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HARRAHS ENTERTAINMENT INC  
Form SC 13G  
February 15, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 1 )\*  
-----

AAMES INVESTMENT CORP

HARRAH'S ENTERTAINMENT INC

-----  
(Name of Issuer)

Common Stock, \$.01 par value per share

-----  
(Title of Class of Securities)

US4136191073

-----  
(CUSIP Number)

December 31, 2004

-----  
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)  
 Rule 13d-1(c)  
 Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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SCHEDULE 13G

CUSIP No. US4136191073

1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only).  
AMVESCAP PLC

2. Check the Appropriate Box if a Member of a Group (see Instructions)  
(a)  
(b)

3. SEC Use Only \_\_\_\_\_

4. Citizenship or Place of Organization  
AMVESCAP PLC: England  
AIM Advisors, Inc: United States  
AIM Funds Management, Inc.: United States  
INVESCO Asset Management Ireland Limited: Ireland  
INVESCO Asset Management Limited: England  
INVESCO Institutional (N.A.), Inc.: United States  
INVESCO Asset Management GmbH: Germany

5. Sole Voting Power 7,338,495: Such shares are held by entities in the respective amounts listed AIM Advisors 1,251,300, AIM Funds Management, Inc. 5,845,700, INVESCO Ireland Limited 58,100, INVESCO Asset Management Limited Institutional (N.A.), Inc. 175,493, INVESCO Asset Management

Number of Shares Beneficially Owned by Each Reporting Person With

6. Shared Voting Power \_\_\_\_\_

7. Sole Dispositive Power 7,338,495: Such shares are held by entities in the respective amounts listed AIM Advisors 1,251,300, AIM Funds Management, Inc. 5,845,700, INVESCO Ireland Limited 58,100, INVESCO Asset Management Limited Institutional (N.A.), Inc. 175,493, INVESCO Asset Management

8. Shared Dispositive Power \_\_\_\_\_

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-----  
9. Aggregate Amount Beneficially Owned by Each Reporting Person  
7,338,495  
-----

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares  
(See Instructions) N/A  
-----

11. Percent of Class Represented by Amount in Row (9) 6.55%  
-----

12. Type of Reporting Person (See Instructions)  
IA, HC. See Items 2 and 3 of this statement.  
-----

SCHEDULE 13G

Item 1(a) Name of Issuer:  
HARRAH'S ENTERTAINMENT INC

Item 1(b) Address of Issuer's Principal Executive Offices:  
One Harrah's Court  
Las Vegas, NV 89119

Item 2(a) Name of Person Filing:  
AMVESCAP PLC

In accordance with Securities and Exchange Commission Release No. 34-39538 (January 12, 1998), this statement on Schedule 13G or amendment thereto is being filed by AMVESCAP PLC ("AMVESCAP"), a U.K. entity, on behalf of itself and its subsidiaries listed in Item 4 of the cover of this statement. AMVESCAP through such subsidiaries provides investment management services to institutional and individual investors worldwide.

Executive officers and directors of AMVESCAP or its subsidiaries may beneficially own shares of the securities of the issuer to which this statement relates (the "Shares"), and such Shares are not reported in this statement. AMVESCAP and its subsidiaries disclaim beneficial ownership of Shares

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beneficially owned by any of their executive officers and directors. Each of AMVESCAP's direct and indirect subsidiaries also disclaim beneficial ownership of Shares beneficially owned by AMVESCAP and any other subsidiary.

- Item 2(b) Address of Principal Business Office:  
11 Devonshire Square  
London EC2M 4YR  
England
- Item 2(c) Citizenship:  
See the response to Item 2(a) of this statement.
- Item 2(d) Title of Class of Securities:  
Common Stock, \$.01 par value per share
- Item 2(e) CUSIP Number:  
US4136191073
- Item 3 Type of Reporting Person:  
An investment adviser in accordance with section 240.13d-1(b)(1)(ii)(E)  
A parent holding company or control person in accordance with section 240.13d-1
- As noted in Item 2 above, AMVESCAP is making this filing on behalf of its subsidiaries listed herein. Each of these entities is either an investment adviser registered with the United States Securities Exchange Commission under Section 203 of the Investment Advisers Act of 1940, as amended, or under similar laws of other jurisdictions. AMVESCAP is a holding company.
- Item 4 Ownership:  
Please see responses to Items 5-8 on the cover of this statement which are incorporated herein by reference.
- Item 5 Ownership of Five Percent or Less of a Class:  
N/A
- Item 6 Ownership of More than Five Percent on Behalf of Another Person:  
N/A
- Item 7 Identification and Classification of the Subsidiary Which Acquired the Security on By the Parent Holding Company:  
Please see Item 3 of this statement, which is incorporated herein by reference.

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Item 8 Identification and Classification of Members of the Group:  
N/A

Item 9 Notice of Dissolution of a Group:  
N/A

Item 10 Certification:  
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature:

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

February 14, 2005

-----  
Date

/s/ HAL LIEBES

-----  
Signature

Hal Liebes  
Group Compliance Officer  
AMVESCAP PLC

GN="right"> 360 360

Other

19 19

Cash equivalents and other

78 78

Restricted cash equivalents

70 70

Total assets

**\$2,254 \$1,861 \$210 \$4,325**

**Liabilities:**

Derivatives:

Commodity

**\$10 \$555 \$55 \$620**

Interest rate

**321 321**

Total liabilities

**\$10 \$876 \$55 \$941**

At December 31, 2011

**Assets:**

Derivatives:

Commodity

\$44	\$828	\$93	\$965
------	-------	------	-------

Interest rate

105	105
-----	-----

Investments<sup>(1)</sup>:

Equity securities:

U.S.:

Large cap

1,718	1,718
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Other

51	51
----	----

Non-U.S.:



Large cap

10            10

Fixed income:

Corporate debt instruments

332          332

U.S. Treasury securities and agency debentures

277   181          458

State and municipal

329          329

Other

23            23

Cash equivalents and other

60            60

Restricted cash equivalents

141          141

Total assets

\$2,100 \$1,999 \$93 \$4,192

**Liabilities:**

Derivatives:

Commodity

\$10 \$714 \$164 \$888

Interest rate

269 269

Total liabilities

\$10 \$983 \$164 \$1,157

(1) Includes investments held in the nuclear decommissioning and rabbi trusts.



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

(millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Beginning balance	\$ (61)	\$ (163)	\$ (71)	\$ (50)
Total realized and unrealized gains (losses):				
Included in earnings	12	(22)	(23)	(8)
Included in other comprehensive income (loss)	166	35	171	(59)
Included in regulatory assets/liabilities	18	(11)	29	(32)
Settlements	21	39	51	23
Transfers out of Level 3	(1)		(2)	4
Ending balance	\$ 155	\$ (122)	\$ 155	\$ (122)
The amount of gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets/liabilities still held at the reporting date	\$ 33	\$ 27	\$ 33	\$ 31

The following table presents Dominion's classification of gains and losses included in earnings in the Level 3 fair value category:

(millions)	Operating revenue	Electric fuel and other energy- related purchases	Total
<b>Three Months Ended June 30, 2012</b>			
Total gains (losses) included in earnings	\$ 32	\$ (20)	\$ 12
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets/liabilities still held at the reporting date	33		33
<b>Three Months Ended June 30, 2011</b>			
Total gains (losses) included in earnings	\$ 2	\$ (24)	\$ (22)
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets/liabilities still held at the reporting date	27		27
<b>Six Months Ended June 30, 2012</b>			
Total gains (losses) included in earnings	\$ 23	\$ (46)	\$ (23)
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets/liabilities still held at the reporting date	33		33
<b>Six Months Ended June 30, 2011</b>			
Total gains (losses) included in earnings	\$	\$ (8)	\$ (8)
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to assets/liabilities still held at the reporting date	31		31



**Table of Contents****Virginia Power**

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

(millions)	Level 1	Level 2	Level 3	Total
<b>At June 30, 2012</b>				
<b>Assets:</b>				
Derivatives:				
Commodity	\$	\$ 1	\$ 4	\$ 5
Investments <sup>(1)</sup> :				
Equity securities:				
U.S.:				
Large cap	737			737
Other	24			24
Fixed income:				
Corporate debt instruments		180		180
U.S. Treasury securities and agency debentures	116	71		187
State and municipal		148		148
Other		14		14
Cash equivalents and other		35		35
Restricted cash equivalents		11		11
<b>Total assets</b>	<b>\$ 877</b>	<b>\$ 460</b>	<b>\$ 4</b>	<b>\$ 1,341</b>
<b>Liabilities:</b>				
Derivatives:				
Commodity	\$	\$ 8	\$ 3	\$ 11
Interest rate		105		105
<b>Total liabilities</b>	<b>\$</b>	<b>\$ 113</b>	<b>\$ 3</b>	<b>\$ 116</b>
<b>At December 31, 2011</b>				
<b>Assets:</b>				
Derivatives:				
Commodity	\$	\$	\$ 2	\$ 2
Investments <sup>(1)</sup> :				
Equity securities:				
U.S.:				
Large cap	679			679
Other	23			23
Fixed income:				
Corporate debt instruments		214		214
U.S. Treasury securities and agency debentures	107	63		170
State and municipal		125		125
Other		16		16
Cash equivalents and other		40		40
Restricted cash equivalents		32		32
<b>Total assets</b>	<b>\$ 809</b>	<b>\$ 490</b>	<b>\$ 2</b>	<b>\$ 1,301</b>
<b>Liabilities:</b>				
Derivatives:				

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Commodity	\$	\$ 17	\$ 30	\$ 47
Interest rate		100		100
Total liabilities	\$	\$ 117	\$ 30	\$ 147

- (1) Includes investments held in the nuclear decommissioning and rabbi trusts.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
(millions)				
Beginning balance	\$ (17)	\$ (7)	\$ (28)	\$ 14
Total realized and unrealized gains (losses):				
Included in earnings	(19)	(24)	(46)	(8)
Included in regulatory assets/liabilities	18	(11)	29	(32)
Settlements	19	24	46	8
Ending balance	\$ 1	\$ (18)	\$ 1	\$ (18)

The gains and losses included in earnings in the Level 3 fair value category were classified in electric fuel and other energy-related purchases in Virginia Power's Consolidated Statements of Income for the three and six months ended June 30, 2012 and 2011. There were no unrealized gains and losses included in earnings in the Level 3 fair value category relating to assets/liabilities still held at the reporting date for the three and six months ended June 30, 2012 and 2011.

**Fair Value of Financial Instruments**

Substantially all of Dominion's and Virginia Power's financial instruments are recorded at fair value, with the exception of the instruments described below that are reported at historical cost. Estimated fair values have been determined using available market information and valuation methodologies considered appropriate by management. The carrying amount of cash and cash equivalents, customer and other receivables, short-term debt and accounts payable are representative of fair value because of the short-term nature of these instruments. For Dominion's and Virginia Power's financial instruments that are not recorded at fair value, the carrying amounts and estimated fair values are as follows:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value <sup>(1)</sup>	Carrying Amount	Estimated Fair Value <sup>(1)</sup>
(millions)				
<b>Dominion</b>				
Long-term debt, including securities due within one year <sup>(2)</sup>	\$ 16,638	\$ 19,672	\$ 16,264	\$ 18,936
Long-term debt, VIE <sup>(3)</sup>	875	880	890	892
Junior subordinated notes payable to affiliates	268	275	268	268
Enhanced junior subordinated notes	1,363	1,457	1,451	1,518
Subsidiary preferred stock <sup>(4)</sup>	257	268	257	256
<b>Virginia Power</b>				
Long-term debt, including securities due within one year <sup>(2)</sup>	\$ 7,302	\$ 8,919	\$ 6,862	\$ 8,281
Preferred stock <sup>(4)</sup>	257	268	257	256

- (1) Fair value is estimated using market prices, where available, and interest rates currently available for issuance of debt with similar terms and remaining maturities. All fair value measurements are classified as Level 2. The carrying amount of debt issues with short-term maturities and variable rates refinanced at current market rates is a reasonable estimate of their fair value.
- (2) Includes amounts which represent the unamortized discount and premium. At June 30, 2012 and December 31, 2011, includes the valuation of certain fair value hedges associated with Dominion's fixed rate debt of approximately \$103 million and \$105 million,

respectively.

- (3) Includes amounts which represent the unamortized premium.
- (4) Includes deferred issuance expenses of \$2 million at June 30, 2012 and December 31, 2011.

**Note 8. Derivatives and Hedge Accounting Activities**

Dominion's and Virginia Power's accounting policies and objectives and strategies for using derivative instruments are discussed in Note 2 to the Consolidated Financial Statements in their Annual Report on Form 10-K for the year ended December 31, 2011. See Note 7 in this report for further information about fair value measurements and associated valuation methods for derivatives.

**Table of Contents****Dominion**

The following table presents the volume of Dominion's derivative activity as of June 30, 2012. These volumes are based on open derivative positions and represent the combined absolute value of their long and short positions, except in the case of offsetting transactions, for which they represent the absolute value of the net volume of their long and short positions.

	Current	Noncurrent
Natural Gas (bcf):		
Fixed price <sup>(1)</sup>	306	74
Basis <sup>(1)</sup>	817	495
Electricity (MWh):		
Fixed price <sup>(1)</sup>	25,636,509	19,532,389
FTRs	97,639,210	353,110
Capacity (MW)	49,825	266,460
Liquids (Gal) <sup>(2)</sup>	141,162,000	204,960,000
Interest rate	\$ 2,200,000,000	\$ 2,840,000,000

(1) Includes options.

(2) Includes NGLs and oil.

For the three and six months ended June 30, 2012 and 2011, gains or losses on hedging instruments determined to be ineffective and amounts excluded from the assessment of effectiveness were not material. Amounts excluded from the assessment of effectiveness include gains or losses attributable to changes in the time value of options and changes in the differences between spot prices and forward prices.

The following table presents selected information related to gains (losses) on cash flow hedges included in AOCI in Dominion's Consolidated Balance Sheet at June 30, 2012:

(millions)	AOCI After-Tax	Amounts Expected to be Reclassified to Earnings during the next 12 Months After-Tax	Maximum Term
Commodities:			
Gas	\$ (26)	\$ (18)	30 months
Electricity	180	68	42 months
NGLs	34	12	30 months
Other	5	3	47 months
Interest rate	(164)	(14)	366 months
<b>Total</b>	<b>\$ 29</b>	<b>\$ 51</b>	

The amounts that will be 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 and will vary from the expected amounts presented above as a result of changes in market prices and interest rates.

**Table of Contents****Fair Value and Gains and Losses on Derivative Instruments**

The following table presents the fair values of Dominion's derivatives and where they are presented in its Consolidated Balance Sheets:

	Fair Value Derivatives under Hedge Accounting	Fair Value Derivatives not under Hedge Accounting	Total Fair Value
(millions)			
<b>June 30, 2012</b>			
<b>ASSETS</b>			
<b>Current Assets</b>			
Commodity	\$ 238	\$ 384	\$ 622
Interest rate	39		39
Total current derivative assets	277	384	661
<b>Noncurrent Assets</b>			
Commodity	277	108	385
Interest rate	65		65
Total noncurrent derivative assets <sup>(1)</sup>	342	108	450
Total derivative assets	\$ 619	\$ 492	\$ 1,111
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Commodity	\$ 95	\$ 369	\$ 464
Interest rate	256	32	288
Total current derivative liabilities	351	401	752
<b>Noncurrent Liabilities</b>			
Commodity	78	78	156
Interest rate	23	10	33
Total noncurrent derivative liabilities <sup>(2)</sup>	101	88	189
Total derivative liabilities	\$ 452	\$ 489	\$ 941
December 31, 2011			
<b>ASSETS</b>			
<b>Current Assets</b>			
Commodity	\$ 176	\$ 495	\$ 671
Interest rate	34		34
Total current derivative assets	210	495	705
<b>Noncurrent Assets</b>			

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Commodity	198	96	294
Interest rate	71		71
<b>Total noncurrent derivative assets<sup>(1)</sup></b>	<b>269</b>	<b>96</b>	<b>365</b>
Total derivative assets	\$ 479	\$ 591	\$ 1,070
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Commodity	\$ 162	\$ 530	\$ 692
Interest rate	222	37	259
<b>Total current derivative liabilities</b>	<b>384</b>	<b>567</b>	<b>951</b>
<b>Noncurrent Liabilities</b>			
Commodity	118	78	196
Interest rate		10	10
<b>Total noncurrent derivative liabilities<sup>(2)</sup></b>	<b>118</b>	<b>88</b>	<b>206</b>
Total derivative liabilities	\$ 502	\$ 655	\$ 1,157

- (1) Noncurrent derivative assets are presented in other deferred charges and other assets in Dominion's Consolidated Balance Sheets.  
(2) Noncurrent derivative liabilities are presented in other deferred credits and other liabilities in Dominion's Consolidated Balance Sheets.

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The following tables present the gains and losses on Dominion's derivatives, as well as where the associated activity is presented in its Consolidated Balance Sheets and Statements of Income:

Derivatives in cash flow hedging relationships (millions)	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) <sup>(1)</sup>	Amount of Gain (Loss) Reclassified from AOCI to Income	Increase (Decrease) in Derivatives Subject to Regulatory Treatment <sup>(2)</sup>
<b>Three Months Ended June 30, 2012</b>			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Operating revenue		\$ 63	
Purchased gas		(17)	
Electric fuel and other energy-related purchases		(5)	
<b>Total commodity</b>	<b>\$ 111</b>	<b>41</b>	<b>\$ 9</b>
Interest rate <sup>(3)</sup>	(108)	1	(68)
<b>Total</b>	<b>\$ 3</b>	<b>\$ 42</b>	<b>\$ (59)</b>
<b>Three Months Ended June 30, 2011</b>			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Operating revenue		\$ 32	
Purchased gas		(7)	
Electric fuel and other energy-related purchases		1	
Purchased electric capacity		1	
<b>Total commodity</b>	<b>\$ 49</b>	<b>27</b>	<b>\$ (4)</b>
Interest rate <sup>(3)</sup>	(31)		1
<b>Total</b>	<b>\$ 18</b>	<b>\$ 27</b>	<b>\$ (3)</b>
<b>Six Months Ended June 30, 2012</b>			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Operating revenue		\$ 127	
Purchased gas		(47)	
Electric fuel and other energy-related purchases		(12)	
<b>Total commodity</b>	<b>\$ 287</b>	<b>68</b>	<b>\$ 8</b>
Interest rate <sup>(3)</sup>	(76)	2	(41)
<b>Total</b>	<b>\$ 211</b>	<b>\$ 70</b>	<b>\$ (33)</b>
<b>Six Months Ended June 30, 2011</b>			

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Derivative Type and Location of Gains (Losses)

Commodity:			
Operating revenue		\$	60
Purchased gas			(55)
Electric fuel and other energy-related purchases			2
Purchased electric capacity			2
Total commodity	\$	(93)	9
			\$ (9)
Interest rate <sup>(3)</sup>			(32)
Total	\$	(125)	9
			\$ (9)

- (1) Amounts deferred into AOCI have no associated effect in Dominion's Consolidated Statements of Income.
- (2) Represents net derivative activity deferred into and amortized out of regulatory assets/liabilities. Amounts deferred into regulatory assets/liabilities have no associated effect in Dominion's Consolidated Statements of Income.
- (3) Amounts recorded in Dominion's Consolidated Statements of Income are classified in interest and related charges.

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Derivatives not designated as hedging instruments (millions)	Amount of Gain (Loss) Recognized in Income on Derivatives <sup>(1)</sup>			
	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Derivative Type and Location of Gains (Losses)				
Commodity				
Operating revenue	\$ 34	\$ 23	\$ 103	\$ 42
Purchased gas	5	(7)	(5)	(18)
Electric fuel and other energy-related purchases	(9)	(24)	(36)	(8)
Interest rate <sup>(2)</sup>	9		7	
<b>Total</b>	<b>\$ 39</b>	<b>\$ (8)</b>	<b>\$ 69</b>	<b>\$ 16</b>

(1) Includes derivative activity amortized out of regulatory assets/liabilities. Amounts deferred into regulatory assets/liabilities have no associated effect in Dominion's Consolidated Statements of Income.

(2) Amounts recorded in Dominion's Consolidated Statements of Income are classified in interest and related charges.

**Virginia Power**

The following table presents the volume of Virginia Power's derivative activity as of June 30, 2012. These volumes are based on open derivative positions and represent the combined absolute value of their long and short positions, except in the case of offsetting transactions, for which they represent the absolute value of the net volume of their long and short positions.

	Current	Noncurrent
Natural Gas (bcf):		
Fixed price	23	
Basis	12	
Electricity (MWh):		
Fixed price	580,000	
FTRs	95,756,457	
Capacity (MW)	15,000	185,800
Interest rate	\$ 500,000,000	\$ 840,000,000

For the three and six months ended June 30, 2012 and 2011, gains or losses on hedging instruments determined to be ineffective and amounts excluded from the assessment of effectiveness were not material. Amounts excluded from the assessment of effectiveness include gains or losses attributable to changes in the time value of options and changes in the differences between spot prices and forward prices.



**Table of Contents****Fair Value and Gains and Losses on Derivative Instruments**

The following table presents the fair values of Virginia Power's derivatives and where they are presented in its Consolidated Balance Sheets:

(millions)	Fair Value Derivatives under Hedge Accounting	Fair Value Derivatives not under Hedge Accounting	Total Fair Value
<b>June 30, 2012</b>			
<b>ASSETS</b>			
<b>Current Assets</b>			
Commodity	\$ 1	\$ 4	\$ 5
Total current derivative assets <sup>(1)</sup>	1	4	5
Total derivative assets	\$ 1	\$ 4	\$ 5
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Commodity	\$ 5	\$ 4	\$ 9
Interest rate	41	32	73
Total current derivative liabilities <sup>(2)</sup>	46	36	82
<b>Noncurrent Liabilities</b>			
Commodity	2		2
Interest rate	22	10	32
Total noncurrent derivative liabilities <sup>(3)</sup>	24	10	34
Total derivative liabilities	\$ 70	\$ 46	\$ 116
<b>December 31, 2011</b>			
<b>ASSETS</b>			
<b>Current Assets</b>			
Commodity	\$	\$ 2	\$ 2
Total current derivative assets <sup>(1)</sup>		2	2
Total derivative assets	\$	\$ 2	\$ 2
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Commodity	\$ 14	\$ 31	\$ 45
Interest rate	53	37	90
Total current derivative liabilities <sup>(2)</sup>	67	68	135
<b>Noncurrent Liabilities</b>			
Commodity	2		2
Interest rate		10	10

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Total noncurrent derivative liabilities <sup>(3)</sup>	2	10	12
Total derivative liabilities	\$ 69	\$ 78	\$ 147

- (1) Current derivative assets are presented in other current assets in Virginia Power's Consolidated Balance Sheets.
- (2) Current derivative liabilities are presented in other current liabilities in Virginia Power's Consolidated Balance Sheets.
- (3) Noncurrent derivative liabilities are presented in other deferred credits and other liabilities in Virginia Power's Consolidated Balance Sheets.

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The following tables present the gains and losses on Virginia Power's derivatives, as well as where the associated activity is presented in its Consolidated Balance Sheets and Statements of Income:

Derivatives in cash flow hedging relationships (millions)	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) <sup>(1)</sup>	Amount of Gain (Loss) Reclassified from AOCI to Income	Increase (Decrease) in Derivatives Subject to Regulatory Treatment <sup>(2)</sup>
<b>Three Months Ended June 30, 2012</b>			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Electric fuel and other energy-related purchases		\$ (1)	
Total commodity	\$ 1	(1)	\$ 9
Interest rate <sup>(3)</sup>	(5)		(68)
Total	\$ (4)	\$ (1)	\$ (59)
Three Months Ended June 30, 2011			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Purchased electric capacity		\$	
Total commodity	\$		\$ (4)
Interest rate <sup>(3)</sup>		1	1
Total	\$	\$ 1	\$ (3)
<b>Six Months Ended June 30, 2012</b>			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Electric fuel and other energy-related purchases		\$ (3)	
Total commodity	\$ (1)	(3)	\$ 8
Interest rate <sup>(3)</sup>	(4)		(41)
Total	\$ (5)	\$ (3)	\$ (33)
Six Months Ended June 30, 2011			
Derivative Type and Location of Gains (Losses)			
Commodity:			
Purchased electric capacity		\$ 1	
Total commodity	\$	1	\$ (9)
Interest rate <sup>(3)</sup>		1	

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Total \$ \$ 2 \$ (9)

- (1) Amounts deferred into AOCI have no associated effect in Virginia Power's Consolidated Statements of Income.
- (2) Represents net derivative activity deferred into and amortized out of regulatory assets/liabilities. Amounts deferred into regulatory assets/liabilities have no associated effect in Virginia Power's Consolidated Statements of Income.
- (3) Amounts are recorded in interest and related charges in Virginia Power's Consolidated Statements of Income.

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Derivatives not designated as hedging instruments (millions)	Amount of Gain (Loss) Recognized in Income on Derivatives <sup>(1)</sup>			
	Three Months Ended		Six Months Ended	
	2012	June 30, 2011	2012	June 30, 2011
Derivative Type and Location of Gains (Losses)				
Commodity <sup>(2)</sup>	\$ (19)	\$ (24)	\$ (46)	\$ (8)
Interest rate <sup>(3)</sup>	1		(1)	
Total	\$ (18)	\$ (24)	\$ (47)	\$ (8)

(1) Includes derivative activity amortized out of regulatory assets/liabilities. Amounts deferred into regulatory assets/liabilities have no associated effect in Virginia Power's Consolidated Statements of Income.

(2) Amounts are recorded in electric fuel and other energy-related purchases in Virginia Power's Consolidated Statements of Income.

(3) Amounts are recorded in interest and related charges in Virginia Power's Consolidated Statements of Income.

**Note 9. Investments****Dominion****Equity and Debt Securities***Rabbi Trust Securities*

Marketable equity and debt securities and cash equivalents held in Dominion's rabbi trusts and classified as trading totaled \$91 million and \$90 million at June 30, 2012 and December 31, 2011, respectively. Cost method investments held in Dominion's rabbi trusts totaled \$16 million and \$17 million at June 30, 2012 and December 31, 2011, respectively.

**Table of Contents****Decommissioning Trust Securities**

Dominion holds marketable equity and debt securities (classified as available-for-sale), cash equivalents and cost method investments in nuclear decommissioning trust funds to fund future decommissioning costs for its nuclear plants. Dominion's decommissioning trust funds are summarized below.

(millions)	Amortized Cost	Total Unrealized Gains <sup>(1)</sup>	Total Unrealized Losses <sup>(1)</sup>	Fair Value
<b>June 30, 2012</b>				
Marketable equity securities				
U.S.:				
Large Cap	\$ 1,185	\$ 653	\$	\$ 1,838
Other	38	11		49
Marketable debt securities:				
Corporate bonds	277	23	(1)	299
U.S. Treasury securities and agency debentures	439	21	(2)	458
State and municipal	294	24		318
Other	18	1		19
Cost method investments	128			128
Cash equivalents and other <sup>(2)</sup>	77			77
<b>Total</b>	<b>\$ 2,456</b>	<b>\$ 733</b>	<b>\$ (3)<sup>(3)</sup></b>	<b>\$ 3,186</b>
December 31, 2011				
Marketable equity securities:				
U.S.:				
Large Cap	\$ 1,152	\$ 537	\$	\$ 1,689
Other	36	10		46
Marketable debt securities:				
Corporate bonds	314	19	(1)	332
U.S. Treasury securities and agency debentures	437	20	(1)	456
State and municipal	264	24		288
Other	23	1		24
Cost method investments	118			118
Cash equivalents and other <sup>(2)</sup>	46			46
<b>Total</b>	<b>\$ 2,390</b>	<b>\$ 611</b>	<b>\$ (2)<sup>(3)</sup></b>	<b>\$ 2,999</b>

(1) Included in AOCI and the decommissioning trust regulatory liability.

(2) Includes pending sales of securities of \$4 million and pending purchases of securities of \$11 million at June 30, 2012 and December 31, 2011, respectively.

(3) The fair value of securities in an unrealized loss position was \$196 million and \$164 million at June 30, 2012 and December 31, 2011, respectively.

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The fair value of Dominion's marketable debt securities held in nuclear decommissioning trust funds at June 30, 2012 by contractual maturity is as follows:

(millions)	Amount
Due in one year or less	\$ 100
Due after one year through five years	271
Due after five years through ten years	326
Due after ten years	397
<b>Total</b>	<b>\$ 1,094</b>

Presented below is selected information regarding Dominion's marketable equity and debt securities held in nuclear decommissioning trust funds.

(millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Proceeds from sales	\$ 349	\$ 437	\$ 764	\$ 939
Realized gains <sup>(1)</sup>	28	18	56	32
Realized losses <sup>(1)</sup>	15	12	19	20

(1) Includes realized gains or losses recorded to the decommissioning trust regulatory liability.

Other-than-temporary impairment losses on investments held in nuclear decommissioning trust funds for Dominion were not material for the three or six months ended June 30, 2012 and 2011.

**Table of Contents****Virginia Power****Decommissioning Trust Securities**

Virginia Power holds marketable equity and debt securities (classified as available-for-sale), cash equivalents and cost method investments in nuclear decommissioning trust funds to fund future decommissioning costs for its nuclear plants. Virginia Power's decommissioning trust funds are summarized below.

	Amortized Cost	Total Unrealized Gains <sup>(1)</sup>	Total Unrealized Losses <sup>(1)</sup>	Fair Value
(millions)				
<b>June 30, 2012</b>				
Marketable equity securities:				
U.S.:				
Large Cap	\$ 470	\$ 266	\$	\$ 736
Other	19	5		24
Marketable debt securities:				
Corporate bonds	167	14	(1)	180
U.S. Treasury securities and agency debentures	183	5	(1)	187
State and municipal	138	10		148
Other	13	1		14
Cost method investments	128			128
Cash equivalents and other <sup>(2)</sup>	34			34
<b>Total</b>	<b>\$ 1,152</b>	<b>\$ 301</b>	<b>\$ (2)<sup>(3)</sup></b>	<b>\$ 1,451</b>
December 31, 2011				
Marketable equity securities				
U.S.:				
Large Cap	\$ 460	\$ 218	\$	\$ 678
Other	18	5		23
Marketable debt securities:				
Corporate bonds	204	11	(1)	214
U.S. Treasury securities and agency debentures	166	4		170
State and municipal	114	10		124
Other	16	1	(1)	16
Cost method investments	118			118
Cash equivalents and other <sup>(2)</sup>	27			27
<b>Total</b>	<b>\$ 1,123</b>	<b>\$ 249</b>	<b>\$ (2)<sup>(3)</sup></b>	<b>\$ 1,370</b>

(1) Included in AOCI and the decommissioning trust regulatory liability.

(2) Includes pending purchases of securities of \$1 million and \$13 million at June 30, 2012 and December 31, 2011, respectively.

(3) The fair value of securities in an unrealized loss position was \$104 million and \$99 million at June 30, 2012 and December 31, 2011, respectively.

The fair value of Virginia Power's debt securities at June 30, 2012 by contractual maturity is as follows:

Amount



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(millions)

Due in one year or less	\$ 22
Due after one year through five years	129
Due after five years through ten years	190
Due after ten years	188
Total	\$ 529

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Presented below is selected information regarding Virginia Power's marketable equity and debt securities.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(millions)	2012	2011	2012	2011
Proceeds from sales	\$ 162	\$ 253	\$ 353	\$ 596
Realized gains <sup>(1)</sup>	10	6	21	11
Realized losses <sup>(1)</sup>	5	4	7	8

(1) Includes realized gains or losses recorded to the decommissioning trust regulatory liability.

Other-than-temporary impairment losses on investments for Virginia Power were not material for the three and six months ended June 30, 2012 and 2011.

**Table of Contents****Note 10. Regulatory Assets and Liabilities**

Regulatory assets and liabilities include the following:

(millions)	June 30, 2012	December 31, 2011
<b>Dominion</b>		
Regulatory assets:		
Deferred cost of fuel used in electric generation <sup>(1)</sup>	\$ 78	\$ 249
Deferred rate adjustment clause costs <sup>(2)</sup>	70	113
Other	114	179
Regulatory assets-current <sup>(3)</sup>	262	541
Unrecognized pension and other postretirement benefit costs <sup>(4)</sup>	861	887
Income taxes recoverable through future rates <sup>(5)</sup>	135	121
Derivatives <sup>(6)</sup>	107	49
Deferred rate adjustment clause costs <sup>(2)</sup>	104	72
Other	121	253
Regulatory assets-non-current	1,328	1,382
Total regulatory assets	\$ 1,590	\$ 1,923
Regulatory liabilities:		
PIPP <sup>(7)</sup>	\$ 78	\$ 58
Provision for rate proceedings <sup>(8)</sup>	51	150
Other	36	35
Regulatory liabilities-current <sup>(9)</sup>	165	243
Provision for future cost of removal and AROs <sup>(10)</sup>	939	901
Decommissioning trust <sup>(11)</sup>	457	399
Other	40	24
Regulatory liabilities-non-current	1,436	1,324
Total regulatory liabilities	\$ 1,601	\$ 1,567
<b>Virginia Power</b>		
Regulatory assets:		
Deferred cost of fuel used in electric generation <sup>(1)</sup>	\$ 78	\$ 249
Deferred rate adjustment clause costs <sup>(2)</sup>	70	113
Other	70	117
Regulatory assets-current <sup>(3)</sup>	218	479
Income taxes recoverable through future rates <sup>(5)</sup>	109	100
Derivatives <sup>(6)</sup>	107	49
Deferred rate adjustment clause costs <sup>(2)</sup>	104	70
Other	43	180
Regulatory assets-non-current	363	399

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Total regulatory assets	\$	<b>581</b>	\$	878
Regulatory liabilities:				
Provision for rate proceedings <sup>(8)</sup>	\$	<b>51</b>	\$	150
Other		<b>28</b>		28
Regulatory liabilities-current <sup>(9)</sup>		<b>79</b>		178
Provision for future cost of removal <sup>(10)</sup>		<b>720</b>		687
Decommissioning trust <sup>(11)</sup>		<b>457</b>		399
Other		<b>27</b>		9
Regulatory liabilities-non-current		<b>1,204</b>		1,095
Total regulatory liabilities	\$	<b>1,283</b>	\$	1,273

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- (1) Primarily reflects deferred fuel expenses for the Virginia jurisdiction of Virginia Power's generation operations. See Note 11 for more information.
- (2) Reflects deferrals under the electric transmission FERC formula rate and the deferral of costs associated with certain riders. See Note 11 for more information.
- (3) Current regulatory assets are presented in other current assets in Dominion's and Virginia Power's Consolidated Balance Sheets.
- (4) Represents unrecognized pension and other postretirement benefit costs expected to be recovered through future rates by certain of Dominion's rate-regulated subsidiaries.
- (5) Amounts to be recovered through future rates to pay income taxes that become payable when rate revenue is provided to recover AFUDC-equity and depreciation of property, plant and equipment for which deferred income taxes were not recognized for ratemaking purposes, including amounts attributable to tax rate changes.
- (6) For jurisdictions subject to cost-based rate regulation, changes in the fair value of derivative instruments result in the recognition of regulatory assets or regulatory liabilities as they are expected to be recovered from or refunded to customers.
- (7) Under PIPP, eligible customers can receive energy assistance based on their ability to pay. The difference between the customer's total bill and the PIPP plan amount is deferred and collected or returned annually under the PIPP rider according to East Ohio tariff provisions. See Note 11 for more information.
- (8) Reflects a reserve associated with the settlement of Virginia Power's 2009 base rate case proceedings and associated with the Biennial Review Order.
- (9) Current regulatory liabilities are presented in other current liabilities in Dominion's and Virginia Power's Consolidated Balance Sheets.
- (10) Rates charged to customers by the Companies' regulated businesses include a provision for the cost of future activities to remove assets that are expected to be incurred at the time of retirement.
- (11) Primarily reflects a regulatory liability representing amounts collected from Virginia jurisdictional customers and placed in external trusts (including income, losses and changes in fair value thereon) for the future decommissioning of Virginia Power's utility nuclear generation stations, in excess of the related ARO.

At June 30, 2012, approximately \$262 million of Dominion's and \$208 million of Virginia Power's regulatory assets represented past expenditures on which they do not currently earn a return. Dominion's expenditures primarily include deferred cost of fuel used in electric generation. The above expenditures are expected to be recovered within the next two years.

**Note 11. Regulatory Matters*****Regulatory Matters Involving Potential Loss Contingencies***

As a result of issues generated in the ordinary course of business, Dominion and Virginia Power are involved in various regulatory matters. Certain regulatory matters may ultimately result in a loss; however, as such matters are in an initial procedural phase, involve uncertainty as to the outcome of pending reviews or orders, and/or involve significant factual issues that need to be resolved, it is not possible for the Companies to estimate a range of possible loss. For matters for which the Companies cannot estimate a range of possible loss, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the regulatory process such that the Companies are able to estimate a range of possible loss. For regulatory matters for which the Companies are able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. This estimated range is based on currently available information and involves elements of judgment and significant uncertainties. This estimated range of possible loss may not represent the Companies' maximum possible loss exposure. The circumstances of such regulatory matters will change from time to time and actual results may vary significantly from the current estimate. For current matters not specifically reported below, management does not anticipate that the outcome from such matters would have a material effect on Dominion's or Virginia Power's financial position, liquidity or results of operations.

**FERC - Electric**

Under the Federal Power Act, FERC regulates wholesale sales and transmission of electricity in interstate commerce by public utilities. Dominion's merchant generators sell electricity in the PJM, MISO and ISO-NE wholesale markets under Dominion's market-based sales tariffs authorized by FERC. Virginia Power purchases and, under its FERC market-based rate authority, sells electricity in the wholesale market. In addition, Virginia Power has FERC approval of a tariff to sell wholesale power at capped rates based on its embedded cost of generation. This cost-based sales tariff could be used to sell to loads within or outside Virginia Power's service territory. Any such sales would be voluntary.

***Rates***

In April 2008, FERC granted an application for Virginia Power's electric transmission operations to establish a forward-looking formula rate mechanism that updates transmission rates on an annual basis and approved an ROE of 11.4%, effective as of January 1, 2008. The formula rate is designed to recover the expected revenue requirement for each calendar year and is updated based on actual costs. The FERC-approved

formula method, which is based on projected costs, allows Virginia Power to earn a current return on its growing investment in electric transmission infrastructure.

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In July 2008, Virginia Power filed an application with FERC requesting a revision to its revenue requirement to reflect an additional ROE incentive adder for eleven electric transmission enhancement projects. Under the proposal, the cost of transmission service would increase to include an ROE incentive adder for each of the eleven projects, beginning the date each project enters commercial operation (but not before January 1, 2009). Virginia Power proposed an incentive of 1.5% for four of the projects and an incentive of 1.25% for the other seven projects. In August 2008, FERC approved the proposal, effective September 1, 2008. Ten of the eleven projects are currently expected to be completed by the end of 2012. The one remaining project represents Virginia Power's small portion of a larger transmission expansion which has been suspended by PJM. Numerous parties sought rehearing of the FERC order in August 2008. In May 2012, FERC issued an order denying the rehearing requests. In July 2012, the North Carolina Commission filed an appeal of the FERC order with the U.S. Court of Appeals for the Fourth Circuit. While Virginia Power cannot predict the outcome of the appeal, it is not expected to have a material effect on results of operations.

In March 2010, ODEC and NCEMC filed a complaint with FERC against Virginia Power claiming that approximately \$223 million in transmission costs related to specific projects were unjust, unreasonable and unduly discriminatory or preferential and should be excluded from Virginia Power's transmission formula rate. ODEC and NCEMC requested that FERC establish procedures to determine the amount of costs for each applicable project that should be excluded from Virginia Power's rates. In October 2010, FERC issued an order dismissing the complaint in part and established hearings and settlement procedures on the remaining part of the complaint. In February 2012, Virginia Power submitted to FERC a settlement agreement to resolve all issues set for hearing. All transmission customer parties to the proceeding joined the settlement. The Virginia Commission, North Carolina Commission and Public Staff of the North Carolina Commission, while not parties to the settlement, have agreed to not oppose the settlement. The settlement was accepted by FERC in May 2012 and provides for payment by Virginia Power to the transmission customer parties collectively of \$250,000 per year for ten years and resolves all matters other than allocation of the incremental cost of certain underground transmission facilities, which have been set for briefing. While Virginia Power cannot predict the outcome of the briefing, it is not expected to have a material effect on results of operations.

### *PJM*

In November 2011, PJM issued a formal notification that it would recalculate certain ancillary service revenues that had previously been paid during 2009, 2010 and 2011. Also in November 2011, PJM requested FERC permission to suspend its rebilling and repayment obligations associated with the recalculation of such revenues and petitioned FERC to establish a proceeding to determine the appropriate recalculations for the revenues during this period. In December 2011, FERC permitted the suspension of rebilling and repayment by PJM, subject to the outcome of FERC's proceedings to determine the appropriate revenue recalculation. In April 2012, FERC issued an Order Establishing Hearing and Settlement Judge Procedures to address the appropriate recalculation of the ancillary service credits PJM will be required to collect from Virginia Power. Virginia Power has reduced the accrual for this matter to \$33 million as of June 30, 2012 for estimated future billing adjustments from PJM related to the ancillary service revenues in anticipation of a settlement among Virginia Power, PJM and the PJM Market Monitor.

### *Other Regulatory Matters*

Other than the following matters, there have been no significant developments regarding the pending regulatory matters disclosed in Note 14 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011 and Note 9 to the Consolidated Financial Statements in Dominion's and Virginia Power's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.

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### **Virginia Regulation**

#### *Biennial Review*

In May 2012, the Supreme Court of Virginia granted review of Virginia Power's appeals from the Biennial Review Order and the March 2012 Order denying Virginia Power's petition seeking rehearing or reconsideration, and paired both appeals for the purpose of oral argument. These appeals are pending.

#### *Virginia Fuel Expenses*

In May 2012, Virginia Power submitted its annual fuel factor filing to the Virginia Commission, proposing a decrease of approximately \$389 million in fuel revenue for the rate year beginning July 1, 2012. In May 2012, the Virginia Commission issued an order implementing the proposed rate effective July 1, 2012 on an interim basis, and setting a hearing for September 2012.

#### *Transmission Rider T1*

In May 2012, Virginia Power filed Rider T1 with the Virginia Commission to recover costs of transmission service and demand response programs for the September 1, 2012 to August 31, 2013 rate year. The proposed Rider T1 reduction of approximately \$100 million produces a total annual revenue requirement of approximately \$373 million when netted with the revenue requirement of approximately \$473 million associated with the Rider T customer rates currently in effect, and now combined in Virginia Power's base rates. Virginia Power's filing stated that Rider T costs combined in base rates should be identified and separately tracked, with the continuation of deferral accounting and dollar-for-dollar recovery for these costs. Virginia Power's proposed revenue requirement was supported by the Staff of the Virginia Commission, although the Staff concurrently proposed an alternative methodology for the Rider T1 revenue requirement which would represent an increase of approximately \$18 million from the current Rider T customer rates. The Staff's alternative methodology, if accepted, would preclude deferral accounting and dollar-for-dollar recovery for Rider T in future periods.

In July 2012, a hearing examiner issued a report to the Virginia Commission stating that Virginia Power's proposed revenue requirement for Rider T1 was unopposed, and that both Virginia Power's proposal and the Staff's alternative methodology were proper depending on how the Virginia Commission interpreted the statute requiring the combining of Rider T into Virginia Power's base rates. An order from the Virginia Commission is expected by August 2012.

#### *Generation Riders R and S*

In June 2012, Virginia Power requested Virginia Commission approval of its annual updates for Riders R and S for the next two consecutive rate years, utilizing an 11.4% ROE (inclusive of a 100 basis point statutory enhancement) consistent with the base ROE authorized in the Biennial Review Order. For Rider R, Virginia Power proposed an approximately \$81 million revenue requirement for the rate year beginning April 1, 2013 and an approximately \$75 million revenue requirement for the rate year beginning April 1, 2014. For Rider S, an approximately \$249 million revenue requirement was proposed for the rate year beginning April 1, 2013 and an approximately \$229 million revenue requirement was proposed for the rate year beginning April 1, 2014. If the Virginia Commission approves the proposed multi-year approach for Riders R and S, then Virginia Power would file its next update filings for Riders R and S in 2014. Construction of the Virginia City Hybrid Energy Center was completed and the facility commenced commercial operations in July 2012.

#### *Generation Riders B and W*

In June 2012, Virginia Power requested Virginia Commission approval of its annual updates for Riders B and W for the April 1, 2013 to March 31, 2014 rate year. For Rider B, Virginia Power proposed an approximately \$12 million revenue requirement, utilizing a 12.4% ROE (inclusive of a 200 basis point statutory enhancement) consistent with the base ROE authorized in the Biennial Review Order. For Rider W, an approximately \$86 million revenue requirement was proposed, utilizing an 11.4% ROE (inclusive of a 100 basis point statutory enhancement) also consistent with the base ROE authorized in the Biennial Review Order.

#### *DSM Riders C1 and C2*

In April 2012, the Virginia Commission held that Riders C1 and C2 are now to be combined in the Company's base rates and are to be considered as part of Virginia Power's future biennial reviews. The Virginia Commission rejected Virginia Power's requests to identify and separately track the revenues for these existing riders in base rates, and to preserve deferral accounting for these revenues in base rates, stating that such deferral accounting ceased December 1, 2011 for existing Riders C1 and C2. The Virginia Commission held that this treatment of



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Riders C1 and C2 does not set a precedent for deferral accounting for Rider T costs combined in base rates. The Virginia Commission also rejected additional funding for two existing commercial energy efficiency DSM programs.

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**Table of Contents***DSM Riders CIA and C2A*

In April 2012, the Virginia Commission approved four new energy efficiency DSM programs as a bundle for residential customers for a five-year period starting June 1, 2012, subject to a total \$90 million cost cap. The Virginia Commission also approved two new energy efficiency DSM programs as a bundle for commercial customers for the same five-year period, subject to a total \$45 million cost cap, as well as a new peak-shaving DSM program for commercial customers for the same five-year period, subject to an approximately \$14 million cost cap. The Virginia Commission rejected one new residential and one new commercial energy efficiency DSM program.

*North Anna COL*

Virginia Power is considering the construction of a third nuclear unit at a site located adjacent to North Anna. Virginia Power has not yet committed to building a new nuclear unit. If Virginia Power decides to build the new unit, it must first receive a COL from the NRC, the approval of the Virginia Commission and certain environmental permits and other approvals. Virginia Power continues to pursue the COL from the NRC. Based on current NRC review schedules, the COL issuance is now expected no earlier than late 2015.

**Ohio Regulation**

In July 2012, the Ohio Commission approved East Ohio's annual update of the UEX Rider, which reflects the elimination of accumulated unrecovered bad debt expense of approximately \$1 million as of March 31, 2012, and recovery of prospective bad debt expense projected to total approximately \$23 million for the 12-month period from April 2012 to March 2013.

In July 2012, the Ohio Commission approved East Ohio's annual update of the PIPP Rider, which reflects the refund of an over-recovery of accumulated arrearages of approximately \$70 million over the next two years and recovery of projected deferred program costs of approximately \$104 million for the 12-month period from April 2012 to March 2013.

**FERC Gas - Cove Point Rate Case**

In May 2011, Cove Point filed a general rate case for its FERC-jurisdictional services, with proposed rates to be effective July 1, 2011. In June 2011, FERC accepted a July 1, 2011 effective date for all proposed rates but two, for which the effective date was suspended from July 1 to December 1, 2011. In April 2012, Cove Point filed a stipulation and agreement among Cove Point, FERC trial staff and the other active parties in the rate case resolving all issues set for hearing by FERC and establishing the mechanism for operational purchases of LNG. In July 2012, FERC issued an order approving the stipulation and agreement, including the settlement rates that are effective April 1, 2012, provided there are no requests for rehearing by August 9, 2012. Pursuant to the terms of the settlement, future operational purchases of LNG are not expected to affect Cove Point's net results of operations. Cove Point and settling customers will be subject to a rate moratorium through December 31, 2016. Cove Point is required to file its next rate case in 2016 with rates to be effective January 1, 2017.

**Note 12. Variable Interest Entities**

As discussed in Note 16 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011, certain variable pricing terms in some of the Companies' long-term power and capacity contracts cause them to be considered variable interests in the counterparties.

Virginia Power has long-term power and capacity contracts with four non-utility generators with an aggregate summer generation capacity of approximately 870 MW. These contracts contain certain variable pricing mechanisms in the form of partial fuel reimbursement that Virginia Power considers to be variable interests. After an evaluation of the information provided by these entities, Virginia Power was unable to determine whether they were VIEs. However, the information they provided, as well as Virginia Power's knowledge of generation facilities in Virginia, enabled Virginia Power to conclude that, if they were VIEs, it would not be the primary beneficiary. This conclusion reflects Virginia Power's determination that its variable interests do not convey the power to direct the most significant activities that impact the economic performance of the entities during the remaining terms of Virginia Power's contracts and for the years the entities are expected to operate after its contractual relationships expire. The contracts expire at various dates ranging from 2015 to 2021. Virginia Power is not subject to any risk of loss from these potential VIEs other than its remaining purchase commitments which totaled \$1.2 billion as of June 30, 2012. Virginia Power paid \$53 million and \$52 million for electric capacity and \$16 million and \$26 million for electric energy to these entities in the three months ended June 30, 2012 and 2011, respectively. Virginia Power paid \$108 million and \$105 million for electric capacity and \$35 million and \$65 million for electric energy to these entities in the six months ended June 30, 2012 and 2011, respectively.

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Virginia Power purchased shared services from DRS, an affiliated VIE, of approximately \$77 million and \$99 million for the three months ended June 30, 2012 and 2011, respectively, and \$153 million and \$192 million for the six months ended June 30, 2012 and 2011, respectively. Virginia Power determined that it is not the most closely associated entity with DRS and therefore not the primary beneficiary. DRS provides accounting, legal, finance and certain administrative and technical services to all Dominion subsidiaries, including Virginia Power. Virginia Power has no obligation to absorb more than its allocated share of DRS costs.

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See Note 16 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011 for additional information about consolidated VIEs.

**Note 13. Significant Financing Transactions*****Credit Facilities and Short-term Debt***

Dominion and Virginia Power use short-term debt to fund working capital requirements and as a bridge to long-term debt financings. The levels of borrowing may vary significantly during the course of the year, depending upon the timing and amount of cash requirements not satisfied by cash from operations. In addition, Dominion utilizes cash and letters of credit to fund collateral requirements. Collateral requirements are impacted by commodity prices, hedging levels, Dominion's credit ratings and the credit quality of its counterparties.

At June 30, 2012, Dominion's commercial paper and letters of credit outstanding, as well as capacity available under credit facilities, were as follows:

	Facility Limit	Outstanding Commercial Paper	Outstanding Letters of Credit	Facility Capacity Available
(millions)				
Joint revolving credit facility <sup>(1)</sup>	\$ 3,000	\$ 1,530	\$	\$ 1,470
Joint revolving credit facility <sup>(2)</sup>	500		36	464
<b>Total</b>	<b>\$ 3,500</b>	<b>\$ 1,530</b>	<b>\$ 36</b>	<b>\$ 1,934</b>

(1) This credit facility has a maturity date of September 2016, and can be used to support bank borrowings and the issuance of commercial paper, as well as to support up to \$1.5 billion of letters of credit.

(2) This credit facility has a maturity date of September 2016, and can be used to support bank borrowings, commercial paper and letter of credit issuances.

Virginia Power's short-term financing is supported by two joint revolving credit facilities with Dominion. These credit facilities are being used for working capital, as support for the combined commercial paper programs of Dominion and Virginia Power and for other general corporate purposes.

At June 30, 2012, Virginia Power's share of commercial paper and letters of credit outstanding, as well as its capacity available under its joint credit facilities with Dominion were as follows:

	Facility Sub-limit	Outstanding Commercial Paper	Outstanding Letters of Credit	Facility Capacity Available
(millions)				
Joint revolving credit facility <sup>(1)</sup>	\$ 1,000	\$ 465	\$	\$ 535
Joint revolving credit facility <sup>(2)</sup>	250		15	235
<b>Total</b>	<b>\$ 1,250</b>	<b>\$ 465</b>	<b>\$ 15</b>	<b>\$ 770</b>

(1)

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This credit facility has a maturity date of September 2016, and can be used to support bank borrowings and the issuance of commercial paper, as well as to support up to \$1.5 billion (or the sub-limit, whichever is less) of letters of credit. Virginia Power's current sub-limit under this credit facility can be increased or decreased multiple times per year.

- (2) This credit facility has a maturity date of September 2016, and can be used to support bank borrowings, commercial paper and letter of credit issuances. Virginia Power's current sub-limit under this credit facility can be increased or decreased multiple times per year.

In addition to the credit facility commitments mentioned above, Virginia Power also has a \$120 million credit facility with a maturity date of September 2016. This facility supports certain tax-exempt financings of Virginia Power.

### *Long-term Debt*

In January 2012, Virginia Power issued \$450 million of 2.95% senior notes that mature in 2022.

### *Convertible Securities*

At June 30, 2012, Dominion had \$82 million of outstanding contingent convertible senior notes that are convertible by holders into a combination of cash and shares of Dominion's common stock under certain circumstances. The conversion feature requires that the principal amount of each note be repaid in cash, while amounts payable in excess of the principal amount will be paid in common stock. The conversion rate is subject to adjustment upon certain events such as subdivisions, splits,

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combinations of common stock or the issuance to all common stock holders of certain common stock rights, warrants or options and certain dividend increases. As of June 30, 2012, the conversion rate has been adjusted, primarily due to individual dividend payments above the level paid at issuance, to 29.1516 shares of common stock per \$1,000 principal amount of senior notes, which represents a conversion price of \$34.30.

The senior notes are eligible for conversion during any calendar quarter when the closing price of Dominion's common stock was equal to or higher than 120% of the conversion price for at least 20 out of the last 30 consecutive trading days of the preceding quarter. During the six months ended June 30, 2012, the senior notes were eligible for conversion and approximately \$61 million of the notes were converted by holders. The senior notes are eligible for conversion during the third quarter of 2012.

### ***Enhanced Junior Subordinated Notes***

In February 2012, Dominion launched a tender offer to purchase up to \$150 million of the September 2006 hybrids. In the first quarter of 2012, Dominion purchased and canceled approximately \$86 million of the September 2006 hybrids primarily as a result of this tender offer, which expired on March 23, 2012. In the second quarter of 2012, Dominion purchased and canceled approximately \$2 million of the September 2006 hybrids. All purchases were conducted in compliance with the RCC.

From time to time, Dominion may reduce its outstanding debt and level of interest expense through redemption of debt securities prior to maturity and repurchases in the open market, in privately negotiated transactions, through additional tender offers or otherwise.

### **Note 14. Commitments and Contingencies**

As a result of issues generated in the ordinary course of business, Dominion and Virginia Power are involved in legal proceedings before various courts and are periodically subject to governmental examinations (including by regulatory authorities), inquiries and investigations. Certain legal proceedings and governmental examinations involve demands for unspecified amounts of damages, are in an initial procedural phase, involve uncertainty as to the outcome of pending appeals or motions, and/or involve significant factual issues that need to be resolved, such that it is not possible for the Companies to estimate a range of possible loss. For matters for which the Companies cannot estimate a range of possible loss, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the litigation or investigative processes such that the Companies are able to estimate a range of possible loss. For legal proceedings and governmental examinations for which the Companies are able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. Estimated ranges of loss are inclusive of legal fees and net of any anticipated insurance recoveries. This estimated range is based on currently available information and involves elements of judgment and significant uncertainties. This estimated range of possible loss may not represent the Companies' maximum possible loss exposure. The circumstances of such legal proceedings and governmental examinations will change from time to time and actual results may vary significantly from the current estimate. For current proceedings not specifically reported below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on Dominion's or Virginia Power's financial position, liquidity or results of operations.

### ***Environmental Matters***

Dominion and Virginia Power are subject to costs resulting from a number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. They can result in increased capital, operating and other costs as a result of compliance, remediation, containment and monitoring obligations.

### **Air**

The CAA is a comprehensive program utilizing a broad range of regulatory tools to protect and preserve the nation's air quality. At a minimum, states are required to establish regulatory programs to address all requirements of the CAA. However, states may choose to develop regulatory programs that are more restrictive. Many of Dominion's and Virginia Power's facilities are subject to the CAA's permitting and other requirements.

On December 21, 2011, the EPA issued MATS for coal and oil-fired electric utility steam generating units. The rule establishes strict emission limits for mercury, particulate matter as a surrogate for toxic metals and hydrogen chloride as a surrogate for acid gases. The rule includes a limited use provision for oil-fired units with annual capacity factors under 8% that provides an exemption from emission limits, and allows compliance with operational work practice standards. Compliance will be required by April 16, 2015, with certain limited exceptions. The Companies do not expect the future costs of compliance with this rule to have a material effect on results of operations, financial condition, and/or cash flows. Dominion continues to be governed by individual state mercury emission reduction regulations in Massachusetts and Illinois that are largely unaffected by this rule.



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In July 2011, the EPA issued a final replacement rule for CAIR, called CSAPR, that requires 28 states to reduce power plant emissions that cross state lines. CSAPR establishes new SO<sub>2</sub> and NO<sub>x</sub> emissions cap and trade programs that are completely independent of the current ARP. Specifically, CSAPR requires reductions in SO<sub>2</sub> and NO<sub>x</sub> emissions from fossil fuel-fired electric generating units of 25 MW or more through annual NO<sub>x</sub> emissions caps, NO<sub>x</sub> emissions caps during the ozone season (May 1 through September 30) and annual SO<sub>2</sub> emission caps with differing requirements for two groups of affected states.

With respect to Dominion's generation fleet, the cost to comply with the rule is not expected to be material. However, following numerous petitions by industry participants for review and motions for stay, the U.S. Court of Appeals for the D.C. Circuit issued a ruling in December 2011 to stay CSAPR pending judicial review. In February and June 2012, the EPA issued technical revisions to CSAPR that are not material to Dominion. Future outcomes of litigation and/or any additional action to further modify the rule could affect the assessment regarding cost of compliance. While the stay of CSAPR is in effect, the EPA will continue to administer CAIR.

In May 2012, the EPA issued final designations for the 75-ppb ozone air quality standard. Several Dominion electric generating facilities are located in areas impacted by this standard. As part of the standard, states will be required to develop and implement plans to address sources emitting pollutants which contribute to the formation of ozone. Until the states have developed implementation plans, Dominion is unable to predict whether or to what extent the new rules will ultimately require additional controls.

In February 2008, Dominion received a request for information pursuant to Section 114 of the CAA from the EPA. The request concerns historical operating changes and capital improvements undertaken at State Line and Kincaid. In April 2009, Dominion received a second request for information. Dominion provided information in response to both requests. Also in April 2009, Dominion received a Notice and Finding of Violations from the EPA claiming violations of the CAA New Source Review requirements, NSPS, the Title V permit program and the stations respective State Implementation Plans. The Notice states that the EPA may issue an order requiring compliance with the relevant CAA provisions and may seek injunctive relief and/or civil penalties, all pursuant to the EPA's enforcement authority under the CAA.

Dominion believes that it complied with applicable laws and the EPA regulations and interpretations in effect at the time the work in question took place. The CAA authorizes maximum civil penalties of \$25,000 to \$37,500 per day, per violation at each generating unit, depending on the date of the alleged violation. In addition to any such penalties that may be awarded, an adverse outcome could require substantial capital expenditures or affect the timing of currently budgeted capital expenditures. Such expenditures could affect future results of operations, cash flows, and financial condition. Dominion is currently unable to make an estimate of the potential financial statement impacts related to these matters.

**Water**

The CWA is a comprehensive program requiring a broad range of regulatory tools including a permit program to authorize and regulate discharges to surface waters with strong enforcement mechanisms. Dominion and Virginia Power must comply with all aspects of the CWA programs at their operating facilities.

In October 2003, the EPA and the Massachusetts Department of Environmental Protection each issued new NPDES permits for Brayton Point. The new permits contained identical conditions that in effect require the installation of cooling towers to address concerns over the withdrawal and discharge of cooling water. As of the end of the second quarter of 2012, construction of the cooling towers was essentially complete. The total cost to install these cooling towers is approximately \$570 million, with remaining expenditures of approximately \$25 million.

In September 2010, Millstone's NPDES permit was reissued under the CWA. The conditions of the permit require an evaluation of control technologies that could result in additional expenditures in the future, however, Dominion cannot currently predict the outcome of this evaluation. In October 2010, the permit issuance was appealed to the state court by a private plaintiff. The permit is expected to remain in effect during the appeal. Dominion is currently unable to make an estimate of the potential financial statement impacts related to this matter.

**Solid and Hazardous Waste**

The CERCLA, as amended, provides for immediate response and removal actions coordinated by the EPA in the event of threatened releases of hazardous substances into the environment and authorizes the U.S. government either to clean up sites at which hazardous substances have created actual or potential environmental hazards or to order persons responsible for the situation to do so. Under the CERCLA, as amended, generators and transporters of hazardous substances, as well as past and present owners and operators of contaminated sites, can be strictly, jointly and severally liable for the cost of cleanup. These potentially responsible parties can be ordered to perform a cleanup, be sued for costs associated with an EPA-directed cleanup, voluntarily settle with the U.S. government concerning their liability for cleanup costs, or voluntarily begin a site investigation and site remediation under state oversight.





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From time to time, Dominion or Virginia Power may be identified as a potentially responsible party to a Superfund site. The EPA (or a state) can either allow such a party to conduct and pay for a remedial investigation, feasibility study and remedial action or conduct the remedial investigation and action itself and then seek reimbursement from the potentially responsible parties. Each party can be held jointly, severally and strictly liable for the cleanup costs. These parties can also bring contribution actions against each other and seek reimbursement from their insurance companies. As a result, Dominion or Virginia Power may be responsible for the costs of remedial investigation and actions under the Superfund law or other laws or regulations regarding the remediation of waste. Except as noted below, the Companies do not believe this will have a material effect on results of operations, financial condition and/or cash flows.

In September 2011, the EPA issued a UAO to Virginia Power and 22 other parties, ordering specific remedial action of certain areas at the Ward Transformer Superfund site located in Raleigh, North Carolina. Virginia Power does not believe it is a liable party under CERCLA based on its alleged connection to the site. In November 2011, Virginia Power and a number of other parties notified the EPA that they are declining to undertake the work set forth in the UAO.

The EPA may seek to enforce a UAO in court pursuant to its enforcement authority under CERCLA, and may seek recovery of its costs in undertaking removal or remedial action. If the court determines that a respondent failed to comply with the UAO without sufficient cause, the EPA may also seek civil penalties of up to \$37,500 per day for the violation and punitive damages of up to three times the costs incurred by the EPA as a result of the party's failure to comply with the UAO. Virginia Power is currently unable to make an estimate of the potential financial statement impacts related to the Ward Transformer matter.

Dominion has determined that it is associated with 17 former manufactured gas plant sites. Studies conducted by other utilities at their former manufactured gas plant sites have indicated that those sites contain coal tar and other potentially harmful materials. None of the 17 former sites with which Dominion is associated is under investigation by any state or federal environmental agency. At one of the former sites, Dominion is conducting a state-approved post closure groundwater monitoring program and an environmental land use restriction has been recorded. Another site has been accepted into a state-based voluntary remediation program. Dominion is currently evaluating the nature and extent of the contamination from this site as well as potential remedial options, but is not yet able to estimate the future remediation costs. Due to the uncertainty surrounding these sites, Dominion is unable to make an estimate of the potential financial statement impacts related to these sites.

## **Climate Change Legislation and Regulation**

Massachusetts, Rhode Island and Connecticut, among other states, have joined RGGI, a multi-state effort to reduce CO<sub>2</sub> emissions in the Northeast implemented through state specific regulations. Under the initiative, aggregate CO<sub>2</sub> emissions from power plants in participating states are required to be stabilized at current levels from 2009 to 2015. Further reductions from current levels would be required to be phased in starting in 2016 such that by 2019 there would be a 10% reduction in participating state power plant CO<sub>2</sub> emissions. During 2012, RGGI is undergoing a program review which could impact regulations and implementation of RGGI. The impact of this program review on Dominion's fossil fired generation operations in RGGI states is unknown at this time, and Dominion is currently unable to make an estimate of the potential financial statement impacts related to these matters.

Three of Dominion's facilities, Brayton Point, Salem Harbor and Manchester Street, are subject to RGGI. Beginning with calendar year 2009, RGGI requires that Dominion cover each ton of CO<sub>2</sub> direct stack emissions from these facilities with either an allowance or an offset. The allowances can be purchased through auction or through a secondary market. Dominion has periodically participated in RGGI allowance auctions to date and has procured allowances to meet its estimated compliance requirements under RGGI's current requirement for 2012 through 2013 and most of 2014, therefore Dominion does not expect compliance with RGGI to have a material impact on its results of operations or financial condition. During June 2011, a lawsuit was filed in New York seeking to retroactively rescind RGGI participation by that state. A percentage of Dominion's RGGI allowances had been acquired from New York. The allocated value of these allowances totaled approximately \$38 million, of which all have been expensed as consumed for RGGI Phase I compliance. In February 2012, Dominion surrendered these New York RGGI allowances for the RGGI Phase I compliance period and therefore does not expect any significant financial statement impacts from this lawsuit as it no longer holds allowances issued by the state of New York. In June 2012, a New York state court dismissed the lawsuit. An appeal was filed in July 2012.

## ***MF Global***

Prior to October 31, 2011, certain of Dominion's subsidiaries executed certain commodity transactions on exchanges using MF Global, an FCM registered with the CFTC. In order to secure its potential exposure on these commodity transactions, Dominion posted certain required margin collateral with MF Global. The parent company of MF Global, MF Global Holdings Ltd., filed for bankruptcy relief under Chapter 11 of the U.S. Bankruptcy Code on October 31, 2011. On the same date, the U.S. District Court for the Southern District of New York appointed a trustee to oversee the liquidation of MF Global pursuant to the Securities Investor Protection Act.



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In accordance with court-approved procedures, Dominion transferred to other FCMs all open positions executed using MF Global. The initial margin posted for these open positions at October 31, 2011 was approximately \$73 million. Dominion has received approximately \$8 million of this amount through the liquidation process to date.

At this time, the MF Global trustee is determining the final amounts that will be recoverable and ultimately distributed to MF Global's customers. As part of this process, the trustee has filed claims in the insolvency proceeding of MF Global affiliates in various foreign jurisdictions, including the United Kingdom, which claims are still pending. Due to the uncertainty surrounding the ultimate recovery on the claims filed by the MF Global trustee in the United Kingdom and elsewhere, the uncertain timing of such recovery, and the potential dilution of such recovered funds in the liquidation process, Dominion is unable to estimate the loss, if any, associated with its remaining margin claims or when it will receive any additional recoveries on such claims.

### ***Nuclear Matters***

In March 2011, a magnitude 9.0 earthquake and subsequent tsunami caused significant damage at the Fukushima Daiichi nuclear power station in northeast Japan. These events have resulted in significant nuclear safety reviews required by the NRC and industry groups such as INPO. Like other U.S. nuclear operators, Dominion has been gathering supporting data and participating in industry initiatives focused on the ability to respond to and mitigate the consequences of design-basis and beyond-design-basis events at its stations.

In July 2011, an NRC task force provided initial recommendations based on its review of the Fukushima Daiichi accident and in October 2011 the NRC staff prioritized these recommendations into Tiers 1, 2 and 3, with the Tier 1 recommendations consisting of actions which the staff determined should be started without unnecessary delay. In December 2011, the NRC Commissioners approved the agency staff's prioritization and recommendations; and that same month an appropriations act directed the NRC to require reevaluation of external hazards (not limited to seismic and flooding hazards) as soon as possible.

Based on the prioritized recommendations, in March 2012, the NRC issued orders and information requests requiring specific reviews and actions to all operating reactors, construction permit holders and combined license holders based on the lessons learned from the Fukushima Daiichi event. The orders applicable to Dominion require implementation of safety enhancements related to mitigation strategies to respond to extreme natural events resulting in the loss of power at plants, and enhancing spent fuel pool instrumentation. The orders require prompt implementation of the safety enhancements and completion of implementation within two refueling outages or by December 31, 2016, whichever comes first. The information requests issued by the NRC request each reactor to reevaluate the seismic and flooding hazards at their site using present-day methods and information, conduct walkdowns of their facilities to ensure protection against the hazards in their current design basis, and to reevaluate their emergency communications systems and staffing levels. Dominion and Virginia Power do not currently expect that compliance with the NRC's March 2012 orders and information requests will materially impact their financial position, results of operations or cash flows during the approximately four-year implementation period. The NRC staff is evaluating the implementation of the longer term Tier 2 and Tier 3 recommendations. Dominion and Virginia Power are currently unable to estimate the potential financial impacts related to compliance with Tier 2 and Tier 3 recommendations.

### ***Guarantees***

#### **Dominion**

At June 30, 2012, Dominion had issued \$86 million of guarantees, primarily to support equity method investees. No significant amounts related to these guarantees have been recorded. As of June 30, 2012, Dominion's exposure under these guarantees was \$45 million, primarily related to certain reserve requirements associated with non-recourse financing.

Dominion also enters into guarantee arrangements on behalf of its consolidated subsidiaries, primarily to facilitate their commercial transactions with third parties. To the extent that a liability subject to a guarantee has been incurred by one of Dominion's consolidated subsidiaries, that liability is included in its Consolidated Financial Statements. Dominion is not required to recognize liabilities for guarantees issued on behalf of its subsidiaries unless it becomes probable that it will have to perform under the guarantees. Terms of the guarantees typically end once obligations have been paid. Dominion currently believes it is unlikely that it would be required to perform or otherwise incur any losses associated with guarantees of its subsidiaries' obligations.

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At June 30, 2012, Dominion had issued the following subsidiary guarantees:

(millions)	Stated Limit	Value <sup>(1)</sup>
Subsidiary debt <sup>(2)</sup>	\$ 363	\$ 363
Commodity transactions <sup>(3)</sup>	3,107	263
Nuclear obligations <sup>(4)</sup>	231	54
Other <sup>(5)</sup>	487	38
<b>Total</b>	<b>\$ 4,188</b>	<b>\$ 718</b>

- (1) Represents the estimated portion of the guarantee's stated limit that is utilized as of June 30, 2012 based upon prevailing economic conditions and fact patterns specific to each guarantee arrangement. For those guarantees related to obligations that are recorded as liabilities by Dominion's subsidiaries, the value includes the recorded amount.
- (2) Guarantees of debt of certain DEI subsidiaries. In the event of default by the subsidiaries, Dominion would be obligated to repay such amounts.
- (3) Guarantees related to energy trading and marketing activities and other commodity commitments of certain subsidiaries, including subsidiaries of Virginia Power and DEI. These guarantees were provided to counterparties in order to facilitate physical and financial transactions in gas, oil, electricity, pipeline capacity, transportation and related commodities and services. If any of these subsidiaries fail to perform or pay under the contracts and the counterparties seek performance or payment, Dominion would be obligated to satisfy such obligation. Dominion and its subsidiaries receive similar guarantees as collateral for credit extended to others. The value provided includes certain guarantees that do not have stated limits.
- (4) Guarantees related to certain DEI subsidiaries' potential retrospective premiums that could be assessed if there is a nuclear incident under Dominion's nuclear insurance programs and guarantees for a DEI subsidiary's and Virginia Power's commitment to buy nuclear fuel. Excludes Dominion's agreement to provide up to \$150 million and \$60 million to two DEI subsidiaries to pay the operating expenses of Millstone and Kewaunee, respectively, in the event of a prolonged outage, as part of satisfying certain NRC requirements concerned with ensuring adequate funding for the operations of nuclear power stations.
- (5) Guarantees related to other miscellaneous contractual obligations such as leases, environmental obligations and construction projects. Also includes guarantees related to certain DEI subsidiaries' obligations for equity capital contributions and energy generation associated with Fowler Ridge and NedPower.

***Surety Bonds and Letters of Credit***

As of June 30, 2012, Dominion had purchased \$165 million of surety bonds, including \$72 million at Virginia Power, and authorized the issuance of standby letters of credit by financial institutions of \$36 million, including \$15 million at Virginia Power, to facilitate commercial transactions by its subsidiaries with third parties. Under the terms of the surety bonds, the Companies are obligated to indemnify the respective surety bond company for any amounts paid.

***Merchant Generation Operations***

Dominion continually reviews its portfolio of assets to determine which assets fit strategically and support its objectives to improve return on invested capital and shareholder value. If Dominion identifies assets that do not support its objectives, it may consider such assets for divestiture. In connection with this effort, in the first quarter of 2011, Dominion decided to pursue the sale of Kewaunee. If these efforts are successful, Dominion may be required to present Kewaunee's assets and liabilities that are subject to sale as held for sale in its Consolidated Balance Sheet and Kewaunee's results of operations in discontinued operations in its Consolidated Statements of Income. Held for sale classification would require that amounts be recorded at the lower of book value or sale price less costs to sell and could result in the recording of an impairment charge. Any sale of Kewaunee would be subject to the approval of Dominion's Board of Directors, as well as applicable state and federal approvals.

***Nuclear Operations******Spent Nuclear Fuel***

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Dominion and Virginia Power entered into contracts with the DOE for the disposal of spent nuclear fuel under provisions of the Nuclear Waste Policy Act of 1982. The DOE failed to begin accepting the spent fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and by the Companies' contracts with the DOE. The Companies have previously received damages award payments and settlement payments related to these contracts.

Dominion and Virginia Power are presently seeking to resolve additional claims for damages incurred at Surry, North Anna and Millstone after June 30, 2006, and additional claims for damages incurred at Kewaunee after December 31, 2008. In May 2012, Dominion made formal offers of settlement to the Authorized Representative of the Attorney General for resolution of claims incurred at Millstone for the period July 1, 2006 through December 31, 2010 and periodic payments after that date, and for resolution of claims incurred at Kewaunee for the period January 1, 2009 through December 31, 2010 and periodic payments after that date. These offers have not yet been formally accepted by the government, and will not be effective until such formal acceptance is received. Dominion believes it is probable that its offers will be accepted by the government. In June 2012, Dominion and Virginia Power filed lawsuits in the U.S. Court of Federal Claims for Millstone, Surry and North Anna against DOE requesting additional damages for the period July 1, 2006 through December 31, 2010.

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Dominion recognizes receivables for certain spent nuclear fuel-related costs that it believes are probable of recovery from the DOE. At June 30, 2012, Dominion's and Virginia Power's receivables for spent nuclear fuel-related costs totaled \$122 million and \$88 million, respectively.

Dominion will continue to manage its spent fuel until it is accepted by the DOE.

### **Note 15. Credit Risk**

Dominion's and Virginia Power's accounting policies for credit risk are discussed in Note 24 to the Consolidated Financial Statements in their Annual Report on Form 10-K for the year ended December 31, 2011.

At June 30, 2012, Dominion's gross credit exposure totaled \$464 million. After the application of collateral, credit exposure was reduced to \$424 million. Of this amount, investment grade counterparties, including those internally rated, represented 62%. Two counterparty exposures each represent 10% of Dominion's total exposure and are rated investment grade. One is a large financial institution and one is a utility holding company. At June 30, 2012, Virginia Power's exposure to potential concentrations of credit risk was not considered material.

### ***Credit-Related Contingent Provisions***

The majority of Dominion's derivative instruments contain credit-related contingent provisions. These provisions require Dominion to provide collateral upon the occurrence of specific events, primarily a credit rating downgrade. If the credit-related contingent features underlying these instruments that are in a liability position and not fully collateralized with cash were fully triggered as of June 30, 2012 and December 31, 2011, Dominion would have been required to post an additional \$32 million and \$88 million, respectively, of collateral to its counterparties. The collateral that would be required to be posted includes the impacts of any offsetting asset positions and any amounts already posted for derivatives, non-derivative contracts and derivatives elected under the normal purchases and normal sales exception, per contractual terms. Dominion had posted \$5 million in collateral, including \$3 million of letters of credit, at June 30, 2012 and \$110 million in collateral, including \$4 million of letters of credit, at December 31, 2011, related to derivatives with credit-related contingent provisions that are in a liability position and not fully collateralized with cash. The collateral posted includes any amounts paid related to non-derivative contracts and derivatives elected under the normal purchases and normal sales exception, per contractual terms. The aggregate fair value of all derivative instruments with credit-related contingent provisions that are in a liability position and not fully collateralized with cash as of June 30, 2012 and December 31, 2011 was \$146 million and \$259 million, respectively, which does not include the impact of any offsetting asset positions. Credit-related contingent provisions for Virginia Power were not material as of June 30, 2012 and December 31, 2011. See Note 8 for further information about derivative instruments.

### **Note 16. Related Party Transactions**

Virginia Power engages in related-party transactions primarily with other Dominion subsidiaries (affiliates). Virginia Power's receivable and payable balances with affiliates are settled based on contractual terms or on a monthly basis, depending on the nature of the underlying transactions. Virginia Power is included in Dominion's consolidated federal income tax return and participates in certain Dominion benefit plans. A discussion of significant related party transactions follows.

#### **Transactions with Affiliates**

Virginia Power transacts with affiliates for certain quantities of natural gas and other commodities in the ordinary course of business. Virginia Power also enters into certain commodity derivative contracts with affiliates. Virginia Power uses these contracts, which are principally comprised of commodity swaps, to manage commodity price risk associated with purchases of natural gas.

DRS and affiliates provide accounting, legal, finance and certain administrative and technical services to Virginia Power.

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Presented below are significant transactions with DRS and other affiliates:

(millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Commodity purchases from affiliates	\$ 78	\$ 90	\$ 156	\$ 152
Services provided by affiliates	95	100	191	193

Virginia Power has borrowed funds from Dominion under short-term borrowing arrangements. Virginia Power's outstanding borrowings, net of repayments, under the Dominion money pool for its nonregulated subsidiaries totaled \$187 million as of both June 30, 2012 and December 31, 2011. There were no short-term demand note borrowings from Dominion as of June 30, 2012 and December 31, 2011. Interest charges related to Virginia Power's borrowings from Dominion were immaterial for the three and six months ended June 30, 2012 and 2011, respectively.

**Note 17. Employee Benefit Plans**

The components of Dominion's provision for net periodic benefit cost were as follows:

(millions)	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
<b>Three Months Ended June 30,</b>				
Service cost	\$ 29	\$ 27	\$ 11	\$ 12
Interest cost	67	65	20	24
Expected return on plan assets	(107)	(111)	(20)	(19)
Amortization of prior service cost (credit)	1	1	(3)	(4)
Amortization of net loss	33	24	1	3
Settlements and curtailments				(1)
Net periodic benefit cost	\$ 23	\$ 6	\$ 9	\$ 15
<b>Six Months Ended June 30,</b>				
Service cost	\$ 58	\$ 54	\$ 22	\$ 24
Interest cost	134	129	40	47
Expected return on plan assets	(215)	(221)	(41)	(39)
Amortization of prior service cost (credit)	2	2	(6)	(7)
Amortization of net loss	66	48	3	6
Settlements and curtailments				(1)
Net periodic benefit cost	\$ 45	\$ 12	\$ 18	\$ 30

**Employer Contributions**

During the six months ended June 30, 2012, Dominion made no contributions to its defined benefit pension plans or OPEB plans. Dominion expects to contribute approximately \$16 million to its OPEB plans through Voluntary Employees' Beneficiary Associations during the remainder of 2012.



**Table of Contents****Note 18. Operating Segments**

Dominion and Virginia Power are organized primarily on the basis of products and services sold in the U.S. A description of the operations included in the Companies' primary operating segments is as follows:

Primary Operating Segment	Description of Operations	Virginia	
		Dominion	Power
DVP	Regulated electric distribution	X	X
	Regulated electric transmission	X	X
	Nonregulated retail energy marketing (electric and gas)	X	
Dominion Generation	Regulated electric fleet	X	X
	Merchant electric fleet	X	
Dominion Energy	Gas transmission and storage	X	
	Gas distribution and storage	X	
	LNG import and storage	X	
	Producer services	X	

In addition to the operating segments above, the Companies also report a Corporate and Other segment.

*The Corporate and Other Segment of Dominion* includes its corporate, service company and other functions (including unallocated debt) and certain specific items that are not included in profit measures evaluated by executive management in assessing segment performance or allocating resources among the segments.

In the six months ended June 30, 2012, Dominion reported an after-tax net expense of \$71 million for specific items in the Corporate and Other segment, all of which was attributable to its operating segments. In the six months ended June 30, 2011, Dominion reported after-tax net expenses of \$44 million for specific items in the Corporate and Other segment, with \$36 million of these net expenses attributable to its operating segments.

The net expenses for specific items in 2012 primarily related to the impact of the following items:

A \$74 million (\$45 million after-tax) charge reflecting restoration costs associated with damage caused by late June summer storms, attributable to DVP;

A \$30 million (\$17 million after-tax) loss from discontinued operations of State Line and Salem Harbor for which agreements to sell were executed in the second quarter of 2012, attributable to Dominion Generation; and

A \$23 million (\$16 million after-tax) loss from operations of Kewaunee, attributable to Dominion Generation. Kewaunee's results of operations have been reflected in the Corporate and Other segment due to Dominion's decision in the first quarter of 2011 to pursue the sale of Kewaunee.

The net expenses for specific items in 2011 primarily related to the impact of the following items:

A \$39 million (\$30 million after-tax) loss from discontinued operations of State Line and Salem Harbor for which agreements to sell were executed in the second quarter of 2012, attributable to Dominion Generation; and

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A \$37 million (\$20 million after-tax) loss from the operations of Kewaunee, attributable to Dominion Generation. Kewaunee's results of operations have been reflected in the Corporate and Other segment due to Dominion's decision in the first quarter of 2011 to pursue the sale of Kewaunee.

*The Corporate and Other Segment of Virginia Power* primarily includes certain specific items that are not included in profit measures evaluated by executive management in assessing segment performance or allocating resources among the segments. In the six months ended June 30, 2012, Virginia Power reported an after-tax expense of \$44 million for specific items attributable to its operating segments in the Corporate and Other segment. In the six months ended June 30, 2011, Virginia Power reported after-tax net expenses of \$5 million for specific items attributable to its operating segments in the Corporate and Other segment.

The net expenses for specific items in 2012 primarily related to the impact of a \$74 million (\$45 million after-tax) charge reflecting restoration costs associated with damage caused by late June summer storms, attributable to DVP.

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The following table presents segment information pertaining to Dominion's operations:

(millions)	DVP	Dominion Generation <sup>(1)</sup>	Dominion Energy	Corporate and Other <sup>(1)</sup>	Adjustments/ Eliminations	Consolidated Total
<b>Three Months Ended June 30, 2012</b>						
Total revenue from external customers	\$ 806	\$ 1,604	\$ 371	\$ 33	\$ 239	\$ 3,053
Intersegment revenue	13	89	220	146	(468)	
Total operating revenue	819	1,693	591	179	(229)	3,053
Loss from discontinued operations				(18)		(18)
Net income (loss) attributable to Dominion	143	152	109	(146)		258
<b>2011</b>						
Total revenue from external customers	\$ 828	\$ 1,707	\$ 379	\$ 37	\$ 337	\$ 3,288
Intersegment revenue	18	87	294	151	(550)	
Total operating revenue	846	1,794	673	188	(213)	3,288
Loss from discontinued operations				(5)		(5)
Net income (loss) attributable to Dominion	115	188	104	(71)		336
<b>Six Months Ended June 30, 2012</b>						
Total revenue from external customers	\$ 1,737	\$ 3,249	\$ 987	\$ 72	\$ 470	\$ 6,515
Intersegment revenue	75	165	420	295	(955)	
Total operating revenue	1,812	3,414	1,407	367	(485)	6,515
Loss from discontinued operations				(17)		(17)
Net income (loss) attributable to Dominion	309	374	258	(189)		752
<b>2011</b>						
Total revenue from external customers	\$ 1,879	\$ 3,495	\$ 1,213	\$ 74	\$ 610	\$ 7,271
Intersegment revenue	113	157	502	294	(1,066)	
Total operating revenue	1,992	3,652	1,715	368	(456)	7,271
Loss from discontinued operations				(30)		(30)
Net income (loss) attributable to Dominion	264	472	273	(194)		815

(1) Dominion's segment information for the six months ended June 30, 2012 and the three and six months ended June 30, 2011 has been recast to reflect Salem Harbor and State Line as discontinued operations, as discussed in Note 3.

Intersegment sales and transfers for Dominion are based on contractual arrangements and may result in intersegment profit or loss that is eliminated in consolidation.

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The following table presents segment information pertaining to Virginia Power's operations:

(millions)	DVP	Dominion Generation	Corporate and Other	Consolidated Total
<b>Three Months Ended June 30,</b>				
<b>2012</b>				
Operating revenue	\$ 449	\$ 1,307	\$	\$ 1,756
Net income (loss)	100	118	(46)	172
<b>2011</b>				
Operating revenue	\$ 430	\$ 1,328	\$ (1)	\$ 1,757
Net income (loss)	102	144	(5)	241
<b>Six Months Ended June 30,</b>				
<b>2012</b>				
Operating revenue	\$ 908	\$ 2,602	\$	\$ 3,510
Net income (loss)	207	251	(43)	415
<b>2011</b>				
Operating revenue	\$ 883	\$ 2,632	\$ (1)	\$ 3,514
Net income (loss)	215	309	(5)	519

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

MD&A discusses Dominion's and Virginia Power's results of operations and general financial condition. MD&A should be read in conjunction with the Companies' Consolidated Financial Statements.

**Contents of MD&A**

MD&A consists of the following information:

Forward-Looking Statements

Accounting Matters

Dominion

Results of Operations

Segment Results of Operations

Virginia Power

Results of Operations

Segment Results of Operations

Liquidity and Capital Resources

Future Issues and Other Matters

**Forward-Looking Statements**

This report contains statements concerning Dominion's and Virginia Power's 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 most cases, the reader can identify these forward-looking statements by such words as anticipate, estimate, forecast, expect, believe, should, could, plan, may, target or other similar words.

Dominion and Virginia Power make forward-looking statements with full knowledge that risks and uncertainties exist that may cause actual results to differ materially from predicted results. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additionally, other factors may cause actual results to differ materially from those indicated in any forward-looking statement. These factors include but are not limited to:

Unusual weather conditions and their effect on energy sales to customers and energy commodity prices;

Extreme weather events and other natural disasters, including hurricanes, high winds, severe storms, and earthquakes that can cause outages and property damage to facilities;

Federal, state and local legislative and regulatory developments;

Changes to federal, state and local environmental laws and regulations, including those related to climate change, the tightening of emission or discharge limits for GHGs and other emissions, more extensive permitting requirements and the regulation of additional substances;

Cost of environmental compliance, including those costs related to climate change;

Risks associated with the operation of nuclear facilities, including costs associated with the disposal of spent nuclear fuel, decommissioning, plant maintenance and changes in existing regulations governing such facilities;

Unplanned outages of the Companies' facilities;

Fluctuations in energy-related commodity prices and the effect these could have on Dominion's earnings and Dominion's and Virginia Power's liquidity position and the underlying value of their assets;

Counterparty credit and performance risk;

Capital market conditions, including the availability of credit and the ability to obtain financing on reasonable terms;

Risks associated with Virginia Power's membership and participation in PJM, including risks related to obligations created by the default of other participants;

Price risk due to investments held in nuclear decommissioning trusts by Dominion and Virginia Power and in benefit plan trusts by Dominion;

Fluctuations in interest rates;

Changes in federal and state tax laws and regulations;

Changes in rating agency requirements or credit ratings and their effect on availability and cost of capital;

Changes in financial or regulatory accounting principles or policies imposed by governing bodies;

Employee workforce factors including collective bargaining agreements and labor negotiations with union employees;

The risks of operating businesses in regulated industries that are subject to changing regulatory structures;

Asset portfolio reviews and resulting decisions to acquire or divest assets; and receipt of approvals for, and timing of, closing dates for these or other transactions;

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Changes in rules for RTOs and ISOs in which Dominion and Virginia Power participate, including changes in rate designs and new and evolving capacity models;

Political and economic conditions, including inflation and deflation;

Domestic terrorism and other threats to the Companies' physical and intangible assets, as well as threats to cybersecurity;

Industrial, commercial and residential growth or decline in the Companies' service areas and changes in customer growth or usage patterns, including as a result of energy conservation programs;

Additional competition in the electric industry, including in electric markets in which Dominion's merchant generation facilities operate, and potential competition in the construction and ownership of electric transmission facilities in Virginia Power's service territory, in connection with recent FERC orders;

Changes in technology, particularly with respect to new, developing or alternative sources of generation and smart grid technologies;

Changes to regulated electric rates collected by Virginia Power and regulated gas distribution, transportation and storage rates, including LNG storage, collected by Dominion;

Timing and receipt of regulatory approvals necessary for planned construction or expansion projects;

The inability to complete planned construction projects within the terms and time frames initially anticipated; and

Adverse outcomes in litigation matters or regulatory proceedings.

Additionally, other risks that could cause actual results to differ from predicted results are set forth in Item 1A. Risk Factors in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011.

Dominion's and Virginia Power's forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. The Companies caution the reader not to place undue reliance on their forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. Dominion and Virginia Power undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

## **Accounting Matters**

### **Critical Accounting Policies and Estimates**

As of June 30, 2012, there have been no significant changes with regard to the critical accounting policies and estimates disclosed in MD&A in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011. The policies disclosed included the accounting for regulated operations, AROs, income taxes, derivative contracts and other instruments at fair value, goodwill and long-lived asset impairment testing, employee benefit plans and unbilled revenue.

## **Dominion**

### **Results of Operations**



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Presented below is a summary of Dominion's consolidated results:

	2012	2011	\$ Change
(millions, except EPS)			
<b>Second Quarter</b>			
Net income attributable to Dominion	\$ 258	\$ 336	\$ (78)
Diluted EPS	0.45	0.58	(0.13)
<b>Year-To-Date</b>			
Net income attributable to Dominion	\$ 752	\$ 815	\$ (63)
Diluted EPS	1.31	1.41	(0.10)

### Overview

#### *Second Quarter 2012 vs. 2011*

Net income attributable to Dominion decreased by 23%. Unfavorable drivers include the restoration costs associated with damage caused by late June 2012 summer storms and the impact of less favorable weather on Dominion's electric utility operations.

#### *Year-To-Date 2012 vs. 2011*

Net income attributable to Dominion decreased by 8%. Unfavorable drivers include the restoration costs associated with damage caused by late June 2012 summer storms, the impact of less favorable weather on Dominion's electric utility operations and lower margins from merchant generation operations, partially offset by lower operations and maintenance expenses.

**Table of Contents****Analysis of Consolidated Operations**

Presented below are selected amounts related to Dominion's results of operations:

(millions)	Second Quarter			Year-To-Date		
	2012	2011	\$ Change	2012	2011	\$ Change
Operating revenue	<b>\$ 3,053</b>	\$ 3,288	\$ (235)	<b>\$ 6,515</b>	\$ 7,271	\$ (756)
Electric fuel and other energy-related purchases	<b>906</b>	957	(51)	<b>1,841</b>	1,978	(137)
Purchased electric capacity	<b>98</b>	116	(18)	<b>211</b>	235	(24)
Purchased gas	<b>215</b>	365	(150)	<b>627</b>	1,007	(380)
<b>Net revenue</b>	<b>1,834</b>	1,850	(16)	<b>3,836</b>	4,051	(215)
Other operations and maintenance	<b>782</b>	739	43	<b>1,415</b>	1,528	(113)
Depreciation, depletion and amortization	<b>289</b>	255	34	<b>576</b>	515	61
Other taxes	<b>146</b>	123	23	<b>315</b>	282	33
Other income	<b>44</b>	39	5	<b>118</b>	96	22
Interest and related charges	<b>224</b>	216	8	<b>452</b>	442	10
Income tax expense	<b>154</b>	211	(57)	<b>413</b>	527	(114)
Loss from discontinued operations	<b>(18)</b>	(5)	(13)	<b>(17)</b>	(30)	13

An analysis of Dominion's results of operations follows:

**Second Quarter 2012 vs. 2011**

**Net revenue** decreased 1%, primarily reflecting:

A \$42 million decrease from merchant generation operations primarily due to a decrease in realized prices at certain fossil generation facilities;

An \$11 million decrease from regulated natural gas distribution operations primarily reflecting decreased rider revenue related to low income assistance programs;

An \$8 million decrease from regulated natural gas transmission operations; and

A \$1 million decrease from electric utility operations primarily reflecting:

The impact (\$47 million) of a decrease in sales to retail customers primarily due to a decrease in cooling degree days; and

A decrease in ancillary revenues received from PJM (\$18 million), largely reflecting milder weather and lower commodity prices; partially offset by

An increase in rate adjustment clause revenue (\$37 million);

A decrease in net capacity expenses (\$15 million); and

The impact of various other immaterial items (\$12 million).

These decreases were partially offset by:

A \$50 million increase in retail energy marketing activities primarily due to price risk management activities.

**Other operations and maintenance** increased 6%, primarily reflecting:

A \$64 million increase in storm damage and service restoration costs primarily due to the damage caused by late June summer storms in 2012; and

A \$22 million increase in certain electric transmission-related expenditures. These expenses are recovered through FERC rates. These increases were partially offset by:

A \$29 million decrease attributable to increased deferrals for construction activities related to regulated operations;

A \$15 million decrease in rent expense due to the consolidation of Fairless in October 2011; and

An \$11 million decrease in bad debt expense at regulated natural gas distribution operations primarily related to low income assistance programs. These expenses are recovered through rates and do not impact net income.

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**Depreciation, depletion and amortization** increased 13%, primarily due to property additions.

**Other taxes** increased 19%, primarily reflecting the Connecticut electric generation tax enacted in the second half of 2011 (\$11 million) and additional property tax due to increased investments (\$6 million).

**Income tax expense** decreased 27%, primarily reflecting lower pre-tax income in 2012.

**Year-To-Date 2012 vs. 2011**

**Net revenue** decreased 5%, primarily reflecting:

A \$132 million decrease from regulated natural gas distribution operations primarily reflecting decreased rider revenue (\$110 million) related to low income assistance programs;

A \$97 million decrease from merchant generation operations primarily reflecting a decline at certain nuclear generation facilities (\$51 million) largely due to a decrease in realized prices and a decline at certain fossil generation facilities (\$46 million) largely due to a decrease in realized prices (\$30 million) and lower generation (\$16 million);

A \$23 million decrease in producer services primarily related to lower physical margins partially offset by favorable price changes on economic hedging positions, all associated with natural gas aggregation, marketing and trading activities; and

A \$20 million decrease from electric utility operations primarily reflecting:

The impact (\$88 million) of a decrease in sales to retail customers primarily due to a decrease in cooling and heating degree days (\$144 million), partially offset by an increase in sales due to the effect of favorable economic conditions on customer usage and other factors (\$56 million); and

A decrease in ancillary revenues received from PJM (\$22 million), largely reflecting milder weather and lower commodity prices; partially offset by

An increase in rate adjustment clause revenue (\$59 million);

A decrease in net capacity expenses (\$24 million); and

The impact of various other immaterial items (\$7 million).

These decreases were partially offset by:

A \$79 million increase in retail energy marketing activities primarily due to price risk management activities.

**Other operations and maintenance** decreased 7%, primarily reflecting:

A \$110 million decrease in bad debt expense at regulated natural gas distribution operations primarily related to low income assistance programs. These expenses are recovered through rates and do not impact net income;

A \$49 million decrease attributable to increased deferrals for construction activities related to regulated operations;

A \$30 million decrease in salaries, wages and benefits; and

A \$30 million decrease in rent expense due to the consolidation of Fairless in October 2011.  
These decreases were partially offset by:

A \$55 million increase in storm damage and service restoration costs primarily due to the damage caused by late June summer storms in 2012; and

A \$35 million increase in certain electric transmission-related expenditures. These expenses are recovered through FERC rates.  
**Depreciation, depletion and amortization** increased 12%, primarily due to property additions.

**Other taxes** increased 12%, primarily reflecting the Connecticut electric generation tax enacted in the second half of 2011 (\$22 million) and additional property tax due to increased investments (\$12 million).

**Other income** increased 23%, primarily due to higher realized gains (including investment income) on nuclear decommissioning trust funds (\$8 million), an increase in the equity component of AFUDC (\$5 million) and an increase in earnings from equity method investments (\$5 million).

**Income tax expense** decreased 22%, primarily reflecting lower pre-tax income and a lower effective income tax rate in 2012.

**Table of Contents****Segment Results of Operations**

Segment results include the impact of intersegment revenues and expenses, which may result in intersegment profit and loss. Presented below is a summary of contributions by Dominion's operating segments to net income attributable to Dominion:

Second Quarter (millions, except EPS)	Net Income attributable to Dominion			Diluted EPS		
	2012	2011	\$ Change	2012	2011	\$ Change
DVP	\$ 143	\$ 115	\$ 28	\$ 0.25	\$ 0.20	\$ 0.05
Dominion Generation	152	188	(36)	0.27	0.33	(0.06)
Dominion Energy	109	104	5	0.19	0.18	0.01
Primary operating segments	404	407	(3)	0.71	0.71	
Corporate and Other	(146)	(71)	(75)	(0.26)	(0.13)	(0.13)
Consolidated	\$ 258	\$ 336	\$ (78)	\$ 0.45	\$ 0.58	\$ (0.13)
<b>Year-To-Date</b>						
DVP	\$ 309	\$ 264	\$ 45	\$ 0.54	\$ 0.46	\$ 0.08
Dominion Generation	374	472	(98)	0.66	0.82	(0.16)
Dominion Energy	258	273	(15)	0.45	0.47	(0.02)
Primary operating segments	941	1,009	(68)	1.65	1.75	(0.10)
Corporate and Other	(189)	(194)	5	(0.34)	(0.34)	
Consolidated	\$ 752	\$ 815	\$ (63)	\$ 1.31	\$ 1.41	\$ (0.10)

**DVP**

Presented below are selected operating statistics related to DVP's operations:

	Second Quarter			Year-To-Date		
	2012	2011	% Change	2012	2011	% Change
Electricity delivered (million MWh)	19.1	19.9	(4)%	38.7	40.8	(5)%
Degree days (electric distribution service area):						
Cooling	510	630	(19)	536	631	(15)
Heating	230	222	4	1,702	2,290	(26)
Average electric distribution customer accounts (thousands) <sup>(1)</sup>	2,452	2,435	1	2,450	2,435	1
Average retail energy marketing customer accounts (thousands) <sup>(1)</sup>	2,134	2,164	(1)	2,128	2,144	(1)

(1) Period average.

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Presented below, on an after-tax basis, are the key factors impacting DVP's net income contribution:

	Second Quarter		Year-To-Date	
	2012 vs. 2011		2012 vs. 2011	
	Increase (Decrease) Amount	EPS	Increase (Decrease) Amount	EPS
(millions, except EPS)				
Regulated electric sales:				
Weather	\$ (10)	\$ (0.02)	\$ (28)	\$ (0.05)
Other	6	0.01	12	0.02
FERC transmission equity return	3	0.01	12	0.02
Retail energy marketing operations	31	0.05	51	0.08
Storm damage and service restoration <sup>(1)</sup>	6	0.01	11	0.02
Other	(8)	(0.01)	(13)	(0.02)
Share accretion				0.01
<b>Change in net income contribution</b>	<b>\$ 28</b>	<b>\$ 0.05</b>	<b>\$ 45</b>	<b>\$ 0.08</b>

(1) Excludes restoration costs associated with damage caused by late June 2012 summer storms reflected in the Corporate and Other segment.

**Dominion Generation**

Presented below are selected operating statistics related to Dominion Generation's operations:

	Second Quarter			Year-To-Date		
	2012	2011	% Change	2012	2011	% Change
Electricity supplied (million MWh):						
Utility	19.1	19.9	(4)%	38.7	40.8	(5)%
Merchant <sup>(1)</sup>	9.5	10.7	(11)	20.5	21.9	(6)
Degree days (electric utility service area):						
Cooling	510	630	(19)	536	631	(15)
Heating	230	222	4	1,702	2,290	(26)

(1) Includes 0.8 and 2.7 million MWh for the quarter and year-to-date periods ended June 30, 2012, respectively, and 2.0 and 3.9 million MWh for the quarter and year-to-date periods ended June 30, 2011, respectively, related to Kewaunee, State Line and Salem Harbor.

Presented below, on an after-tax basis, are the key factors impacting Dominion Generation's net income contribution:

	Second Quarter		Year-To-Date	
	2012 vs. 2011		2012 vs. 2011	
	Increase (Decrease) Amount	EPS	Increase (Decrease) Amount	EPS
(millions, except EPS)				
Merchant generation margin	\$ (31)	\$ (0.05)	\$ (76)	\$ (0.13)

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Regulated electric sales:				
Weather	(22)	(0.04)	(59)	(0.11)
Other			15	0.03
PJM ancillary services	(11)	(0.02)	(25)	(0.04)
Net capacity expenses	9	0.02	15	0.03
Outage costs	21	0.03	16	0.03
Other O&M expenses	7	0.01	24	0.04
Other	(9)	(0.02)	(8)	(0.01)
Share accretion		0.01		
Change in net income contribution	\$ (36)	\$ (0.06)	\$ (98)	\$ (0.16)

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**Table of Contents****Dominion Energy**

Presented below are selected operating statistics related to Dominion Energy's operations:

	Second Quarter			Year-To-Date		
	2012	2011	% Change	2012	2011	% Change
Gas distribution throughput (bcf):						
Sales	<b>3</b>	4	(25)%	<b>15</b>	20	(25)%
Transportation	<b>47</b>	45	4	<b>145</b>	155	(6)
Heating degree days (gas distribution service area)	<b>579</b>	613	(6)	<b>2,888</b>	3,756	(23)
Average gas distribution customer accounts (thousands) <sup>(1)</sup> :						
Sales	<b>243</b>	249	(2)	<b>251</b>	254	(1)
Transportation	<b>1,054</b>	1,051		<b>1,050</b>	1,051	

(1) Period average.

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Presented below, on an after-tax basis, are the key factors impacting Dominion Energy's net income contribution:

	Second Quarter		Year-To-Date	
	2012 vs. 2011		2012 vs. 2011	
	Increase (Decrease) Amount	Increase (Decrease) EPS	Increase (Decrease) Amount	Increase (Decrease) EPS
(millions, except EPS)				
Weather	\$	\$	\$ (7)	\$ (0.01)
Producer services margin	(1)		(15)	(0.02)
Gas transmission margin	(6)	(0.01)	(6)	(0.01)
Other O&M expenses	10	0.02	12	0.02
Other	2		1	
Change in net income contribution	\$ 5	\$ 0.01	\$ (15)	\$ (0.02)

**Corporate and Other**

Presented below are the Corporate and Other segment's after-tax results:

	Second Quarter			Year-To-Date		
	2012	2011	\$ Change	2012	2011	\$ Change
(millions, except EPS)						
Specific items attributable to operating segments	\$ (79)	\$ 4	\$ (83)	\$ (71)	\$ (36)	\$ (35)
Specific items attributable to corporate operations					(8)	8
Total specific items	(79)	4	(83)	(71)	(44)	(27)
Other corporate operations	(67)	(75)	8	(118)	(150)	32
Total net benefit (expense)	\$ (146)	\$ (71)	\$ (75)	\$ (189)	\$ (194)	\$ 5
EPS impact	\$ (0.26)	\$ (0.13)	\$ (0.13)	\$ (0.34)	\$ (0.34)	\$
<b>Total Specific Items</b>						

Corporate and Other includes specific items that are not included in profit measures evaluated by management in assessing segment performance or in allocating resources among the segments. See Note 18 to the Consolidated Financial Statements in this report for discussion of these items.

**Other Corporate Operations****Year-To-Date 2012 vs. 2011**

Net expenses decreased primarily due to lower state income tax expense and lower net interest expense.

**Table of Contents****Virginia Power****Results of Operations**

Presented below is a summary of Virginia Power's consolidated results:

(millions)	Second Quarter			Year-To-Date		
	2012	2011	\$ Change	2012	2011	\$ Change
Net income	\$ 172	\$ 241	\$ (69)	\$ 415	\$ 519	\$ (104)

**Overview*****Second Quarter 2012 vs. 2011***

Net income decreased by 29%. Unfavorable drivers include the impact of less favorable weather and the restoration costs associated with damage caused by late June 2012 summer storms.

***Year-To-Date 2012 vs. 2011***

Net income decreased by 20%. Unfavorable drivers include the impact of less favorable weather and the restoration costs associated with damage caused by late June 2012 summer storms, partially offset by the impact of rate adjustment clauses and favorable economic conditions on customer usage and other factors.

**Table of Contents****Analysis of Consolidated Operations**

Presented below are selected amounts related to Virginia Power's results of operations:

(millions)	Second Quarter			Year-To-Date		
	2012	2011	\$ Change	2012	2011	\$ Change
Operating revenue	\$ 1,756	\$ 1,757	\$ (1)	\$ 3,510	\$ 3,514	\$ (4)
Electric fuel and other energy-related purchases	602	583	19	1,216	1,176	40
Purchased electric capacity	97	116	(19)	210	234	(24)
Net revenue	1,057	1,058	(1)	2,084	2,104	(20)
Other operations and maintenance	442	356	86	748	658	90
Depreciation and amortization	188	175	13	376	349	27
Other taxes	66	56	10	131	115	16
Other income	17	10	7	40	39	1
Interest and related charges	100	84	16	200	176	24
Income tax expense	106	156	(50)	254	326	(72)

An analysis of Virginia Power's results of operations follows:

**Second Quarter 2012 vs. 2011**

**Net revenue** decreased \$1 million, primarily reflecting:

The impact (\$47 million) of a decrease in sales to retail customers primarily due to a decrease in cooling degree days; and

A decrease in ancillary revenues received from PJM (\$18 million), largely reflecting milder weather and lower commodity prices; partially offset by

An increase in rate adjustment clause revenue (\$37 million);

A decrease in net capacity expenses (\$15 million); and

The impact of various other immaterial items (\$12 million).

**Other operations and maintenance** increased 24%, primarily reflecting:

A \$64 million increase in storm damage and service restoration costs primarily due to the damage caused by late June summer storms in 2012;

A \$22 million increase in certain electric transmission-related expenditures. These expenses are recovered through FERC rates; and

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An \$18 million increase in planned outage costs due to an increase in scheduled outage days at certain generation facilities. These increases were partially offset by:

A \$16 million decrease attributable to increased deferrals for construction activities related to regulated operations. **Interest and related charges** increased 19%, primarily due to the absence of an interest benefit in 2011 relating to resolutions with taxing authorities (\$11 million) and an increase related to unfavorable changes on interest rate derivatives (\$5 million).

**Income tax expense** decreased 32%, primarily reflecting lower pre-tax income in 2012.

### **Year-To-Date 2012 vs. 2011**

**Net revenue** decreased \$20 million, primarily reflecting:

The impact (\$88 million) of a decrease in sales to retail customers primarily due to a decrease in cooling and heating degree days (\$144 million), partially offset by an increase in sales due to the effect of favorable economic conditions on customer usage and other factors (\$56 million); and

A decrease in ancillary revenues received from PJM (\$22 million), largely reflecting milder weather and lower commodity prices; partially offset by

An increase in rate adjustment clause revenue (\$59 million);

A decrease in net capacity expenses (\$24 million); and

The impact of various other immaterial items (\$7 million).

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**Other operations and maintenance** increased 14%, primarily reflecting:

A \$55 million increase in storm damage and service restoration costs primarily due to the damage caused by late June summer storms in 2012;

A \$35 million increase in certain electric transmission-related expenditures. These expenses are recovered through FERC rates; and

A \$29 million increase in planned outage costs due to an increase in scheduled outage days at certain nuclear generation facilities. These increases were partially offset by:

A \$30 million decrease attributable to increased deferrals for construction activities related to regulated operations.

**Other taxes** increased 14%, primarily reflecting higher use taxes (\$9 million) and additional property tax due to increased investments and higher rates (\$5 million).

**Interest and related charges** increased 14%, primarily due to the absence of an interest benefit in 2011 relating to resolutions with taxing authorities (\$11 million), an increase in interest expense associated with the January 2012 senior note issuance (\$6 million) and an increase related to unfavorable changes on interest rate derivatives (\$4 million).

**Income tax expense** decreased 22%, primarily reflecting lower pre-tax income in 2012.

**Segment Results of Operations**

Presented below is a summary of contributions by Virginia Power's operating segments to net income:

(millions)	Second Quarter			Year-To-Date		
	2012	2011	\$ Change	2012	2011	\$ Change
DVP	\$ 100	\$ 102	\$ (2)	\$ 207	\$ 215	\$ (8)
Dominion Generation	118	144	(26)	251	309	(58)
Primary operating segments	218	246	(28)	458	524	(66)
Corporate and Other	(46)	(5)	(41)	(43)	(5)	(38)
Consolidated	\$ 172	\$ 241	\$ (69)	\$ 415	\$ 519	\$ (104)

**DVP**

Presented below are operating statistics related to Virginia Power's DVP segment:

	Second Quarter			Year-To-Date		
	2012	2011	% Change	2012	2011	% Change
Electricity delivered (million MWh)	19.1	19.9	(4)%	38.7	40.8	(5)%
Degree days (electric distribution service area):						

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Cooling	<b>510</b>	630	(19)	<b>536</b>	631	(15)
Heating	<b>230</b>	222	4	<b>1,702</b>	2,290	(26)
Average electric distribution customer accounts (thousands) <sup>(1)</sup>	<b>2,452</b>	2,435	1	<b>2,450</b>	2,435	1

(1) Period average.

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Presented below, on an after-tax basis, are the key factors impacting Virginia Power's DVP segment's net income contribution:

	<b>Second Quarter 2012 vs. 2011 Increase (Decrease)</b>	<b>Year-To-Date 2012 vs. 2011 Increase (Decrease)</b>
(millions)		
Regulated electric sales:		
Weather	\$ (10)	\$ (28)
Other	6	12
FERC transmission equity return	3	12
Storm damage and service restoration <sup>(1)</sup>	6	11
Other	(7)	(15)
<b>Change in net income contribution</b>	<b>\$ (2)</b>	<b>\$ (8)</b>

(1) Excludes restoration costs associated with damage caused by late June 2012 summer storms reflected in the Corporate and Other segment.

**Dominion Generation**

Presented below are operating statistics related to Virginia Power's Dominion Generation segment:

	<b>Second Quarter</b>			<b>Year-To-Date</b>		
	<b>2012</b>	2011	% Change	<b>2012</b>	2011	% Change
Electricity supplied (million MWh):	<b>19.1</b>	19.9	(4)%	<b>38.7</b>	40.8	(5)%
Degree days (electric utility service area):						
Cooling	<b>510</b>	630	(19)	<b>536</b>	631	(15)
Heating	<b>230</b>	222	4	<b>1,702</b>	2,290	(26)

Presented below, on an after-tax basis, are the key factors impacting Virginia Power's Dominion Generation segment's net income contribution:

	<b>Second Quarter 2012 vs. 2011 Increase (Decrease)</b>	<b>Year-To-Date 2012 vs. 2011 Increase (Decrease)</b>
(millions)		
Regulated electric sales:		
Weather	\$ (22)	\$ (59)
Other		15
PJM ancillary services	(11)	(25)
Net capacity expenses	9	15
Outage costs	(11)	(18)
Other O&M expenses	8	19
Other	1	(5)
<b>Change in net income contribution</b>	<b>\$ (26)</b>	<b>\$ (58)</b>



**Corporate and Other**

Corporate and Other includes specific items that are not included in profit measures evaluated by management in assessing segment performance or in allocating resources among the segments. See Note 18 to the Consolidated Financial Statements in this report for discussion of these items.

**Liquidity and Capital Resources**

Dominion and Virginia Power depend on both internal and external sources of liquidity to provide working capital and to fund capital requirements. Short-term cash requirements not met by cash provided by operations are generally satisfied with proceeds from short-term borrowings. Long-term cash needs are met through issuances of debt and/or equity securities.

At June 30, 2012, Dominion had \$1.9 billion of unused capacity under its credit facilities, including \$770 million of unused capacity under joint credit facilities available to Virginia Power.

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The sales of Salem Harbor and State Line, which were classified as discontinued operations in the second quarter of 2012, are not expected to negatively impact Dominion's liquidity. Two of the four units at Salem Harbor were retired on December 31, 2011, with the remaining two units to be retired on June 1, 2014. State Line was retired in March 2012.

A summary of Dominion's cash flows is presented below:

	2012	2011
(millions)		
Cash and cash equivalents at January 1	\$ 102	\$ 62
Cash flows provided by (used in):		
Operating activities	2,398	1,287
Investing activities	(1,864)	(1,535)
Financing activities	(474)	266
Net increase in cash and cash equivalents	60	18
Cash and cash equivalents at June 30	\$ 162	\$ 80

A summary of Virginia Power's cash flows is presented below:

	2012	2011
(millions)		
Cash and cash equivalents at January 1	\$ 29	\$ 5
Cash flows provided by (used in):		
Operating activities	1,351	837
Investing activities	(1,084)	(973)
Financing activities	(269)	184
Net increase (decrease) in cash and cash equivalents	(2)	48
Cash and cash equivalents at June 30	\$ 27	\$ 53

**Operating Cash Flows**

Net cash provided by Dominion's operating activities increased by \$1.1 billion, primarily due to higher deferred fuel cost recoveries in its Virginia jurisdiction, lower margin collateral requirements, lower state income tax payments and changes in other working capital items, partially offset by lower merchant generation margins and the impact of less favorable weather.

Net cash provided by Virginia Power's operating activities increased by \$514 million, primarily due to higher deferred fuel cost recoveries in its Virginia jurisdiction and net changes in other working capital items. The increase was partially offset by higher income tax payments and the impact of less favorable weather.

Dominion believes that its operations provide a stable source of cash flow to contribute to planned levels of capital expenditures and maintain or grow the dividend on common shares. Virginia Power believes that its operations provide a stable source of cash flow to contribute to planned levels of capital expenditures and provide dividends to Dominion.

The Companies' operations are subject to risks and uncertainties that may negatively impact the timing or amounts of operating cash flows, which are discussed in Item 1A. Risk Factors in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011.

**Credit Risk**

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Dominion's exposure to potential concentrations of credit risk results primarily from its energy marketing and price risk management activities. Presented below is a summary of Dominion's credit exposure as of June 30, 2012 for these activities. Gross credit exposure for each counterparty is calculated prior to the application of collateral and represents outstanding receivables plus any unrealized on- or off-balance sheet exposure, taking into account contractual netting rights.

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(millions)	Gross Credit Exposure	Credit Collateral	Net Credit Exposure
Investment grade <sup>(1)</sup>	\$ 266	\$ 22	\$ 244
Non-investment grade <sup>(2)</sup>	101	18	83
No external ratings:			
Internally rated investment grade <sup>(3)</sup>	19		19
Internally rated non-investment grade <sup>(4)</sup>	78		78
Total	\$ 464	\$ 40	\$ 424

- (1) Designations as investment grade are based upon minimum credit ratings assigned by Moody's and Standard & Poor's. The five largest counterparty exposures, combined, for this category represented approximately 39% of the total net credit exposure.
- (2) The five largest counterparty exposures, combined, for this category represented approximately 13% of the total net credit exposure.
- (3) The five largest counterparty exposures, combined, for this category represented approximately 4% of the total net credit exposure.
- (4) The five largest counterparty exposures, combined, for this category represented approximately 9% of the total net credit exposure.
- Virginia Power's exposure to potential concentrations of credit risk results primarily from sales to wholesale customers. At June 30, 2012, Virginia Power's exposure to potential concentrations of credit risk was not considered material.

**Investing Cash Flows**

Net cash used in Dominion's investing activities increased by \$329 million, primarily due to higher capital expenditures, mainly related to investments in growth projects.

Net cash used in Virginia Power's investing activities increased by \$111 million, primarily due to higher capital expenditures and lower restricted cash reimbursements for the purpose of funding certain qualifying construction projects.

**Financing Cash Flows and Liquidity**

Dominion and Virginia Power rely on capital markets as significant sources of funding for capital requirements not satisfied by cash provided by their operations. As discussed further in *Credit Ratings* and *Debt Covenants* in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011, the Companies' ability to borrow funds or issue securities and the return demanded by investors are affected by credit ratings. In addition, the raising of external capital is subject to certain regulatory requirements, including registration with the SEC and, in the case of Virginia Power, approval by the Virginia Commission.

Each of the Companies meets the definition of a well-known seasoned issuer under SEC rules governing the registration, communications and offering processes under the Securities Act of 1933, as amended. The rules provide for a streamlined shelf registration process to provide registrants with timely access to capital. This allows the Companies to use automatic shelf registration statements to register any offering of securities, other than those for exchange offers or business combination transactions.

For the six months ended June 30, 2012, net cash used in Dominion's financing activities was \$474 million as compared to net cash provided by financing activities of \$266 million in 2011, primarily due to net debt repayments in 2012 as compared to net debt issuances in 2011 as a result of higher cash inflow from operations, partially offset by the absence of the repurchase of common stock recorded in 2011.

For the six months ended June 30, 2012, net cash used in Virginia Power's financing activities was \$269 million as compared to net cash provided by financing activities of \$184 million in 2011, primarily due to lower net debt issuances.

See Note 13 to the Consolidated Financial Statements in this report for further information regarding Dominion's and Virginia Power's credit facilities, liquidity and significant financing transactions.

**Credit Ratings**

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Credit ratings are intended to provide banks and capital market participants with a framework for comparing the credit quality of securities and are not a recommendation to buy, sell or hold securities. In the *Credit Ratings* section of MD&A in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011, there is a discussion on the use of capital markets by the Companies, as well as the impact of credit ratings on the accessibility and costs of using these markets. As of June 30, 2012, there have been no changes in the Companies credit ratings.

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### **Debt Covenants**

In the *Debt Covenants* section of MD&A in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011, there is a discussion on the various covenants present in the enabling agreements underlying the Companies' debt. As of June 30, 2012, there have been no material changes to debt covenants, nor any events of default under the Companies' debt covenants.

### **Virginia Power Mortgage Supplement**

Substantially all of Virginia Power's property is subject to the lien of the Indenture of Mortgage securing its First and Refunding Mortgage Bonds. There were no bonds outstanding as of June 30, 2012; however, by leaving the indenture open, Virginia Power expects to retain the flexibility to issue mortgage bonds in the future. In July 2012, Virginia Power entered into a supplement to the indenture in order to amend various of its terms and conditions and to incorporate certain new provisions. The supplement reduces Virginia Power's overall compliance responsibilities associated with the indenture by limiting the maximum principal amount of bonds that may be outstanding under the indenture to \$10 million unless otherwise provided in a further supplement, and by modifying or eliminating altogether certain compliance requirements while there are no bonds outstanding. The supplement also provides Virginia Power with flexibility to determine when or if certain newly or recently acquired properties will be pledged as collateral under the indenture. A copy of the Ninety-Second Supplemental Indenture is attached hereto as Exhibit 4.1.

### **Future Cash Payments for Contractual Obligations and Planned Capital Expenditures**

As of June 30, 2012, there have been no material changes outside the ordinary course of business to Dominion's or Virginia Power's contractual obligations nor any material changes to planned capital expenditures as disclosed in MD&A in the Companies' Annual Report on Form 10-K for the year ended December 31, 2011.

### **Use of Off-Balance Sheet Arrangements**

As of June 30, 2012, there have been no material changes in the off-balance sheet arrangements disclosed in MD&A in the Companies' Annual Report on Form 10-K for the year ended December 31, 2011.

### **Future Issues and Other Matters**

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, the dates of Dominion's and Virginia Power's Consolidated Financial Statements that may impact the Companies' future results of operations, financial condition and/or cash flows. This section should be read in conjunction with Item 1. Business and Future Issues and Other Matters in Item 7. MD&A in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011 and Future Issues and Other Matters in Dominion's and Virginia Power's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.

### **Environmental Matters**

Dominion and Virginia Power are subject to costs resulting from a number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. They can result in increased capital, operating and other costs as a result of compliance, remediation, containment and monitoring obligations. See Note 23 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011, Note 12 to the Consolidated Financial Statements in Dominion's and Virginia Power's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and Note 14 to the Consolidated Financial Statements in this report for additional information on various environmental matters.

#### ***Air***

In June 2012, the EPA issued a proposed rule that would set a more stringent annual air quality standard for fine particulate matter. The EPA is expected to issue a final rule in December 2012 and complete final air quality designations by December 2014. States will have until 2020 to meet the revised standard. The extent to which a revised particulate matter standard will impact Dominion is uncertain at this time, but is not expected to be material.

#### ***Water***

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In July 2012, the EPA announced a delay from July 2012 to June 2013 of its impending rulemaking related to CWA Section 316(b) which seeks to establish a uniform national standard for impingement, but forgoes the creation of a single technology standard for entrainment. Dominion and Virginia Power cannot estimate the need or potential for entrainment controls under the proposed rule as these decisions will be made on a case-by-case basis after a thorough review of detailed biological, technology, cost and benefit studies. However, the impacts of this proposed rule may be material to results of operations, financial condition, and/or cash flows.

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### **Regulatory Matters**

See Note 14 to the Consolidated Financial Statements in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011, Note 9 to the Consolidated Financial Statements in Dominion's and Virginia Power's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and Note 11 to the Consolidated Financial Statements in this report for additional information on various regulatory matters.

### **Legal Matters**

See Item 3. Legal Proceedings in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011, Notes 9 and 12 to the Consolidated Financial Statements in Dominion's and Virginia Power's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and Notes 11 and 14 to the Consolidated Financial Statements in this report for additional information on various legal matters.

### **Dodd-Frank Act**

The Dodd-Frank Act was enacted into law in July 2010 in an effort to improve regulation of financial markets. The Dodd-Frank Act includes provisions that will require certain over-the-counter derivatives, or swaps, to be centrally cleared and executed through an exchange or other approved trading platform. Non-financial entities that use swaps to hedge or mitigate commercial risk, often referred to as end users, can choose to exempt their hedging transactions from these clearing and exchange trading requirements. Final rules for the over-the-counter derivative-related provisions of the Dodd-Frank Act will continue to be established through the ongoing rulemaking process of the applicable regulators. In June 2011, both the CFTC and the SEC confirmed that they would not complete the required rulemakings by the July 2011 deadline under the Dodd-Frank Act. Each agency has granted temporary relief from most derivative-related provisions of the Dodd-Frank Act until the effective date of the applicable rules. Currently, the CFTC's temporary relief would expire no later than December 31, 2012. If, as a result of the rulemaking process, Dominion's or Virginia Power's derivative activities are not exempted from the clearing, exchange trading or margin requirements, the Companies could be subject to higher costs, including from higher margin requirements, for their derivative activities. In addition, implementation of, and compliance with, the over-the-counter derivative provisions of the Dodd-Frank Act by the Companies' swap counterparties could result in increased costs related to the Companies' derivative activities. While new rules implementing part of the Dodd-Frank Act were recently issued, the Companies are still evaluating the impact of these rules. Due to the ongoing rulemaking process, the Companies are currently unable to assess the potential impact of the Dodd-Frank Act's derivative-related provisions on their financial condition, results of operations or cash flows.

### **Cove Point Export Project**

Dominion is pursuing a liquefaction project at Cove Point, which would enable the facility to liquefy domestically-produced natural gas and export it as LNG. The planned capacity is approximately 750 million cubic feet per day on the inlet and approximately 4.5 to 5 million metric tons per annum on the outlet. In March 2012, Cove Point entered into precedent agreements with two major companies, one of which is Sumitomo Corporation, pursuant to which Cove Point would provide liquefaction, storage and loading services but would not own or directly export the LNG. In June 2012, Dominion and the two companies amended the respective precedent agreements to extend negotiations for the definitive terminal service agreements, which Cove Point expects to complete by the end of this year. In May 2012, in response to claims by the Sierra Club, Cove Point filed a complaint for declaratory judgment to confirm its right to construct the project. A hearing on the matter is set for October 2012.

Subject to a final decision on pursuing the project, execution of binding terminal service agreements, receipt of regulatory and other approvals, and successful completion of engineering studies, construction of liquefaction facilities could begin in 2014 with an in-service date in 2017.

### **Moving Ahead for Progress in the 21<sup>st</sup> Century Act**

On July 6, 2012, the Moving Ahead for Progress in the 21<sup>st</sup> Century Act was signed into law. This Act includes a provision that increases the interest rates used to determine plan sponsors' pension contributions for required funding purposes. Although the Internal Revenue Service has not yet released the new interest rates, Dominion expects the new rates will reduce required pension contributions for 2013 through 2015. Dominion believes that required pension contributions will rise subsequent to 2015, resulting in little net impact to cumulative required contributions over a 10-year period.

### **Electric Transmission Projects**



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In June 2012, Virginia Power requested Virginia Commission approval of the Surry-to-Skiffes Creek line and Skiffes Creek-to-Wheaton line. The proposed project is estimated to cost approximately \$151 million. Subject to the receipt of applicable state and federal regulatory approvals, the Surry-to-Skiffes Creek line and Skiffes Creek-to-Wheaton line are expected to be completed by May 2015.

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Virginia Power also presented for the Virginia Commission's consideration an approximately 37-mile alternate route for the 500-kV line from Virginia Power's existing Chickahominy Substation to the proposed Skiffes Creek Switching Station. The alternate route combined with the Skiffes Creek-to-Wheaton line is estimated to cost approximately \$213 million.

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**ITEM 3.**

**QUANTITATIVE AND QUALITATIVE**

**DISCLOSURES ABOUT MARKET RISK**

The matters discussed in this Item may contain forward-looking statements as described in the introductory paragraphs under Part I, Item 2. MD&A of this Form 10-Q. The reader's attention is directed to those paragraphs for discussion of various risks and uncertainties that may impact Dominion and Virginia Power.

**Market Risk Sensitive Instruments and Risk Management**

Dominion's and Virginia Power's financial instruments, commodity contracts and related financial derivative instruments are exposed to potential losses due to adverse changes in commodity prices, interest rates and equity security prices as described below. Commodity price risk is present in Dominion's and Virginia Power's electric operations, Dominion's gas procurement operations, and Dominion's energy marketing and trading operations due to the exposure to market shifts in prices received and paid for electricity, natural gas and other commodities. The Companies use commodity derivative contracts to manage price risk exposures for these operations. Interest rate risk is generally related to their outstanding debt. In addition, they are exposed to investment price risk through various portfolios of equity and debt securities.

The following 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 commodity prices or interest rates.

***Commodity Price Risk***

To manage price risk, Dominion and Virginia Power primarily hold commodity-based financial derivative instruments for non-trading purposes associated with purchases and sales of electricity, natural gas and other energy-related products. As part of its strategy to market energy and to manage related risks, Dominion also holds commodity-based financial derivative instruments for trading purposes.

The derivatives used to manage commodity price risk are executed within established policies and procedures and may include instruments such as futures, forwards, swaps, options and FTRs that are sensitive to changes in the related commodity prices. For sensitivity analysis purposes, the hypothetical change in market prices of commodity-based financial derivative instruments is determined based on models that consider the market prices of commodities in future periods, the volatility of the market prices in each period, as well as the time value factors of the derivative instruments. Prices and volatility are principally determined based on observable market prices.

A hypothetical 10% unfavorable change in commodity prices of Dominion's non-trading commodity-based financial derivative instruments would have resulted in a decrease in fair value of approximately \$175 million and \$179 million as of June 30, 2012 and December 31, 2011, respectively. A hypothetical 10% unfavorable change in commodity prices of Dominion's commodity-based financial derivative instruments held for trading purposes would have resulted in a decrease in fair value of approximately \$9 million and \$8 million as of June 30, 2012 and December 31, 2011, respectively.

A hypothetical 10% unfavorable change in commodity prices would not have resulted in a material change in the fair value of Virginia Power's non-trading commodity-based financial derivatives as of June 30, 2012 or December 31, 2011.

The impact of a change in energy commodity prices on Dominion's and Virginia Power's non-trading commodity-based financial derivative instruments at a point in time is not necessarily representative of the results that will be realized when the contracts are ultimately settled. Net losses from commodity derivative instruments used for hedging purposes, to the extent realized, will generally be offset by recognition of the hedged transaction, such as revenue from physical sales of the commodity.

***Interest Rate Risk***

Dominion and Virginia Power manage their interest rate risk exposure predominantly by maintaining a balance of fixed and variable rate debt. They also enter into interest rate sensitive derivatives, including interest rate swaps and interest rate lock agreements. For variable rate debt and interest rate swaps designated under fair value hedging and outstanding for Dominion and Virginia Power, a hypothetical 10% increase in market interest rates would not have resulted in a material change in annual earnings at June 30, 2012 or December 31, 2011.



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Additionally, Dominion and Virginia Power may use forward-starting interest rate swaps and interest rate lock agreements as anticipatory hedges. As of June 30, 2012, Dominion and Virginia Power had \$3.0 billion and \$1.3 billion, respectively, in aggregate notional amounts of these interest rate derivatives outstanding. A hypothetical 10% decrease in market interest rates would have resulted in a decrease of approximately \$46 million and \$21 million, respectively, in the fair value of Dominion's and Virginia Power's interest rate derivatives at June 30, 2012.

The impact of a change in interest rates on Dominion's and Virginia Power's interest rate-based financial derivative instruments at a point in time is not necessarily representative of the results that will be realized when the contracts are ultimately settled. Net losses from interest rate derivative instruments used for hedging purposes, to the extent realized, will generally be offset by recognition of the hedged transaction.

### ***Investment Price Risk***

Dominion and Virginia Power are subject to investment price risk due to securities held as investments in nuclear decommissioning and rabbi trust funds that are managed by third-party investment managers. These trust funds primarily hold marketable securities that are reported in the Consolidated Balance Sheets at fair value.

Dominion recognized net realized gains (including investment income) on nuclear decommissioning and rabbi trust investments of \$67 million, \$50 million and \$54 million for the six months ended June 30, 2012 and 2011 and for the year ended December 31, 2011, respectively. Net realized gains and losses include gains and losses from the sale of investments as well as any other-than-temporary declines in fair value. Dominion recorded, in AOCI and regulatory liabilities, a net increase in unrealized gains on these investments of \$121 million, \$98 million and \$52 million for the six months ended June 30, 2012 and 2011 and for the year ended December 31, 2011, respectively.

Virginia Power recognized net realized gains (including investment income) on nuclear decommissioning trust investments of \$27 million, \$16 million and \$24 million for the six months ended June 30, 2012 and 2011 and for the year ended December 31, 2011, respectively. Net realized gains and losses include gains and losses from the sale of investments as well as any other-than-temporary declines in fair value. Virginia Power recorded, in AOCI and regulatory liabilities, a net increase in unrealized gains on these investments of \$52 million, \$43 million, and \$25 million for the six months ended June 30, 2012 and 2011 and for the year ended December 31, 2011, respectively.

Dominion sponsors employee pension and other postretirement benefit plans, in which Dominion's and Virginia Power's employees participate, that hold investments in trusts to fund benefit payments. If the values of investments held in these trusts decline, it will result in future increases in the periodic cost recognized for such employee benefit plans and will be included in the determination of the amount of contributions to be made to the employee benefit plans.

## **ITEM 4. CONTROLS AND PROCEDURES**

Senior management of each of Dominion and Virginia Power, including Dominion's and Virginia Power's CEO and CFO, evaluated the effectiveness of each of their respective Companies' disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation process, each of Dominion's and Virginia Power's CEO and CFO have concluded that each of their respective Companies' disclosure controls and procedures are effective.

There were no changes in either Dominion's or Virginia Power's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, either of the Companies' internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, Dominion and Virginia Power 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 the Companies, or permits issued by various local, state and/or federal agencies for the construction or operation of facilities. Administrative proceedings may also be pending on these matters. In addition, in the ordinary course of business, the Companies and their subsidiaries are involved in various legal proceedings. There have been no material changes to the legal proceedings reported in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011. See the following for discussions on various environmental and other regulatory proceedings to which the Companies are a party:

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Notes 14 and 23 to the Consolidated Financial Statements and *Future Issues* in MD&A in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011.

Notes 9 and 12 to the Consolidated Financial Statements in Dominion's and Virginia Power's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.

Notes 11 and 14 to the Consolidated Financial Statements in this report.

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**Table of Contents****ITEM 1A. RISK FACTORS**

Dominion's and Virginia Power's businesses are influenced by many factors that are difficult to predict, involve uncertainties that may materially affect actual results and are often beyond the Companies' control. A number of these risk factors have been identified in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011, which should be taken into consideration when reviewing the information contained in this report. There have been no material changes with regard to the risk factors previously disclosed in Dominion's and Virginia Power's Annual Report on Form 10-K for the year ended December 31, 2011. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement or projection contained in this report, see *Forward-Looking Statements* in MD&A.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Dominion****ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares (or Units) Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share (or Unit)<sup>(2)</sup></b>	<b>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs<sup>(3)</sup></b>
				19,629,059 shares/ \$1.18 billion
4/1/12-4/30/12	104,409	\$ 51.21		19,629,059 shares/ \$1.18 billion
				19,629,059 shares/ \$1.18 billion
5/1/12-5/31/12	3,329	52.44		19,629,059 shares/ \$1.18 billion
				19,629,059 shares/ \$1.18 billion
6/1/12-6/30/12				19,629,059 shares/ \$1.18 billion
				19,629,059 shares/ \$1.18 billion
Total	107,738	\$ 51.25		19,629,059 shares/ \$1.18 billion

(1) In April and May 2012, 104,409 shares and 3,329 shares, respectively, were tendered by employees to satisfy tax withholding obligations on vested restricted and goal-based stock.

(2) Represents the weighted-average price paid per share.

(3) The remaining repurchase authorization is pursuant to repurchase authority granted by the Dominion Board of Directors in February 2005, as modified in June 2007. The aggregate authorization granted by the Dominion Board of Directors was 86 million shares (as adjusted to reflect a two-for-one stock split distributed in November 2007) not to exceed \$4 billion.

**Table of Contents****ITEM 6. EXHIBITS**

Exhibit			Dominion	Virginia Power
Number	Description			
3.1.a	Dominion Resources, Inc. Articles of Incorporation as amended and restated effective May 20, 2010 (Exhibit 3.1, Form 8-K filed May 20, 2010, File No. 1-8489).		X	
3.1.b	Virginia Electric and Power Company Amended and Restated Articles of Incorporation, as in effect on March 3, 2011 (Exhibit 3.1b, Form 10-Q for the quarter ended March 30, 2011 filed April 29, 2011, File No. 1-2255).			X
3.2.a	Dominion Resources, Inc. Amended and Restated Bylaws, effective December 13, 2011 (Exhibit 3.1, Form 8-K filed December 14, 2011, File No. 1-8489).		X	
3.2.b	Virginia Electric and Power Company Amended and Restated Bylaws, effective June 1, 2009 (Exhibit 3.1, Form 8-K filed June 3, 2009, File No. 1-2255).			X
4	Dominion Resources, Inc. and Virginia Electric and Power Company agree to furnish to the Securities and Exchange Commission upon request any other instrument with respect to long-term debt as to which the total amount of securities authorized does not exceed 10% of either of their total consolidated assets.		X	X
4.1	Indenture of Mortgage of Virginia Electric and Power Company, dated November 1, 1935, as supplemented and modified by Fifty-Eight Supplemental Indentures (Exhibit 4(ii), Form 10-K for the fiscal year ended December 31, 1985, File No. 1-2255); Ninety-Second Supplemental Indenture, dated as of July 1, 2012 (filed herewith).			X
31.a	Certification by Chief Executive Officer of Dominion Resources, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).		X	
31.b	Certification by Chief Financial Officer of Dominion Resources, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).		X	
31.c	Certification by Chief Executive Officer of Virginia Electric and Power Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).			X
31.d	Certification by Chief Financial Officer of Virginia Electric and Power Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).			X
32.a	Certification to the Securities and Exchange Commission by Chief Executive Officer and Chief Financial Officer of Dominion Resources, Inc. as required by Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).		X	
32.b	Certification to the Securities and Exchange Commission by Chief Executive Officer and Chief Financial Officer of Virginia Electric and Power Company as required by Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).			X
99	Condensed consolidated earnings statement (filed herewith).		X	X
101 <sup>^</sup>	The following financial statements from Dominion Resources, Inc. s and Virginia Electric and Power Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed on filed on August 1, 2012, formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.		X	X

<sup>^</sup> This exhibit will not be deemed filed by Virginia Electric and Power Company for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that Virginia Electric and Power Company specifically incorporates it by reference.





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**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 1, 2012

/s/ Ashwini Sawhney  
Ashwini Sawhney

Vice President Accounting and Controller

(Chief Accounting Officer)

**VIRGINIA ELECTRIC AND POWER COMPANY**

Registrant

August 1, 2012

/s/ Ashwini Sawhney  
Ashwini Sawhney

Vice President Accounting

(Chief Accounting Officer)

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