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Prior Reports:

July 3, 2007 – \$43 – Buy

March 30, 2009 – \$31 – Hold

Follow-Up to March 30, 2009 Report

Rating: Maintain Hold

**Dominion Resources
(NYSE-D)**

Rate Filing Recap

Intraday	4/9				
D	30				
52-week range	48-30				
Book Value (12/31/08)	18.50	164.0%	P/b		
Reported - Continuing					
2005	2.26	13.4			
2006	2.53	12.0			
2007	2.56	11.9			
2008	3.16	9.6			
2009 Estimate	3.20	9.5			
2010 Estimate	3.30	9.2			
2011 Estimate	3.50	8.7			
Dividend	1.75	5.8%	Yield		
				Price	Ytd
					12-Mos
				Performance	4/9
				Dominion	30 (15) (30)
				Phil. El. Index	352 (12) (33)
				Dow Industrials	8,023 (9) (36)
				Coverage	
				Analyst Total	20
				Buys	5 25%
				Shares (mil.)	577
				Market Val.-\$bil.	18

GAAP per share earnings: \$3.16 – 2008, \$3.88 – 2007, \$1.96 – 2006, \$1.50 – 2005.

Overview

Dominion's mediocre stock performance year to date reflects three issues: 1) management's forecast of 1.5% kilowatt-hour sales growth and whether it might prove optimistic in the current environment; 2) guidance of \$3.33-\$3.50 a share in 2010 since earnings are predicated on natural gas prices in the \$6.75-\$7.25 per mcf range, well above current prices of \$3.50-\$3.75 per mcf and 2010 futures ranging from \$5.80-\$6.70 per mcf. Each \$1.00 per mcf off its base works out to \$0.16 a share according to management. A third is regulation, the key to Dominion's growth for the next 4 to 5 years.

The outlook for sales and 2010 guidance will be clarified shortly, probably at the first quarter earnings conference call on April 30, 2009. Direction of regulation should be known by September 1, 2009 when the Virginia State Corporation will have addressed the multi faceted \$518 million rate case filed April 1, 2009. These comments review the rate filing covering Generation and Distribution, Transmission and rider clauses for the Virginia City Hybrid Energy Center and the Bear Garden combined cycle units.

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See page 4 of report for Analyst's Certification, pages 4-5 for Important Disclosures and page 5 for Other Disclosures and Disclaimers

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Introduction

As planned, Dominion Resources petitioned the Virginia State Corporation Commission (SCC) for rate relief on April 1, 2009. The rate filing contains four components: 1) Generation and Distribution (G&D) - \$289 million, 2) Transmission - \$227 million, 3) Rider clauses on the Virginia City Hybrid Energy Center - \$183 million and Bear Garden - \$77 million and 4) reductions in purchased power expenses - \$240 million. All issues should be decided by September 1, 2009. If granted in their entirety, base rates would increase 9%.

Table 1
State Corporation Commission
Rate Filing

	\$-mil
Generation & Distribution	289
Transmission	227
Rider Clause	
Virginia City Hybrid Center	183
Bear Garden	77
Gross	776
Lower Fuel Expenses	240
Net	536

Source: Rate Filing

Generation and Distribution (\$289 million)

The G&D filing incorporates a 12.5% return on common plus a performance incentive of 100 basis points for an overall 13.5% return. Test year is 2008 and rate base \$8,887 million. Common equity is pro forma to include a recent share offering and totals \$4,697 million, or 52.8% of rate base. Return on rate base is 8.0% and return on common 9.6%. Unadjusted year-end results have rate base at \$8,428 million, and common equity \$4,021 million. Returns on rate base and common equity are 10.0% and 14.6%, respectively.

Table 2
Generation & Distribution
Calendar 2008

Column	(1)	(2)	(3)	(4)
	Pro Forma	Rate Base	Adjustments	Un-Adj
	\$-mil	\$-mil	\$-mil	\$-mil
Total Capital	8,887	8,887	460	8,428
Common Equity	4,697	4,697	676	4,021
Equity Pct.	52.8%	52.8%		47.7%
Net Operating Income	892	710	(136)	846
Earnings	634	452	(136)	589
Return Rate Base	10.0%	8.0%		10.0%
Return on Common	13.5%	9.6%		14.6%

Source: Rate Filing

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Intervenors will question sales forecasts, cost estimates, capital structure and returns. Return on common seems the most vulnerable as a 1% change equates to \$47 million (\$0.08 a share) in earnings, the revenue equivalent of \$76 million. If the SCC were to accept the 12.5% return on common and deny the 100 basis point adder, the increase would be cut by more than 25% to \$213 million, down from \$289 million.

Transmission (\$227 million)

The \$227 million increase (\$270 million including non-jurisdictional) represents Federal Energy Regulatory Commission (FERC) approved costs billed by the Regional Transmission Organization (RTO). PJM charges include all allocated costs among PJM members including returns on equity. Virginia's jurisdictional investment in 2008 of \$903 million earned a return on rate base of 6.67%. We estimate the equity return at close to the allowed 11.41% level.

Dominion has commitments of \$910 million through 2012 that provide for FERC-approved premium equity returns ranging from 125 basis points above the 11.41% base on \$295 million of investments to 150 basis points on \$615 million. Assuming a 53% equity component earnings power would rise from \$54 million (\$0.09 a share) in the current Test Year to \$114 million (\$0.19 a share) at year end 2012.

We believe prior court rulings leave the SCC with little if any authority over FERC set rates. One item not covered in FERC's decision is \$22.2 million of deferred charges incurred during the process of joining the RTO. On balance most of the \$227 million transmission should be implemented.

Rate Riders: Virginia City Hybrid Energy Center (\$183 million) and Bear Garden (\$77 million)

In 2007, the Virginia Legislature, in an effort to support state generation, enacted legislation granting enhanced returns on common for new expansions. Both the Virginia City and Bear Garden projects qualify. The Virginia City Hybrid Energy Center is a 585 megawatt, \$1.8 billion coal-fueled plant scheduled for completion in 2012. Bear Garden, a \$620 million, 590 megawatt oil and gas fueled combined cycle unit is scheduled for completion one year earlier in 2011.

Virginia City Hybrid Energy Center (VCHC): In March 2008, the SCC issued an order allowing Virginia Power to recoup carrying charges on a pay as you go basis rather than capitalize those costs via Allowance for Funds Used During Construction (AFUDC) entries (Rate Adjustment Clause (RAC) - Rider S). The SCC action provided for a base 11.12% return on common plus a 100% basis point enhancement as per the 2007 Virginia legislation for an overall 12.12% return.

The \$183 million filing represents two items: 1) the revenue to support an average rate base of \$1,154 million for rate year ending December 31, 2010 - \$175 million, and 2) amortization of previously accrued AFUDC - \$6.7 million.

The petition asks that the return on common be based on the findings in the current G&D case plus an additional 100 basis points per the March 2008 order. For example, if the SCC were to support the G&D request (12.5% plus 100 basis points for 13.5%), VCHC's equity return would increase from 12.12% as per March 2008 to 14.5%. The earnings difference between the 12.12% and 14.5% returns is \$15 million (\$0.02 a share), the revenue equivalent of \$23 million. New rates will be effective beginning 2010.

Bear Garden: Bear Garden's rate application mirrors Virginia City. The \$77 million increase consists of a \$60 million increase based on a return on a \$395 million rate base incorporating a 14.5% return on common. The remaining \$17 million is amortization of previously capitalized AFUDC. The difference between 12.12% and 14.5% is \$5 million (\$0.01 a share) in earnings and \$8 million in revenues.

Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other Dominion Resources reports issued by me are: 11/16/06 (\$80) – Buy – Target Price \$100; 9/26/06 (\$77) – Hold; 4/19/06 (\$73) – Hold; 3/12/04 (\$63) – Upgrade to Hold; 1/23/04 (\$62) – Under Perform; 12/27/02 (\$54) – Under Perform; 7/3/07 (\$43.5) – Buy; 3/30/2009 (\$31) – Downgrade to Hold.

Important Disclosures

Guide to Investment Ratings:

Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy	11%	0%
Hold	89%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



Important Disclosures, continued

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