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Follow-up to November 16, 2006 Report (D-\$80)

**Rating: Maintain Buy**

## Dominion Resources (D-\$87-NYSE) Sales of E&P Properties Complete

### The Plan

The goal in selling the E&P properties was to create a less risky company with an earnings profile more suitable to its risk adverse shareholder base. In other words, more like a traditional integrated utility with steady earnings growth of 4% to 6% annually and dividend payout in the 55% to 60% range. Management hasn't revealed its blue print for reaching a 55% payout, i.e., 1) a one-time 20% boost to \$3.40 a share followed by 4% annual increases, or 2) raise the payout steadily with several years of above-average growth. Our estimates assume dividend increases of 8% annually beginning in 2008. Based on earnings growth of 4% annually, a \$3.58 a share dividend in 2010 would represent a 54% payout on a \$6.65 a share earnings base.

Our 12-month price target based on a 3% yield on a \$3.08 a share dividend is \$100 a share.

### Debt Retirement & Share Repurchases

The sale of the Mid-Continent properties for \$2,050 million announced July 2, 2007 completed the sale of Dominion's E&P except for the Appalachian Basin. As earlier sales revealed, overall net proceeds of \$9.5 billion were significantly below the estimates in our November 2006 report of \$15 billion - \$12 billion when the plan was announced, but not by enough to alter the company's long-term prospects. Proceeds will be allocated to debt retirement (\$3,350 million) and to repurchase common stock (\$6,170 million).

As part of the share buy back program the company announced a modified "Dutch Auction" for 55 million shares (16% of outstanding) with an option to purchase an additional 7 million shares in the event that more than 55 million shares are tendered. The tender scheduled for mid-July calls for a price of not less than \$82 a share or more than \$92 a share.

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See page 3 of report for Analyst's Certification, pages 3-4 for Important Disclosures and page 4 for Other Disclosures and Disclaimers

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Table 1  
E&P Sales Proceeds

E&P Sales	\$.Mil.
Gross	13,917
Net of Taxes	10,095
Other Asset Sales	475
Less Hedges & Other	1,050
Proceeds Available for Debt & Buy Backs	9,520
Debt Retirements	3,350
Available for Stock Purchases	6,170
Total	9,520

### Pro Forma Earnings

Management presents a simple "how to" outline for calculating earnings implications of assets sales on its web site (not to confuse reporting with analysis). In November 2006, management supported an operating earnings range of \$7.43 - \$6.93 a share for 2008 assuming no E&P sales. The web site shows operating earnings excluding E&P profits at \$1,541 million, or \$4.33 a share based on 356 million outstanding shares. Adding back earnings in the retained Appalachian Basin (\$77 million) plus interest savings from debt retirements (\$134 million), 2008 pro forma profits rise to \$1,752 million. Share buy backs totaling \$6,170 million at \$87 a share (current price) reduces outstanding shares by 20% to 285 million. Pro forma earnings work out to \$6.15 a share, a dilution of between 11%-17% from the November 2006 guidelines.

Table 2  
Pro Forma Mid-Point Earnings  
2008

	\$.Mil.
Operating Earnings Web Site	1,541
Appalachian Basin	77
Interest Savings	134
Pro Forma Earnings	1,752
Shares - millions	285
Earnings	6.15

## 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.

## 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	20%	0%
Hold	80%	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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