property, Plant and Equipment		
Property, plant and equipment	72,163	69,556
Accumulated depreciation, depletion and amortization	(20,415)	(19,592)
Total property, plant and equipment, net	51,748	49,964
Deferred Charges and Other Assets		
Goodwill	6,399	6,399
Regulatory assets	2,487	2,473
Other	2,499	2,183
Total deferred charges and other assets	11,385	11,055
Total assets	\$73,902	\$71,610

(1) Dominion Energy's Consolidated Balance Sheet at December 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date.

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

DOMINION ENERGY, INC.

CONSOLIDATED BALANCE SHEETS—(Continued)

(Unaudited)

	June 30, 2017	December 31, 2016 ⁽¹⁾
(millions)		
LIABILITIES AND EQUITY		
Current Liabilities		
Securities due within one year	\$4,050	\$ 1,709
Short-term debt	2,833	3,155
Accounts payable	695	1,000
Accrued interest, payroll and taxes	725	798
Regulatory liabilities	106	163
Other	1,093	1,290
Total current liabilities	9,502	8,115
Long-Term Debt		
Long-term debt	24,799	24,878
Junior subordinated notes	3,980	2,980
Remarketable subordinated notes	1,376	2,373
Total long-term debt	30,155	30,231
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	9,099	8,602
Regulatory liabilities	2,803	2,622
Other	5,138	5,200
Total deferred credits and other liabilities	17,040	16,424
Total liabilities	56,697	54,770
Commitments and Contingencies (see Note 15)		
Equity		
Common stock – no par ⁽²⁾	8,717	8,550
Retained earnings	6,938	6,854
Accumulated other comprehensive loss	(682)	(799)
Total common shareholders' equity	14,973	14,605
Noncontrolling interests	2,232	2,235
Total equity	17,205	16,840
Total liabilities and equity	\$73,902	\$ 71,610

(1) Dominion Energy's Consolidated Balance Sheet at December 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date.

(2) 1 billion shares authorized; 630 million shares and 628 million shares outstanding at June 30, 2017 and December 31, 2016, respectively.

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

DOMINION ENERGY, INC.

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

	Common Stock		Dominion Energy Shareholders Retained Earnings AOCI		Total Common Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount					
(millions)							
December 31, 2015	596	\$ 6,680	\$ 6,458	\$(474)	\$ 12,664	\$ 938	\$ 13,602
Net income including noncontrolling interests			976		976	17	993
Contributions from SunEdison to Four Brothers and Three Cedars					—	162	162
Sale of interest in merchant solar projects		22			22	117	139
Purchase of Dominion Energy Midstream common units		(2)			(2)	(11)	(13)
Issuance of common stock	21	1,458			1,458		1,458
Stock awards (net of change in unearned compensation)		6			6		6
Dividends and distributions			(849)		(849)	(23)	(872)
Other comprehensive loss, net of tax				(19)	(19)		(19)
Other		(4)			(4)		(4)
June 30, 2016	617	\$ 8,160	\$ 6,585	\$(493)	\$ 14,252	\$ 1,200	\$ 15,452
December 31, 2016	628	\$ 8,550	\$ 6,854	\$(799)	\$ 14,605	\$ 2,235	\$ 16,840
Net income including noncontrolling interests			1,022		1,022	69	1,091
Contributions from NRG to Four Brothers and Three Cedars					—	9	9
Issuance of common stock	2	156			156		156
Stock awards (net of change in unearned compensation)		11			11		11
Dividends and distributions			(949)		(949)	(82)	(1,031)
Other comprehensive income, net of tax				117	117		117
Other			11		11	1	12
June 30, 2017	630	\$ 8,717	\$ 6,938	\$(682)	\$ 14,973	\$ 2,232	\$ 17,205

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

DOMINION ENERGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six Months Ended June 30, (millions)	2017	2016
Operating Activities		
Net income including noncontrolling interests	\$1,091	\$993
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation, depletion and amortization (including nuclear fuel)	1,088	853
Deferred income taxes and investment tax credits	406	275
Proceeds from assignment of tower rental portfolio	91	—
Gains on the sales of assets and equity method investment in Iroquois	—	(45)
Contribution to pension plan	(75)	—
Other adjustments	(72)	(27)
Changes in:		
Accounts receivable	307	82
Inventories	21	(3)
Deferred fuel and purchased gas costs, net	(79)	114
Prepayments	32	55
Accounts payable	(211)	(92)
Accrued interest, payroll and taxes	(73)	46
Margin deposit assets and liabilities	54	(13)
Other operating assets and liabilities	(228)	(220)
Net cash provided by operating activities	2,352	2,018
Investing Activities		
Plant construction and other property additions (including nuclear fuel)	(2,748)	(3,150)
Acquisition of solar development projects	(280)	(10)
Proceeds from sales of securities	1,119	709
Purchases of securities	(1,156)	(752)
Restricted cash and cash equivalents	(3)	(500)
Contributions to equity method affiliates	(252)	(76)
Other	4	54
Net cash used in investing activities	(3,316)	(3,725)
Financing Activities		
Repayment of short-term debt, net	(322)	(72)
Repayment and repurchase of short-term notes	—	(600)
Issuance of long-term debt	2,730	1,930
Repayment and repurchase of long-term debt	(490)	(500)
Proceeds from sale of interest in merchant solar projects	—	117
Contributions from NRG and SunEdison to Four Brothers and Three Cedars	9	162
Issuance of common stock	156	1,458
Common dividend payments	(949)	(849)
Other	(171)	(169)
Net cash provided by financing activities	963	1,477

Decrease in cash and cash equivalents	(1)	(230)
Cash and cash equivalents at beginning of period	261	607
Cash and cash equivalents at end of period	\$260	\$377

Supplemental Cash Flow Information

Significant noncash investing and financing activities⁽¹⁾:

Accrued capital expenditures	\$270	\$257
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(1)See Note 14 for noncash financing activities related to the remarketing of remarketable subordinated notes.

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

VIRGINIA ELECTRIC AND POWER COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
(millions)				
Operating Revenue ⁽¹⁾	\$1,747	\$1,776	\$3,578	\$3,666
Operating Expenses				
Electric fuel and other energy-related purchases ⁽¹⁾	409	475	865	1,011
Purchased (excess) electric capacity	(12)	45	(29)	113
Other operations and maintenance:				
Affiliated suppliers	75	64	153	165
Other	304	322	600	671
Depreciation and amortization	280	247	566	495
Other taxes	78	70	157	144
Total operating expenses	1,134	1,223	2,312	2,599
Income from operations	613	553	1,266	1,067
Other income	13	18	44	34
Interest and related charges ⁽¹⁾	125	113	245	227
Income before income tax expense	501	458	1,065	874
Income tax expense	183	178	391	331
Net Income	\$318	\$280	\$674	\$543

(1) See Note 17 for amounts attributable to affiliates.

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

VIRGINIA ELECTRIC AND POWER COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2017	December 31, 2016 ⁽¹⁾
(millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$44	\$ 11
Customer receivables (less allowance for doubtful accounts of \$25 and \$10)	840	892
Other receivables (less allowance for doubtful accounts of \$1 at both dates)	56	99
Affiliated receivables	61	112
Inventories (average cost method)	834	853
Other ⁽²⁾	312	281
Total current assets	2,147	2,248
Investments		
Nuclear decommissioning trust funds	2,223	2,106
Other	3	3
Total investments	2,226	2,109
Property, Plant and Equipment		
Property, plant and equipment	41,189	40,030
Accumulated depreciation and amortization	(12,931)	(12,436)
Total property, plant and equipment, net	28,258	27,594
Deferred Charges and Other Assets		
Regulatory assets	851	770
Pension and other postretirement benefit assets ⁽²⁾	165	130
Other ⁽²⁾	477	457
Total deferred charges and other assets	1,493	1,357
Total assets	\$34,124	\$33,308

(1) Virginia Power's Consolidated Balance Sheet at December 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date.

(2) See Note 17 for amounts attributable to affiliates.

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

VIRGINIA ELECTRIC AND POWER COMPANY

CONSOLIDATED BALANCE SHEETS—(Continued)

(Unaudited)

	June 30, 2017	December 31, 2016 ⁽¹⁾
(millions)		
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Securities due within one year	\$1,451	\$ 678
Short-term debt	416	65
Accounts payable	347	444
Payables to affiliates	106	109
Affiliated current borrowings	12	262
Accrued interest, payroll and taxes	263	239
Other ⁽²⁾	585	725
Total current liabilities	3,180	2,522
Long-Term Debt	9,749	9,852
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	5,277	5,103
Asset retirement obligations	1,283	1,262
Regulatory liabilities	2,115	1,962
Other ⁽²⁾	828	742
Total deferred credits and other liabilities	9,503	9,069
Total liabilities	22,432	21,443
Commitments and Contingencies (see Note 15)		
Common Shareholder's Equity		
Common stock – no par ⁽³⁾	5,738	5,738
Other paid-in capital	1,113	1,113
Retained earnings	4,790	4,968
Accumulated other comprehensive income	51	46
Total common shareholder's equity	11,692	11,865
Total liabilities and shareholder's equity	\$34,124	\$33,308

(1) Virginia Power's Consolidated Balance Sheet at December 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date.

(2) See Note 17 for amounts attributable to affiliates.

(3) 500,000 shares authorized; 274,723 shares outstanding at June 30, 2017 and December 31, 2016.

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

VIRGINIA ELECTRIC AND POWER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six Months Ended June 30, (millions)	2017	2016
Operating Activities		
Net income	\$674	\$543
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including nuclear fuel)	665	589
Deferred income taxes and investment tax credits	167	228
Proceeds from assignment of tower rental portfolio	91	—
Other adjustments	(20)	(11)
Changes in:		
Accounts receivable	92	7
Affiliated receivables and payables	39	295
Inventories	19	13
Prepayments	(4)	(35)
Deferred fuel expenses, net	(78)	105
Accounts payable	(32)	(10)
Accrued interest, payroll and taxes	23	39
Other operating assets and liabilities	(145)	(61)
Net cash provided by operating activities	1,491	1,702
Investing Activities		
Plant construction and other property additions	(1,219)	(1,226)
Purchases of nuclear fuel	(116)	(78)
Proceeds from sales of securities	498	347
Purchases of securities	(517)	(373)
Other	(17)	(6)
Net cash used in investing activities	(1,371)	(1,336)
Financing Activities		
Issuance (repayment) of short-term debt, net	351	(233)
Repayment of affiliated current borrowings, net	(250)	(376)
Issuance of long-term debt	750	750
Repayment of long-term debt	(78)	(457)
Common dividend payments to parent	(854)	—
Other	(6)	(7)
Net cash used in financing activities	(87)	(323)
Increase in cash and cash equivalents	33	43
Cash and cash equivalents at beginning of period	11	18
Cash and cash equivalents at end of period	\$44	\$61
Supplemental Cash Flow Information		
Significant noncash investing activities:		
Accrued capital expenditures	\$169	\$142

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

DOMINION ENERGY GAS HOLDINGS, LLC

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
(millions)				
Operating Revenue ⁽¹⁾	\$422	\$368	\$912	\$799
Operating Expenses				
Purchased gas ⁽¹⁾	38	16	81	50
Other energy-related purchases	2	1	7	4
Other operations and maintenance:				
Affiliated suppliers	20	16	45	43
Other	126	58	259	155
Depreciation and amortization	56	52	110	95
Other taxes	43	39	97	91
Total operating expenses	285	182	599	438
Income from operations	137	186	313	361
Earnings from equity method investee	4	3	11	9
Other income	5	6	10	6
Interest and related charges ⁽¹⁾	24	23	47	45
Income from operations before income taxes	122	172	287	331
Income tax expense	45	67	102	128
Net Income	\$77	\$105	\$185	\$203

(1) See Note 17 for amounts attributable to related parties.

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

DOMINION ENERGY GAS HOLDINGS, LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
(millions)				
Net income	\$77	\$105	\$185	\$203
Other comprehensive income (loss), net of taxes:				
Net deferred gains (losses) on derivatives-hedging activities ⁽¹⁾	11	(9)	2	(15)
Amounts reclassified to net income (loss):				
Net derivative gains-hedging activities ⁽²⁾	(12)	—	(1)	(2)
Net pension and other postretirement benefit costs ⁽³⁾	2	1	2	1
Total other comprehensive income (loss)	1	(8)	3	(16)
Comprehensive income	\$78	\$97	\$188	\$187

(1) Net of \$(7) million and \$4 million tax for the three months ended June 30, 2017 and 2016, respectively, and net of \$(1) million and \$8 million tax for the six months ended June 30, 2017 and 2016, respectively.

(2) Net of \$7 million and \$(2) million tax for the three months ended June 30, 2017 and 2016, respectively, and net of \$--- million tax for both the six months ended June 30, 2017 and 2016.

(3) Net of \$--- million tax for both the three months ended June 30, 2017 and 2016, and net of \$(1) million tax for both the six months ended June 30, 2017 and 2016.

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

DOMINION ENERGY GAS HOLDINGS, LLC

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2017	December 31, 2016 ⁽¹⁾
(millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$4	\$ 23
Restricted cash	30	20
Customer receivables (less allowance for doubtful accounts of \$1 at both dates)	203	281
Other receivables (less allowance for doubtful accounts of \$1 at both dates) ⁽²⁾	18	13
Affiliated receivables	26	17
Inventories	82	70
Gas imbalances ⁽²⁾	89	37
Other ⁽²⁾	112	121
Total current assets	564	582
Investments	99	99
Property, Plant and Equipment		
Property, plant and equipment	10,701	10,475
Accumulated depreciation and amortization	(2,948)	(2,851)
Total property, plant and equipment, net	7,753	7,624
Deferred Charges and Other Assets		
Pension and other postretirement benefit assets ⁽²⁾	1,677	1,557
Other ⁽²⁾	1,263	1,280
Total deferred charges and other assets	2,940	2,837
Total assets	\$11,356	\$ 11,142

(1) Dominion Energy Gas' Consolidated Balance Sheet at December 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date.

(2) See Note 17 for amounts attributable to related parties.

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

DOMINION ENERGY GAS HOLDINGS, LLC

CONSOLIDATED BALANCE SHEETS—(Continued)

(Unaudited)

	June 30, 2017	December 31, 2016 ⁽¹⁾
(millions)		
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt	\$615	\$ 460
Accounts payable	118	221
Payables to affiliates	18	29
Affiliated current borrowings	24	118
Accrued interest, payroll and taxes	174	225
Other ⁽²⁾	163	162
Total current liabilities	1,112	1,215
Long-Term Debt	3,553	3,528
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	2,557	2,438
Other ⁽²⁾	423	425
Total deferred credits and other liabilities	2,980	2,863
Total liabilities	7,645	7,606
Commitments and Contingencies (see Note 15)		
Equity		
Membership interests	3,831	3,659
Accumulated other comprehensive loss	(120)	(123)
Total equity	3,711	3,536
Total liabilities and equity	\$11,356	\$ 11,142

(1) Dominion Energy Gas' Consolidated Balance Sheet at December 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date.

(2) See Note 17 for amounts attributable to related parties.

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

DOMINION ENERGY GAS HOLDINGS, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Six Months Ended June 30, (millions)	2017	2016
Operating Activities		
Net income	\$ 185	\$ 203
Adjustments to reconcile net income to net cash provided by operating activities:		
Gains on the sales of assets and equity method investment in Iroquois	—	(45)
Depreciation and amortization	110	95
Deferred income taxes and investment tax credits	112	125
Other adjustments	(6)	4
Changes in:		
Accounts receivable	73	39
Affiliated receivables and payables	(19)	87
Inventories	(12)	(12)
Deferred purchased gas costs, net	11	11
Prepayments	18	29
Accounts payable	(97)	(75)
Accrued interest, payroll and taxes	(52)	(28)
Pension and other postretirement benefits	(65)	(65)
Other operating assets and liabilities	(3)	(43)
Net cash provided by operating activities	255	325
Investing Activities		
Plant construction and other property additions	(309)	(393)
Proceeds from sale of equity method investment in Iroquois	—	7
Proceeds from assignments of shale development rights	—	5
Other	(11)	(5)
Net cash used in investing activities	(320)	(386)
Financing Activities		
Issuance (repayment) of short-term debt, net	155	(153)
Issuance of long-term debt	—	680
Repayment of affiliated current borrowings, net	(94)	(95)
Distribution payments to parent	(15)	(150)
Other	—	(8)
Net cash provided by financing activities	46	274
Increase (decrease) in cash and cash equivalents	(19)	213
Cash and cash equivalents at beginning of period	23	13
Cash and cash equivalents at end of period	\$ 4	\$ 226
Supplemental Cash Flow Information		
Significant noncash investing activities:		
Accrued capital expenditures	\$ 44	\$ 42

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

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Nature of Operations

Dominion Energy, headquartered in Richmond, Virginia, is one of the nation's largest producers and transporters of energy. Dominion Energy's operations are conducted through various subsidiaries, including Virginia Power and Dominion Energy Gas. Virginia Power is a regulated public utility that generates, transmits and distributes electricity for sale in Virginia and northeastern North Carolina. Dominion Energy Gas is a holding company that conducts business activities through a regulated interstate natural gas transmission pipeline and underground storage system in the Northeast, mid-Atlantic and Midwest states, regulated gas transportation and distribution operations in Ohio, and gas gathering and processing activities primarily in West Virginia, Ohio and Pennsylvania. See Note 3 for a description of operations acquired in the Dominion Energy Questar Combination.

Note 2. Significant Accounting Policies

As permitted by the rules and regulations of the SEC, the Companies' accompanying unaudited Consolidated Financial Statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with GAAP. These unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes in the Companies' Annual Report on Form 10-K for the year ended December 31, 2016.

In the Companies' opinion, the accompanying unaudited Consolidated Financial Statements contain all adjustments necessary to present fairly their financial position as of June 30, 2017, their results of operations for the three and six months ended June 30, 2017 and 2016, their cash flows for the six months ended June 30, 2017 and 2016 and Dominion Energy's changes in equity for the six months ended June 30, 2017 and 2016. Such adjustments are normal and recurring in nature unless otherwise noted.

The Companies make certain estimates and assumptions in preparing their Consolidated Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from those estimates.

The Companies' accompanying unaudited Consolidated Financial Statements include, after eliminating intercompany transactions and balances, their accounts, those of their respective majority-owned subsidiaries and non-wholly-owned entities in which they have a controlling financial interest. For certain partnership structures, income is allocated based on the liquidation value of the underlying contractual arrangements. At June 30, 2017, Dominion Energy owns the general partner, 50.9% of the common and subordinated units and 37.5% of the convertible preferred interests in Dominion Energy Midstream. The public's ownership interest in Dominion Energy Midstream is reflected as noncontrolling interest in Dominion Energy's Consolidated Financial Statements. Also, at June 30, 2017, Dominion Energy owns 50% of the units in and consolidates Four Brothers and Three Cedars. NRG's ownership interest in Four Brothers and Three Cedars, as well as Terra Nova Renewable Partners' 33% interest in certain Dominion Energy merchant solar projects, is reflected as noncontrolling interest in Dominion Energy's Consolidated Financial Statements.

The results of operations for interim periods are not necessarily indicative of the results expected for the full year. Information for quarterly periods is affected by seasonal variations in sales, rate changes, electric fuel and other energy-related purchases, purchased gas expenses and other factors.

Certain amounts in the Companies' 2016 Consolidated Financial Statements and Notes have been reclassified to conform to the 2017 presentation for comparative purposes. The reclassifications did not affect the Companies' net income, total assets, liabilities, equity or cash flows.

Amounts disclosed for Dominion Energy are inclusive of Virginia Power and/or Dominion Energy Gas, where applicable. With the exception of the items described below, there have been no significant changes from Note 2 to the Consolidated Financial Statements in the Companies' Annual Report on Form 10-K for the year ended December 31, 2016.

Property, Plant and Equipment

In the first quarter of 2017, Virginia Power revised the depreciation rates for its assets to reflect the results of a new depreciation study. This change resulted in an increase in depreciation expense of \$22 million (\$13 million after-tax) for the six months ended June 30, 2017 and is expected to increase annual depreciation by approximately \$40 million (\$25 million after-tax). Additionally, Dominion Energy revised the depreciable lives for its merchant generation assets, excluding Millstone, which resulted in a decrease in depreciation expense of \$13 million (\$8 million after-tax) for the six months ended June 30, 2017 and is expected to decrease annual depreciation by approximately \$26 million (\$16 million after-tax).

New Accounting Standards

In March 2017, the Financial Accounting Standards Board issued revised accounting guidance for the presentation of net periodic pension and other postretirement benefit costs. The update requires that the service cost component of net periodic pension and other postretirement benefit costs be classified in the same line item as other compensation costs arising from services rendered by employees, while all other components of net periodic pension and other postretirement benefit costs would be classified outside of income from operations. In addition, only the service cost component will be eligible for capitalization during construction. The standard also recognized that in the event that a regulator continues to require capitalization of all net periodic benefit costs prospectively, the difference would result in recognition of a regulatory asset or liability. The guidance is effective for the Companies' interim and annual reporting periods beginning January 1, 2018, although it can be early adopted, with a retrospective approach for income statement presentation and a prospective approach for capitalization. The Companies are currently evaluating the impact the adoption of the standard will have on their consolidated financial statements and disclosures. The Companies are also evaluating industry issues that could potentially create a regulatory accounting difference in the event that FERC or any of our state commissions do not adopt the change in capitalization requirements for regulatory reporting.

Note 3. Acquisitions and Dispositions

Dominion Energy

Acquisition of Dominion Energy Questar

In September 2016, Dominion Energy completed the Dominion Energy Questar Combination and Dominion Energy Questar became a wholly-owned subsidiary of Dominion Energy. Dominion Energy Questar, a Rockies-based integrated natural gas company, included Questar Gas, Wexpro Company and Dominion Energy Questar Pipeline at closing. Questar Gas has regulated gas distribution operations in Utah, southwestern Wyoming and southeastern Idaho. Wexpro Company develops and produces natural gas from reserves that are supplied to Questar Gas under a cost-of-service framework. Dominion Energy Questar Pipeline provides FERC-regulated interstate natural gas transportation and storage services in Utah, Wyoming and western Colorado. The Dominion Energy Questar Combination provides Dominion Energy with pipeline infrastructure that provides a principal source of gas supply to Western states. Dominion Energy Questar's regulated businesses also provide further balance between Dominion Energy's electric and gas operations.

In accordance with the terms of the Dominion Energy Questar Combination, at closing, each share of issued and outstanding Dominion Energy Questar common stock was converted into the right to receive \$25.00 per share in cash. The total consideration was \$4.4 billion based on 175.5 million shares of Dominion Energy Questar outstanding at closing.

Dominion Energy financed the Dominion Energy Questar Combination through the: (1) August 2016 issuance of \$1.4 billion of 2016 Equity Units, (2) August 2016 issuance of \$1.3 billion of senior notes, (3) September 2016 borrowing of \$1.2 billion under a term loan agreement and (4) \$500 million of the proceeds from the April 2016 issuance of common stock. See Notes 17 and 19 to the Consolidated Financial Statements in the Companies' Annual Report on Form 10-K for the year ended December 31, 2016 for more information.

See Note 3 to the Consolidated Financial Statements in the Companies' Annual Report on Form 10-K for the year ended December 31, 2016 for more information on the Dominion Energy Questar Combination including purchase price allocation, regulatory matters, results of operations, and the contribution of Dominion Energy Questar Pipeline to Dominion Energy Midstream.

Pro Forma Information

The following unaudited pro forma financial information reflects the consolidated results of operations of Dominion Energy assuming the Dominion Energy Questar Combination had taken place on January 1, 2015. The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or the future consolidated results of operations of the combined company.

	Three Months	Six Months
	Ended	Ended
	June 30, 2016 ⁽¹⁾	June 30, 2016 ⁽¹⁾
(millions, except EPS)		
Operating Revenue	\$ 2,772	\$ 6,149
Net income attributable to Dominion Energy	490	1,103
Earnings Per Common Share – Basic	\$ 0.80	\$ 1.82
Earnings Per Common Share – Diluted	\$ 0.80	\$ 1.82

(1) Amounts include adjustments for non-recurring costs directly related to the Dominion Energy Questar Combination.

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Wholly-Owned Merchant Solar Projects

In January 2017, Dominion Energy entered into an agreement to acquire 100% of the equity interests of a solar project in North Carolina from Cypress Creek Renewables, LLC for cash consideration. In May 2017, Dominion Energy closed on the acquisition for \$154 million, all of which was allocated to property, plant and equipment. The facility commenced commercial operations in June 2017, at a cost of \$160 million, including the initial acquisition cost, and generates approximately 79 MW.

In September 2016, Dominion Energy entered into an agreement to acquire 100% of the equity interests of a solar project in Virginia from Community Energy Solar, LLC for cash consideration. In February 2017, Dominion Energy closed on the acquisition for \$29 million, all of which was allocated to property, plant and equipment. The project is expected to cost approximately \$205 million once constructed, including the initial acquisition cost. The facility is expected to begin commercial operations during the fourth quarter of 2017 and to generate approximately 100 MW.

In August 2016, Dominion Energy entered into an agreement to acquire 100% of the equity interests of two solar projects in California from Solar Frontier Americas Holding LLC for cash consideration. In March 2017, Dominion Energy closed on the acquisition of one of the solar projects for \$77 million, all of which was allocated to property, plant and equipment. The facility commenced commercial operations in June 2017, at a cost of \$78 million, including the initial acquisition cost, and generates approximately 30 MW. In April 2017, Dominion Energy discontinued efforts on the acquisition of the additional 20 MW solar project from Solar Frontier Americas Holding LLC.

In May 2017, Dominion Energy entered into an agreement to acquire 100% of the equity interests of two solar projects in Virginia from Hecate Energy Virginia C&C LLC for cash consideration of \$56 million. Dominion Energy completed the acquisition of one of the projects in June 2017 for \$16 million, with the additional closing expected to occur in the third quarter of 2017 and commencement of commercial operations expected to occur by the end of 2017. The projects are expected to cost approximately \$60 million once constructed, including the initial acquisition costs, and to generate approximately 30 MW combined.

In June 2017, Dominion Energy entered into an agreement to acquire 100% of the equity interests of four solar projects in North Carolina from Strata Solar Development, LLC and Moorings Farm 2 Holdco, LLC for cash consideration of \$40 million. Dominion Energy completed the acquisition of two of the projects in June 2017 for \$20 million, with the additional closings expected to occur in the third quarter of 2017 and commencement of commercial operations expected to occur by the end of 2017. The projects are expected to cost approximately \$45 million once constructed, including the initial acquisition costs, and to generate approximately 19 MW combined.

Long-term power purchase, interconnection and operation and maintenance agreements have been executed for all of the projects described above. These projects are included in Power Generation. Dominion Energy has claimed or will claim federal investment tax credits on these solar projects.

Sale of Interest in Merchant Solar Projects

In September 2015, Dominion Energy signed an agreement to sell a noncontrolling interest (consisting of 33% of the equity interests) in all of its then currently wholly-owned merchant solar projects, 24 solar projects totaling approximately 425 MW, to SunEdison. In December 2015, the sale of interest in 15 of the solar projects closed for \$184 million with the sale of interest in the remaining projects completed in January 2016 for \$117 million. Upon closing, SunEdison sold its interest in these projects to Terra Nova Renewable Partners. Terra Nova Renewable Partners has a future option to buy all or a portion of Dominion Energy's remaining 67% ownership in the projects upon the occurrence of certain events, none of which had occurred at June 30, 2017 nor are expected to occur in the remainder of 2017.

Virginia Power

Assignment of Tower Rental Portfolio

Virginia Power rents space on certain of its electric transmission towers to various wireless carriers for communications antennas and other equipment. In March 2017, Virginia Power sold its rental portfolio to Vertical Bridge Towers II, LLC for \$91 million in cash. The proceeds are subject to Virginia Power's FERC-regulated tariff, under which it is required to return half of the proceeds to customers. Virginia Power recognized \$1 million and \$8 million in other income for the three and six months ended June 30, 2017, respectively, with the remaining \$38 million to be recognized ratably through 2023.

Dominion Energy Gas

Assignment of Shale Development Rights

In December 2013, Dominion Energy Gas closed an agreement with a natural gas producer to convey over time approximately 79,000 acres of Marcellus Shale development rights underneath one of its natural gas storage fields. The agreement provided for payments to Dominion Energy Gas, subject to customary adjustments, of up to approximately \$200 million over a period of nine years, and an overriding royalty interest in gas produced from the acreage. In March 2015, Dominion Energy Gas and the natural gas producer closed on an amendment to the agreement, which included the immediate conveyance of approximately 9,000 acres of Marcellus Shale development rights and a two year extension of the term of the original agreement. In April 2016, Dominion Energy Gas and the natural gas producer closed on an amendment to the agreement, which included the immediate conveyance of a 32% partial interest in the remaining approximately 70,000 acres. This conveyance resulted in the recognition of \$35 million (\$21 million after-tax) of previously deferred revenue to operations and maintenance expense in Dominion Energy Gas' Consolidated Statements of Income.

In November 2014, Dominion Energy Gas closed on an agreement with a natural gas producer to convey over time approximately 24,000 acres of Marcellus Shale development rights underneath one of its natural gas storage fields. In connection with that agreement, in January 2016, Dominion Energy Gas conveyed approximately 2,000 acres of Marcellus Shale development rights and received proceeds of \$5 million and an overriding royalty interest in gas produced from the acreage. This transaction resulted in a \$5 million (\$3 million after-tax) gain, included in other operations and maintenance expense in Dominion Energy Gas' Consolidated Statements of Income.

Note 4. Operating Revenue

The Companies' operating revenue consists of the following:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
(millions)				
Dominion Energy				
Electric sales:				
Regulated	\$1,716	\$1,718	\$3,482	\$3,560
Nonregulated	307	335	734	724
Gas sales:				
Regulated	151	26	599	91
Nonregulated	110	54	254	172
Gas transportation and storage	430	369	922	784
Other	99	96	206	188
Total operating revenue	\$2,813	\$2,598	\$6,197	\$5,519
Virginia Power				
Regulated electric sales	\$1,716	\$1,718	\$3,482	\$3,560
Other	31	58	96	106
Total operating revenue	\$1,747	\$1,776	\$3,578	\$3,666
Dominion Energy Gas				
Gas sales:				

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Regulated	\$15	\$12	\$47	\$41
Nonregulated	8	6	10	7
Gas transportation and storage	342	301	738	652
Other	57	49	117	99
Total operating revenue	\$422	\$368	\$912	\$799

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Note 5. Income Taxes

For continuing operations, including noncontrolling interests, the statutory U.S. federal income tax rate reconciles to the Companies' effective income tax rate as follows:

Six Months Ended June 30,	Dominion Energy		Virginia Power		Dominion Energy Gas	
	2017	2016	2017	2016	2017	2016
U.S. statutory rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Increases (reductions) resulting from:						
State taxes, net of federal benefit	2.8	4.3	3.7	4.0	1.5	3.8
Investment tax credits	(5.5)	(9.9)	(0.8)	—	—	—
Production tax credits	(0.8)	(0.8)	(0.5)	(0.6)	—	—
State legislative change	—	(1.3)	—	—	—	—
AFUDC - equity	(1.4)	(0.7)	(0.6)	(0.7)	(1.0)	(0.2)
Other, net	(2.6)	(1.6)	(0.1)	0.2	—	0.1
Effective tax rate	27.5%	25.0%	36.7%	37.9%	35.5%	38.7%

The effective tax rates in 2017 for the Companies reflect the completion of audits by state tax authorities that resulted in the recognition of previously unrecognized tax benefits. At December 31, 2016, Virginia Power's unrecognized tax benefits included state refund claims for open tax years through 2011. Management believed settlement of the claims, including interest thereon, within the next twelve months was remote. In June 2017, Virginia Power received and accepted a cash offer to settle the refund claims. As a result of the settlement, Virginia Power decreased its unrecognized tax benefits by \$8 million, and recognized a \$2 million tax benefit, which impacted its effective tax rate. Also in connection with this settlement, Virginia Power realized interest income of \$11 million, which is reflected in other income in the Consolidated Statements of Income. Otherwise, at June 30, 2017, there have been no material changes in the Companies' unrecognized tax benefits or possible changes that could reasonably be expected to occur during the next twelve months. See Note 5 to the Consolidated Financial Statements in the Companies' Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of these unrecognized tax benefits.

Note 6. Earnings Per Share

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

(millions, except EPS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income attributable to Dominion Energy	\$390	\$452	\$1,022	\$976
Average shares of common stock outstanding – Basic	629.2	615.6	628.7	606.1
Net effect of dilutive securities ⁽¹⁾	—	1.4	—	1.5
Average shares of common stock outstanding – Diluted	629.2	617.0	628.7	607.6
Earnings Per Common Share – Basic	\$0.62	\$0.73	\$1.63	\$1.61
Earnings Per Common Share – Diluted	\$0.62	\$0.73	\$1.63	\$1.61

(1) Dilutive securities consist primarily of the 2013 Equity Units for the three and six months ended June 30, 2016.

See Note 17 to the Consolidated Financial Statements in the Companies' Annual Report on Form 10-K for the year

ended December 31, 2016 for more information.

The 2014 Equity Units are potentially dilutive securities but were excluded from the calculation of diluted EPS for the three and six months ended June 30, 2017 and 2016, as the dilutive stock price threshold was not met. The 2016 Equity Units are potentially dilutive securities but were excluded from the calculation of diluted EPS for the three and six months ended June 30, 2017, as the dilutive stock price threshold was not met. The Dominion Energy Midstream convertible preferred units are potentially dilutive securities but had no effect on the calculation of diluted EPS for the three and six months ended June 30, 2017.

Note 7. Accumulated Other Comprehensive Income

Dominion Energy

The following table presents Dominion Energy's changes in AOCI by component, net of tax:

	Deferred Gains and Losses on Derivatives-Hedging Activities	Unrealized Gains and Losses on Investment Securities	Unrecognized Pension and Other Postretirement Benefit Costs	Other Comprehensive Income (Loss) From Equity Method Investee	Total
(millions)					
Three Months Ended June 30, 2017					
Beginning balance	\$ (260)	\$ 599	\$ (1,069)	\$ (5)	\$(735)
Other comprehensive income before					
reclassifications: gains	28	35	—	1	64
Amounts reclassified from AOCI ⁽¹⁾ : (gains)					
losses	(18)	(4)	11	—	(11)
Net current-period other comprehensive					
income	10	31	11	1	53
Ending balance	\$ (250)	\$ 630	\$ (1,058)	\$ (4)	\$(682)
Three Months Ended June 30, 2016					
Beginning balance	\$ (186)	\$ 517	\$ (789)	\$ (5)	\$(463)
Other comprehensive income before					
reclassifications: gains (losses)	(11)	26	—	(1)	14
Amounts reclassified from AOCI ⁽¹⁾ : (gains)					
losses	(44)	(8)	8	—	(44)
Net current-period other comprehensive					
income (loss)	(55)	18	8	(1)	(30)
Ending balance	\$ (241)	\$ 535	\$ (781)	\$ (6)	\$(493)
Six Months Ended June 30, 2017					
Beginning balance	\$ (280)	\$ 569	\$ (1,082)	\$ (6)	\$(799)
Other comprehensive income before					
reclassifications: gains	71	93	—	2	166
Amounts reclassified from AOCI ⁽¹⁾ : (gains)					
losses	(41)	(32)	24	—	(49)
Net current-period other comprehensive					
income	30	61	24	2	117
Ending balance	\$ (250)	\$ 630	\$ (1,058)	\$ (4)	\$(682)

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Six Months Ended June 30, 2016

Beginning balance	\$ (176)	\$ 504	\$ (797)	\$ (5)	\$ (474)
Other comprehensive income before					
reclassifications: gains (losses)	42	41	—	(1)	82
Amounts reclassified from AOCI ⁽¹⁾ : (gains)					
losses	(107)	(10)	16	—	(101)
Net current-period other comprehensive					
income (loss)	(65)	31	16	(1)	(19)
Ending balance	\$ (241)	\$ 535	\$ (781)	\$ (6)	\$ (493)

(1) See table below for details about these reclassifications.

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The following table presents Dominion Energy's reclassifications out of AOCI by component:

Details About AOCI Components (millions)	Amounts Reclassified From AOCI	Affected Line Item in the Consolidated Statements of Income
Three Months Ended June 30, 2017		
Deferred (gains) and losses on derivatives-hedging activities:		
Commodity contracts	\$ (19	) Operating revenue
	(2	) Electric fuel and other energy-related purchases
Interest rate contracts	11	) Interest and related charges
Foreign currency contracts	(19	) Other income
	(29)
Tax	11	) Income tax expense
	\$ (18)
Unrealized (gains) and losses on investment securities:		
Realized (gain) loss on sale of securities	\$ (11	) Other income
Impairment	5	) Other income
	(6)
Tax	2	) Income tax expense
	\$ (4)
Unrecognized pension and other postretirement benefit costs:		
Prior service (credit) costs	\$ (5	) Other operations and maintenance
Actuarial (gains) losses	26	) Other operations and maintenance
	21	
Tax	(10	) Income tax expense
	\$ 11	
Three Months Ended June 30, 2016		
Deferred (gains) and losses on derivatives-hedging activities:		
Commodity contracts	\$ (87	) Operating revenue
	2	) Purchased gas
	3	) Electric fuel and other energy-related purchases
Interest rate contracts	8	) Interest and related charges
Foreign currency contracts	2	) Other income
	(72)
Tax	28	) Income tax expense
	\$ (44)
Unrealized (gains) and losses on investment securities:		
Realized (gain) loss on sale of securities	\$ (20) Other income
Impairment	7) Other income
	(13)
Tax	5) Income tax expense

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	\$ (8)	
Unrecognized pension and other postretirement benefit costs:		
Prior service (credit) costs	\$ (3)	Other operations and maintenance
Actuarial (gains) losses	17	Other operations and maintenance
	14	
Tax	(6)	Income tax expense
	\$ 8	
28		

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Amounts Reclassified/Affected Line Item in the

Details About AOCI Components

From AOCI

Consolidated Statements of Income

(millions)

Six Months Ended June 30, 2017

Deferred (gains) and losses on derivatives-hedging activities:

Commodity contracts	\$ (81	)	Operating revenue
			Electric fuel and other energy-related
	(2	)	purchases
Interest rate contracts	23		Interest and related charges
Foreign currency contracts	(6	)	Other income
	(66)	
Tax	25		Income tax expense
	\$ (41)	

Unrealized (gains) and losses on investment securities:

Realized (gain) loss on sale of securities	\$ (64	)	Other income
Impairment	14		Other income
	(50)	
Tax	18		Income tax expense
	\$ (32)	

Unrecognized pension and other postretirement benefit costs:

Prior service (credit) costs	\$ (9	)	Other operations and maintenance
Actuarial (gains) losses	51		Other operations and maintenance
	42		
Tax	(18	)	Income tax expense
	\$ 24		

Six Months Ended June 30, 2016

Deferred (gains) and losses on derivatives-hedging activities:

Commodity contracts	\$ (201	)	Operating revenue
	8		Purchased gas
	6		Electric fuel and other energy-related
			purchases
Interest rate contracts	11		Interest and related charges
Foreign currency contracts	2		Other income
	(174)	
Tax	67		Income tax expense
	\$ (107)	

Unrealized (gains) and losses on investment securities:

Realized (gain) loss on sale of securities	\$ (30	)	Other income
Impairment	14		Other income
	(16)	
Tax	6		Income tax expense
	\$ (10)	

Unrecognized pension and other postretirement benefit costs:

Prior service (credit) costs	\$ (7)	Other operations and maintenance
------------------------------	-------	---	----------------------------------

Actuarial (gains) losses	35	Other operations and maintenance
	28	
Tax	(12) Income tax expense
	\$ 16	

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Dominion Energy Gas

The following table presents Dominion Energy Gas' changes in AOCI by component, net of tax:

	Deferred Gains and Losses on Derivatives-Hedging Activities	Unrecognized Pension and Other Postretirement Benefit Costs	Total
(millions)			
Three Months Ended June 30, 2017			
Beginning balance	\$ (22)	\$ (99)	\$(121)
Other comprehensive income before			
reclassifications: gains	11	—	11
Amounts reclassified from AOCI ⁽¹⁾ : (gains) losses	(12)	2	(10)
Net current-period other comprehensive income (loss)	(1)	2	1
Ending balance	\$ (23)	\$ (97)	\$(120)
Three Months Ended June 30, 2016			
Beginning balance	\$ (25)	\$ (82)	\$(107)
Other comprehensive income before			
reclassifications: losses	(9)	—	(9)
Amounts reclassified from AOCI ⁽¹⁾ : losses	—	1	1
Net current-period other comprehensive income (loss)	(9)	1	(8)
Ending balance	\$ (34)	\$ (81)	\$(115)
Six Months Ended June 30, 2017			
Beginning balance	\$ (24)	\$ (99)	\$(123)
Other comprehensive income before			
reclassifications: gains	2	—	2
Amounts reclassified from AOCI ⁽¹⁾ : (gains) losses	(1)	2	1
Net current-period other comprehensive income	1	2	3
Ending balance	\$ (23)	\$ (97)	\$(120)
Six Months Ended June 30, 2016			
Beginning balance	\$ (17)	\$ (82)	\$(99)
Other comprehensive income before			
reclassifications: losses	(15)	—	(15)
Amounts reclassified from AOCI ⁽¹⁾ : (gains) losses	(2)	1	(1)
Net current-period other comprehensive income (loss)	(17)	1	(16)
Ending balance	\$ (34)	\$ (81)	\$(115)

(1) See table below for details about these reclassifications.

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The following table presents Dominion Energy Gas' reclassifications out of AOCI by component:

Details About AOCI Components (millions)	Amounts Reclassified From AOCI	Affected Line Item in the Consolidated Statements of Income
Three Months Ended June 30, 2017		
Deferred (gains) and losses on derivatives-hedging activities:		
Commodity contracts	\$ (1)	Operating revenue
Interest rate contracts	1	Interest and related charges
Foreign currency contracts	(19)	Other income
	(19)	
Tax	7	Income tax expense
	\$ (12)	
Unrecognized pension and other postretirement benefit costs:		
Actuarial (gains) losses	\$ 2	Other operations and maintenance
	2	
Tax	—	Income tax expense
	\$ 2	
Three Months Ended June 30, 2016		
Deferred (gains) and losses on derivatives-hedging activities:		
Foreign currency contracts	\$ 2	Other income
	2	
Tax	(2)	Income tax expense
	\$ —	
Unrecognized pension and other postretirement benefit costs:		
Actuarial (gains) losses	\$ 1	Other operations and maintenance
	1	
Tax	—	Income tax expense
	\$ 1	
Six Months Ended June 30, 2017		
Deferred (gains) and losses on derivatives-hedging activities:		
Commodity contracts	\$ 3	Operating revenue
Interest rate contracts	2	Interest and related charges
Foreign currency contracts	(6)	Other income
	(1)	
Tax	—	Income tax expense
	\$ (1)	
Unrecognized pension and other postretirement benefit costs:		
Actuarial (gains) losses	\$ 3	Other operations and maintenance
	3	
Tax	(1)	Income tax expense

\$ 2

Six Months Ended June 30, 2016

Deferred (gains) and losses on derivatives-hedging activities:

Commodity contracts	\$ (4)	Operating revenue
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Foreign currency contracts	2		Other income
----------------------------	---	--	--------------

	(2)	
--	----	---	--

Tax	—		Income tax expense
-----	---	--	--------------------

	\$ (2)	
--	-------	---	--

Unrecognized pension and other postretirement benefit costs:

Actuarial (gains) losses			Other operations and maintenance
--------------------------	--	--	----------------------------------

	\$ 2		
--	------	--	--

	2		
--	---	--	--

Tax	(1)	Income tax expense
-----	----	---	--------------------

	\$ 1		
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Note 8. Fair Value Measurements

The Companies' fair value measurements are made in accordance with the policies discussed in Note 6 to the Consolidated Financial Statements in the Companies' Annual Report on Form 10-K for the year ended December 31, 2016. See Note 9 in this report for further information about the Companies' derivatives and hedge accounting activities.

The Companies enter into certain physical and financial forwards, futures, options and swaps, which are considered Level 3 as they have one or more inputs that are not observable and are significant to the valuation. The discounted cash flow method is used to value Level 3 physical and financial forwards, futures, and swaps contracts. An option model is used to value Level 3 physical and financial options. The discounted cash flow model for forwards, futures, and swaps calculates mark-to-market valuations based on forward market prices, original transaction prices, volumes, risk-free rate of return, and credit spreads. The option model calculates mark-to-market valuations using variations of the Black-Scholes option model. The inputs into the models are the forward market prices, implied price volatilities, risk-free rate of return, the option expiration dates, the option strike prices, the original sales prices, and volumes. For Level 3 fair value measurements, forward market prices and implied price volatilities are considered unobservable. The unobservable inputs are developed and substantiated using historical information, available market data, third-party data, and statistical analysis. Periodically, inputs to valuation models are reviewed and revised as needed, based on historical information, updated market data, market liquidity and relationships, and changes in third-party pricing sources.

The following table presents Dominion Energy's quantitative information about Level 3 fair value measurements at June 30, 2017. The range and weighted average are presented in dollars for market price inputs and percentages for price volatility.

	Fair Value		Unobservable Input	Range	Weighted Average ⁽¹⁾
	(millions)	Valuation Techniques			
Assets					
Physical and financial forwards and					
futures:					
Natural gas ⁽²⁾	\$ 88	Discounted cash flow	Market price (per Dth)	⁽³⁾ (2) - 7	—
FTRs	16	Discounted cash flow	Market price (per MWh)	⁽³⁾ (1) - 4	1
Physical options:					
Natural gas	2	Option model	Market price (per Dth)	⁽³⁾ 2 - 7	3
			Price volatility	⁽⁴⁾ 17% - 43%	25 %
Electricity	47	Option model	Market Price (per MWh)	⁽³⁾ 21 - 51	32
			Price volatility	⁽⁴⁾ 14% - 57%	25 %
Total assets	\$ 153				
Liabilities					
Financial forwards:					
FTRs	\$ 1	Discounted cash flow	Market price (per MWh)	⁽³⁾ (2) - 4	1
Total liabilities	\$ 1				

(1) Averages weighted by volume.

- (2) Includes basis.
- (3) Represents market prices beyond defined terms for Levels 1 and 2.
- (4) Represents volatilities unrepresented in published markets.

Sensitivity of the fair value measurements to changes in the significant unobservable inputs is as follows:

Impact on Fair

Significant Unobservable Inputs	Position	Change to Input	Value Measurement
Market price	Buy	Increase (decrease)	Gain (loss)
Market price	Sell	Increase (decrease)	Loss (gain)
Price volatility	Buy	Increase (decrease)	Gain (loss)
Price volatility	Sell	Increase (decrease)	Loss (gain)

Recurring Fair Value Measurements

Dominion Energy

The following table presents Dominion Energy's assets and liabilities that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions:

	Level 1	Level 2	Level 3	Total
(millions)				
June 30, 2017				
Assets				
Derivatives:				
Commodity	\$—	\$99	\$153	\$252
Interest rate	—	14	—	14
Foreign currency	—	15	—	15
Investments ⁽¹⁾ :				
Equity securities:				
U.S.	3,161	—	—	3,161
Fixed income:				
Corporate debt instruments	—	481	—	481
Government securities	452	622	—	1,074
Cash equivalents and other	5	—	—	5
Total assets	\$3,618	\$1,231	\$153	\$5,002
Liabilities				
Derivatives:				
Commodity	\$—	\$60	\$1	\$61
Interest rate	—	84	—	84
Foreign currency	—	5	—	5
Total liabilities	\$—	\$149	\$1	\$150
December 31, 2016				
Assets				
Derivatives:				
Commodity	\$—	\$115	\$147	\$262
Interest rate	—	17	—	17
Investments ⁽¹⁾ :				
Equity securities:				
U.S.	2,913	—	—	2,913
Fixed income:				
Corporate debt instruments	—	487	—	487
Government securities	424	614	—	1,038
Cash equivalents and other	5	—	—	5
Total assets	\$3,342	\$1,233	\$147	\$4,722
Liabilities				
Derivatives:				
Commodity	\$—	\$88	\$8	\$96
Interest rate	—	53	—	53
Foreign currency	—	6	—	6
Total liabilities	\$—	\$147	\$8	\$155

(1) Includes investments held in the nuclear decommissioning and rabbi trusts. Excludes \$70 million and \$89 million of assets at June 30, 2017 and December 31, 2016, respectively, measured at fair value using NAV (or its equivalent) as a practical expedient which are not required to be categorized in the fair value hierarchy.

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The following table presents the net change in Dominion Energy's assets and liabilities measured at fair value on a recurring basis and included in the Level 3 fair value category:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
(millions)				
Beginning balance	\$ 130	\$ 109	\$ 139	\$ 95
Total realized and unrealized gains (losses):				
Included in earnings	(10)	(10)	(25)	(17)
Included in other comprehensive income	—	—	—	3
Included in regulatory assets/liabilities	32	15	23	32
Settlements	—	10	12	18
Transfers out of Level 3	—	—	3	(7)
Ending balance	\$ 152	\$ 124	\$ 152	\$ 124

The gains and losses included in earnings in the Level 3 fair value category were classified in electric fuel and other energy-related purchases in Dominion Energy's Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016. Unrealized gains or losses included in earnings in the Level 3 fair value category relating to assets/liabilities still held at the reporting date were immaterial for the three and six months ended June 30, 2017 and 2016.

Virginia Power

The following table presents Virginia Power's quantitative information about Level 3 fair value measurements at June 30, 2017. The range and weighted average are presented in dollars for market price inputs and percentages for price volatility.

	Fair Value	Valuation Techniques	Unobservable Input	Range	Weighted Average ⁽¹⁾
	(millions)				
Assets					
Physical and financial forwards and futures:					
Natural gas ⁽²⁾	\$ 88	Discounted cash flow	Market price (per Dth)	⁽³⁾ (2) - 7	—
FTRs	15	Discounted cash flow	Market price (per MWh) ⁽³⁾	(1) - 4	1
Physical options:					
Natural gas	2	Option model	Market price (per Dth)	⁽³⁾ 2 - 7	3
				⁽⁴⁾ 17% - 43%	24 %
Electricity	47	Option model	Market price (per MWh) ⁽³⁾	21 - 51	32

		(4) 14% -		
	Price volatility	57%	25	%

Total assets \$ 152

(1)Averages weighted by volume.

(2)Includes basis.

(3)Represents market prices beyond defined terms for Levels 1 and 2.

(4)Represents volatilities unrepresented in published markets.

Sensitivity of the fair value measurements to changes in the significant unobservable inputs is as follows:

Impact on Fair

Significant Unobservable Inputs	Position	Change to Input	Value Measurement
Market price	Buy	Increase (decrease)	Gain (loss)
Market price	Sell	Increase (decrease)	Loss (gain)
Price volatility	Buy	Increase (decrease)	Gain (loss)
Price volatility	Sell	Increase (decrease)	Loss (gain)

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The following table presents Virginia Power's assets and liabilities that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions:

	Level 1	Level 2	Level 3	Total
(millions)				
June 30, 2017				
Assets				
Derivatives:				
Commodity	\$—	\$15	\$152	\$167
Investments ⁽¹⁾ :				
Equity securities:				
U.S.	1,413	—	—	1,413
Fixed income:				
Corporate debt instruments	—	259	—	259
Government securities	165	294	—	459
Total assets	\$1,578	\$568	\$152	\$2,298
Liabilities				
Derivatives:				
Commodity	\$—	\$10	\$—	\$10
Interest rate	—	64	—	64
Total liabilities	\$—	\$74	\$—	\$74
December 31, 2016				
Assets				
Derivatives:				
Commodity	\$—	\$43	\$145	\$188
Interest rate	—	6	—	6
Investments ⁽¹⁾ :				
Equity securities:				
U.S.	1,302	—	—	1,302
Fixed income:				
Corporate debt instruments	—	277	—	277
Government securities	136	291	—	427
Total assets	\$1,438	\$617	\$145	\$2,200
Liabilities				
Derivatives:				
Commodity	\$—	\$8	\$2	\$10
Interest rate	—	21	—	21
Total liabilities	\$—	\$29	\$2	\$31

(1) Includes investments held in the nuclear decommissioning trusts. Excludes \$16 million and \$26 million of assets at June 30, 2017 and December 31, 2016, respectively, measured at fair value using NAV (or its equivalent) as a practical expedient which are not required to be categorized in the fair value hierarchy.

The following table presents the net change in Virginia Power's assets and liabilities measured at fair value on a recurring basis and included in the Level 3 fair value category:

	Three Months	Six Months Ended
--	-----------------	---------------------

	Ended June 30,		June 30,	
	2017	2016	2017	2016
(millions)				
Beginning balance	\$ 132	\$ 110	\$ 143	\$ 93
Total realized and unrealized gains (losses):				
Included in earnings	(10)	(9)	(25)	(17)
Included in regulatory assets/liabilities	31	15	23	32
Settlements	(1)	9	11	17
Ending balance	\$ 152	\$ 125	\$ 152	\$ 125

The gains and losses included in earnings in the Level 3 fair value category were classified in electric fuel and other energy-related purchases in Virginia Power's Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016. There were no unrealized gains or losses included in earnings in the Level 3 fair value category relating to assets/liabilities still held at the reporting date for the three and six months ended June 30, 2017 and 2016.

Dominion Energy Gas

The following table presents Dominion Energy Gas' assets and liabilities for derivatives that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions.

	Level 1	Level 2	Level 3	Total
(millions)				
June 30, 2017				
Assets				
Commodity	\$ —	\$ 2	\$ —	\$ 2
Foreign currency	—	15	—	15
Total assets	\$ —	\$ 17	\$ —	\$ 17
Liabilities				
Foreign currency	\$ —	\$ 5	\$ —	\$ 5
Total liabilities	\$ —	\$ 5	\$ —	\$ 5
December 31, 2016				
Liabilities				
Commodity	\$ —	\$ 3	\$ 2	\$ 5
Foreign currency	—	6	—	6
Total liabilities	\$ —	\$ 9	\$ 2	\$ 11

The following table presents the net change in Dominion Energy Gas' assets and liabilities for derivatives measured at fair value on a recurring basis and included in the Level 3 fair value category:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
(millions)				
Beginning balance	\$ —	\$ —	\$(2)	\$ 6
Total realized and unrealized gains (losses):				
Included in other comprehensive income (loss)	—	—	(1)	2
Transfers out of Level 3	—	—	3	(8)
Ending balance	\$ —	\$ —	\$ —	\$ —

There were no gains or losses included in earnings in the Level 3 fair value category for the three and six months ended June 30, 2017 and 2016. There were no unrealized gains or losses included in earnings in the Level 3 fair value

category relating to assets/liabilities still held at the reporting date for three and six months ended June 30, 2017 and 2016.

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Fair Value of Financial Instruments

Substantially all of the Companies' financial instruments are recorded at fair value, with the exception of the instruments described below, which are reported at historical cost. Estimated fair values have been determined using available market information and valuation methodologies considered appropriate by management. The carrying amount of cash and cash equivalents, restricted cash (which is recorded in Dominion Energy's other current assets), customer and other receivables, affiliated receivables, short-term debt, affiliated current borrowings, payables to affiliates and accounts payable are representative of fair value because of the short-term nature of these instruments. For the Companies' financial instruments that are not recorded at fair value, the carrying amounts and estimated fair values are as follows:

	June 30, 2017		December 31, 2016	
	Estimated		Estimated	
	Carrying Amount	Fair Value ⁽¹⁾	Carrying Amount	Fair Value ⁽¹⁾
(millions)				
Dominion Energy				
Long-term debt, including securities due within one year ⁽²⁾	\$28,849	\$31,017	\$26,587	\$28,273
Junior subordinated notes ⁽³⁾	3,980	4,086	2,980	2,893
Remarketable subordinated notes ⁽³⁾	1,376	1,409	2,373	2,418
Virginia Power				
Long-term debt, including securities due within one year ⁽³⁾	\$11,200	\$12,493	\$10,530	\$11,584
Dominion Energy Gas				
Long-term debt ⁽⁴⁾	\$3,553	\$3,667	\$3,528	\$3,603

(1) Fair value is estimated using market prices, where available, and interest rates currently available for issuance of debt with similar terms and remaining maturities. All fair value measurements are classified as Level 2. The carrying amount of debt issues with short-term maturities and variable rates refinanced at current market rates is a reasonable estimate of their fair value.

(2) Carrying amount includes amounts which represent the unamortized debt issuance costs, discount or premium, and foreign currency remeasurement adjustments. At June 30, 2017 and December 31, 2016, includes the valuation of certain fair value hedges associated with fixed rate debt of \$2 million and \$(1) million, respectively.

(3) Carrying amount includes amounts which represent the unamortized debt issuance costs, discount or premium.

(4) Carrying amount includes amounts which represent the unamortized debt issuance costs, discount or premium, and foreign currency remeasurement adjustments.

Note 9. Derivatives and Hedge Accounting Activities

The Companies' accounting policies, objectives and strategies for using derivative instruments are discussed in Note 2 to the Consolidated Financial Statements in the Companies' Annual Report on Form 10-K for the year ended December 31, 2016. See Note 8 in this report for further information about fair value measurements and associated valuation methods for derivatives.

Derivative assets and liabilities are presented gross on the Companies' Consolidated Balance Sheets. Dominion Energy's derivative contracts include both over-the-counter transactions and those that are executed on an exchange or

other trading platform (exchange contracts) and centrally cleared. Virginia Power's and Dominion Energy Gas' derivative contracts consist of over-the-counter transactions. Over-the-counter contracts are bilateral contracts that are transacted directly with a counterparty. Exchange contracts utilize a financial intermediary, exchange, or clearinghouse to enter, execute, or clear the transactions. Certain over-the-counter and exchange contracts contain contractual rights of setoff through master netting arrangements, derivative clearing agreements, and contract default provisions. In addition, the contracts are subject to conditional rights of setoff through counterparty nonperformance, insolvency, or other conditions.

In general, most over-the-counter transactions and all exchange contracts are subject to collateral requirements. Types of collateral for over-the-counter and exchange contracts include cash, letters of credit, and in some cases other forms of security, none of which are subject to restrictions. Cash collateral is used in the table below to offset derivative assets and liabilities. Certain accounts receivable and accounts payable recognized on the Companies' Consolidated Balance Sheets, as well as letters of credit and other forms of security, all of which are not included in the tables below, are subject to offset under master netting or similar arrangements and would reduce the net exposure.

Dominion Energy

Balance Sheet Presentation

The tables below present Dominion Energy's derivative asset and liability balances by type of financial instrument, before and after the effects of offsetting:

	June 30, 2017			December 31, 2016		
	Gross Gross Amounts of Recognized Assets	Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Gross Amounts of Recognized Assets	Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet
(millions)						
Commodity contracts:						
Over-the-counter	\$200	\$ —	\$ 200	\$211	\$ —	\$ 211
Exchange	50	—	50	44	—	44
Interest rate contracts:						
Over-the-counter	14	—	14	17	—	17
Foreign currency contracts:						
Over-the-counter	15	—	15	—	—	—
Total derivatives, subject to a master netting or similar arrangement	279	—	279	272	—	272
Total derivatives, not subject to a master netting or similar arrangement	2	—	2	7	—	7
Total	\$281	\$ —	\$ 281	\$279	\$ —	\$ 279

	June 30, 2017			December 31, 2016		
	Gross Amounts Not Offset			Gross Amounts Not Offset		
	in the Consolidated			in the Consolidated		
	Balance Sheet			Balance Sheet		
	Net Amounts of Assets			Net Amounts of Assets		
	Presented in the	Cash		Presented in the	Cash	
	Consolidated	Financial	Collateral	Consolidated	Financial	Collateral
	Balance Sheet	Instruments	Received	Balance Sheet	Instruments	Received
		Amounts			Amounts	

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(millions)

Commodity contracts:								
Over-the-counter	\$ 200	\$ 8	\$ —	\$ 192	\$ 211	\$ 14	\$ —	\$ 197
Exchange	50	42	—	8	44	44	—	—
Interest rate contracts:								
Over-the-counter	14	11	—	3	17	9	—	8
Foreign currency contracts:								
Over-the-counter	15	5	—	10	—	—	—	—
Total	\$ 279	\$ 66	\$ —	\$ 213	\$ 272	\$ 67	\$ —	\$ 205

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	June 30, 2017			December 31, 2016		
	Gross	Net Amounts of		Gross	Net Amounts of	
	Amounts	Liabilities		Amounts	Liabilities	
	Offset in the	Presented in the		Offset in the	Presented in the	
	Consolidated	Consolidated		Consolidated	Consolidated	
	Balance Sheet	Balance Sheet		Balance Sheet	Balance Sheet	
(millions)	Liabilities	Liabilities		Liabilities	Liabilities	
Commodity contracts:						
Over-the-counter	\$17	\$ —	\$ 17	\$23	\$ —	\$ 23
Exchange	42	—	42	71	—	71
Interest rate contracts:						
Over-the-counter	84	—	84	53	—	53
Foreign currency contracts:						
Over-the-counter	5	—	5	6	—	6
Total derivatives, subject to a master netting or similar arrangement	148	—	148	153	—	153
Total derivatives, not subject to a master netting or similar arrangement	2	—	2	2	—	2
Total	\$150	\$ —	\$ 150	\$155	\$ —	\$ 155

	June 30, 2017			December 31, 2016		
	Gross	Net Amounts of		Gross	Net Amounts of	
	Amounts	Liabilities		Amounts	Liabilities	
	Offset in the	Presented in the		Offset in the	Presented in the	
	Consolidated	Consolidated		Consolidated	Consolidated	
	Balance Sheet	Balance Sheet		Balance Sheet	Balance Sheet	
(millions)	Liabilities	Liabilities		Liabilities	Liabilities	
	Cash			Cash		
	Collateral	Net		Collateral	Net	
	Financial	Instruments		Financial	Instruments	
	Balance Sheet	Balance Sheet		Balance Sheet	Balance Sheet	
	Amounts	Amounts		Amounts	Amounts	
	Paid	Paid		Paid	Paid	