VIRGINIA ELECTRIC & POWER CO
Form 10-Q/A
October 13, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 001-02255

VIRGINIA ELECTRIC AND POWER COMPANY

(Exact name of registrant as specified in its charter)

VIRGINIA *(State or other jurisdiction of* *incorporation or organization)*	**54-0418825** *(I.R.S. Employer* *Identification No.)*
120 TREDEGAR STREET **RICHMOND, VIRGINIA** *(Address of principal executive offices)*	**23219** *(Zip Code)*

(804) 819-2000

(Registrant s telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

At September 30, 2008, the latest practicable date for determination, 198,047 shares of common stock, without par value, of the registrant were outstanding.

Table of Contents

EXPLANATORY NOTE

Virginia Electric and Power Company is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, as filed with the Securities and Exchange Commission on October 30, 2008, in order to revise the Chief Executive Officer and Chief Financial Officer certifications filed as Exhibits 31.1 and 31.2 to the original Form 10-Q, which inadvertently omitted certain language regarding internal control over financial reporting required to be included in paragraph 4. This Form 10-Q/A is limited in scope to the foregoing, and should be read in conjunction with the original Form 10-Q and our other filings with the Securities and Exchange Commission.

The Financial Statements contained in Part I. Item 1 of the original Form 10-Q as well as the Controls and Procedures contained in Part I. Item 4 of the original Form 10-Q are reproduced in this amendment, but this amendment does not reflect events occurring after the filing of the original Form 10-Q or modify or update those disclosures affected by subsequent events. Except as described above, we have not modified or updated the disclosures or information presented in the original Form 10-Q.

Table of Contents

TABLE OF CONTENTS

Part I.	Financial Information		
	Item 1.	Consolidated Financial Statements	
		Consolidated Statements of Income Three and Nine Months Ended September 30, 2008 and 2007	1
		Consolidated Balance Sheets September 30, 2008 and December 31, 2007	2
		Consolidated Statements of Cash Flows Nine Months Ended September 30, 2008 and 2007	4
		Notes to Consolidated Financial Statements	5
	Item 4.	Controls and Procedures	15
Part II.	Other Information		
	Item 6.	Exhibits	15
		31.1 Certification by Registrant s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
		31.2 Certification by Registrant s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
		32 Certification to the Securities and Exchange Commission by Registrant s Chief Executive Officer and Chief Financial Officer, as required by Section 906 of The Sarbanes-Oxley Act of 2002	

Table of Contents

VIRGINIA ELECTRIC AND POWER COMPANY

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
(millions)				
Operating Revenue	**$ 2,177**	$ 1,833	**$ 5,247**	$ 4,700
Operating Expenses				
Electric fuel and energy purchases	**982**	609	**2,062**	1,945
Purchased electric capacity	**102**	107	**305**	330
Other energy-related commodity purchases	**4**	8	**11**	24
Other operations and maintenance:				
Affiliated suppliers	**98**	83	**274**	239
Other	**230**	255	**633**	657
Depreciation and amortization	**154**	146	**453**	420
Other taxes	**46**	43	**140**	131
Total operating expenses	**1,616**	1,251	**3,878**	3,746
Income from operations	**561**	582	**1,369**	954
Other income	**6**	18	**24**	58
Interest and related charges:				
Interest expense	**82**	77	**227**	206
Interest expense junior subordinated notes payable to affiliated trust		8	**12**	23
Total interest and related charges	**82**	85	**239**	229
Income before income tax expense	**485**	515	**1,154**	783
Income tax expense	**182**	193	**429**	293
Income before extraordinary item	**303**	322	**725**	490
Extraordinary item[1]				(158)
Net Income	**303**	322	**725**	332
Preferred dividends	**4**	4	**12**	12
Balance available for common stock	**$ 299**	$ 318	**$ 713**	$ 320

(1) Reflects a $259 million ($158 million after-tax) extraordinary charge in connection with the reapplication of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, to the Virginia jurisdiction of our generation operations.

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

PAGE 1

Table of Contents

VIRGINIA ELECTRIC AND POWER COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2008	December 31, 2007[1]
(millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 27**	$ 49
Customer accounts receivable (less allowance for doubtful accounts of $8 at both dates)	**928**	763
Affiliated receivables	**1**	53
Other receivables (less allowance for doubtful accounts of $7 and $9)	**52**	58
Inventories (average cost method)	**559**	520
Prepayments	**27**	165
Other	**154**	92
Total current assets	**1,748**	1,700
Investments		
Nuclear decommissioning trust funds	**1,187**	1,339
Other	**3**	16
Total investments	**1,190**	1,355
Property, Plant and Equipment		
Property, plant and equipment	**23,056**	21,838
Accumulated depreciation and amortization	**(8,973)**	(8,702)
Total property, plant and equipment, net	**14,083**	13,136
Deferred Charges and Other Assets		
Regulatory assets	**1,194**	564
Other	**357**	308
Total deferred charges and other assets	**1,551**	872
Total assets	**$ 18,572**	$ 17,063

(1) Our Consolidated Balance Sheet at December 31, 2007 has been derived from the audited Consolidated Financial Statements at that date, and includes the impact of adopting FSP FIN 39-1, *Amendment of FASB Interpretation No.* 39, *Offsetting of Amounts Related to Certain Contracts,* as discussed in Note 3.

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

Table of Contents

VIRGINIA ELECTRIC AND POWER COMPANY

CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

(millions)	September 30, 2008	December 31, 2007[1]
LIABILITIES AND SHAREHOLDER S EQUITY		
Current Liabilities		
Securities due within one year	**$ 307**	$ 286
Short-term debt	**664**	257
Accounts payable	**477**	573
Payables to affiliates	**89**	80
Affiliated current borrowings	**340**	114
Accrued interest, payroll and taxes	**301**	234
Other	**349**	239
Total current liabilities	**2,527**	1,783
Long-Term Debt		
Long-term debt	**5,452**	4,904
Junior subordinated notes payable to affiliated trust		412
Total long-term debt	**5,452**	5,316
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	**2,540**	2,237
Regulatory liabilities	**894**	1,009
Asset retirement obligations	**705**	678
Other	**316**	242
Total deferred credits and other liabilities	**4,455**	4,166
Total liabilities	**12,434**	11,265
Commitments and Contingencies (see Note 10)		
Preferred Stock Not Subject to Mandatory Redemption	**257**	257
Common Shareholder s Equity		
Common stock no par, 300,000 shares authorized; 198,047 shares outstanding	**3,388**	3,388
Other paid-in capital	**1,110**	1,109
Retained earnings	**1,367**	1,015
Accumulated other comprehensive income	**16**	29
Total common shareholder s equity	**5,881**	5,541
Total liabilities and shareholder s equity	**$ 18,572**	$ 17,063

(1) Our Consolidated Balance Sheet at December 31, 2007 has been derived from the audited Consolidated Financial Statements at that date, and includes the impact of adopting FSP FIN 39-1, as discussed in Note 3.

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

Table of Contents

VIRGINIA ELECTRIC AND POWER COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2008	**2007**
(millions)		
Operating Activities		
Net income	**$ 725**	$ 332
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**524**	485
Deferred income taxes and investment tax credits, net	**305**	99
Extraordinary item, net of income taxes		158
Other adjustments to income, net	**(37)**	(31)
Changes in:		
Accounts receivable	**(173)**	(178)
Affiliated accounts receivable and payable	**61**	46
Inventories	**(38)**	21
Deferred fuel expenses, net	**(514)**	(152)
Accounts payable	**(84)**	(9)
Accrued interest, payroll and taxes	**66**	5
Prepayments	**138**	89
Other operating assets and liabilities	**(28)**	93
Net cash provided by operating activities	**945**	958
Investing Activities		
Plant construction and other property additions	**(1,330)**	(680)
Purchases of nuclear fuel	**(88)**	(88)
Purchases of securities	**(345)**	(427)
Proceeds from sales of securities	**303**	391
Other	**84**	29
Net cash used in investing activities	**(1,376)**	(775)
Financing Activities		
Issuance (repayment) of short-term debt, net	**407**	(618)
Issuance of affiliated current borrowings, net	**226**	914
Repayment of affiliated notes payable	**(412)**	
Issuance of long-term debt	**630**	1,200
Repayment of long-term debt	**(62)**	(1,313)
Common dividend payments	**(361)**	(338)
Preferred dividend payments	**(12)**	(12)
Other	**(7)**	(13)
Net cash provided by (used in) financing activities	**409**	(180)
Increase (decrease) in cash and cash equivalents	**(22)**	3
Cash and cash equivalents at beginning of period	**49**	18
Cash and cash equivalents at end of period	**$ 27**	$ 21

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

VIRGINIA ELECTRIC AND POWER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Nature of Operations

Virginia Electric and Power Company is a regulated public utility that generates, transmits and distributes electricity for sale in Virginia and northeastern North Carolina. As of September 30, 2008, we served approximately 2.4 million retail customer accounts, including governmental agencies, as well as wholesale customers such as rural electric cooperatives and municipalities. We are a member of PJM, a regional transmission organization (RTO), and our electric transmission facilities are integrated into the PJM wholesale electricity markets. All of our common stock is owned by our parent company, Dominion Resources, Inc. (Dominion).

We manage our daily operations through two primary operating segments: Dominion Virginia Power (DVP) and Generation. In addition, we also report a Corporate and Other segment that primarily includes specific items attributable to our operating segments that are not included in profit measures evaluated by executive management in assessing the segments performance or allocating resources among the segments. Our assets remain wholly owned by us and our legal subsidiaries.

The terms Company, we, our and us are used throughout this report and, depending on the context of their use, may represent any of the following: the legal entity, Virginia Electric and Power Company, one or more of its consolidated subsidiaries or operating segments or the entirety of Virginia Electric and Power Company, including our Virginia and North Carolina operations and our consolidated subsidiaries.

Note 2. Significant Accounting Policies

As permitted by the rules and regulations of the SEC, our accompanying unaudited Consolidated Financial Statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with GAAP. These unaudited Consolidated Financial Statements should be read in conjunction with our Consolidated Financial Statements and Notes in our Annual Report on Form 10-K for the year ended December 31, 2007 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008.

In our opinion, the accompanying unaudited Consolidated Financial Statements contain all adjustments, including normal recurring accruals, necessary to present fairly our financial position as of September 30, 2008, our results of operations for the three and nine months ended September 30, 2008 and 2007, and our cash flows for the nine months ended September 30, 2008 and 2007.

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

Our accompanying unaudited Consolidated Financial Statements include, after eliminating intercompany transactions and balances, our accounts and those of our majority-owned subsidiaries.

In accordance with GAAP, we report certain contracts and instruments at fair value. See Note 6 for further information on fair value measurements in accordance with SFAS No. 157, *Fair Value Measurements*.

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

Certain amounts in our 2007 Consolidated Financial Statements and Notes have been recast to conform to the 2008 presentation. See Note 3 for discussion of certain 2007 amounts that have been recast due to the adoption of FSP FIN 39-1, *Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts*.

Reapplication of SFAS No. 71

The reapplication of SFAS No. 71 to the Virginia jurisdiction of our generation operations in April 2007 resulted in a $259 million ($158 million after-tax) extraordinary charge and the reclassification of $195 million ($119 million after-tax) of unrealized gains from AOCI, related to nuclear decommissioning trust funds. This established a $454 million long-term regulatory liability for amounts previously collected from Virginia jurisdictional customers and placed in external trusts (including income, losses and changes in fair value thereon) for the future decommissioning of our nuclear generation stations, in excess of amounts recorded pursuant to SFAS No. 143, *Accounting for Asset Retirement Obligations.*

Income Taxes

We are currently engaged in settlement negotiations with tax authorities regarding certain income tax adjustments proposed during the examination of tax years 2002, 2003 and 2004. We believe that it is reasonably possible, based on settlement negotiations and risks of litigation, that unrecognized tax benefits could decrease by up to $85 million over the next twelve months with no material impact on our results of operations.

Note 3. Newly Adopted Accounting Standards

SFAS No. 157

We adopted the provisions of SFAS No. 157, effective January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures related to fair value measurements. SFAS No. 157 applies broadly to financial and non-financial assets and liabilities that are measured at fair value under other authoritative accounting pronouncements, but does not expand the application of fair value accounting to any new circumstances.

Generally, the provisions of this statement are applied prospectively. Certain situations, however, require retrospective application as of the beginning of the year of adoption through the recognition of a cumulative effect of accounting change. Such retrospective application is required for financial instruments, including derivatives and certain hybrid instruments with limitations on initial gains or losses under EITF Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*, and SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. Retrospective application did not result in a cumulative effect of accounting change in retained earnings as of January 1, 2008.

In February 2008, the FASB issued FSP FAS No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which excludes leasing transactions from the scope of SFAS No. 157. However, the exclusion does not apply to fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of SFAS No. 157.

In February 2008, the FASB issued FSP FAS No. 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 by one year (to January 1, 2009) for non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). For the Company, this delays the effective date of SFAS No. 157 primarily for intangibles, property, plant and equipment and asset retirement obligations.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* which clarifies the application of SFAS No. 157 to financial assets in a market that is not active. This FSP was effective for the third quarter of 2008 and confirms that SFAS No. 157 allows for the use of unobservable inputs in determining the fair value of a financial asset when relevant observable inputs do not exist or when observable inputs require significant adjustment based on unobservable data. This may be the case, for example, in an inactive or distressed market. This FSP did not have an impact on our results of operations or financial condition.

See Note 6 for further information on fair value measurements in accordance with SFAS No. 157.

SFAS No. 159

The provisions of SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, became effective for us beginning January 1, 2008. SFAS No. 159 provides an entity with the option, at specified election dates, to measure certain financial assets and liabilities and other items at fair value, with changes in fair value recognized in earnings as those changes occur. SFAS No. 159 also establishes

presentation and disclosure

requirements that include displaying the fair value of those assets and liabilities for which the entity elected the fair value option on the face of the balance sheet and providing management s reasons for electing the fair value option for each eligible item. As of September 30, 2008, we had not elected the fair value option for any eligible items. Therefore, the provisions of SFAS No. 159 have not impacted our results of operations or financial condition.

FSP FIN 39-1

The provisions of FSP FIN 39-1 became effective for us beginning January 1, 2008. FSP FIN 39-1 amends FIN 39 to permit the offsetting of amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset. Upon our adoption of FSP FIN 39-1, we revised our accounting policy to no longer offset fair value amounts recognized for certain derivative instruments and recast our prior year Consolidated Balance Sheet in order to retrospectively apply the standard. The adoption of FSP FIN 39-1 resulted in a $6 million increase in both Other current assets and Other current liabilities as of December 31, 2007. The adoption of FSP FIN 39-1 had no impact on our results of operations or cash flows.

Note 4. Recently Issued Accounting Standards

SFAS No. 141R

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141R requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their acquisition-date fair values. SFAS No. 141R also requires disclosure of information necessary for investors and other users to evaluate and understand the nature and financial effect of the business combination. Additionally, SFAS No. 141R requires that acquisition-related costs be expensed as incurred. The provisions of SFAS No. 141R will become effective for acquisitions completed on or after January 1, 2009; however, the income tax provisions of SFAS No. 141R will become effective as of that date for all acquisitions, regardless of the acquisition date. SFAS No. 141R amends SFAS No. 109, *Accounting for Income Taxes,* to require the acquirer to recognize changes in the amount of its deferred tax benefits recognizable due to a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS No. 141R further amends SFAS No. 109 and FIN 48, *Accounting for Uncertainty in Income Taxes*, to require, subsequent to a prescribed measurement period, changes to acquisition-date income tax uncertainties and acquiree deferred tax benefits to be reported in income from continuing operations or directly in contributed capital, depending on the circumstances. For acquisitions completed before September 30, 2008, we do not expect these SFAS No. 141R provisions to have a material impact on our future results of operations or financial condition.

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS No. 161 requires enhancements to disclosures regarding derivative instruments and hedging activities accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The enhancements include additional disclosures regarding the reasons derivative instruments are used, how they are used, how these instruments and their related hedged items are accounted for under SFAS No. 133, as well as the impact of these derivative instruments on an entity s results of operations, financial condition and cash flows. In addition, SFAS No. 161 requires the disclosure of the fair values of derivative instruments, and associated gains and losses in a tabular format and information about derivative features that are credit-risk related. The provisions of SFAS No. 161 will become effective for us beginning January 1, 2009, and will have no impact on our results of operations or financial condition.

Table of Contents

Note 5. Comprehensive Income

The following table presents total comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
(millions)				
Net income	**$ 303**	$ 322	**$ 725**	$ 332
Other comprehensive loss:				
Net other comprehensive income (loss) associated with effective portion of changes in fair value of derivatives designated as cash flow hedges, net of taxes and amounts reclassified to earnings	**(2)**	6	**(1)**	(6)
Other, net of tax	**(4)**	(8)	**(12)**	(125)[1]
Other comprehensive loss	**(6)**	(2)	**(13)**	(131)
Total comprehensive income	**$ 297**	$ 320	**$ 712**	$ 201

(1) Amount primarily reflects the impact of the reclassification of unrealized gains on investments held in nuclear decommissioning trusts associated with the Virginia jurisdiction of our generation operations. As a result of the reapplication of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, those amounts, previously recorded in AOCI, are now recorded in regulatory liabilities.

Note 6. Fair Value Measurements

As described in Note 3, we adopted SFAS No. 157 effective January 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. However, SFAS No. 157 permits the use of a mid-market pricing convention (the mid-point between bid and ask prices). SFAS No. 157 clarifies that fair value should be based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. This includes not only the credit standing of counterparties involved and the impact of credit enhancements but also the impact of our own nonperformance risk on our liabilities. SFAS No. 157 also requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). We apply fair value measurements to certain assets and liabilities, including commodity and interest rate derivative instruments, and nuclear decommissioning trust and other investments in accordance with the requirements described above. We apply credit adjustments to our derivative fair values in accordance with the requirements described above. These credit adjustments are not material to the derivative fair values.

In accordance with SFAS No. 157, we maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is based on actively-quoted market prices, if available. In the absence of actively-quoted market prices, we seek price information from external sources, including broker quotes and industry publications. If pricing information from external sources is not available, or if we believe that observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases, we must estimate prices based on available historical and near-term future price information and certain statistical methods, including regression analysis that reflects our market assumptions.

For options and contracts with option-like characteristics where observable pricing information is not available from external sources, we generally use a modified Black-Scholes Model that considers time value, the volatility of the underlying commodities and other relevant assumptions when estimating fair value. We use other option models under special circumstances, including a Spread Approximation Model, when contracts include different commodities or commodity locations and a Swing Option Model, when contracts allow either the buyer or seller the ability to exercise within a range of quantities. For contracts with unique characteristics, we may estimate fair value using a discounted cash flow approach deemed appropriate in the circumstances and applied consistently from period to period. If pricing information is not available from external sources, judgment is required to develop the estimates of fair value. For individual contracts, the use of different

valuation models or assumptions could have a material effect on the contract s estimated fair value.

Table of Contents

We also utilize the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value, into three broad levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of financial instruments such as the majority of exchange-traded derivatives, listed equities and Treasury securities.

Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter forwards and swaps, interest rate swaps, foreign currency forwards and options, and municipal bonds held in nuclear decommissioning trust funds.

Level 3 Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist of long-dated commodity derivatives, financial transmission rights (FTRs), and other modeled commodity derivatives.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

Fair value measurements are categorized as Level 3 when a significant amount of price and other inputs that are considered to be unobservable are used in their valuations. Long-dated commodity derivatives are based on unobservable inputs due to the length of time to settlement and are therefore categorized as Level 3. FTRs are categorized as Level 3 fair value measurements because the only relevant pricing available comes from PJM auctions, which is accurate for day-one valuation, but generally is not considered to be representative of the ultimate settlement values. Other modeled commodity derivatives have unobservable inputs in their valuation, mostly due to non-transparent and illiquid markets.

As of September 30, 2008, our net balance of commodity derivatives categorized as Level 3 fair value measurements was a liability of $59 million. A hypothetical 10% increase in commodity prices would decrease the liability by $6 million, while a hypothetical 10% decrease in commodity prices would increase the liability by $5 million.

SFAS No. 157 requires fair value measurements to be separately disclosed by level within the fair value hierarchy and requires a separate reconciliation of fair value measurements categorized as Level 3. The following table presents our assets and liabilities that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions, as of September 30, 2008:

(millions)	Level 1	Level 2	Level 3	Total
Assets:				
Derivatives	$	$ 73	$ 30	$ 103
Investments	279	793		1,072
Total assets	$ 279	$ 866	$ 30	$ 1,175
Liabilities:				
Derivatives	$	$ 24	$ 89	$ 113

Table of Contents

The following table presents the net change in the assets and liabilities measured at fair value on a recurring basis and included in the Level 3 fair value category for the three and nine months ended September 30, 2008:

(millions)	Derivatives [1]
Three Months Ended September 30, 2008	
Balance at July 1, 2008	$ 210
Total realized and unrealized gains or (losses):	
Included in earnings	17
Included in other comprehensive income (loss)	
Included in regulatory and other assets/liabilities	(249)
Purchases, issuances and settlements	(37)
Transfers out of Level 3	
Balance at September 30, 2008	$ (59)
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets still held at the reporting date	$ (19)
Nine Months Ended September 30, 2008	
Balance at January 1, 2008	$ (4)
Total realized and unrealized gains or (losses):	
Included in earnings	106
Included in other comprehensive income (loss)	
Included in regulatory and other assets/liabilities	(49)
Purchases, issuances and settlements	(112)
Transfers out of Level 3	
Balance at September 30, 2008	$ (59)
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets still held at the reporting date	$ (4)

(1) Derivative assets and liabilities are presented on a net basis.

The following table presents gains and losses included in earnings in the Level 3 fair value category for the three and nine months ended September 30, 2008:

(millions)	Electric Fuel and Energy Purchases	Other Operations and Maintenance	Total
Three Months Ended September 30, 2008			
Total gains or (losses) included in earnings	$ 13	$ 4	$ 17
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets still held at the reporting date		(19)	(19)
Nine Months Ended September 30, 2008			
Total gains or (losses) included in earnings	$ 54	$ 52	$ 106
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains/losses relating to assets still held at the reporting date		(4)	(4)

Note 7. Hedge Accounting Activities

We are exposed to the impact of market fluctuations in the price of electricity, natural gas and other energy-related products, as well as foreign currency exchange and interest rate risks of our business operations. We use derivative instruments to manage our exposure to these risks and designate derivative instruments as fair value or cash flow hedges for accounting purposes as allowed by SFAS No. 133. As discussed in Note 2 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007, for certain jurisdictions subject to cost-based regulation, changes in the fair value of derivatives designated as hedges are deferred as regulatory assets or regulatory liabilities until the related transactions impact earnings.

For the three and nine months ended September 30, 2008 and 2007, gains or losses on hedging instruments excluded from the measurement of effectiveness or determined to be ineffective were not material.

The following table presents selected information, for jurisdictions that are not subject to cost-based regulation, related to cash flow hedges included in AOCI in our Consolidated Balance Sheet at September 30, 2008:

	AOCI After-Tax	Amounts Expected to be Reclassified to Earnings during the next 12 Months After-Tax	Maximum Term
(millions)			
Electric capacity	$ 6	$ 3	44 months
Natural gas	(2)	(2)	6 months
Other	2	1	363 months
Total	$ 6	$ 2	

The amounts that will be reclassified from AOCI to earnings will generally be offset by the recognition of the hedged transactions (e.g., anticipated purchases) 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, interest rates and foreign exchange rates.

Note 8. Variable Interest Entities

As discussed in Note 14 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007, certain variable pricing terms in some of our long-term power and capacity contracts cause them to be considered variable interests in the counterparties in accordance with FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities*.

We have long-term power and capacity contracts with four variable interest entities (VIEs), which contain certain variable pricing mechanisms to the counterparty in the form of partial fuel reimbursement. We have concluded that we are not the primary beneficiary of any of these VIEs. The contracts expire at various dates ranging from 2015 to 2021. We are not subject to any risk of loss from these VIEs other than our remaining purchase commitments which totaled $2 billion as of September 30, 2008. We paid $50 million and $51 million for electric capacity and $60 million and $50 million for electric energy to these entities for the three months ended September 30, 2008 and 2007, respectively. We paid $152 million and $160 million for electric capacity and $153 million and $128 million for electric energy to these entities for the nine months ended September 30, 2008 and 2007, respectively.

We purchased shared services from Dominion Resources Services, Inc. (DRS), an affiliated VIE of which we are not the primary beneficiary, of approximately $98 million and $82 million during the three months ended September 30, 2008 and 2007, respectively, and $273 million and $238 million during the nine months ended September 30, 2008 and 2007, respectively.

Note 9. Significant Financing Transactions

Joint Credit Facilities and Short-term Debt

We use short-term debt, primarily commercial paper, to fund working capital requirements and as a bridge to long-term debt financing. The level of our borrowings may vary significantly during the course of the year, depending upon the timing and amount of cash requirements not satisfied by cash from operations. Short-term financing is supported by a $3.0 billion five-year joint revolving credit facility with Dominion dated February 2006, which is scheduled to terminate in February 2011. This credit facility is being used for working capital, as support for the combined commercial paper programs of Dominion and us and for other general corporate purposes. This credit facility can also be used to support up to $1.5 billion of letters of credit.

In addition to the credit facility commitments of $3.0 billion disclosed above, we also have a $200 million five-year credit facility that supports certain of our tax-exempt financings. Our aggregate credit facility commitments of $3.2 billion are with a large consortium of banks, including Lehman Brothers Holdings, Inc. (Lehman). In September 2008, Lehman filed for protection under Chapter 11 of the federal Bankruptcy Code in the United States Bankruptcy Court in the Southern District of New York. As of September 30, 2008, Lehman s total commitment to these credit facilities was less than six percent of the aggregate commitment from the consortium of banks. We do not believe that the potential reduction in available capacity under these credit facilities that could result from Lehman s bankruptcy will have a significant impact on our liquidity.

At September 30, 2008, total outstanding commercial paper supported by the joint credit facility was $664 million, of which our borrowings were $664 million, and the total amount of letter of credit issuances was $239 million, of which $67 million were issued on our behalf.

At September 30, 2008, capacity available under the joint credit facility was $2.1 billion.

Long-Term Debt

In January 2008, we borrowed $30 million in connection with the Economic Development Authority of the City of Chesapeake Pollution Control Refunding Revenue Bonds, Series 2008 A, which mature in 2032 and bear an initial coupon rate of 3.6% for the first five years, after which they will bear interest at a market rate to be determined at that time. The proceeds were used to refund the principal amount of the Industrial Development Authority of the City of Chesapeake Money Market Municipals Pollution Control Revenue Bonds, Series 1985, that would otherwise have matured in February 2008.

In April 2008, we issued $600 million of 5.4% senior notes that mature in 2018. The proceeds were used for general corporate purposes, including the repayment of short-term debt and the redemption of all 16 million units of the $400 million 7.375% Virginia Power Capital Trust II preferred securities (including the related $412 million 7.375% unsecured Junior Subordinated Notes) due July 30, 2042. These securities were called for redemption in April 2008 and redeemed in May 2008 at a price of $25 per preferred security plus accrued and unpaid distributions.

Including the amounts discussed above, we repaid $474 million of long-term debt and notes payable during the nine months ended September 30, 2008.

Note 10. Commitments and Contingencies

Other than the following matters, there have been no significant developments regarding the commitments and contingencies disclosed in Note 21 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007, or Note 11 and Note 10 to our Consolidated Financial Statements in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008, respectively, nor have any significant new matters arisen during the three months ended September 30, 2008.

Guarantees and Surety Bonds

As of September 30, 2008, we had issued $16 million of guarantees primarily to support tax exempt debt issued through various state and local authorities. We had also purchased $106 million of surety bonds for various purposes, including providing workers compensation coverage. Under the terms of surety bonds, we are obligated to indemnify the respective surety bond company for any amounts paid.

Spent Nuclear Fuel

Under provisions of the Nuclear Waste Policy Act of 1982, we have entered into contracts with the Department of Energy (DOE) for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and by our contracts with the DOE. In January 2004, we filed a lawsuit in the U.S. Court of Federal Claims against the DOE requesting damages in connection with its failure to commence accepting spent nuclear fuel. A trial occurred in May 2008 and post-trial briefing and argument concluded in July 2008. On October 15, 2008, the Court issued an opinion and order for the Company in the amount of approximately $112 million for its spent-fuel related costs through June 30, 2006. The DOE has 60 days from the entry of judgment to file an appeal, and is expected to appeal the decision. We cannot predict the outcome of this matter, however, in the event that we recover damages, such recovery, including amounts attributable to joint owners, is not expected to have a material impact on our results of operations. We will continue to manage our spent fuel until it is accepted by the DOE.

Table of Contents

Note 11. Credit Risk

We maintain a provision for credit losses based on factors surrounding the credit risk of our customers, historical trends and other information. We believe, based on our credit policies and our September 30, 2008 provision for credit losses, that it is unlikely a material adverse effect on our financial position, results of operations or cash flows would occur as a result of counterparty nonperformance.

We sell electricity and provide distribution and transmission services to customers in Virginia and northeastern North Carolina. Management believes that this geographic concentration risk is mitigated by the diversity of our customer base, which includes residential, commercial and industrial customers, as well as rural electric cooperatives and municipalities. Credit risk associated with trade accounts receivable from energy consumers is limited due to the large number of customers.

Our exposure to potential concentrations of credit risk results primarily from sales to wholesale customers. Gross credit exposure for each counterparty is calculated as outstanding receivables plus any unrealized on or off-balance sheet exposure, taking into account contractual netting rights. Gross credit exposure is calculated prior to the application of collateral. At September 30, 2008, our gross credit exposure totaled $102 million. After the application of collateral, our credit exposure is reduced to $83 million. Of this amount, 33% related to a single counterparty; however, 84% of the balance is with investment grade entities, including those internally rated.

Note 12. Related Party Transactions

We engage in related-party transactions primarily with other Dominion subsidiaries (affiliates). Our 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. We are included in Dominion s consolidated federal income tax return and participate in certain Dominion benefit plans. A discussion of significant related party transactions follows.

Transactions with Affiliates

We transact with affiliates for certain quantities of natural gas and other commodities in the ordinary course of business. We also enter into certain commodity derivative contracts with affiliates. We use these contracts, which are principally comprised of commodity swaps and options, to manage commodity price risks associated with purchases of natural gas. We designate the majority of these contracts as cash flow hedges for accounting purposes.

DRS provides accounting, legal and certain administrative and technical services to us. In addition, we provide certain services to affiliates, including charges for facilities and equipment usage.

At September 30, 2008, our Consolidated Balance Sheet includes derivative liabilities with affiliates of $13 million. Derivative liabilities with affiliates at December 31, 2007 were not material. Unrealized gains or losses, representing the effective portion of the changes in fair value of those derivative contracts that have been designated as cash flow hedges, are included in AOCI on our Consolidated Balance Sheets.

Presented below are significant transactions with DRS and other affiliates:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
(millions)				
Commodity purchases from affiliates	**$ 255**	$ 154	**$ 441**	$ 281
Services provided by affiliates	**98**	83	**274**	239

In September 2008, we purchased a gas-fired turbine from an affiliate for $36 million as part of an expansion project at our Ladysmith power station (Unit 5) to supply electricity during periods of peak demand.

We have borrowed funds from Dominion under short-term borrowing arrangements. At September 30, 2008 and December 31, 2007, our outstanding borrowings, net of repayments, under the Dominion money pool for our nonregulated subsidiaries totaled $253 million and $114 million, respectively. Our short-term demand note borrowings from Dominion were $87 million at September 30, 2008. There were no

short-term demand note borrowings at December 31, 2007. Net interest charges incurred by us related to our borrowings from Dominion were $1 million and $12 million for the three months ended September 30, 2008 and 2007, respectively, and $2 million and $16 million for the nine months ended September 30, 2008 and 2007, respectively. As compared to the prior year, this reflects a decrease in average intercompany borrowings.

Table of Contents

Lehman Brothers Inc. (LBI), a Lehman subsidiary, formerly acted as a remarketing agent for $153 million of our variable rate tax-exempt pollution control bonds. Due to several unsuccessful remarketing auctions of our variable rate tax-exempt pollution control bonds following the Lehman bankruptcy, Dominion repurchased $14 million of these bonds in September 2008. We also repurchased $20 million of these bonds. These variable rate tax-exempt financings are supported by a stand-alone $200 million five-year credit facility that terminates in February 2011; however, we chose to repurchase the bonds rather than utilize this facility. In late September, Barclays Capital, Inc. became the successor remarketing agent for these series of bonds, and there have been no unsuccessful remarketing auctions since September 30, 2008.

Note 13. Operating Segments

We are organized primarily on the basis of the products and services we sell. The majority of our revenue is provided through tariff rates. Generally, such revenue is allocated for management reporting based on an unbundled rate methodology among our DVP and Generation segments. We manage our daily operations through the following segments:

DVP includes our electric transmission, distribution and customer service operations.

Generation includes our generation and energy supply operations.

Corporate and Other primarily includes specific items attributable to our operating segments. The contribution to net income by our primary operating segments is determined based on a measure of profit that management believes represents the segments core earnings. As a result, certain specific items attributable to those segments are not included in profit measures evaluated by executive management, either in assessing the segment s performance or in allocating resources among the segments, and are instead reported in the Corporate and Other segment. In the nine months ended September 30, 2008 and 2007, our Corporate and Other segment included $7 million and $166 million, respectively, of after-tax expenses attributable to our Generation segment. The net expenses in 2007 largely resulted from a $259 million ($158 million after-tax) extraordinary charge in connection with the reapplication of SFAS No. 71 to the Virginia jurisdiction of our generation operations.

The following table presents segment information pertaining to our operations:

	DVP	Generation	Corporate and Other	Consolidated Total
(millions)				
Three Months Ended September 30, 2008				
Operating revenue	**$ 374**	**$ 1,797**	**$ 6**	**$ 2,177**
Net income (loss)	**83**	**227**	**(7)**	**303**
Three Months Ended September 30, 2007				
Operating revenue	$ 389	$ 1,443	$ 1	$ 1,833
Net income	96	226		322
Nine Months Ended September 30, 2008				
Operating revenue	**$ 1,092**	**$ 4,143**	**$ 12**	**$ 5,247**
Net income (loss)	**226**	**509**	**(10)**	**725**
Nine Months Ended September 30, 2007				
Operating revenue	$ 1,111	$ 3,585	$ 4	$ 4,700
Extraordinary item, net of tax			(158)	(158)
Net income (loss)	283	218	(169)	332

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Senior management, including our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation process, the CEO and CFO have concluded that our disclosure controls and procedures are effective.

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits:

31.1 Certification by Registrant s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Certification by Registrant s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32 Certification to the Securities and Exchange Commission by Registrant s Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

Table of Contents

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.

VIRGINIA ELECTRIC AND POWER COMPANY
Registrant

By: /s/ Ashwini Sawhney
Ashwini Sawhney
Vice President - Accounting

(Chief Accounting Officer)

Date: October 13, 2009

EXHIBIT INDEX

31.1	Certification by Registrant s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification by Registrant s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32	Certification to the Securities and Exchange Commission by Registrant s Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)