

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

DOMINION RESOURCES INC /VA/

CIK: **715957** | IRS No.: **541229715** | State of Incorpor.: **VA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-08489** | Film No.: **1697439**
SIC: **4911** Electric services

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

X

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001

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 1-8489
DOMINION RESOURCES, INC.

(Exact name of registrant as specified in its charter)

VIRGINIA

(State or other jurisdiction of incorporation or organization)

54-1229715

(I.R.S. Employer Identification No.)

120 Tredegar Street
RICHMOND, VIRGINIA

23219

(Address of principal executive offices)

(Zip Code)

(804) 819-2000

(Registrant's telephone number)

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

At June 30, 2001, the latest practicable date for determination, 248,063,583 shares of common stock, without par value, of the registrant were outstanding.

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DOMINION RESOURCES, INC.

**PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| Three Months Ended | | Six Months Ended | |
|--------------------|-------------|------------------|-------------|
| June 30, | | June 30, | |
| <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |

(Millions, except per share amounts)

| | | | | |
|--------------------------|---------|---------|---------|---------|
| Operating Revenue | \$2,309 | \$2,051 | \$5,507 | \$4,120 |
|--------------------------|---------|---------|---------|---------|

Operating Expenses

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Electric fuel and energy purchases, net | 339 | 255 | 660 | 504 |
| Purchased electric capacity | 158 | 181 | 346 | 374 |
| Purchased gas, net | 254 | 230 | 1,305 | 487 |
| Liquids, pipeline capacity and other purchases | 46 | 72 | 112 | 144 |
| Restructuring and other acquisition-related costs | -- | 262 | -- | 392 |
| Other operations and maintenance | 583 | 574 | 1,257 | 975 |
| Depreciation, depletion and amortization | 315 | 298 | 596 | 549 |
| Other taxes | <u>96</u> | <u>108</u> | <u>217</u> | <u>206</u> |
| Total operating expenses | <u>1,791</u> | <u>1,980</u> | <u>4,493</u> | <u>3,631</u> |
| Income from operations | 518 | 71 | 1,014 | 489 |
| Other income | 24 | 18 | 40 | 43 |
| Interest and related charges: | | | | |
| Interest expense, net | 231 | 245 | 461 | 446 |
| Subsidiary preferred dividends and distributions of subsidiary trusts | <u>25</u> | <u>17</u> | <u>49</u> | <u>35</u> |
| Total interest and related charges | <u>256</u> | <u>262</u> | <u>510</u> | <u>481</u> |

| | | | | |
|--|---------------|----------------|---------------|--------------|
| Income before income taxes | 286 | (173) | 544 | 51 |
| Income taxes | <u>131</u> | <u>(75)</u> | <u>226</u> | <u>2</u> |
| Income before cumulative effect of a change in accounting principle | 155 | (98) | 318 | 49 |
| Cumulative effect of a change in accounting principle (net of income taxes of \$11) | <u>--</u> | <u>--</u> | <u>--</u> | <u>21</u> |
| Net income (loss) | <u>\$ 155</u> | <u>\$ (98)</u> | <u>\$ 318</u> | <u>\$ 70</u> |

Basic earnings per common share:

| | | | | |
|--|---------------|-----------------|---------------|---------------|
| Income before cumulative effect of a change in accounting principle | \$0.63 | \$(0.41) | \$1.29 | \$0.21 |
| Net income (loss) | <u>\$0.63</u> | <u>\$(0.41)</u> | <u>\$1.29</u> | <u>\$0.30</u> |

Diluted earnings per common share:

| | | | | |
|--|---------------|-----------------|---------------|---------------|
| Income before cumulative effect of a change in accounting principle | \$0.62 | \$(0.41) | \$1.27 | \$0.21 |
| Net income (loss) | <u>\$0.62</u> | <u>\$(0.41)</u> | <u>\$1.27</u> | <u>\$0.30</u> |

| | | | | |
|---------------------------------|---------|---------|--------|--------|
| Dividends paid per common share | \$0.645 | \$0.645 | \$1.29 | \$1.29 |
|---------------------------------|---------|---------|--------|--------|

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

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DOMINION RESOURCES, INC.

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CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | June 30, | December 31, |
|-----------------------------------|-------------|--------------|
| | <u>2001</u> | <u>2000</u> |
| ASSETS | | * |
| | | (Millions) |
| Current Assets | | |
| Cash and cash equivalents | \$ 476 | \$ 360 |
| Customer accounts receivable, net | 1,914 | 1,846 |
| Other accounts receivable | 712 | 507 |
| Receivable from affiliates | 168 | -- |
| Inventories | 437 | 327 |
| Investment securities - trading | 307 | 275 |
| Mortgage loans held for sale | 639 | 104 |
| Commodity contract assets | 1,430 | 1,058 |
| Unrecovered gas costs | 63 | 263 |

| | | |
|--------------------------|--------------|--------------|
| Broker margin deposits | 57 | 287 |
| Prepayments | 216 | 257 |
| Net assets held for sale | 80 | 73 |
| Other | <u>172</u> | <u>443</u> |
| Total current assets | <u>6,671</u> | <u>5,800</u> |

Investments

| | | |
|-------------------------------------|--------------|--------------|
| Loans receivable, net | 189 | 676 |
| Investments in affiliates | 616 | 471 |
| Available for sale securities | 465 | 292 |
| Nuclear decommissioning trust funds | 1,668 | 851 |
| Investments in real estate | 50 | 65 |
| Other | <u>459</u> | <u>443</u> |
| Total investments | <u>3,447</u> | <u>2,798</u> |

Property, Plant and Equipment

| | | |
|---|---------------|---------------|
| Property, plant and equipment | 29,978 | 28,011 |
| Less accumulated depreciation, depletion and amortization | <u>14,211</u> | <u>13,162</u> |
| Total property, plant and equipment, net | <u>15,767</u> | <u>14,849</u> |

Deferred Charges and Other Assets

| | | |
|---|-----------------|-----------------|
| Goodwill, net | 3,663 | 3,502 |
| Regulatory assets, net | 477 | 497 |
| Prepaid pension costs | 1,419 | 1,455 |
| Commodity contract assets | 451 | 79 |
| Other, net | <u>358</u> | <u>317</u> |
| Total deferred charges and other assets | <u>6,368</u> | <u>5,850</u> |
| Total assets | <u>\$32,253</u> | <u>\$29,297</u> |

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

* The Balance Sheet at December 31, 2000 has been derived from the audited Consolidated Financial Statements at that date.

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DOMINION RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | June 30, | December 31, |
|---|-------------|--------------|
| | <u>2001</u> | <u>2000</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | * |
| | | (Millions) |
| Current Liabilities | | |
| Securities due within one year | \$ 975 | \$ 336 |
| Short-term debt | 1,491 | 3,237 |

| | | |
|--------------------------------|--------------|--------------|
| Accounts payable, trade | 2,175 | 1,688 |
| Accrued interest | 230 | 197 |
| Accrued payroll | 138 | 173 |
| Accrued taxes | 177 | 316 |
| Commodity contract liabilities | 1,279 | 1,020 |
| Broker margin liabilities | 151 | -- |
| Other | <u>729</u> | <u>629</u> |
| Total current liabilities | <u>7,345</u> | <u>7,596</u> |

Long-Term Debt

| | | |
|----------------------------|---------------|---------------|
| Long-term debt | 11,487 | 10,101 |
| Notes payable - affiliates | <u>643</u> | <u>--</u> |
| Total long-term debt | <u>12,130</u> | <u>10,101</u> |

Deferred Credits and Other Liabilities

| | | |
|---------------------------------|------------|------------|
| Deferred income taxes | 3,013 | 2,821 |
| Deferred investment tax credits | 138 | 147 |
| Commodity contract liabilities | 351 | 87 |
| Other | <u>642</u> | <u>659</u> |

| | | |
|--|---------------|---------------|
| Total deferred credits and other liabilities | <u>4,144</u> | <u>3,714</u> |
| Total liabilities | <u>23,619</u> | <u>21,411</u> |

Commitments and Contingencies

(see Note 13)

| | | |
|---|------------|------------|
| Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts | <u>935</u> | <u>385</u> |
|---|------------|------------|

**

Preferred Stock

| | | |
|--|------------|------------|
| Subsidiary preferred stock not subject to mandatory redemption | <u>509</u> | <u>509</u> |
|--|------------|------------|

Common Shareholders' Equity

| | | |
|--|--------------|--------------|
| Common stock - no par, 500.0 shares authorized; 248.1 shares outstanding | 6,086 | 5,979 |
| Other paid-in capital | 23 | 16 |
| Accumulated other comprehensive income (loss) | 51 | (31) |
| Retained earnings | <u>1,030</u> | <u>1,028</u> |
| Total common shareholders' equity | <u>7,190</u> | <u>6,992</u> |

| | | |
|--|-----------------|-----------------|
| Total liabilities and shareholders' equity | <u>\$32,253</u> | <u>\$29,297</u> |
|--|-----------------|-----------------|

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

* The Balance Sheet at December 31, 2000 has been derived from the audited Consolidated Financial Statements at that date.

** As described in Note 14 to the Consolidated Financial Statements, debt securities issued by Dominion constitute 100% of the trusts' assets.

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DOMINION RESOURCES, INC.

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**CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)**

| | Six Months Ended | |
|---|------------------|---------------|
| | June 30, | |
| | <u>2001</u> | <u>2000</u> |
| | (Millions) | |
| Net Cash Flows From Operating Activities | <u>\$ 1,019</u> | <u>\$ 718</u> |
| Cash Flows From (Used In) Investing Activities | | |
| Plant construction and other property additions | (559) | (338) |
| Oil and gas properties and equipment | (430) | (391) |
| Loan originations | (336) | (1,309) |

| | | |
|---------------------------------------|----------------|----------------|
| Repayment of loan originations | 811 | 1,330 |
| Acquisition of businesses | (1,313) | (2,755) |
| Purchase of debt securities | (205) | (138) |
| Sale of business | -- | 84 |
| Proceeds from sale of securities | 27 | 139 |
| Other | <u>(112)</u> | <u>(104)</u> |
| Net cash used in investing activities | <u>(2,117)</u> | <u>(3,482)</u> |

Cash Flows From (Used In) Financing Activities

| | | |
|---|--------------|--------------|
| Issuance of common stock | 102 | 90 |
| Issuance of preferred securities of subsidiary trusts | 550 | -- |
| Repurchase of common stock | -- | (1,642) |
| Issuance of long-term debt | 6,134 | 3,122 |
| Repayment of long-term debt | (3,259) | (2,627) |
| Repayment (Issuance) of short-term debt | (1,995) | 4,199 |
| Common dividend payments | (318) | (354) |
| Other | <u>--</u> | <u>2</u> |
| Net cash from financing activities | <u>1,214</u> | <u>2,790</u> |

116 26

Other comprehensive income, net of tax:

| | | | | |
|---|--------------|---------------|--------------|-------------|
| Unrealized holding gains (losses) on investment securities | (13) | 12 | (16) | 7 |
| Foreign currency translation adjustments | 5 | (4) | (1) | (5) |
| Cumulative effect of a change in accounting principle (net of income taxes of \$106) | -- | -- | (183) | -- |
| Unrealized derivative gains - hedging activities | 140 | -- | 184 | -- |
| Reclassification for derivative losses included in net income | 21 | -- | 99 | -- |
| Minimum pension liability adjustment | <u>--</u> | <u>--</u> | <u>(1)</u> | <u>--</u> |
| Other comprehensive income | <u>153</u> | <u>8</u> | <u>82</u> | <u>2</u> |
| Comprehensive income (loss) | <u>\$308</u> | <u>\$(90)</u> | <u>\$400</u> | <u>\$72</u> |

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

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DOMINION RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations

Dominion Resources, Inc. (Dominion) is a holding company headquartered in Richmond, Virginia. Its major subsidiaries are Virginia Electric and Power Company (Virginia Power), Consolidated Natural Gas Company (CNG), and Dominion Energy, Inc. (DEI). Dominion and CNG are subject to the Public Utility Holding Company Act of 1935 (1935 Act).

Virginia Power 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. Virginia Power sells electricity to approximately 2.1 million retail customers (including governmental agencies) and to wholesale customers such as rural electric cooperatives, municipalities, power marketers and other utilities. Virginia Power engages in off-system wholesale purchases and sales of electricity and purchases and sales of natural gas beyond the geographic limits of its retail service territory.

CNG operates in all phases of the natural gas industry, including exploration for and production of oil and natural gas in the United States. Its regulated retail gas distribution subsidiaries serve approximately 1.7 million residential, commercial and industrial gas sales and transportation customers in Ohio, Pennsylvania, and West Virginia. Its interstate gas transmission pipeline system services each of its distribution subsidiaries, non-affiliated utilities and end use customers in the Midwest, the Mid-Atlantic and the Northeast states. CNG's exploration and production operations are conducted in several of the major gas and oil producing basins in the United States, both onshore and offshore. CNG also holds an equity investment in energy activities in Australia that is held for sale. For more information, see Note 5 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

DEI is engaged in independent power production and the acquisition and production of natural gas and oil reserves. In Canada, DEI is engaged in natural gas exploration, production and storage.

With the sale of Saxon Capital, Inc. (Saxon), the holding company for Saxon Mortgage, Inc., in July 2001, Dominion has substantially completed its strategy to exit and windup the core businesses of Dominion Capital, Inc. (DCI), its financial services subsidiary as ordered by the Securities and Exchange Commission (SEC) under the 1935 Act. DCI's primary business was financial services that included loan administration and residential mortgage lending. See Note 10 for additional discussion of the sale of Saxon. See Note 6 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000 for additional discussion of the DCI exit strategy.

In 2000, Dominion created a subsidiary service company under the 1935 Act that provided certain services to Dominion's operating subsidiaries. CNG also had a service company during 2000. Effective January 1, 2001, the two service companies were combined into one service company.

Dominion manages its operations based on the following operating segments: Dominion Energy, Dominion Delivery and Dominion Exploration & Production. In addition, Dominion also reviews the financial services business of DCI and Corporate Operations as segments. While Dominion manages its daily operations as described above, assets remain wholly owned by its legal subsidiaries. See Note 15.

"Dominion" is used throughout this report and, depending on the context of its use, may represent any of the following: the legal entity, Dominion Resources, Inc., one of Dominion Resources, Inc.'s consolidated subsidiaries or the entirety of Dominion Resources, Inc. and its consolidated subsidiaries.

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DOMINION RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Significant Accounting Policies

In the opinion of Dominion's management, the accompanying unaudited Consolidated Financial Statements contain all adjustments, including normal recurring accruals, necessary to present fairly Dominion's financial position as of June 30, 2001, the results of operations and comprehensive income for the three and six months ended June 30, 2001 and 2000, and cash flows for the six months ended June 30, 2001 and 2000.

These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes included in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

The Consolidated Financial Statements include the accounts of Dominion Resources, Inc. and its subsidiaries, with all significant intercompany transactions and accounts eliminated on consolidation.

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

The results of operations for the 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, timing of fuel expense recovery and other factors.

Certain amounts in the 2000 Consolidated Financial Statements have been reclassified to conform to the 2001 presentation.

Note 3. Recently Issued Accounting Standards

Business Combinations and Goodwill

In July 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) Nos. 141, *Business Combinations*, and 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting, thus eliminating the use of the "pooling" method of accounting. Under SFAS No. 142, goodwill is no longer subject to amortization; instead it will be subject to new impairment testing criteria. Other intangible assets will continue to be amortized over their estimated useful lives, although those with indefinite lives are not to be amortized but will be tested at least annually for impairment. These standards also provide new guidance regarding the identification and recognition of intangible assets, other than goodwill, acquired as part of a business combination.

Dominion will adopt SFAS No. 142 January 1, 2002. At June 30, 2001, the Company's balance sheet reflects \$3.7 billion of goodwill, primarily attributable to the acquisition of CNG. For more information, see Note 5 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000. The recognized amount of goodwill may be affected by the final Millstone Nuclear Power Station purchase price allocation. See Note 4. In accordance with SFAS No. 142, Dominion will continue to amortize goodwill through December 31, 2001, ceasing amortization effective January 1, 2002. Otherwise, Dominion has not yet determined the impact that the new standards' provisions may have on its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Asset Retirement Obligations

In July 2001, FASB issued Statement No. 143, *Accounting for Asset Retirement Obligations*, which provides accounting requirements for the recognition and measurement of liabilities for obligations associated with the retirement of tangible long-lived assets. Under the standard, these liabilities will be recognized at fair value as incurred and capitalized as part of the cost of the related tangible long-lived assets. Accretion of the liabilities due to the passage of time will be expensed. Although FASB has not yet published the final standard, Dominion's preliminary conclusions are based on previously issued exposure drafts and subsequent deliberations. Dominion will adopt the standard effective January 1, 2003.

Dominion has identified retirement obligations associated with the decommissioning of its nuclear generation facilities but has not determined the impact of recognition and measurement of such obligations under the new standard. Dominion has not performed a complete assessment of possible retirement obligations associated with other electric and gas utility property and oil and gas exploration and production equipment.

Also, under the new standard, the realized and unrealized earnings of external trusts available for funding decommissioning activities at Dominion's utility nuclear plants will be recorded in other income and other comprehensive income, as appropriate. Currently, Dominion records these trusts' earnings in other income with an offsetting charge to expense, also recorded in other income, associated with the accretion of the decommissioning liability. See Note 14 to Dominion's Annual Report on Form 10-K for the year ended December 31, 2000. Furthermore, upon adoption of the new standard, Dominion will discontinue its practice of accruing, as part of depreciation expense, amounts associated with the future costs of removal for its gas and electric utility and oil and gas exploration and production. However, Dominion may continue its practice of accruing for future costs of removal subject to cost of service utility rate regulation even when an asset removal obligation does not exist but would do so through the recognition of regulatory assets and liabilities, as appropriate.

Note 4. Significant Acquisitions

Millstone Nuclear Power Station

Dominion completed its purchase of Millstone Nuclear Power Station (Millstone), located in Waterford, Connecticut, from subsidiaries of Northeast Utilities and other owners on March 31, 2001. Millstone operations and assets are reported in the Dominion Energy operating segment. The purchase price of \$1.3 billion included \$1.2 billion for plant assets and \$105 million for nuclear fuel. The acquisition includes a 100% ownership interest in Unit 1 and Unit 2 and a 93.47% ownership interest in Unit 3 for a total of 1,954 Mw of generating capacity. Unit 1 is being decommissioned and is no longer in service. Dominion acquired the decommissioning trusts for the three units that were fully funded to the regulatory minimum at closing

The allocation of the purchase price has been assigned to assets acquired and liabilities assumed based on the estimated fair value of those assets and liabilities as of the date of the acquisition. The purchase price is also subject to certain post-closing adjustments. Dominion may make adjustments during 2001 for any post-closing purchase price adjustments and to the allocation of the purchase price for changes in Dominion's preliminary assumptions and analyses based on receipt of additional information, including actuarial valuations of Millstone's pension and other postretirement benefit plan obligations and independent appraisals of facilities and inventories.

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DOMINION RESOURCES, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

The following unaudited pro forma combined results of operations for the six months ended June 30, 2001 and 2000 have been prepared assuming the acquisition of Millstone had occurred at the beginning of each period. The pro forma results are provided for information only. The results are not necessarily indicative of the actual results that would have been realized had the acquisition occurred on the indicated date, nor are they necessarily indicative of future results of operations of the combined businesses.

| | Six Months Ended June 30, | | | |
|--|---------------------------------------|------------------|--------------------|------------------|
| | <u>2001</u> | | <u>2000</u> | |
| <u>Consolidated Results</u> | <u>As Reported</u> | <u>Pro Forma</u> | <u>As Reported</u> | <u>Pro Forma</u> |
| | (Millions, except earnings per share) | | | |
| Revenue | \$5,507 | \$5,592 | \$4,120 | \$4,348 |
| Income before cumulative effect of a change in accounting principle | \$ 318 | \$ 286 | \$ 49 | \$ 48 |
| Net income | \$ 318 | \$ 286 | \$ 70 | \$ 69 |
| Earnings per share - basic: | | | | |
| Income before cumulative effect of a change in accounting principle | \$1.29 | \$1.16 | \$0.21 | \$0.21 |
| Net income | \$1.29 | \$1.16 | \$0.30 | \$0.30 |
| Average shares of common stock | 246.8 | 246.8 | 230.6 | 230.6 |

Earnings per share - diluted:

| | | | | |
|---|--------|--------|--------|--------|
| Income before cumulative effect of a change in accounting principle | \$1.27 | \$1.15 | \$0.21 | \$0.21 |
| Net income | \$1.27 | \$1.15 | \$0.30 | \$0.30 |
| Average shares of common stock | 249.4 | 249.4 | 230.6 | 230.6 |

Consolidated Natural Gas

On January 28, 2000, Dominion acquired CNG's shares of outstanding common stock for \$6.4 billion, consisting of approximately 87 million shares of Dominion common stock valued at \$3.5 billion and approximately \$2.9 billion in cash. For more information, see Note 5 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

Note 5. Dominion Fiber Ventures, LLC

In December 2000, Dominion formed Dominion Fiber Ventures, LLC (DFV). In March 2001, Dominion contributed through DT Services, Inc. (DTSI) all of the outstanding shares of its telecommunications subsidiary, Dominion Telecom, Inc. (DTI), formerly VPS Communications, with an equity value of \$110 million, in exchange for 100% of Class B managing membership interests in DFV. A third-party investor trust (Investor Trust) contributed \$60 million for 100% of the Class A membership interests in DFV. DFV is the sole owner of DTI. DTI will continue to own and operate the existing telecommunications business of Dominion. As a result of the contribution to the joint venture, DTI is no longer consolidated, and Dominion's investment in the joint venture is accounted for using the equity method.

In March 2001, DFV issued \$665 million of 7.05% Senior Secured Notes due March 2005 (DFV Senior Notes). The DFV Senior Notes are redeemable at any time at the option of DFV or upon occurrence of certain events. DFV contributed \$712 million net cash proceeds from the issuance of DFV Senior Notes and the sale of the Class A membership interests to DTI and Monument Overfund Trust (Overfund Trust), approximating \$518 million and \$194 million, respectively. Overfund Trust is owned by DFV. The DFV Senior Notes are secured by the stock of DTI and the Overfund Trust and certain rights of the Share Trust with respect to the Dominion Preferred Stock described below. The proceeds contributed to DTI will be used to facilitate the expansion of DTI's telecommunications businesses. Temporarily, the unused cash has been loaned to Dominion and used by it to repay commercial paper. The amount in Overfund Trust will be invested in Dominion debt securities or other financial investments. The interest and principal payments on such investments are expected to generate amounts sufficient to make interest payments on the DFV Senior Notes through maturity and make return requirements payments on Investor Trust's membership interests in DFV.

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DOMINION RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As a result of the formation of DFV joint venture and the issuance of the DFV Senior Notes, Dominion issued 665,000 shares of its Series A Mandatorily Convertible Preferred Stock, liquidation preference \$1,000 per share, (Preferred Stock) to Piedmont Share Trust (Share Trust) at closing. Dominion is the beneficial owner of the Share Trust that is consolidated in the preparation of the consolidated financial statements of Dominion. Share Trust is established with the intention of allowing for the remarketing of Preferred Stock in an amount sufficient to retire the DFV Senior Notes. The right to cause remarketing of the Preferred Stock is part of the security for the DFV Senior Notes.

Note 6. Derivatives and Hedge Accounting

Adoption of SFAS No. 133

Dominion adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, on January 1, 2001. Dominion recorded an after-tax charge to accumulated other comprehensive income (AOCI) of \$183 million, net of taxes of \$106 million, in the first quarter of 2001 in connection with the initial adoption of SFAS No. 133. Dominion expects to reclassify this entire amount to earnings during the year ending December 31, 2001. The actual amounts that will be reclassified to earnings over the twelve months subsequent to initial adoption will vary from this amount as a result of changes in market conditions. The effect of the amounts being reclassified from AOCI to earnings will generally be offset by the recognition of the hedged transactions (e.g., anticipated sales) in earnings, thereby achieving the realization of prices contemplated by the underlying risk management strategies.

Risk Management Policy

Dominion uses derivatives to manage the commodity and financial market risks of its business operations. Dominion manages the price risk associated with purchases and sales of natural gas and oil by utilizing derivative commodity instruments including futures, forwards, options, swaps and collars. Dominion manages its foreign exchange risk associated anticipated future purchases denominated in foreign currencies by utilizing currency forward contracts. Dominion manages its interest rate risk exposure, in part, by entering into interest rate swap transactions.

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

Dominion designates a substantial portion of derivatives held for purposes other than trading as fair value or cash flow hedges. A significant portion of Dominion's hedge strategies represents cash flow hedges of the variable price risk associated with purchases and sales of natural gas, oil and other commodities, of variability in foreign exchange rates and of variable interest rates on long-term debt using derivative instruments discussed in the preceding paragraphs. However, Dominion also engages in fair value hedges by utilizing natural gas swaps, futures and options to mitigate the fixed price exposure inherent in Dominion's firm commitments and interest rate swaps. Such fair value hedges are used to hedge its exposure to fixed interest rates on certain long-term debt. Certain of Dominion's non-trading derivative instruments, which management believes are economic hedges and mitigate exposure to fluctuations in commodity prices and interest rates, are not designated as hedges for accounting purposes.

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DOMINION RESOURCES, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)**

Accounting Policy

Under SFAS No. 133, derivatives are recognized on the consolidated balance sheets at fair value, unless a scope exception is available under the standard. Commodity contracts representing unrealized gain positions are reported as commodity contract assets; commodity contracts representing unrealized losses are reported as commodity contract liabilities. In addition, purchased options and options sold are reported as commodity contract assets and commodity contract liabilities, respectively, at estimated market value until exercise or expiration. Cash flows from derivative instruments are presented in net cash flow from operating activities.

For all derivatives designated as a hedge, Dominion formally documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for the use of the hedging instrument. Dominion assesses, both at the inception of the hedge and on an ongoing basis, whether the hedge relationship between the derivative and the hedged item is highly effective in offsetting changes in fair value or cash flows. Any change in fair value of the derivative resulting from ineffectiveness, as defined by SFAS No. 133, is recognized currently in earnings. Further, for derivatives that have ceased to be a highly effective hedge, Dominion discontinues hedge accounting prospectively.

For fair value hedge transactions in which Dominion is hedging changes in the fair value of an asset, liability, or firm commitment, changes in the fair value of the derivative will generally be offset in the consolidated statements of income by changes in the hedged item's fair value. For cash flow hedge transactions in which Dominion is hedging the variability of cash flows related to a variable-priced asset, liability, commitment, or forecasted transaction, changes in the fair value of the derivative are reported in AOCI. The gains and losses on the derivatives that are reported in AOCI are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of the change in fair value of derivatives and the change in fair value of derivatives not designated as hedges for accounting purposes are recognized in current-period earnings. For foreign currency forward contracts designated as cash flow hedges, hedge effectiveness is measured based on changes in the fair value of the contract attributable to changes in the forward exchange rate. For options designated either as fair value or cash flow hedges, changes in time value are excluded from the measurement of hedge effectiveness and are, therefore, recorded in earnings.

Gains and losses on derivatives designated as hedges, when recognized, are included in the operating revenue and income, expenses and interest and related charges in the consolidated statements of income. Specific line item classification is determined based on the nature of the risk underlying individual hedge strategies. Net derivative gains and losses associated with Dominion's commodity trading activities are accounted for net of related cost of sales in non-regulated electric sales and non-regulated gas sales. Changes in the fair value of derivatives not designated as hedges and the portion of hedging derivatives excluded from the measurement of effectiveness are included in other operation and maintenance expense in the consolidated statements of income.

Certain commodity contracts held by Dominion for trading purposes are not derivatives as defined by SFAS No. 133, but are reported at fair value in accordance with Emerging Issues Task Force Issue No. 98-10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*, as described above.

Derivatives and Hedge Accounting Results

Dominion recognized a pre-tax increase to earnings of approximately \$1 million for hedge ineffectiveness during the three and six months ended June 30, 2001, respectively. This amount, which relates principally to cash flow hedges, is reported as a reduction to operating expenses in the consolidated statements of income. In addition, Dominion recognized a pre-tax decrease to earnings of approximately \$1 million for the second quarter of 2001 and an increase of \$1 million for the six months ended June 30, 2001. These amounts represent the change in time value of options not used in the assessment of effectiveness for cash flow hedges.

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DOMINION RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Approximately \$63 million of net gains in AOCI at June 30, 2001 are expected to be reclassified to earnings within the next twelve-month period. The actual amounts that will be reclassified to earnings over the next twelve months will vary from this amount as a result of changes in market conditions. The effect of the charges being reclassified from AOCI to earnings will generally be offset by the recognition of the hedged transactions (e.g., anticipated sales) in earnings, thereby achieving the realization of prices contemplated by the underlying risk management strategies. As of June 30, 2001, Dominion is hedging its exposure to the variability in future cash flows for forecasted transactions over periods of one to five years.

The Financial Accounting Standards Board (FASB) recently cleared guidance that certain option-type contracts for the purchase or sale of electricity, if determined to be derivatives, are eligible for the normal purchases and sales exception available under SFAS No. 133. As a result of this and other guidance issued during the second quarter, Dominion reviewed certain contracts that were determined not to be subject to fair value accounting upon implementation of SFAS No. 133. Based on this review and the new guidance, Dominion has determined that certain of its long-term power purchase contracts are subject to the provisions of SFAS No. 133, but such contracts qualify for the normal purchases and sales exception. Under this exception, such contracts are not subject to fair value accounting required by SFAS No. 133. In addition, a small number of certain other contracts were determined to be subject to fair value accounting under the new guidance. Effective July 1, 2001, these contracts were incorporated as hedging instruments in appropriate cash flow hedging strategies. The effect of implementing these changes will not have a material impact on Dominion's financial position, results of operations or cash flows.

Future interpretations of SFAS No. 133 by the FASB or other standard-setting bodies could result in fair value accounting being required for certain contracts that are not currently being subjected to such requirements. Accordingly, such future interpretations may impact Dominion's ultimate application of the standard. However, if future changes in the application of SFAS No. 133 should result in additional contracts becoming subject to fair value accounting under SFAS No. 133, Dominion would pursue hedging strategies to mitigate any potential future volatility in reported earnings.

Note 7. Accounting Changes

Accounting for Pension Costs

The consolidated financial statements for the three months and six months ended June 30, 2000 have been restated to reflect a change in the method of calculating the market related value of pension plan assets used to determine the expected return on pension plan assets, a component of net periodic pension cost. Under the new method, which was adopted in the third quarter of 2000 and effective January 1, 2000, the market related value of pension plan assets reflects the difference between actual investment returns and expected investment returns evenly over a four-year period.

A cumulative effect of a change in accounting principle of \$21 million (net of income taxes of \$11 million) was included in income for the six months ended June 30, 2000. The overall effect of the change was to increase income before cumulative effect of a change in accounting principle by \$8 million and \$14 million, and net income by \$8 million and \$35 million, for the three and six months ended June 30, 2000, respectively.

For additional information on the cumulative effect of a change in accounting principle concerning accounting for net periodic pension costs, see Note 3 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

Accounting for Oil and Gas Activities

Effective upon the acquisition of CNG on January 28, 2000, Dominion changed its method of accounting for oil and gas exploration and production activities to the full cost method. Previously, Dominion accounted for these activities, which were primarily directed toward development and extraction rather than exploration, using the successful efforts method of accounting.

Prior year financial statements have been restated to reflect this change on a retroactive basis. The effect of the accounting change on income for the three and six months ended June 30, 2000 was not significant

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DOMINION RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For more information on the change in method of accounting for oil and gas exploration and production activities to the full cost method, see Note 3 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

Note 8. Earnings Per Share

The following table presents Dominion's basic and diluted earnings per share (EPS) calculation:

| Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|-------------|---------------------------|-------------|
| <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |

(Millions, other than per share amounts)

Basic:

| | | | | |
|--|------------|-----------|------------|-----------|
| Income (loss) before cumulative effect of a change in accounting principle | \$155 | \$(98) | \$318 | \$49 |
| Average shares of common stock outstanding | 247.4 | 237.8 | 246.8 | 230.6 |
| Basic EPS | \$0.63 | \$(0.41) | \$1.29 | \$0.21 |
| Diluted: | | | | |
| Income (loss) before cumulative effect of a change in accounting principle | \$155 | \$(98) | \$318 | \$49 |
| Average shares of common stock outstanding | 247.4 | 237.8 | 246.8 | 230.6 |
| Net effect of dilutive stock options | <u>2.6</u> | <u>--</u> | <u>2.6</u> | <u>--</u> |
| Average shares of common stock outstanding - diluted | 250.0 | 237.8 | 249.4 | 230.6 |
| Diluted EPS | \$0.62 | \$(0.41) | \$1.27 | \$0.21 |
| Diluted EPS Antidilutive shares excluded from the EPS calculation | 0.9 | 8.6 | 0.5 | 8.5 |

Note 9. Restructuring and Acquisition-Related Activities

On January 28, 2000, as a result of the acquisition of CNG, Dominion implemented a plan to restructure the operations of the combined companies. During the three and six months ended June 30, 2000, Dominion recorded \$262 million and \$392 million, respectively, for charges in connection with restructuring and acquisition-related activities to consolidate business operations and integrate administrative functions, and to exit certain businesses of DCI. A summary of these costs follows:

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

June 30, 2000

(Millions)

| | | |
|--------------------------------------|--------------|--------------|
| Severance and related costs | \$ (15) | \$ 53 |
| Commodity contract losses | | 55 |
| Information technology related costs | 9 | 14 |
| Early retirement program | 88 | 88 |
| DCI restructuring | 172 | 172 |
| Other | <u>8</u> | <u>10</u> |
| Total | <u>\$262</u> | <u>\$392</u> |

At December 31, 2000, Dominion's restructuring plan was substantially complete. At June 30, 2001, the remaining severance liability of \$16 million represents remaining amounts payable to employees already terminated and accrual for estimated payments related to 18 positions not yet eliminated.

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DOMINION RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The change in the liability for severance and related benefit costs is presented below:

(Millions)

| | |
|------------------------------|-------------|
| Balance at December 31, 2000 | \$29 |
| Amounts paid | <u>(13)</u> |
| Balance at June 30, 2001 | <u>\$16</u> |

For more information, see Note 6 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

Note 10. Divestitures by Dominion Capital

In March 2001, DCI securitized \$423 million of commercial loan commitments held by First Source Financial, LLP and First Dominion Capital LLC in a collateralized loan obligation (CLO) transaction. In the securitization, the loans were sold to an unconsolidated special purpose loan securitization trust, First Source Loan Obligations Insured Trust, in exchange for cash proceeds of \$381 million. In addition, DCI holds a \$196 million investment in the subordinated debt of the CLO. First Source will manage the financial assets of the CLO. Under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a Replacement of FASB Statement No. 125*, the transfer is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in the exchange. No gain or loss was recorded as a result of the transaction.

In July 2001, DCI sold Saxon Capital, Inc. (Saxon) the holding company for Saxon Mortgage, Inc., its residential mortgage subsidiary. DCI received approximately \$109 million in cash, a \$25 million note and an approximate 9% equity interest in the purchaser. As a result of the sale, Dominion recognized an after-tax loss in June 2001 of \$24.5 million. Immediately prior to the sale, Saxon transferred to DCI approximately \$300 million in residual assets related to prior mortgage loan securitizations in exchange for repayment of all intercompany debt and additional equity.

Note 11. Long-Term Debt

During the six months ended June 30, 2001, Dominion issued the following long-term debt securities, excluding debt associated with financial services operations:

- \$1 billion of 2-year fixed rate 6% notes;
- \$600 million of 5.75% senior notes due 2006;
- \$500 million of 6.85% senior notes due 2011;
- \$50 million of variable rate tax-exempt pollution control revenue bonds due 2031;
- \$194 million 6% note to an affiliated telecommunications entity that amortizes through 2005 and a \$518 million variable rate demand note due by 2006 to another affiliated telecommunications entity. The proceeds were used primarily to repay commercial paper. See Note 5 for further discussion of Dominion's affiliation with the telecommunications entities.

During the first six months of 2001, Dominion repaid approximately \$322 million of long-term debt securities, excluding debt repayments associated with financial services operations.

In connection with purchases and originations of loans and sales and collections of loans during the first six months of 2001, Dominion issued \$3.3 billion and repaid \$2.9 billion of long-term debt.

In July 2001, Dominion issued \$100 million of variable rate medium-term notes due July 2, 2003.

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DOMINION RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12. Dividend Restrictions

CNG has indentures related to its long-term debt, one of which contained restrictions on dividend payments at December 31, 2000. As of that date, \$19 million of CNG's consolidated retained earnings were free from such restriction. In March 2001, CNG requested and obtained the consent of debt holders to amend the indenture to eliminate certain provisions of the indenture, including the restriction on dividend payments. Also in March 2001, CNG received an order from the SEC under the 1935 Act approving the amendment of the indenture.

Note 13. Commitments and Contingencies

Restructuring of Long-Term Contracts with Non-Utility Generating Facilities (NUGs)

In the first quarter of 2001, Dominion completed the purchase of three generating facilities and terminated seven contracts that provided electricity to Dominion under long-term purchase agreements with non-utility generators. Dominion recorded a charge of \$136 million after tax in connection with the purchase and termination of the long-term power purchase agreements. Cash payments related to the purchase of the three generating facilities totaled \$207 million. The allocation of the purchase price was assigned to the assets and liabilities acquired based upon estimated fair values and future cash flows as of the date of acquisition. Substantially all of the value was attributed to the power purchase contracts that were terminated and resulted in a charge to operation and maintenance expense.

Commitments and Guarantees

Dominion has issued guarantees to various third party creditors in relation to the payment obligations by certain of its subsidiaries and officers. At June 30, 2001, Dominion had issued \$2.6 billion of guarantees, and the subsidiaries' debt subject to such guarantees totaled \$1.1 billion.

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

As of June 30, 2001, DCI had commitments to fund loans of approximately \$65 million of which \$54 million related to loans made by Saxon which was subsequently sold in July 2001. All intercompany debt between DCI and Saxon was extinguished prior to the sale of Saxon through the transfer of residual mortgage securitization certificates from Saxon to DCI.

Environmental Matters and Other Contingencies

There have been no significant developments with regard to environmental matters disclosed in Note 22 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

For additional information regarding contingencies, see Note 22 included in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Note 14. Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts

During 1995 through 2001, Dominion established four capital trusts. In each of the four individual transactions, the capital trusts sold trust preferred securities that represented preferred beneficial interests and 97% beneficial ownership in the assets held by the capital trusts. In exchange for the funds realized from the sale of the trust preferred securities and common securities that represent the remaining 3% beneficial ownership interest in the assets held by the capital trust, Dominion issued various junior subordinated debt instruments. The junior subordinated debt instruments constitute 100% of each capital trust's assets. The following table provides summary information about the capital trusts and junior subordinated debt instruments:

| Date | <u>Capital Trusts</u> | Trust Preferred Securities (Millions) | Common Securities (Millions) | Junior Subordinated Notes/Debentures |
|-----------------|--------------------------------------|--|---------------------------------|---|
| September, 1995 | Virginia Power Capital Trust I | \$135 | \$4 | \$139 million - 8.05% Series A Notes due 9/30/2025* |
| December, 1997 | Dominion Resources Capital Trust I | 250 | \$8 | \$258 million - 7.83% Debentures due 12/1/2027 |
| January, 2001 | Dominion Resources Capital Trust II | 300 | \$9 | \$309 million - 8.4% Debentures due 1/30/2041 |
| January, 2001 | Dominion Resources Capital Trust III | <u>250</u> | \$8 | \$258 million - 8.4% Debentures due 1/15/2031 |
| | | <u>\$935</u> | | |

* The maturity date, subject to certain conditions, may be extended for up to an additional 10 years from date of original maturity.

Note 15. Operating Segments

Dominion manages its operations along three primary business lines:

- *Dominion Energy*
manages Dominion's generation portfolio, consisting of generating units and power purchase agreements. It also manages Dominion's generation growth strategy; energy trading, marketing, hedging and arbitrage activities; and gas pipeline and certain gas production and storage operations.
- *Dominion Delivery*
manages Dominion's electric and gas distribution systems, as well as customer service and electric transmission.

- *Dominion Exploration & Production* manages Dominion's onshore and offshore oil and gas exploration, development and production operations. Operations are located on the outer continental shelf and deep water areas of the Gulf of Mexico and in selected regions in the lower 48 states and Canada.

In addition, Dominion also reviews the financial services businesses of DCI and Dominion's corporate and other operations as operating segments. Amounts included in the *Corporate and Other* category include:

- corporate expenses of the Dominion and CNG holding companies (including interest not allocated to other segments);
- Corby Power (UK) operations, prior to its sale on September 29, 2000;
- intercompany eliminations;
- restructuring and acquisition-related costs (see Note 9);
- cumulative effect of a change in accounting principles (see Note 7);
- costs associated with restructuring long-term NUG contracts (see Note 13); and
- impairment and re-valuation of DCI's assets (see Note 10 in this Form 10-Q and Note 6 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000).

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DOMINION RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

While Dominion manages its daily operations as described above, assets remain wholly owned by its legal subsidiaries. Operating segment financial information follows for the three and six months ended June 30, 2001 and 2000:

| (Millions) | <u>Dominion Energy</u> | <u>Dominion Delivery</u> | <u>Dominion Exploration & Production</u> | DCI | <u>Corporate, Other, and Eliminations</u> | <u>Consolidated Total</u> |
|--------------------------------|----------------------------|------------------------------|--|------|---|-------------------------------|
| <u>Three Months Ended June</u> | | | | | | |
| <u>30,</u> | | | | | | |
| <u>2001</u> | | | | | | |
| Revenue - external customers | \$1,401 | \$538 | \$318 | \$50 | \$2 | \$2,309 |
| Intersegment revenue | 22 | 4 | 22 | | (48) | |

| | | | | | | |
|-------------------|-----|----|----|------|-------|-----|
| Net income (loss) | 148 | 47 | 84 | (11) | (113) | 155 |
|-------------------|-----|----|----|------|-------|-----|

2000

| | | | | | | |
|------------------------------|---------|--------|-------|-------|------|---------|
| Revenue - external customers | \$1,106 | \$ 518 | \$309 | \$106 | \$12 | \$2,051 |
|------------------------------|---------|--------|-------|-------|------|---------|

| | | | | | | |
|----------------------|----|---|----|----|------|----|
| Intersegment revenue | 29 | 8 | 18 | -- | (55) | -- |
|----------------------|----|---|----|----|------|----|

| | | | | | | |
|-------------------|----|----|----|---|-------|------|
| Net income (loss) | 97 | 55 | 62 | 6 | (318) | (98) |
|-------------------|----|----|----|---|-------|------|

Six Months Ended June 30,

2001

| | | | | | | |
|------------------------------|---------|---------|-------|-------|-----|---------|
| Revenue - external customers | \$2,938 | \$1,780 | \$663 | \$120 | \$6 | \$5,507 |
|------------------------------|---------|---------|-------|-------|-----|---------|

| | | | | | | |
|----------------------|----|---|----|--|-------|--|
| Intersegment revenue | 85 | 6 | 49 | | (140) | |
|----------------------|----|---|----|--|-------|--|

| | | | | | | |
|-------------------|-----|-----|-----|-----|-------|-----|
| Net income (loss) | 308 | 205 | 155 | (9) | (341) | 318 |
|-------------------|-----|-----|-----|-----|-------|-----|

2000

| | | | | | | |
|------------------------------|---------|---------|-------|-------|-----|---------|
| Revenue - external customers | \$2,143 | \$1,219 | \$534 | \$216 | \$8 | \$4,120 |
|------------------------------|---------|---------|-------|-------|-----|---------|

| | | | | | | |
|----------------------|----|----|----|--|-------|--|
| Intersegment revenue | 60 | 14 | 26 | | (100) | |
|----------------------|----|----|----|--|-------|--|

| | | | | | | |
|-------------------|-----|-----|-----|---|-------|----|
| Net income (loss) | 213 | 171 | 108 | 9 | (431) | 70 |
|-------------------|-----|-----|-----|---|-------|----|

For more information, see Note 27 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

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DOMINION RESOURCES, INC.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Cautionary Statements Regarding Forward-Looking Information

From time to time Dominion makes statements concerning its expectations, plans, objectives, future financial performance and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases the reader can identify these forward-looking statements by words such as "anticipate", "estimate", "expect", "believe", "could", "plan", "may" or other similar words.

Forward-looking statements are issued by the Company with full knowledge that risks and uncertainties exist that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ are often presented with forward-looking statements. In addition, other factors could cause actual results to differ materially from those indicated in any forward-looking statement. These include:

- Factors affecting operations, such as:
 1. unusual weather conditions;
 2. catastrophic weather-related damage;
 3. unscheduled generation outages;
 4. unusual maintenance or repairs;
 5. unanticipated changes in fossil fuel costs, gas supply costs or availability constraints;
 6. environmental incidents; and
 7. electric transmission or gas pipeline system costs or availability constraints.
- State and federal legislative and regulatory developments, including deregulation and restructuring of the natural gas and electric utility industry and changes in environmental and other laws and regulations to which Dominion is subject.
- The timing and implementation of Dominion's business separation plan currently under consideration with the Virginia State Corporation Commission (Virginia Commission

).

- The effects of competition, including the extent and timing of the entry of additional competitors in Dominion's electric or gas markets.
- Dominion's pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities.
- Regulatory factors such as changes in the policies or procedures that set rates, changes in Dominion's ability to recover investments made under traditional regulation through rates, and changes to the frequency and timing of rate increases.
- Financial or regulatory accounting principles or policies imposed by governing bodies.
- Political and economic conditions and developments in the U.S. and the foreign countries in which Dominion has a presence. This would include inflation rates and monetary fluctuations.
- Changing market conditions and other factors related to physical and financial energy trading activities, including price, basis, credit, liquidity, volatility, capacity, transmission, currency exchange rates, interest rates and warranty risks.
- Financial market conditions, including availability and cost of capital, and Dominion's ability to obtain financing on favorable terms.
- The performance of Dominion's projects and the success of efforts to invest in and develop new opportunities.
- The ultimate success and financial viability of Dominion Fiber Ventures, LLC.
- Employee workforce factors, including collective bargaining agreements with union employees.

Dominion has based its forward-looking statements on management's beliefs and assumptions using information available at the time the statements were made. Dominion cautions the reader not to place undue reliance on its forward-looking statements because the assumptions, beliefs, expectations and projections about future events may and often do materially differ from actual results. Dominion undertakes no obligation to update any forward-looking statements to reflect developments occurring after the statement is made.

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DOMINION RESOURCES, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) explain the general financial condition

and the results of operations for Dominion and should be read in conjunction with the Consolidated Financial Statements. "Dominion" is used throughout MD&A and, depending on the context of its use, may represent any of the following: the legal entity, Dominion Resources, Inc., one of Dominion Resources Inc.'s consolidated subsidiaries, or the entirety of Dominion Resources, Inc. and its consolidated subsidiaries.

Operating Segments

In general, management's discussion of Dominion's results of operations focuses on the contributions of its business segments. However, the discussion of Dominion's financial condition under Liquidity and Capital Resources is not based on segments. Dominion generally manages these matters by legal entity.

Dominion operates under three principal operating units:

- *Dominion Energy*
manages Dominion's generation portfolio, consisting of generating units and power purchase agreements. It also manages Dominion's generation growth strategy; energy trading, marketing, hedging and arbitrage activities; and gas pipeline and certain gas production and storage operations.
- *Dominion Delivery*
manages Dominion's electric and gas distribution systems, as well as customer service and electric transmission.
- *Dominion Exploration & Production*
manages Dominion's onshore and offshore oil and gas exploration, development and production operations. Operations are located on the outer continental shelf and deep water areas of the Gulf of Mexico and in selected regions in the lower 48 states and Canada.

In addition, Dominion also reviews the financial services businesses of Dominion Capital, Inc. (DCI) and Dominion's corporate operations as operating segments.

For more information on Dominion's business segments, see Note 15 to the Consolidated Financial Statements.

Results Of Operations

The tables below present Dominion's net income and diluted earning per share for the three and six month periods ended June 30, 2001, as well as the relative contributions to these results by its operating segments.

| (Millions, except per share amounts) | <u>Net Income</u> | | <u>Earnings Per Share (Diluted)</u> | |
|--------------------------------------|-------------------|-------------|-------------------------------------|-------------|
| Three Months Ended June 30, | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
| Dominion Energy | \$148 | \$ 97 | \$0.59 | \$ 0.41 |
| Dominion Delivery | 47 | 55 | 0.19 | 0.23 |
| Dominion Exploration & Production | 84 | 62 | 0.34 | 0.26 |
| DCI | (11) | 6 | (0.05) | 0.03 |

| | | | | |
|--|--------------|---------------|---------------|-----------------|
| Corporate, Other and Eliminations | <u>(113)</u> | <u>(318)</u> | <u>(0.45)</u> | <u>(1.34)</u> |
| Consolidated | <u>\$155</u> | <u>\$(98)</u> | <u>\$0.62</u> | <u>\$(0.41)</u> |
| Average shares of common stock - diluted | | | 250.0 | 237.8 |

| Six Months Ended June 30, | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
|--|--------------|--------------|---------------|---------------|
| Dominion Energy | \$308 | \$213 | \$1.23 | \$0.92 |
| Dominion Delivery | 205 | 171 | 0.82 | 0.74 |
| Dominion Exploration & Production | 155 | 108 | 0.62 | 0.47 |
| DCI | (9) | 9 | (0.04) | 0.04 |
| Corporate, Other and Eliminations | <u>(341)</u> | <u>(431)</u> | <u>(1.36)</u> | <u>(1.87)</u> |
| Consolidated | <u>\$318</u> | <u>\$ 70</u> | <u>\$1.27</u> | <u>\$0.30</u> |
| Average shares of common stock - diluted | | | 249.4 | 230.6 |

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DOMINION RESOURCES, INC.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)**

Dominion Energy

Second Quarter and Six Months Results - 2001 compared to 2000

Dominion Energy's contribution to net income increased by \$51 million and \$95 million for the three and six months ended June 30, 2001, respectively. The acquisition of Millstone Nuclear Power Station (Millstone) on March 31, 2001, resulted in increases in non-regulated electric sales, operations and maintenance expense and depreciation for the three and six months ended June 30, 2001. The inclusion of CNG operations for the entire six months ended June 30, 2001 resulted in increased non-regulated gas sales, gas transportation and storage revenue, and operating expenses for the six months ended June 30, 2001. Regulated electric sales revenue for the second quarter and six months increased as a result of higher fuel rates and customer growth. Comparatively milder weather adversely affected second quarter regulated electric sales revenue and comparatively colder weather increased regulated electric sales revenue for the six months. Gas transportation and storage revenue for the second quarter and six months increased reflecting reserves recorded for rate contingencies during 2000. An increase in electric fuel and energy purchases reflected higher levels of recovery of previously deferred fuel cost and increased costs associated with fossil fuels. Purchased electric capacity expenses decreased in connection with the restructuring of long-term contracts in the first quarter of 2001. Reductions in

depreciation associated with anticipated re-licensing of certain nuclear plants partially offset the increase associated with Millstone. Dominion Energy's effective income tax rate increased for the quarter and six months reflecting primarily an increased provision for state taxes.

Dominion Delivery

The operating results for the quarterly and year-to-date periods reflect the seasonal nature of space heating and its impact on Dominion Delivery's results. To the extent regulated gas sales revenue represents the sale of natural gas rather than transportation of the commodity, such amounts are generally offset by purchased gas expenses. In addition, to the extent customers switch to an alternate supplier for gas purchases, Dominion still provides transportation services in its service territories.

Second Quarter and Six Months Results - 2001 compared to 2000

Dominion Delivery's contribution to net income decreased by \$8 million and increased by \$34 million for the three and six months ended June 30, 2001, respectively. The six-month results from the segment's regulated gas delivery operations reflect primarily the inclusion of CNG for the entire first quarter of 2001. Second quarter results reflect a moderately lower contribution by the segment's regulated gas sales operations reflecting comparatively milder weather offset somewhat by customer growth. The contribution from regulated electric sales operations for both the three and six month periods was relatively unchanged as increased sales resulting from customer growth was generally offset by comparatively milder weather. Other operating expenses increased slightly reflecting additional provisions for bad debts, higher depreciation costs, offset partially by comparatively lower electric service restoration costs.

Dominion Exploration & Production

Second Quarter and Six Months Results - 2001 compared to 2000

Dominion Exploration & Production's contribution to net income increased by \$22 million and \$47 million for the three and six months ended June 30, 2001. Oil and gas production revenues for both the three and six month periods increased due to higher oil and gas prices. Average prices increased 13% to \$3.51/Mcfe and 11% to \$3.65/Mcfe during the three and six months ended June 30, 2001, respectively. Overall gas production increased 3% to 69 Bcf and 11% to 135 Bcf for the three and six months ended June 30, 2001, respectively. Oil production for the three and six months ended June 30, 2001 decreased 22% to 1.7 million barrels and 10% to 3.3 million barrels, respectively. These decreases reflect natural production declines at certain of Dominion's older properties. In addition, brokered oil sales decreased for the second quarter of 2001, resulting in lower revenue and purchased liquids expense. The overall increase in revenue was also partially offset by increased operating expenses reflecting higher service industry and contractor costs.

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DOMINION RESOURCES, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

DCI

Second Quarter and Six Months Results - 2001 as compared to 2000

DCI's contribution to net income decreased by \$17 million and \$18 million for the three and six months ended June 30, 2001, respectively. These results reflect lower interest income as a substantial portion of the commercial loan portfolio was sold in the fourth quarter of 2000. In addition, mortgage loans originated in the second quarter of 2001 were not securitized but rather were sold as part of the Saxon Capital, Inc. (Saxon) sale. Expenses were also comparatively lower, reflecting reduced interest expense and lower general and administrative expenses resulting from reduced operations. See discussion of Corporate and Other for further discussion of the sale of Saxon.

Corporate and Other

Second Quarter Results - 2001 compared to 2000

Net expenses reported by Corporate and Other operations decreased by \$205 million for the second quarter of 2001. Second quarter results for 2000 include after-tax charges of \$237 million for restructuring and other acquisition related costs and charges associated with the impairment and revaluation of DCI's assets. Second quarter results for 2001 include an after-tax loss of \$24 million on DCI's sale of Saxon. See Note 10 to the Consolidated Financial Statements. Fixed charges increased during the second quarter of 2001, primarily due to interest on the debt incurred to finance the acquisitions of CNG and Millstone.

Six Months Results - 2001 compared to 2000

Net expenses reported by Corporate and Other operations decreased by \$90 million for the six months ended June 30, 2001, respectively. Six months results for 2000 include after-tax charges of \$323 million for restructuring and other acquisition related costs and charges associated with the impairment and revaluation of DCI's assets, offset by a \$21 million increase associated with a change in accounting principle associated with pensions. Six months results for 2001 include an after-tax charge of \$136 million related to the purchase of three non-utility generating plants previously serving Dominion under long-term contracts and an after-tax loss of \$24 million on the sale of Saxon. See Notes 10 and 13 to the Consolidated Financial Statements. Corporate expenses increased due to the inclusion of CNG operations for the entire first quarter in 2001. Fixed charges increased during the six months ended June 30, 2001, primarily due to interest on the debt incurred to finance the acquisitions of CNG and Millstone.

Liquidity And Capital Resources

Internal Sources of Liquidity

Cash flow from operating activities provided \$1.0 billion during the six months ended June 30, 2001 and \$718 million in the same period of 2000. Short-term cash requirements not met by the timing or amount of cash flow from operations are generally satisfied with proceeds from short-term borrowings. Long-term cash needs are met through sales of securities and additional long-term debt financings.

External Sources of Liquidity

During the first six months of 2001, Dominion issued long-term debt, preferred securities of subsidiary trusts, and common stock totaling \$6.8 billion. As discussed below, proceeds were used primarily to repay short-term debt, finance the acquisition of Millstone and support financial services operations.

CNG Acquisition and Related Financing

Dominion originally financed the CNG acquisition with bridge financing consisting of a \$3.5 billion commercial paper program and \$1 billion of short-term, privately placed notes. Dominion refinanced a significant portion of the bridge financing in 2000. In January 2001, Dominion issued \$300 million of 8.4% Capital Securities due in January 2041 and \$1 billion of 2-year fixed rate 6% notes to refinance the remaining bridge financing.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)**

Millstone Acquisition and Related Financing

Dominion funded part of the \$1.3 billion acquisition of Millstone by issuing 6 million shares of common stock, generating proceeds of \$354 million in 2000 and issuing \$250 million of 8.4% Trust Preferred Securities due in January 2031 in January 2001. The balance of the acquisition was initially funded with cash available from other internal sources and will ultimately be funded by future long-term debt issuances.

Short-Term Borrowings

At June 30, 2001, in addition to the bridge financing discussed above, Dominion had commercial paper programs with an aggregate limit of \$2.05 billion supported by a \$1.75 billion 364-day revolving credit facility and a \$300 million multi-year facility. These credit facilities mature in the second quarter of 2002 and are expected to be renewed.

During the six months ended June 30, 2001, credit facilities totaling \$550 million matured and were not renewed.

Net borrowings under the commercial paper program were \$1.5 billion at June 30, 2001, a decrease of \$1.7 billion from amounts outstanding at December 31, 2000. Commercial paper borrowings are used primarily to fund working capital requirements and bridge financing of acquisitions, and therefore may vary significantly during the course of the year, depending upon the timing and amount of cash requirements not satisfied by cash provided by operations.

In addition to commercial paper, Dominion may also issue up to \$200 million aggregate outstanding principal of extendible commercial notes (ECNs) to meet working capital requirements. ECNs are unsecured notes expected to be sold in private placements. Any ECNs issued by Dominion would have a stated maturity of 390 days from issuance and may be redeemed, at Dominion's option, within 90 days or less from issuance. There were no ECNs outstanding at June 30, 2001.

Issuance of Common Stock

In the first six months of 2001, Dominion raised \$102 million from the issuance of common stock through Dominion Direct (a dividend reinvestment open enrollment direct stock purchase plan), employee savings plans and the exercise of employee stock options.

Other Securities Issuances and Repayments

During the first six months of 2001, Dominion issued the following other securities:

- a \$194 million 6% note to an affiliated telecommunications entity due 2005 and a \$518 million variable rate demand note due by 2006 to another affiliated telecommunications entity. The proceeds were used primarily to repay commercial paper. See Note 5 to the Consolidated Financial Statements for further discussion of Dominion's affiliation with the telecommunications entities;
- \$600 million of 5.75% senior notes due 2006. The net proceeds were used for general corporate purposes including repayment of commercial paper and payments associated with the purchase of three generation facilities. See Note 13 to Consolidated Financial Statements for further discussion;
- \$500 million of 6.85% Senior Notes due 2011. The net proceeds were used for general corporate purposes, including the repayment of debt; and
- \$50 million in aggregate principal amount of tax-exempt pollution control revenue bonds due 2031 bearing interest at a variable rate. The net proceeds were used to finance qualifying expenditures made during the construction of facilities at the North Anna Power Station.

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DOMINION RESOURCES, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

During the first six months ended June 30, 2001, Dominion repaid approximately \$322 million of long-term debt securities, excluding debt repayments associated with financial services operations.

In July 2001, Dominion issued \$100 million of variable rate medium-term notes due July 2, 2003. The net proceeds from the sale are being used for general corporate purposes, including the repayment of debt.

DCI Financing Activities

In connection with purchases and originations of loans and sales and collections of loans during the first six months of 2001, Dominion issued \$3.3 billion and repaid \$2.9 billion of long-term debt.

Amounts Available under Shelf Registrations

As of June 30, 2001, Dominion and its subsidiaries had available \$4.6 billion of remaining principal amount under currently effective shelf registrations with the SEC to meet capital requirements.

Investing Activities

In the first six months of 2001, investing activities resulted in a net cash outflow of \$2.1 billion reflecting the following primary investing activities:

plant and nuclear fuel expenditures of \$559 million that included construction and expansion of generation facilities, environmental upgrades, purchase of nuclear fuel, and construction and improvements of gas and electric transmission and distribution assets;

- exploration and production expenditures of \$430 million that included the purchase of gas and oil producing properties, drilling and equipment costs and undeveloped lease acquisitions;
- repayment of loans (net of new loan originations) associated with DCI of \$475 million, and
- acquisition of Millstone for approximately \$1.3 billion.

Capital Requirements

There have been no significant changes in the planned levels of spending for capacity and other capital projects and maturities of securities as disclosed in MD&A included in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000. Dominion expects to fund its capital requirements and maturities with cash flow from operations and a combination of sales of securities and short-term borrowings.

Future Issues

The following discussion of future issues and other information includes current developments of previously disclosed matters and new issues arising during the period covered by and subsequent to these financial statements. We recommend that this section be read in connection with *Future Issues* in MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2000.

Derivatives and Hedge Accounting

Future interpretations of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS No. 133) by the Financial Accounting Standards Board or other standard-setting bodies could result in fair value accounting being required for certain contracts that are not currently subject to such requirements. If Dominion's conclusions concerning the applicability of SFAS No. 133 to its existing contracts are adversely affected by any future interpretations of the standard, certain existing contracts may become subject to fair value accounting. In that event, if Dominion cannot document cash flow or fair value hedging strategies which would utilize such contracts as hedging instruments, the application of fair value accounting to any contract could result in volatility in reported earnings.

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DOMINION RESOURCES, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Such volatility would result from unrealized gains or losses attributable to changes in the contracts' fair value during a particular reporting period. These unrealized gains and losses may not be indicative of actual cash transactions

or profitability that would ultimately be realized over the life of a contract. Thus, Dominion believes any increased volatility in earnings attributable to fair value accounting in these circumstances would be of a non-cash nature and would not be accompanied by corresponding volatility in cash flows or a change in liquidity.

Transition to Competitive Retail Electric Industry in Virginia

During 1998 and 1999, legislation was enacted in Virginia that established a plan to restructure Virginia's electric utility industry and provided for a phased-in transition to a fully competitive retail electric market during the period January 1, 2002 through January 1, 2004. However, in April 2001, the Virginia State Corporation Commission (Virginia Commission) announced a shorter phase-in schedule which would require Dominion to offer choice to all customers by January 1, 2003.

Rules applicable to full retail competition have been approved by the Virginia Commission and are effective August 1, 2001 for application on and after January 1, 2002. The rules govern code of conduct, affiliate transactions, and business practices and responsibilities of utilities in the competitive marketplace.

Virginia Electric Retail Access Pilot Program

As of June 30, 2001 approximately 82,000 of Dominion's electric service customers have volunteered for the retail access pilot program. As of June 2001, participation in the program has dropped to slightly over 24,000 customers from over 30,000 customers that originally switched to a competitive energy supplier. New suppliers continue to apply to be licensed by the Virginia State Corporation Commission (Virginia Commission) to serve customers.

Separation of Electric Generation and Delivery Operations in Virginia

In May 2001, Dominion requested approval of an index-based fuel recovery mechanism and unbundled rates to reflect the separation and deregulation of generation. The proposed fuel recovery mechanism would be based on forecasted generation by fuel type and projected fuel price indices and would be adjusted to reflect actual price indices on an annual basis. The Virginia Commission has established a hearing date in October 2001 to consider Dominion's application. Also, Dominion anticipates making a filing with the North Carolina Commission during the third quarter of 2001 concerning separation of electric generation and delivery operations in North Carolina.

Alliance Regional Transmission Organization (RTO)

In May 2001, an application was filed with the Virginia Commission as required under its order issued in March 2001. Hearings will be scheduled to consider Dominion's application to transfer control of its transmission facilities to the Alliance RTO.

In March 2001, in connection with the application of Illinois Power Company to join the Alliance RTO, a settlement agreement was filed with the FERC involving the Alliance Companies, the Midwest ISO, certain transmission owners in the Midwest ISO and other parties. The settlement agreement provided for two RTOs in the Midwest region with

single super-regional rates, an agreement to negotiate a joint rate with PJM and the approval of certain transmission owners to withdraw from the Midwest ISO and join the Alliance RTO. FERC approved that settlement in May 2001.

In July 2001, FERC issued an order conditionally approving the Alliance Companies' RTO filing subject to further filings by the Alliance Companies. Also, FERC initiated mediation for the purpose of facilitating the formation of a single RTO for the Northeastern United States and for a single RTO for the Southeastern United States. In the Northeast, PJM Interconnection, Allegheny Power, the New York ISO, and the New England ISO were directed to participate in the mediation. In the Southeast, FERC directed GridSouth RTO, Southwest Power Pool, Southern Company and Entergy to participate in the mediation.

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DOMINION RESOURCES, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Proposed FERC Rate Settlement - Gas Transmission

In June 2001, Dominion and its customers filed a rate settlement with the Federal Energy Regulatory Commission (FERC). The filed settlement would resolve disputes over proposed gas cost recoveries from customers, including the costs of gas used as fuel in operating the system, and normal gas losses from pipeline facilities and underground storage formations. These costs have traditionally been tracked and any under- or over-collections for such costs would be billed or refunded accordingly. If the settlement is approved as filed, Dominion will retain certain fixed percentages of gas receipts and will assume both the risk of under-collections and the reward of any excess gas retained. Under the filed settlement, no party can seek a change to the fuel retention mechanism, or the fuel retention percentages, for effectiveness prior to July 1, 2003. Dominion will also extend an existing moratorium, so that it cannot make a general rate filing effective prior to July 1, 2003. Dominion does not anticipate the FERC ruling on the filed settlement prior to September 2001.

Environmental Matters

There have been no significant developments with regard to environmental matters disclosed in MD&A and notes to the Consolidated Financial Statements included in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000.

Nuclear Re-Licensing

Dominion filed applications for 20 year life-extensions for the North Anna and Surry units in May 2001 with the Nuclear Regulatory Commission (NRC). The NRC is in the process of completing their review of the applications for completeness. Over the next two years, the NRC will perform site visits and review the application in detail.

Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) Nos. 141, *Business Combinations*, and 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting, thus eliminating the use of the "pooling" method of accounting. Under SFAS No. 142, goodwill is no longer subject to amortization; instead it will be subject to new impairment testing criteria. Other intangible assets will continue to be amortized over their estimated useful lives, although those with indefinite lives are not to be amortized but will be tested at least annually for impairment. These standards also provide new guidance regarding the identification and recognition of intangible assets, other than goodwill, acquired as part of a business combination.

Dominion will adopt SFAS No. 142 January 1, 2002. At June 30, 2001, the Company's balance sheet reflects \$3.7 billion of goodwill, primarily attributable to the acquisition of CNG. For more information, see Note 5 in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000. The recognized amount of goodwill may be affected by the final Millstone Nuclear Power Station purchase price allocation. See Note 4. In accordance with SFAS No. 142, Dominion will continue to amortize goodwill through December 31, 2001, ceasing amortization effective January 1, 2002. Otherwise, Dominion has not yet determined the impact that the new standards' provisions may have on its financial statements.

Asset Retirement Obligations

In July 2001, FASB issued Statement No. 143, *Accounting for Asset Retirement Obligations*, which provides accounting requirements for the recognition and measurement of liabilities for obligations associated with the retirement of tangible long-lived assets. Under the standard, these liabilities will be recognized at fair value as incurred and capitalized as part of the cost of the related tangible long-lived assets. Accretion of the liabilities due to the passage of time will be expensed. Although FASB has not yet published the final standard, Dominion's preliminary conclusions are based on previously issued exposure drafts and subsequent deliberations. Dominion will adopt the standard effective January 1, 2003.

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DOMINION RESOURCES, INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Dominion has identified retirement obligations associated with the decommissioning of its nuclear generation facilities but has not determined the impact of recognition and measurement of such obligations under the new standard. Dominion has not performed a complete assessment of possible retirement obligations associated with other electric and gas utility property and oil and gas exploration and production equipment.

Also, under the new standard, the realized and unrealized earnings of external trusts available for funding decommissioning activities at Dominion's utility nuclear plants will be recorded in other income and other comprehensive income, as appropriate. Currently, Dominion records these trusts' earnings in other income with an

offsetting charge to expense, also recorded in other income, associated with the accretion of the decommissioning liability. See Note 14 to Dominion's Annual Report on Form 10-K for the year ended December 31, 2000. Furthermore, upon adoption of the new standard, Dominion will discontinue its practice of accruing, as part of depreciation expense, amounts associated with the future costs of removal for its gas and electric utility and oil and gas exploration and production. However, Dominion may continue its practice of accruing for future costs of removal subject to cost of service utility rate regulation even when an asset removal obligation does not exist but would do so through the recognition of regulatory assets and liabilities, as appropriate.

Market Rate Sensitive Instruments And Risk Management

Dominion is exposed to market risk because it utilizes financial instruments, derivative financial instruments and derivative commodity instruments. The market risks inherent in these instruments are represented by the potential loss due to adverse changes in interest rates, commodity prices and equity security prices as described below. Interest rate risk generally is related to Dominion's outstanding debt as well as its residential mortgage lending activities.

Commodity price risk is experienced in Dominion's electric operations, gas production and procurement operations, and energy marketing and trading operations due to the exposure to market shifts for prices received and paid for natural gas and electricity. Dominion uses derivative commodity instruments to hedge price exposures for these operations. Dominion is exposed to equity price risk through various portfolios of equity securities.

Dominion uses the sensitivity analysis methodology to disclose the quantitative information for interest rate and commodity price risks. The sensitivity analysis estimates the potential loss of future earnings or fair value from market risk sensitive instruments over a selected time period due to a 10% unfavorable change in interest rates and commodity prices.

Interest Rate Risk

Dominion manages its interest rate risk exposure by maintaining a mix of fixed and variable rate debt. In addition, Dominion enters into interest rate sensitive derivatives. Examples of these derivatives are swaps, forwards and futures contracts. In addition, Dominion, through subsidiaries, retains ownership in mortgage investments, including subordinated bonds and interest-only residual assets retained at securitization of mortgage loans originated and purchased. A hypothetical 10% increase in market interest rates would have resulted in a decrease in annual pretax earnings of approximately \$16 million and \$40 million, based upon interest rate sensitive instruments outstanding as of June 30, 2001 and December 31, 2000, respectively.

Commodity Price Risk - Non-Trading Activities

Dominion manages the price risk associated with purchases and sales of natural gas and oil by using derivative commodity instruments including futures, forwards, options, swaps, and collars.

For sensitivity analysis purposes, the fair value of Dominion's oil and natural gas derivative financial contracts are determined from models which take into account the market prices of oil and natural gas in future periods, the volatility of the market prices in each period, as well as the time value factors of the underlying commitments. In most instances, market prices and volatility are determined from quoted prices on the futures exchange.

DOMINION RESOURCES, INC.**ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK
(Continued)**

Dominion has determined a hypothetical change in fair value for its oil and natural gas derivative financial contracts assuming a 10% unfavorable change in market prices. This hypothetical 10% change in market prices would have resulted in a decrease in fair value of approximately \$143 million and \$56 million as of June 30, 2001 and December 31, 2000, respectively. This decrease reflects derivative contracts with greater notional volumes at June 30, 2001 as compared to December 31, 2000, including "in the money" options and collars whose value would fully reflect the impact of a 10% change in prices.

The impact of a change in oil and natural gas commodity prices on Dominion's oil and natural gas derivative financial contracts at a point in time is not necessarily representative of the results that will be realized when such contracts are ultimately settled. In addition, net losses from oil and natural gas financial derivative contracts used for hedging purposes, to the extent realized, should generally be offset by recognition of the hedged transaction.

Commodity Price Risk - Trading Activities

As part of its strategy to market energy from its generation capacity and to manage related risks, Dominion manages a portfolio of derivative commodity contracts held for trading purposes. These contracts are sensitive to changes in the prices of natural gas and electricity. Dominion employs established policies and procedures to manage the risks associated with these price fluctuations and uses various commodity instruments, such as futures, swaps and options, to reduce risk by creating offsetting market positions. In addition, Dominion seeks to use its electric generation capacity, when not needed to serve customers in its service territory, to satisfy commitments to sell energy.

A hypothetical 10% change in commodity prices would have resulted in a hypothetical loss of approximately \$1 million and \$3 million in Dominion's earnings, as of June 30, 2001 and December 31, 2000, respectively.

Equity Price Risk

Dominion is subject to equity price risk due to marketable securities held as investments and in trust funds. In accordance with current accounting standards, the marketable securities are reported on the balance sheet at fair value.

Foreign Currency Risk

Occasionally, Dominion is exposed to foreign currency risk. Presently, Dominion's exposure to foreign currency risk is insignificant.

Forward Looking Statements

The matters discussed in this Item may contain "forward looking statements" as described in the introductory paragraphs under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q. The reader's attention is directed to those paragraphs for discussion of various risks and uncertainties that may affect the future of Dominion.

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DOMINION RESOURCES, INC. PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, Dominion and its subsidiaries are alleged to be in violation or in default under orders, statutes, rules or regulations relating to the environment, compliance plans imposed upon or agreed to by us, or permits issued by various local, state and federal agencies for the construction or operation of facilities. From time to time, there also may be administrative proceedings on these matters pending. In addition, in the normal course of business, Dominion and its subsidiaries are involved in various legal proceedings. Management believes that the ultimate resolution of these proceedings will not have a material adverse effect on Dominion's financial position, liquidity or results of operations. See Item 5 - Other Information for discussion on various regulatory proceedings to which we are a party

As previously reported in the Dominion Annual Report on Form 10-K for the year ended December 31, 2000, Jack Grynberg has brought suit against a major part of the gas industry, including Consolidated Natural Gas (CNG) and several of its subsidiaries. The suit alleges fraudulent mismeasurement of gas volumes and underreporting of gas royalties from gas production taken from federal leases. In April 2001, the U.S. District Court issued an order denying a motion to dismiss. The defendants in this matter have filed a motion to certify the case for appeal.

ITEM 5. OTHER INFORMATION

The matters discussed in this Item may contain "forward looking statements" as described in the introductory paragraphs of Part I, Item 2 of this Form 10-Q. See Cautionary Statements Regarding Forward-Looking Information in Part I, Item 2 for discussion of various risks and uncertainties that may affect the future of Dominion.

Virginia Electric and Power Company

Regulatory

In June 2000, an application was made with the Virginia State Corporation Commission (Virginia Commission) to make a number of changes to the Possum Point Power Station designed to improve air quality and to meet existing and proposed air emission limitations in Northern

Virginia. The plan includes the retirement of two existing coal fired units, the conversion of two existing coal-fired units to gas, and the addition of one new combined cycle unit to be operational by May 2003. The Virginia Commission approved the application in March 2001.

In connection with the above application to modify and add generating units to its Possum Point site, an application was also made to the Virginia Commission in December 2000 to construct a fourteen mile gas pipeline for the purpose of supplying natural gas to the site. The Virginia Commission approved the application for the gas pipeline in June 2001.

Rates

In June 2001, the Virginia Commission issued a Final Order in Virginia and Electric Power Company's fuel factor case. The Virginia Commission approved the fuel factor of 1.613 per kWh, which had been in effect on an interim basis since January 1, 2001.

Rules Governing Retail Access to Competitive Energy Services

The Virginia Commission has also established separate proceedings to issue rules and regulations for (1) competition in the provision of metering and billing services; (2) minimum stay periods for customers returning to the Company after having purchased competitive electricity supply service; and (3) the determination of market prices for generation and associated wires charges. Such wires charges are to provide the company with a method to recover any just and reasonable net stranded costs.

See Future Issues in Management's Discussion and Analysis for additional information concerning Separation of Electric Generation and Delivery Operations in Virginia, Alliance Regional Transmission Organization and Nuclear Re-Licensing.

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DOMINION RESOURCES, INC.

PART II. - OTHER INFORMATION (Continued)

Consolidated Natural Gas Company

Regulatory

In June 2001, Dominion East Ohio filed a gas cost recovery filing (GCR) with the Public Utilities Commission of Ohio. Under the GCR proposal, sales customers would pay 29% less for natural gas than they now do under a new rate that will be frozen through April 29, 2002. Dominion East Ohio expects to lock in current lower market prices with a combination of longer-term gas purchase contracts and other hedging techniques, to stabilize winter gas costs for its customers through the coming winter period.

Dominion Peoples lowered its rates about 8%, effective July 1, 2001. The change reflects a reduction in the natural gas cost recovery portion of its rates from \$9.99 to \$8.70 per thousand cubic feet. The decrease will not affect customers who buy gas from another supplier as part of

Dominion Peoples' Energy Choice program. The lower rate is attributable to the price of natural gas dropping on the national market after record high prices over the past 18 months.

In June 2001, Dominion Transmission, Inc. (Dominion Transmission) and its customers filed a rate settlement with the Federal Energy Regulatory Commission (FERC). The filed settlement would resolve disputes over proposed gas cost recoveries from customers, including the costs of gas used as fuel in operating the system, and normal gas losses from pipeline facilities and underground storage formations. If the settlement is approved as filed, Dominion Transmission will retain certain fixed percentages of gas receipts and will assume both the risk of under-collections and the reward of any excess gas retained. See Future Issues -Proposed FERC Rate Settlement - Gas Transmission in Management's Discussion & Analysis for additional information.

In May 2001, FERC also approved Dominion Transmission's Order No. 637 settlement. Under the settlement, Dominion Transmission's customers will have greater flexibility with procedures for nomination, or service requests, and scheduling, including an optional capability to recall released capacity on an intra-day basis. FERC also revised under this Order its gas pipeline regulations to improve the competitiveness and efficiency of the interstate pipeline grid, including new policies on customer service procedures. While Order No. 637 generally announced the new rules, compliance with these rules was left to individual pipelines and their customers.

Labor Relations

Negotiators for the Natural Gas Workers Union, SEIU Local 555 (Local 555) and Dominion East Ohio reached a tentative agreement for a new five-year contract on July 16, 2001. The agreement has been subsequently approved by Local 555 membership.

OTHER

Saxon Capital, Inc.

In July 2001, Dominion Capital, Inc. (DCI) sold Saxon Capital, Inc. (Saxon). DCI. received approximately \$109 million in cash, a \$25 million note and an approximately 9% interest in the purchaser, Saxon Capital Acquisition Corp., which completed a concurrent private placement of approximately \$277 million. Dominion will retain approximately \$300 million in mortgage assets related to prior loan securitizations in exchange for repayment of all intercompany debt and additional equity. Saxon will continue to manage these residual assets.

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DOMINION RESOURCES, INC.

PART II. - OTHER INFORMATION (Continued)

Dominion Medium-Term Note Program

On May 25, 2001, Dominion entered into a distribution agreement (the Distribution Agreement) with Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Credit Suisse First Boston Corporation,

Lehman Brothers Inc., J.P. Morgan Securities Inc. and Morgan Stanley & Co. as Agents named in the Distribution Agreement for the sale of up to \$2 billion aggregate principal amount of the Company's Medium-Term Notes, Series A. Any Medium-Term Notes issued in public offering under the program will reduce capacity under Dominion's \$2 billion shelf registration. The Company intends to use the proceeds from the sale of the Medium-Term Notes for general capital requirements and for refinancing of other corporate debt.

On July 2, 2001, Dominion issued \$100 million in aggregate principal amount of its Series A Medium-Term Notes per the Distribution Agreement noted above. The net proceeds were used to pay down commercial paper balances.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 3.1 Articles of Incorporation as in effect August 9, 1999 (Exhibit 3(i), Form 10-Q for the quarter ended June 30, 1999, File No. 1-8489, incorporated by reference)

- 3.2 Articles of Amendment establishing Series A Preferred Stock, effective March 12, 2001 (Exhibit 3(ii), Form 10-K for the fiscal year ended December 31, 2000, File No. 1-8489, incorporated by reference).

- 3.3 Bylaws as in effect on October 20, 2000 (Exhibit 3, Form 10-Q for the quarter ended September 30, 2000, File No. 1-8489, incorporated by reference).

- 4.1 Senior Indenture, dated June 1, 2000, between Dominion and The Chase Manhattan Bank, as Trustee (Exhibit 4 (iii), Form S-3, Registration Statement, File No. 333-93187, incorporated by reference); First Supplemental Indenture, dated June 1, 2000 (Exhibit 4.2, Form 8-K, dated June 21, 2000, File No. 1-8489, incorporated by reference); Second Supplemental Indenture, dated July 1, 2000 (Exhibit 4.2, Form 8-K, dated July 11, 2000, File No. 1-8489, incorporated by reference); Third Supplemental Indenture, dated July 1, 2000 (Exhibit 4.3, Form 8-K dated July 11, 2000, incorporated by reference); Fourth Supplemental Indenture and Fifth Supplemental Indenture dated September 1, 2000 (Exhibit 4.2, Form 8-K, dated September 8, 2000, incorporated by reference); Sixth Supplemental Indenture, dated September 1, 2000 (Exhibit 4.3, Form 8-K, dated September 8, 2000, incorporated by reference); and Seventh Supplemental Indenture, dated October 1, 2000 (Exhibit 4.2, Form 8-K, dated October 11, 2000, incorporated by reference). Eighth Supplemental Indenture, dated January 1, 2001 (Exhibit 4.2, Form 8-K, dated January 23,

2001, incorporated by reference), Ninth Supplemental Indenture, dated May 1, 2001 (Exhibit 4.4, Form 8-K, dated May 25, 2001, incorporated by reference).

- 10.1 Dominion Resources, Inc. Incentive Compensation Plan, effective April 22, 1997, as amended and restated effective July 1, 2001 (filed herewith).

- 10.2 Dominion Resources, Inc. Leadership Stock Option Plan, effective July 1, 2000, as amended and restated effective July 1, 2001 (filed herewith).

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DOMINION RESOURCES, INC.

**PART II. - OTHER INFORMATION
(Continued)**

(b) Reports on Form 8-K:

The Company filed a Form 8-K, dated May 25, 2001, relating to the establishment of a program under which \$2,000,000,000 aggregate principal amount of the Company's Medium-Term Notes, Series A, would be issued.

SIGNATURE

Pursuant to the requirements 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.

DOMINION RESOURCES, INC.

Registrant

August 3, 2001

_____/s/ Steven A. Rogers____

Steven A. Rogers
Vice President and Controller
(Principal Accounting Officer)

DOMINION RESOURCES, INC.

INCENTIVE COMPENSATION PLAN

Restated effective July 20, 2001

1. *Purpose.* The purpose of this Dominion Resources, Inc. Incentive Compensation Plan is to further the long term stability and financial success of Dominion Resources, Inc. and the Dominion Companies by attracting and retaining employees through the use of cash and stock incentives. It is believed that ownership of Company Stock and the use of cash incentives will stimulate the efforts of those employees upon whose judgment and interests the Employers are and will be largely dependent for the successful conduct of its business. It is also believed that Incentive Awards granted to such employees under this Plan will strengthen their desire to remain employed with the Employers and will further the identification of those employees' interests with those of the Dominion Resources, Inc. shareholders. The Plan is intended to operate in compliance with the provisions of Securities and Exchange Commission Rule 16b-3.

2. *Definitions.* As used in the Plan, the following terms have the meanings indicated:

(a) "*Act*" means the Securities Exchange Act of 1934, as amended.

(b) "*Applicable Withholding Taxes*" means the aggregate amount of federal, state and local income and payroll taxes that an Employer is required to withhold in connection with any Performance Grant, any lapse of restrictions on Restricted Stock, any grant of Goal-Based Stock, or any exercise of a Nonstatutory Stock Option or Stock Appreciation Right.

(c) "*Change of Control*" means the occurrence of any of the following events:

(i) any person, including a "group" as defined in Section 13(d)(3) of the Act becomes the owner or beneficial owner of DRI securities having 20% or more of the combined voting power of the then outstanding DRI securities that may be cast for the election of DRI's directors (other than as a result of an issuance of securities initiated by DRI, or open market purchases approved by the DRI Board, as long as the majority of the DRI Board approving the purchases is also the majority at the time the purchases are made);

(ii) as the direct or indirect result of, or in connection with, a cash tender or exchange offer, a merger or other business combination, a sale of assets, a contested election, or any combination of these transactions, the persons who were directors of DRI before such transactions cease to constitute a majority of the DRI Board, or any successor's board, within two years of the last of such transactions; or

(iii) with respect to a particular Participant, an event occurs with respect to the Employer that employs that Participant such that, after the event, the Employer is no longer a Dominion Company.

(d) "*Code*" means the Internal Revenue Code of 1986, as amended.

(e) "*Committee*" means, effective April 16, 1999, the Organization and Compensation Committee of the DRI Board, provided that, if any member of the Organization and Compensation Committee does not qualify as both an outside director for purposes of Code section 162(m) and a non-employee director for purposes of Rule 16b-3, the remaining members of the committee (but not less than two members) shall be constituted as a subcommittee of the Organization and Compensation Committee to act as the Committee for purposes of the Plan. Prior to April 16, 1999, the Organization and Compensation Committee of Virginia Electric and Power Company had certain functions under the Plan. Any actions taken by that Committee prior to April 16, 1999 shall be treated as if taken by the Committee.

(f) "*Company Stock*" means common stock of DRI. In the event of a change in the capital structure of DRI (as provided in Section 15), the shares resulting from such a change shall be deemed to be Company Stock within the meaning of the Plan.

(g) "*Date of Grant*" means the date on which the Committee grants an Incentive Award.

(h) "*Disability*" or "*Disabled*" means, as to an Incentive Stock Option, a Disability within the meaning of Code section 22(e)(3). As to all other Incentive Awards, the Committee shall determine whether a Disability exists and such determination shall be conclusive.

(i) "*Dominion Company*" means Virginia Electric and Power Company, Dominion Capital, Inc., Dominion Energy, Inc., or another corporation in which DRI owns stock possessing at least 50 percent of the combined voting power of all classes of stock or which is in a chain of corporations with DRI in which stock possessing at least 50% of the combined voting power of all classes of stock is owned by one or more other corporations in the chain.

(j) "*DRI*" means Dominion Resources, Inc.

(k) "*DRI Board*" means the Board of Directors of Dominion Resources, Inc.

(l) "*Employer*" means DRI and each Dominion Company that employs one or more Participants.

(m) "*Fair Market Value*" means the average of the high and low prices of a share of Company Stock, as reported by Bloomberg or other financial reporting service selected by the Company, as of the last day on which Company Stock is traded preceding the Date of Grant or preceding any other date for which the value of Company Stock must be determined under the Plan.

(n) "*Goal-Based Stock*" means Company Stock awarded when performance goals are achieved pursuant to an award as provided in Section 8.

(o) "*Incentive Award*" means, collectively, a Performance Grant or the award of Restricted Stock, Goal-Based Stock, an Option, or a Stock Appreciation Right under the Plan.

(p) "*Incentive Stock Option*" means an Option intended to meet the requirements of, and qualify for favorable federal income tax treatment under, Code section 422.

(q) "*Mature Shares*" means shares of Company Stock for which the holder thereof has good title, free and clear of all liens and encumbrances and which such holder either (i) has held for at least six months or (ii) has purchased on the open market.

(r) "*Nonstatutory Stock Option*" means an Option that does not meet the requirements of Code section 422, or, even if meeting the requirements of Code section 422, is not intended to be an Incentive Stock Option and is so designated.

(s) "*Option*" means a right to purchase Company Stock granted under the Plan, at a price determined in accordance with the Plan.

(t) "*Participant*" means any employee of DRI or a Dominion Company who receives an Incentive Award under the Plan.

(u) "*Performance Criteria*" means any of the following areas of performance of DRI or any Dominion Company: asset growth; utility earnings; generating unit efficiency; combined net worth; debt to equity ratio; earnings per share; revenues; operating income; operating cash flow; net income, before or after taxes; return on total capital, equity, revenue or assets; nonutility generation cost exposure; power generation costs; safety measured in fatalities, lost time,

injuries and vehicle accidents; environmental protection measured in reportable violations, notices of violations, and environmental agency required corrective actions or enforcement actions; or economic value added (net operating profit after tax less a charge for use of capital as determined under a methodology approved by the Committee).

(v) "*Performance Goal*" means an objectively determinable performance goal established by the Committee with respect to a given Performance Grant or grant of Restricted Stock that relates to one or more Performance Criteria.

(w) "*Performance Grant*" means an Incentive Award made pursuant to Section 6.

(x) "*Plan Year*" means January 1 to December 31.

(y) "*Restricted Stock*" means Company Stock awarded upon the terms and subject to the restrictions set forth in Section 7.

(z) "*Rule 16b-3*" means Rule 16b-3 of the Securities and Exchange Commission promulgated under the Act. A reference in the Plan to Rule 16b-3 shall include a reference to any corresponding rule (or number redesignation) of any amendments to Rule 16b-3 enacted after the effective date of the Plan's adoption.

(aa) "*Stock Appreciation Right*" means a right to receive amounts from the Employer granted under Section 10.

(bb) "*Taxable Year*" means the fiscal period used by DRI for reporting taxes on income under the Code.

3. *General.* The following types of Incentive Awards may be granted under the Plan: Performance Grants, Restricted Stock, Goal-Based Stock, Options, or Stock Appreciation Rights. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

4. *Stock.* Subject to Section 15 of the Plan, there shall be reserved for issuance under the Plan an aggregate of thirty million (30,000,000) shares of Company Stock, which shall be authorized but unissued shares. Shares allocable to Options, Restricted Stock or portions thereof granted under the Plan that expire, are forfeited, or otherwise terminate unexercised may again be subjected to an Incentive Award under the Plan. The Committee is expressly authorized to make an Incentive Award to a Participant conditioned upon the surrender for cancellation of an option granted under an existing Incentive Award. However, without prior shareholder approval, the Committees are expressly prohibited from making a new Incentive Award in the form of an Option if the exercise price of the new Option is less than the exercise price of the Option under the existing Incentive Award surrendered for cancellation. No more than one million five hundred thousand (1,500,000) shares may be allocated to the Incentive Awards, including the maximum amounts payable under a Performance Grant, that are granted to any individual Participant during any single Taxable Year. No more than five million (5,000,000) shares may be issued as Restricted Stock, Goal-Based Stock or Performance Grants after April 28, 2000, provided that any shares of Restricted Stock, Goal-Based Stock or that are issuable under Performance Grants that are forfeited shall not count against this limit.

5. *Eligibility.*

(a) All present and future employees of DRI or a Dominion Company (whether now existing or hereafter created or acquired) whom the Committee determines to have contributed or who can be expected to contribute significantly to DRI or a Dominion Company shall be eligible to receive Incentive Awards under the Plan. The Committee shall have the power and complete discretion, as provided in Section 16, to select eligible employees to receive Incentive Awards and to determine for each employee the nature of the award and the terms and conditions of each Incentive Award.

(b) The grant of an Incentive Award shall not obligate an Employer to pay an employee any particular amount of remuneration, to continue the employment of the employee after the grant or to make further grants to the employee at any time thereafter.

6. Performance Grants.

- (a) Each Performance Grant shall be evidenced by an agreement (a "Grant Agreement") setting forth the Performance Goals for the award, including the Performance Criteria, the target and maximum amounts payable and such other terms and conditions as are applicable to the Performance Grant. Each Performance Grant shall be granted and administered to comply with the requirements of Code section 162(m). The aggregate maximum cash amount payable under the Plan to any Participant in any Plan Year shall not exceed 0.5% of DRI's consolidated operating income, before taxes and interest, as reported on its annual financial statements for the prior Plan Year. In the event of any conflict between a Grant Agreement and the Plan, the terms of the Plan shall govern.
- (b) The Committee shall establish the Performance Goals for Performance Grants. The Committee shall determine the extent to which any Performance Criteria shall be used and weighted in determining Performance Grants. The Committee may vary the Performance Criteria, Performance Goals and weightings from Participant to Participant, Performance Grant to Performance Grant and Plan Year to Plan Year. The Committee may increase, but not decrease, any Performance Goal during a Plan Year.
- (c) The Committee shall establish for each Performance Grant the amount of cash or Company Stock payable at specified levels of performance, based on the Performance Goal for each Performance Criteria. Any Performance Grant shall be made not later than 90 days after the start of the period for which the Performance Grant relates and shall be made prior to the completion of 25% of such period. All determinations regarding the achievement of any Performance Goals will be made by the Committee. The Committee may not increase during a Plan Year the amount of cash or Common Stock that would otherwise be payable upon achievement of the Performance Goal or Goals but may reduce or eliminate the payments as provided in a Performance Grant.
- (d) The actual payments to a Participant under a Performance Grant will be calculated by applying the achievement of a Performance Criteria to the Performance Goal as established in the Grant Agreement. All calculations of actual payments shall be made by the Committee and the Committee shall certify in writing the extent, if any, to which the Performance Goals have been met.
- (e) Performance Grants will be paid in cash, Company Stock or both, at such time or times as are provided in the Grant Agreement. The Committee may provide in the Grant Agreement that the Participant may make a prior election to defer the payment under a Performance Grant subject to such terms and conditions as the Committee may determine.
- (f) Nothing contained in the Plan will be deemed in any way to limit or restrict any Employer or the Committee from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.
- (g) A Participant who receives a Performance Grant payable in Company Stock shall have no rights as a shareholder until the Company Stock is issued pursuant to the terms of the Performance Grant. The Company Stock may be issued without cash consideration.
- (h) A Participant's interest in a Performance Grant may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered.
- (i) Whenever payments under a Performance Grant are to be made in cash, the Employer will withhold therefrom an amount sufficient to satisfy any Applicable Withholding Taxes. Each Participant shall agree as a condition of receiving a Performance Grant payable in the form of Company Stock, to pay to the Employer, or make arrangements satisfactory to the Employer regarding the payment to the Employer of, Applicable Withholding Taxes. Until such amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued to such Participant. As an alternative to making a cash payment to the Employer to satisfy Applicable Withholding Taxes, if the Grant Agreement so provides, the Participant may elect to (i) deliver Mature Shares (valued at their Fair Market

Value) or (ii) to have the Employer retain that number of shares of Company Stock (valued at their Fair Market Value) that would satisfy all or a specified portion of the Applicable Withholding Taxes.

7. Restricted Stock Awards.

(a) The Committee may make grants of Restricted Stock to Participants. Whenever the Committee deems it appropriate to grant Restricted Stock, notice shall be given to the Participant stating the number of shares of Restricted Stock granted and the terms and conditions to which the Restricted Stock is subject. This notice, when accepted in writing by the Participant shall become an Grant Agreement between the Employer and the Participant. Restricted Stock may be awarded by the Committee in its discretion without cash consideration.

(b) No shares of Restricted Stock may be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered or disposed of until the restrictions on such shares as set forth in the Participant's Grant Agreement have lapsed or been removed pursuant to paragraph (d) or (e) below.

(c) Upon the acceptance by a Participant of an award of Restricted Stock, such Participant shall, subject to the restrictions set forth in paragraph (b) above, have all the rights of a shareholder with respect to such shares of Restricted Stock, including, but not limited to, the right to vote such shares of Restricted Stock and the right to receive all dividends and other distributions paid thereon. Certificates representing Restricted Stock shall be held by DRI until the restrictions lapse and the Participant shall provide DRI with appropriate stock powers endorsed in blank.

(d) The Committee shall establish as to each award of Restricted Stock the terms and conditions upon which the restrictions set forth in paragraph (b) above shall lapse. The terms and conditions may include the achievement of a Performance Goal which shall be governed by the provisions of Section 6 to the extent that the award is intended to comply with the requirements of Code section 162(m). Such terms and conditions may also include, without limitation, the lapsing of such restrictions as a result of the Disability, death or retirement of the Participant or the occurrence of a Change of Control.

(e) Notwithstanding the provisions of paragraph (b) above, the Committee may at any time, in its sole discretion, accelerate the time at which any or all restrictions will lapse or remove any and all such restrictions, subject to the restrictions of Section 6 as to any Performance Goal if the award is intended to comply with the requirements of Code section 162(m).

(f) Each Participant shall agree at the time his or her Restricted Stock is granted, and as a condition thereof, to pay to the Employer, or make arrangements satisfactory to the Employer regarding the payment to the Employer of, Applicable Withholding Taxes. Until such amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate free of a legend reflecting the restrictions set forth in paragraph (b) above shall be issued to such Participant. As an alternative to making a cash payment to the Employer to satisfy Applicable Withholding Taxes, if the grant so provides, the Participant may elect to (i) to deliver Mature Shares (valued at their Fair Market Value) or (ii) to have the Employer retain that number of shares of Company Stock (valued at their Fair Market Value) that would satisfy all or a specified portion of the Applicable Withholding Taxes.

8. Goal-Based Stock Awards.

(a) The Committee may make grants of Goal-Based Stock to Participants. Whenever the Committee deems it appropriate to grant Goal-Based Stock, notice shall be given to the Participant stating the number of shares of Goal-Based Stock granted and the terms and conditions to which the Goal-Based Stock is subject. This notice, when accepted in writing by the Participant shall become a grant agreement between the Employer and the Participant.

(b) Goal-Based Stock may be issued pursuant to the Plan from time to time by the Committee when performance criteria established by the Committee have been achieved and certified by the Committee.

(c) Whenever the Committee deems it appropriate, the Committee may establish a performance criteria for an award of Goal-Based Stock and notify Participants of their receipt of an award of Goal-Based Stock. More than one award of Goal-Based Stock may be established by the Committee for a Participant and the awards may operate concurrently or for varied periods of time. Goal-Based Stock will be issued only subject to the award and the Plan and consistent with meeting the goal or goals set by the Committee in the award. A Participant shall have no rights as a shareholder until the Committee has certified that the performance objectives of the Goal-Based Stock award have been met and the Goal-Based Stock is issued. Goal-Based Stock may be issued without cash consideration.

(d) A Participant's interest in a Goal-Based Stock award may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered.

(e) The Committee may at any time, in its sole discretion, remove or revise any and all performance criteria for an award of Goal-Based Stock.

(f) Each Participant shall agree at the time of receiving an award of Goal-Based Stock, and as a condition thereof, to pay to the Employer, or make arrangements satisfactory to the Employer regarding the payment to the Employer of, Applicable Withholding Taxes. Until such amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued to such Participant. As an alternative to making a cash payment to the Employer to satisfy Applicable Withholding Taxes, if the grant so provides, the Participant may elect to (i) to deliver Mature Shares (valued at their Fair Market Value) or (ii) to have the Employer retain that number of shares of Company Stock (valued at their Fair Market Value) that would satisfy all or a specified portion of the Applicable Withholding Taxes.

9. Stock Options.

(a) The Committee may make grants of Options to Participants. Whenever the Committee deems it appropriate to grant Options, notice shall be given to the Participant stating the number of shares for which Options are granted, the Option price per share, whether the Options are Incentive Stock Options or Nonstatutory Stock Options, the extent to which Stock Appreciation Rights are granted (as provided in Section 10), and the conditions to which the grant and exercise of the Options are subject. This notice, when duly accepted in writing by the Participant, shall become a stock option agreement.

(b) The exercise price of shares of Company Stock covered by an Option shall be not less than 100% of the Fair Market Value of such shares on the Date of Grant.

(c) Options may be exercised in whole or in part at such times as may be specified by the Committee in the Participant's stock option agreement; provided that no Option may be exercised after the expiration of ten (10) years from the Date of Grant and provided that the exercise provisions for Incentive Stock Options shall in all events not be more liberal than the following provisions:

(i) No Incentive Stock Option may be exercised after the first to occur of (x) ten years from the Date of Grant, (y) three months following the date of the Participant's retirement or termination of employment with all Employers for reasons other than Disability or death, or (z) one year following the date of the Participant's termination of employment on account of Disability or death.

(ii) An Incentive Stock Option by its terms, shall be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the Company Stock with respect to which Incentive Stock Options are exercisable for the first time during the calendar year does not exceed \$100,000 (the "Limitation Amount"). Incentive Stock Options granted under the Plan and all other plans of any Employer shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded. The Committee granting the Option may impose such conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met.

If Incentive Stock Options that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonstatutory Stock Options to the extent permitted by law.

(d) Notwithstanding anything in the Plan to the contrary, the Committee may permit a Participant who has received a Nonstatutory Stock Option to make an irrevocable election to defer any and all shares of Company Stock received through exercise of the Nonstatutory Stock Option pursuant to the Dominion Resources, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"). The deferral election must: (i) be made at least six months prior to the exercise of the Nonstatutory Stock Option, (ii) be made on a form provided by the Committee, and (iii) indicate the number of shares of Company Stock the Participant wishes to defer. Payment of the exercise price of deferred Company Stock must be made by delivery of Mature Shares. Upon such election the subsequent exercise of a Nonstatutory Stock Option, the Company may deliver the shares of Company Stock covered by the exercised Nonstatutory Stock Option to the trust established pursuant to the Deferred Compensation Plan or may deliver the shares at the time of payment provided under the Deferred Compensation Plan. The time and form of payment of the deferred Company Stock to a Participant shall be governed by the Deferred Compensation Plan.

10. *Stock Appreciation Rights.*

(a) Whenever the Committee deems it appropriate, Stock Appreciation Rights may be granted in connection with all or any part of an Option to a Participant or in a separate Incentive Award.

(b) The following provisions apply to all Stock Appreciation Rights that are granted in connection with Options:

(i) Stock Appreciation Rights shall entitle the Participant, upon exercise of all or any part of the Stock Appreciation Rights, to surrender to the Employer unexercised that portion of the underlying Option relating to the same number of shares of Company Stock as is covered by the Stock Appreciation Rights (or the portion of the Stock Appreciation Rights so exercised) and to receive in exchange from the Employer an amount equal to the excess of (x) the Fair Market Value on the date of exercise of the Company Stock covered by the surrendered portion of the underlying Option over (y) the exercise price of the Company Stock covered by the surrendered portion of the underlying Option. The Committee may limit the amount that the Participant will be entitled to receive upon exercise of Stock Appreciation Rights.

(ii) Upon the exercise of a Stock Appreciation Right and surrender of the related portion of the underlying Option, the Option, to the extent surrendered, shall not thereafter be exercisable.

(iii) Subject to any further conditions upon exercise imposed by the Board, a Stock Appreciation Right shall be exercisable only to the extent that the related Option is exercisable and a Stock Appreciation Right shall expire no later than the date on which the related Option expires.

(iv) A Stock Appreciation Right may only be exercised at a time when the Fair Market Value of the Company Stock covered by the Stock Appreciation Right exceeds the exercise price of the Company Stock covered by the underlying Option.

(c) The following provisions apply to all Stock Appreciation Rights that are not granted in connection with Options:

(i) Stock Appreciation Rights shall entitle the Participant, upon exercise of all or any part of the Stock Appreciation Rights, to receive in exchange from the Employer an amount equal to the excess of (x) the Fair Market Value on the date of exercise of the Company Stock covered by the surrendered Stock Appreciation Right over (y) the price of the Company Stock on the Date of Grant of the Stock Appreciation Right. The Committee may limit the amount that the Participant will be entitled to receive upon exercise of Stock Appreciation Rights.

(ii) A Stock Appreciation Right may only be exercised at a time when the Fair Market Value of the Company Stock covered by the Stock Appreciation Right exceeds the Fair Market Value of the Company Stock on the Date of Grant of the Stock Appreciation Right.

(d) The manner in which the Employer's obligation arising upon the exercise of a Stock Appreciation Right shall be paid shall be determined by the Committee and shall be set forth in the Incentive Award. The Incentive Award may provide for payment in Company Stock or cash, or a fixed combination of Company Stock or cash, or the Committee may reserve the right to determine the manner of payment at the time the Stock Appreciation Right is exercised. Shares of Company Stock issued upon the exercise of a Stock Appreciation Right shall be valued at their Fair Market Value on the date of exercise.

11. Method of Exercise of Options and Stock Appreciation Rights.

(a) Options and Stock Appreciation Rights may be exercised by the Participant giving written notice of the exercise to the Employer, stating the number of shares the Participant has elected to purchase under the Option or the number of Stock Appreciation Rights the Participant has elected to exercise. In the case of the purchase of shares under an Option, such notice shall be effective only if accompanied by the exercise price in full in cash; provided, however, that if the terms of an Option so permit, the Participant may (i) deliver Mature Shares (valued at their Fair Market Value) in satisfaction of all or any part of the exercise price, (ii) cause to be withheld from the Option shares, shares of Company Stock (valued at their Fair Market Value) in satisfaction of all or any part of the exercise price, or (iii) deliver a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Employer, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the exercise price and, if required by the terms of the Option, Applicable Withholding Taxes.

(b) DRI may place on any certificate representing Company Stock issued upon the exercise of an Option or a Stock Appreciation Right any legend deemed desirable by the DRI's counsel to comply with federal or state securities laws, and DRI may require a customary written indication of the Participant's investment intent. Until the Participant has made any required payment, including any Applicable Withholding Taxes, and has had issued a certificate for the shares of Company Stock acquired, he or she shall possess no shareholder rights with respect to the shares.

(c) Each Participant shall agree as a condition of the exercise of an Option or a Stock Appreciation Right, to pay to the Employer, or make arrangements satisfactory to the Employer regarding the payment to the Employer of, Applicable Withholding Taxes. Until such amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued upon the exercise of an Option or cash paid upon the exercise of a Stock Appreciation Right.

(d) As an alternative to making a cash payment to the Employer to satisfy Applicable Withholding Taxes, if the Option or Stock Appreciation Rights agreement so provides, the Participant may elect to (i) to deliver Mature Shares (valued at their Fair Market Value) or (ii) to have the Employer retain that number of shares of Company Stock (valued at their Fair Market Value) that would satisfy all or a specified portion of the Applicable Withholding Taxes.

12. Transferability of Options and Stock Appreciation Rights. Nonstatutory Stock Options and Stock Appreciation Rights may be transferable by a Participant and exercisable by a person other than the Participant, but only to the extent specifically provided in the Incentive Award. Incentive Stock Options, by their terms, shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable, during the Participant's lifetime, only by the Participant.

13. Effective Date of the Plan. The effective date of the Plan is January 1, 1997. The Plan shall be submitted to the shareholders of the DRI for approval. Until (i) the Plan has been approved by DRI's shareholders, and (ii) the requirements of any applicable Federal or State securities laws have been met, no Restricted Stock or Goal-Based Stock shall be awarded that is not contingent on these events and no Option or Stock Appreciation Right granted shall be exercisable.

14. *Termination, Modification, Change.* If not sooner terminated by the DRI Board, this Plan shall terminate at the close of business on December 31, 2006. No Incentive Awards shall be made under the Plan after its termination. The DRI Board may amend or terminate the Plan in such respects as it shall deem advisable; provided that, if and to the extent required by the Code, no change shall be made that increases the total number of shares of Company Stock reserved for issuance pursuant to Incentive Awards granted under the Plan (except pursuant to Section 15), materially modifies the requirements as to eligibility for participation in the Plan, or materially increases the benefits accruing to Participants under the Plan, unless such change is authorized by the shareholders of DRI. Notwithstanding the foregoing, the DRI Board may unilaterally amend the Plan and Incentive Awards with respect to Participants as it deems appropriate to ensure compliance with Rule 16b-3 and to cause Incentive Stock Options to meet the requirements of the Code and regulations thereunder. Except as provided in the preceding sentence, a termination or amendment of the Plan shall not, without the consent of the Participant, adversely affect a Participant's rights under an Incentive Award previously granted to him or her.

15. *Change in Capital Structure.*

(a) In the event of a stock dividend, stock split or combination of shares, recapitalization or merger in which DRI is the surviving corporation or other change in DRI's capital stock (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of common stock or preferred stock of DRI), the number and kind of shares of stock or securities of DRI to be subject to the Plan and to Options then outstanding or to be granted thereunder, the maximum number of shares or securities which may be delivered under the Plan, the maximum number of shares or securities that can be granted to an individual Participant under Section 4, the exercise price, the terms of Incentive Awards and other relevant provisions shall be appropriately adjusted by the Committee, whose determination shall be binding on all persons. If the adjustment would produce fractional shares with respect to any unexercised Option, the Committee may adjust appropriately the number of shares covered by the Option so as to eliminate the fractional shares.

(b) If DRI is a party to a consolidation or a merger in which DRI is not the surviving corporation, a transaction that results in the acquisition of substantially all of DRI's outstanding stock by a single person or entity, or a sale or transfer of substantially all of DRI's assets or if a Change of Control as defined in Section 2(c)(i) or (ii) otherwise occurs (a "Corporate Event"), then

(i) Except as provided in (ii) below, the Committee may take such actions with respect to outstanding Incentive Awards as the Committee deems appropriate.

(ii) For all Options that are outstanding at the time of a Corporate Event, the Committee shall ensure that Participants will receive with respect to those Options a value per Option that is determined by using one of the generally recognized option pricing models (each of which take into account the difference between the option exercise price and the market price of the stock, if any, plus other factors and assumptions which in combination produce an option value), including, but not limited to, the Black-Scholes or the Roll, Geske & Whaley formulae for option valuation, that is the most favorable to Participants in the aggregate. Within the option valuation models, the Committee will use the acquisition price of DRI stock as the measure of its market price (if the Corporate Event involves the acquisition of DRI stock), and will utilize any other reasonable factors and assumptions, including assumptions regarding stock volatility, risk free interest rates and dividend yield that, taken together, produce the largest value for each Option.

The payments under this Section may be made in the form of cash or in DRI stock or of another publicly traded entity involved in the Corporate Event.

(c) Notwithstanding anything in the Plan to the contrary, the Committee may take the foregoing actions without the consent of any Participant, and the Committee's determination shall be conclusive and binding on all persons for all purposes.

16. *Administration of the Plan.*

(a) Subject to the provisions of Section 16(b), the Plan shall be administered by the Committee. The Committee shall have general authority to impose any limitation or condition upon an Incentive Award the Committee deems appropriate to achieve the objectives of the Incentive Award and the Plan and, without limitation and in addition to powers set forth elsewhere in the Plan, shall have the power and complete discretion to determine:

(i) which eligible employees shall receive Incentive Awards and the nature of each Incentive Award, (ii) the terms and conditions of any Performance Grant, (iii) whether all or any part of an Incentive Award shall be accelerated upon a Change of Control, (iv) the number of shares of Company Stock to be covered by each Incentive Award, (v) whether Options shall be Incentive Stock Options or Nonstatutory Stock Options, (vi) when, whether and to what extent Stock Appreciation Rights shall be granted, (vii) the time or times when an Incentive Award shall be granted, (viii) whether an Incentive Award shall become vested over a period of time and when it shall be fully vested, (ix) when Options and Stock Appreciation Rights may be exercised, (x) whether a Disability exists, (xi) the manner in which payment will be made upon the exercise of Options or Stock Appreciation Rights, (xii) conditions relating to the length of time before disposition of Company Stock received upon the exercise of Options or Stock Appreciation Rights is permitted, (xiii) whether to authorize a Participant (A) to deliver Mature Shares to satisfy Applicable Withholding Taxes or (B) to have the Employer withhold from the shares to be issued upon the exercise of a Nonstatutory Stock Option or Stock Appreciation Right the number of shares necessary to satisfy Applicable Withholding Taxes, (xiv) the terms and conditions applicable to Restricted Stock awards, (xv) the terms and conditions on which restrictions upon Restricted Stock shall lapse, (xvi) whether to accelerate the time at which any or all restrictions with respect to Restricted Stock will lapse or be removed, (xvii) the terms and conditions applicable to Goal-Based Stock awards, (xviii) notice provisions relating to the sale of Company Stock acquired under the Plan, (xix) the extent to which information shall be provided to Participants about available tax elections, and (xx) any additional requirements relating to Incentive Awards that the Committee deems appropriate. Notwithstanding the foregoing, no "tandem stock options" (where two stock options are issued together and the exercise of one option affects the right to exercise the other option) may be issued in connection with Incentive Stock Options. The Committee shall have the power to amend the terms of previously granted Incentive Awards that were granted by that Committee so long as the terms as amended are consistent with the terms of the Plan and provided that the consent of the Participant is obtained with respect to any amendment that would be detrimental to him or her, except that such consent will not be required if such amendment is for the purpose of complying with Rule 16b-3 or any requirement of the Code applicable to the Incentive Award.

(b) All grants of Incentive Awards made or approved by the Committee shall be submitted to the DRI Board for such consideration as the DRI Board deems appropriate.

(c) The Committee may adopt rules and regulations for carrying out the Plan with respect to Participants. The interpretation and construction of any provision of the Plan by the Committee shall be final and conclusive as to any Participant. The Committee may consult with counsel, who may be counsel to the Employer, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

(d) A majority of the members of the Committee shall constitute a quorum, and all actions of the Committee shall be taken by a majority of the members present. Any action may be taken by a written instrument signed by all of the members, and any action so taken shall be fully effective as if it had been taken at a meeting.

17. *Notice.* All notices and other communications required or permitted to be given under this Plan shall be in writing and shall be deemed to have been duly given if delivered personally or mailed first class, postage prepaid, as follows (a) if to DRI-at the principal business address of DRI to the attention of the Corporate Secretary of DRI; and (b) if to any Participant-at the last address of the Participant known to the sender at the time the notice or other communication is sent.

18. *Interpretation.* The terms of this Plan are subject to all present and future regulations and rulings of the Secretary of the Treasury of the United States or his or her delegate relating to the qualification of Incentive Stock Options under

the Code. If any provision of the Plan conflicts with any such regulation or ruling, then that provision of the Plan shall be void and of no effect. The terms of this Plan shall be governed by the laws of the Commonwealth of Virginia.

19. *Grants To Outside Directors.* In addition to the Awards otherwise provided under the Plan, the Plan also permits the award of Nonstatutory Stock Options and Restricted Stock to directors on the DRI Board or the board of any Dominion Company if such directors are not employees of DRI or a Dominion Company ("Outside Directors"). The DRI Board shall have the power and complete discretion to select Outside Directors of DRI or any Dominion Company to receive Awards. The DRI Board shall have the complete discretion, under provisions consistent with Section 12 as to Participants, to determine the terms and conditions, the nature of the award and the number of shares to be allocated as part of each Award for each Outside Director of DRI or a Dominion Company. The grant of an Award shall not obligate DRI or any Dominion Company to make further grants to the Outside Director at any time thereafter or to retain any person as a director for any period of time.

DOMINION RESOURCES, INC.
LEADERSHIP STOCK OPTION PLAN
FOR SALARIED EMPLOYEES

Effective July 1, 2000
Amended and Restated Effective July 20, 2001

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DOMINION RESOURCES, INC.

LEADERSHIP STOCK OPTION PLAN

FOR SALARIED EMPLOYEES

Amended and Restated effective July 20, 2001

1. *Purpose.* The purpose of this Dominion Resources, Inc. Leadership Stock Option Plan for Salaried Employees is to encourage ownership of Company Stock by all salaried employees of Dominion Resources, Inc. and the Dominion Companies through the grant of nonstatutory stock options. It is believed that giving salaried employees an opportunity to acquire Company Stock under this Plan will motivate those employees to continue to promote the best interests of the Employers and enhance the Employers' long-term stability and financial success. It is also believed that the grant of Options to salaried employees under this Plan will strengthen the Employers' ability to attract and retain the best available personnel.

2. *Awards.* Awards shall be made in the form of stock Options.

3. *Participation.*

(a) Eligibility. Options may be granted under the Plan to any full-time or part-time salaried employee of DRI or a Dominion Company. The Committee shall have the power and complete discretion to determine the employees who shall be granted Options under the Plan and the time or times at which Options shall be granted.

(b) Ineligible Persons. "Employee" shall not include a person whose employment is covered by a collective bargaining agreement, or a person hired as an independent contractor, leased employee, consultant or a person otherwise designated by an Employer at the time of hire as not eligible to participate in or receive benefits under the Plan, even if such ineligible person is subsequently determined to be an "employee" by any governmental or judicial authority.

(c) No Employment Rights. The grant of an Award shall not obligate an Employer to pay an employee any particular amount of compensation, to continue the employment of the employee after the grant or to make further grants to the employee at any time thereafter. Nothing in the Plan or in any Award shall affect the right of the Company to terminate the employment of any employee

for cause or otherwise. Further, the adoption of this Plan shall not be deemed to give any employee or any other individual any right to be selected as a Participant or to be granted an Award.

4. *Stock Options.* The Committee may make grants of Options to Participants. Each Option granted under the Plan shall be evidenced by a Stock Option Agreement, in a form approved by the Committee. A Stock Option Agreement shall have the following terms and other terms and conditions specified by the Committee:

(a) Number of Option Shares Granted. The Stock Option Agreement shall state the number of shares of Company Stock covered by the Option.

(b) Expiration Date. The Stock Option Agreement shall specify the date on which the Option expires.

(c) Vesting Schedule. The Stock Option Agreement shall specify when the Options will be vested and may be exercised in whole or in part.

(d) Grant Price. The per share exercise price of each Option shall be at least 100% of the Fair Market Value of such shares on the Grant Date.

(e) Change of Control. An Option shall become fully vested and exercisable in the event of a Change of Control.

5. *Treatment of Options Upon Termination of Employment.* Except as provided below, an Option may not be exercised after the Participant's termination of employment with the Employer:

(a) Termination Due to Retirement. If the Participant takes Retirement, the Option becomes fully vested and exercisable and may be exercised until the earlier of (x) the third anniversary of the Participant's Retirement, or (y) the expiration date of the Option. Retirement means termination of employment with receipt of early or normal retirement benefits under the Dominion Resources Retirement Plan or another defined benefit retirement plan sponsored by the Employer.

(b) Termination Due to Long-Term Disability. If the Participant incurs a Long-Term Disability, the Option becomes fully vested and exercisable and may be exercised until the earlier of (x) the first anniversary of the Participant's Long-Term Disability date (as described below), or (y) the expiration date of the Option. A Participant's Long-Term Disability date is the date of the Participant's eligibility for long-term disability benefits under the Employer's applicable long-term disability plan.

(c) Termination Due to Death. If the Participant dies while employed by the Employer, the Option becomes fully vested and exercisable and may be exercised by the personal representative of the Participant's estate until the earlier of (x) the first anniversary of the Participant's death, or (y) the expiration date of the Option. If the Participant dies within three years after his or her Retirement or within one year after his or her Long-Term Disability date, the personal representative of his or her estate may exercise the Option until the earliest of (x) 90 days after the Participant's death, (y) the third anniversary of the Participant's Retirement or the first anniversary of his or her Long-Term Disability date, or (z) the expiration date of the Option.

(d) Termination Other Than For Cause. If the Participant voluntarily terminates employment with the Employer or the Participant's employment is involuntarily terminated by the Employer for reasons other than "cause" (as defined below), the Participant may exercise the vested portion of the Option until the earlier of (x) 30 days after the Participant's termination of employment, or (y) the expiration date of the Option.

(e) Termination for Cause. If the Participant's employment is terminated by the Employer for "cause," the Option (both vested and unvested) shall terminate as of the date of notice of termination of employment and shall no longer be exercisable. The Committee determines whether a Participant has incurred an involuntary termination of employment for "cause," and the Committee's determination shall be binding for all purposes. "Cause" means:

- (i) fraud or material misappropriation with respect to the business or assets of DRI or a Dominion Company;
- (ii) persistent refusal or willful failure of the Participant to perform substantially his or her duties and responsibilities to the Employer, which continues after the Participant receives notice of such refusal or failure;
- (iii) conviction of a felony or crime involving moral turpitude; or
- (iv) the use of drugs or alcohol that interferes materially with the Participant's performance of his or her duties.

6. *Method of Exercise of Options.*

(a) Payment Upon Exercise.

An Option shall be considered exercised under the Plan on the date written notice is given to DRI, advising of the exercise of a particular Option and transmitting payment in full of the Grant Price for the shares involved. The Grant Price shall be paid in cash or by delivery of instructions to a broker for a broker-assisted exercise under procedures established by the Committee.

(b) No Rights as Shareholder. Until the Option exercise is complete, including any Applicable Withholding Taxes, and DRI has issued a certificate for the shares of Company Stock acquired, the Participant shall have no shareholder rights with respect to the shares.

(c) Withholding of Taxes. Each Participant shall agree as a condition of the exercise of an Option, to make arrangements satisfactory to the Employer regarding the payment of Applicable Withholding Taxes. The Applicable Withholding Taxes may be paid in cash or the Employer may retain shares of Company Stock (valued at their Fair Market Value) equal to the Applicable Withholding Taxes.

7. Transferability of Options. Options shall not be transferable by a Participant except at death and may be exercised only by the Participant, except after the Participant's death. No Option may be assigned or subject to any encumbrance, pledge or charge of any nature.

8. Stock.

(a) Subject to subsection (b), an aggregate of ten million (10,000,000) shares of Company Stock, which shall be authorized, but unissued shares, is reserved for issuance under the Plan. Shares allocable to Options that expire, are forfeited, or otherwise terminate unexercised may again be added to the remaining number of shares of Company Stock available for grant as an Option under the Plan. Any shares of Company Stock withheld to pay Applicable Withholding Taxes will be added to the aggregate shares of Company Stock available for grant as an Option under the Plan.

(b) In the event of a stock dividend, stock split or combination of shares, recapitalization or merger in which DRI is the surviving corporation or other change in DRI's capital stock (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of common stock or preferred stock of DRI), the number and kind of shares of stock or securities of DRI that are subject to the Plan and to Options then outstanding or to be granted under the Plan, the maximum number of shares or securities which may be delivered under the Plan, the Grant Price, the terms of Awards and other relevant provisions shall be appropriately adjusted by the Committee, whose determination shall be binding on all persons. If the adjustment would produce fractional shares with respect to any unexercised Option, the Committee may adjust appropriately the number of shares covered by the Option so as to eliminate the fractional shares.

(c) If DRI is a party to a consolidation or a merger in which DRI is not the surviving corporation, a transaction that results in the acquisition of substantially all of DRI's outstanding stock by a single person or entity, or a sale or transfer of substantially all of DRI's assets or if a Change of Control as defined in Section 16(c)(i) or (ii) otherwise occurs (a "Corporate Event"), then

(i) Except as provided in (ii) below, the Committee may take such actions with respect to outstanding Incentive Awards as the Committee deems appropriate.

(ii) For all Options that are outstanding at the time of a Corporate Event, the Committee shall ensure that Participants will receive with respect to those Options a value per Option that is determined by using one of the generally recognized option pricing models (each of which take into account the difference between the option exercise price and the market price of the stock, if any, plus other factors and assumptions which in combination produce an option value), including, but not limited to the Black-Scholes or the Roll, Geske & Whaley formulae for option valuation, that is the most favorable to Participants in the aggregate. Within the option valuation models, the Committee will use the acquisition price of DRI stock as the measure of its market price (if the Corporate Event involves the acquisition of DRI Stock) and will utilize any other reasonable factors and assumptions, including assumptions regarding stock volatility, risk free interest rates and dividend yield that, taken together, produce the largest value for each Option.

The payment under this Section 8(c)(ii) may be made in the form of cash or in DRI stock or of another publicly traded entity involved in the Corporate Event.

(d) Notwithstanding anything in the Plan to the contrary, the Committee may take the actions set forth in Subsections (a) and (b) above without the consent of any Participant, and the Committee's determination shall be conclusive and binding on all persons for all purposes.

9. Effective Date of the Plan. The effective date of the Plan is July 1, 2000. The effective date of this restatement is July 20, 2001.

10. Termination, Modification, Change. The DRI Board may amend, modify or terminate the Plan or any Option granted under the Plan. A termination or amendment of the Plan shall not, without the consent of the Participant, adversely affect a Participant's rights under an Award previously granted to him or her.

11. *Administration of the Plan.*

(a) The Committee shall administer the Plan. The Committee shall have general authority to impose any limitation or condition upon an Award that the Committee deems appropriate to achieve the objectives of the Award and the Plan. Without limitation and in addition to powers otherwise in the Plan, the Committee shall have the power and complete discretion to determine:

(i) whether all or any part of an Award shall be adjusted upon a Change of Control;

(ii) whether a Long-Term Disability exists and when a Long-Term Disability begins;

(iii) conditions relating to the length of time a Participant must hold Company Stock received upon the exercise of an Option before disposing of it;

(iv) notice requirements relating to the sale of Company Stock acquired under the Plan; and

(v) any additional requirements relating to Awards that the Committee deems appropriate.

The Committee shall have the power to amend the terms of previously granted Awards so long as the terms as amended are consistent with the terms of the Plan and provided that the consent of the Participant is obtained with respect to any amendment that would be detrimental to him or her.

(b) The Committee may adopt rules and regulations for carrying out the Plan with respect to Participants. The interpretation and construction of any provision of the Plan by the Committee shall be final, binding and conclusive as to any Participant. The Committee may consult with counsel, who may be counsel to the Employer, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel. The Committee may delegate some or all of its authority under the Plan to any person or persons so long as such delegation is in writing.

(c) No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option awarded under it. To the maximum extent permitted by applicable law, each member of the Committee shall be indemnified and held harmless by DRI and the Dominion Companies against any cost or expense (including legal fees) or liability (including any sum paid in settlement of a claim with the approval of DRI) arising out of any act or omission to act in connection with the Plan unless arising out of such member's own fraud or bad faith. Such indemnification shall be in addition to any other rights of indemnification these individuals may have under the bylaws of DRI.

12. *Compliance with Other Laws and Regulations.* The Plan, the Stock Option Agreements, the exercise of Options and the obligation of DRI to deliver shares of Company Stock under the Options, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

13. *Notice.* All notices and other communications under this Plan shall be in writing unless the Committee provides otherwise and shall be deemed to have been given if mailed first class, postage prepaid, as follows (a) if to DRI-at the principal business address of DRI (120 Tredegar Street, Richmond, VA 23219) to the attention of the Corporate Secretary of DRI; and (b) if to any Participant-at the last address of the Participant known to the sender at the time the notice or other communication is sent.

14. *Interpretation.* The terms of this Plan and all Awards shall be governed by the laws of the Commonwealth of Virginia, without regard to its conflict of laws rules.

15. *Severability.* In the event that any provision of the Plan shall be determined to be invalid or unenforceable for any reason, the remaining provisions of the Plan shall be unaffected and shall remain in full force and effect in such jurisdiction. Any such invalid or unenforceable provision shall not be considered invalid or unenforceable in any other jurisdiction.

16. *Definitions.* As used in the Plan, the following terms have the meanings below:

(a) "*Applicable Withholding Taxes*" means the aggregate amount of federal, state and local income and payroll taxes that an Employer is required to withhold in connection with any exercise of an Option.

(b) "*Award*" means the award of a stock Option under the Plan.

(c) "*Change of Control*" means the occurrence of any of the following events:

(i) any person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended becomes the owner or beneficial owner of DRI securities having 20% or more of the combined voting power of the then outstanding DRI securities that may be cast for the election of DRI's directors (other than as a result of an issuance of securities initiated by DRI, or

open market purchases approved by the DRI Board, as long as the majority of the DRI Board approving the purchases is also the majority at the time the purchases are made);

(ii) as the direct or indirect result of, or in connection with, a cash tender or exchange offer, a merger or other business combination, a sale of assets, a contested election, or any combination of these transactions, the persons who were directors of DRI before such transactions cease to constitute a majority of the DRI Board, or any successor's board, within two years of the last of such transactions; or

(iii) with respect to a particular Participant, an event occurs with respect to the Employer that employs that Participant such that, after the event, the Employer is no longer a Dominion Company.

(d) "*Code*" means the Internal Revenue Code of 1986, as amended.

(e) "*Committee*" means the Dominion Resources Administrative Benefits Committee.

(f) "*Company Stock*" means common stock of DRI. In the event of a change in the capital structure of DRI (as provided in Section 8), the shares resulting from such a change shall be deemed to be Company Stock within the meaning of the Plan.

(g) "*Dominion Company*" means any corporation in which DRI owns stock possessing at least 50 percent of the combined voting power of all classes of stock or which is in a chain of corporations with DRI in which stock possessing at least 50% of the combined voting power of all classes of stock is owned by one or more other corporations in the chain.

(h) "*DRI*" means Dominion Resources, Inc.

(i) "*DRI Board*" means the Board of Directors of Dominion Resources, Inc.

(j) "*Employer*" means DRI and each Dominion Company that employs one or more Participants.

(k) "*Fair Market Value*" means the average of the high and low prices of a share of Company Stock, as reported by Bloomberg or such other financial reporting service selected by DRI, as of the last day on which Company Stock is traded preceding the date for which the value of Company Stock must be determined under the Plan.

(l) "*Grant Date*" means the date on which the Committee grants an Option.

(m) "*Grant Price*" means the per share exercise price of each Option.

(n) "*Long-Term Disability*" means a total and permanent disability as determined under the Employer's applicable long-term disability plan.

(o) "*Option*" means a right to purchase Company Stock granted to a Participant under the Plan, at a price determined in accordance with the Plan. Each Option shall be a "nonstatutory stock option." A "nonstatutory stock option" is an option that does not meet the requirements of Code section 422, or, even if meeting the requirements of Code section 422, is not intended to be an incentive stock option and is so designated.

(p) "*Participant*" means any salaried employee of DRI or a Dominion Company who receives an Award under the Plan. The Committee may exclude any employee who receives an award under the Dominion Resources, Inc. Incentive Compensation Plan.

(q) "*Plan*" means the Dominion Resources, Inc. Leadership Stock Option Plan for Salaried Employees, as amended from time to time.

(r) "*Stock Option Agreement*" means the agreement between DRI and the Participant under which DRI grants Options to a Participant, subject to the terms and conditions of the agreement and the Plan. Each Stock Option Agreement shall include certain terms and conditions as the Committee may determine to be necessary or desirable, in its sole discretion.