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Dominion Energy Midstream Partners, LP  
Form 10-Q  
November 01, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

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	Exact name of registrants as specified in their charters, address of principal executive offices and registrants' telephone number	I.R.S. Employer Identification Number
001-36684		46-5135781

Dominion Energy Midstream Partners, LP

Formerly Known As Dominion Midstream Partners, LP

120 Tredegar Street

Richmond, Virginia 23219

State or other jurisdiction of incorporation or organization of the registrant: Delaware

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

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant had 67,481,042 common units and 31,972,789 subordinated units outstanding at October 31, 2017.

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GLOSSARY OF TERMS

The following abbreviations or acronyms used in this Form 10-Q are defined below:

Abbreviation or Acronym	Definition
2005 Agreement	An agreement effective March 1, 2005, which Cove Point entered into with the Sierra Club and the Maryland Conservation Council, Inc.
Additional Return Distributions	The additional cash distribution equal to 3.0% of Cove Point's Modified Net Operating Income in excess of \$600 million distributed each year
Adjusted EBITDA	EBITDA after adjustment for EBITDA attributable to predecessors and a noncontrolling interest in Cove Point held by Dominion Energy subsequent to the Offering, less income from equity method investees, plus distributions from equity method investees
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
ARO	Asset retirement obligation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Charleston Project	Project to provide 80,000 Dths/day of firm transportation service from an existing interconnect with Transco in Spartanburg County, South Carolina to customers in Dillon, Marlboro, Sumter, Charleston, Lexington and Richland counties, South Carolina
Columbia to Eastover Project	Project to provide 15,800 Dths/day of firm transportation service from an existing interconnect with Southern Natural Gas Company, LLC in Aiken County, South Carolina and provide for a receipt point change of 2,200 Dths/day under an existing contract from an existing interconnect with Transco in Cherokee County, South Carolina for a total 18,000 Dths/day, to a new delivery point for the International Paper Company at its pulp and paper mill known as the Eastover Plant in Richland County, South Carolina
Cove Point	Dominion Energy Cove Point LNG, LP (formerly known as Dominion Cove Point LNG, LP)
Cove Point LNG Facility	An LNG import/regasification and storage facility located on the Chesapeake Bay in Lusby, Maryland owned by Cove Point
Cove Point Pipeline	An approximately 136-mile natural gas pipeline owned by Cove Point that connects the Cove Point LNG Facility to interstate natural gas pipelines
CPCN	Certificate of Public Convenience and Necessity

DECG	Dominion Energy Carolina Gas Transmission, LLC (formerly known as Dominion Carolina Gas Transmission, LLC)
DECG Acquisition	The acquisition of DECG by Dominion Energy Midstream from Dominion Energy on April 1, 2015
DECGS	Dominion Energy Carolina Gas Services, Inc. (formerly known as Dominion Carolina Gas Services, Inc.)
DEQPS	Dominion Energy Questar Pipeline Services, Inc. (formerly known as QPC Services Company)
DES	Dominion Energy Services, Inc. (formerly known as Dominion Resources Services, Inc.)
Dominion Energy	The legal entity, Dominion Energy, Inc. (formerly known as Dominion Resources, Inc.), one or more of its consolidated subsidiaries (other than Dominion Energy Midstream GP, LLC (formerly known as Dominion Midstream GP, LLC) and its subsidiaries) or operating segments, or the entirety of Dominion Energy, Inc. and its consolidated subsidiaries
Dominion Energy Midstream	The legal entity, Dominion Energy Midstream Partners, LP (formerly known as Dominion Midstream Partners, LP), one or more of its consolidated subsidiaries, Cove Point GP Holding Company, LLC, Iroquois GP Holding Company, LLC, DECG and Dominion Energy Questar Pipeline (beginning December 1, 2016), or the entirety of Dominion Energy Midstream Partners, LP and its consolidated subsidiaries

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Abbreviation or Acronym	Definition
Dominion Energy Questar	The legal entity, Dominion Energy Questar Corporation (formerly known as Dominion Questar Corporation), one or more of its consolidated subsidiaries or operating segments, or the entirety of Dominion Energy Questar Corporation and its consolidated subsidiaries
Dominion Energy Questar Combination	Dominion Energy's acquisition of Dominion Energy Questar completed on September 16, 2016 pursuant to the terms of the agreement and plan of merger entered on January 31, 2016
Dominion Energy Questar Pipeline	The legal entity, Dominion Energy Questar Pipeline, LLC (formerly known as Questar Pipeline, LLC), one or more of its consolidated subsidiaries, or the entirety of Dominion Energy Questar Pipeline, LLC and its consolidated subsidiaries
Dominion Energy Questar Pipeline Acquisition	The acquisition of Dominion Energy Questar Pipeline by Dominion Energy Midstream from Dominion Energy on December 1, 2016
Dominion Energy Questar Pipeline Contribution Agreement	Contribution, Conveyance and Assumption Agreement between Dominion Energy and Dominion Energy Midstream dated October 28, 2016
Dominion Energy Questar Pipeline Predecessor	Dominion Energy as the predecessor for accounting purposes for the period from Dominion Energy's acquisition of Dominion Energy Questar Pipeline on September 16, 2016 until the Dominion Energy Questar Pipeline Acquisition
Dth	Dekatherm
Eastern Market Access Project	Project to provide 294,000 Dths/day of firm transportation service to help meet demand for natural gas for Washington Gas Light Company, a local gas utility serving customers in D.C., Virginia and Maryland, and Mattawoman Energy, LLC for its new electric power generation facility to be built in Maryland
EBITDA	Earnings before interest and associated charges, income tax expense, depreciation and amortization
Export Customers	ST Cove Point, LLC, a joint venture of Sumitomo Corporation and Tokyo Gas Co., LTD., and GAIL Global (USA) LNG, LLC
FERC	Federal Energy Regulatory Commission
FERC Order	FERC order issued on September 29, 2014 that granted authorization for Cove Point to construct, modify and operate the Liquefaction Project, subject to conditions, and also granted authorization to enhance the Cove Point Pipeline
GAAP	U.S. generally accepted accounting principles
Gas Infrastructure	Gas Infrastructure Group operating segment
Hyrum Project	

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Project to provide 100,000 Dths/day of firm transportation service to help meet growing demand for natural gas for Questar Gas Company, an affiliated local gas utility serving customers in Utah, Wyoming and Idaho

IDR	Incentive distribution right
Import Shippers	The three LNG import shippers consisting of BP Energy Company, Shell NA LNG, Inc. and Statoil Natural Gas, LLC
Iroquois	Iroquois Gas Transmission System, L.P.
Keys Energy Project	Project to provide 107,000 Dths/day of firm transportation service from Cove Point's interconnect with Transco in Fairfax County, Virginia to Keys Energy Center, LLC's power generating facility in Prince George's County, Maryland
Liquefaction Project	A natural gas export/liquefaction facility currently under construction by Cove Point
LNG	Liquefied natural gas
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MLP	Master limited partnership, equivalent to publicly traded partnership

Abbreviation or Acronym	Definition
Modified Net Operating Income	Cove Point's Net Operating Income plus any interest expense included in the computation of Net Operating Income
Net Operating Income	Cove Point's gross revenues from operations minus its interest expense and operating expenses, but excluding depreciation and amortization, as determined for U.S. federal income tax purposes
NGA	Natural Gas Act of 1938, as amended
NYSE	New York Stock Exchange
Offering	The initial public offering of common units of Dominion Energy Midstream
organizational design initiative	In the first quarter of 2016, Dominion Energy announced an organizational design initiative that reduced its total workforce during 2016, the goal of which was to streamline its leadership structure and push decision making lower while also improving efficiency
Preferred Equity Interest	A perpetual, non-convertible preferred equity interest in Cove Point entitled to the Preferred Return Distributions and the Additional Return Distributions
Preferred Return Distributions	The first \$50.0 million of annual cash distributions made by Cove Point
Private Placement Agreement	Series A Preferred Unit and Common Unit Purchase Agreement between Dominion Energy Midstream and purchasers (certain affiliates of Stonepeak Infrastructure Partners, Magnetar Financial LLC, First Reserve Advisors, L.L.C., Kayne Anderson Capital Advisors, L.P. and Tortoise Capital Advisors, LLC) dated October 27, 2016
SCANA	SCANA Corporation
SCE&G	South Carolina Electric & Gas Company
SEC	Securities and Exchange Commission
Series A Preferred Units	Series A convertible preferred units representing limited partner interests in Dominion Energy Midstream, issued in December 2016
St. Charles Transportation Project	Project to provide 132,000 Dths/day of firm transportation service from Cove Point's interconnect with Transco in Fairfax County, Virginia to Competitive Power Venture Maryland, LLC's power generating facility in Charles County, Maryland
Storage Customers	The four local distribution companies that receive firm peaking services from Cove Point, consisting of: Atlanta Gas Light Company, Public Service Company of North Carolina, Incorporated, Virginia Natural Gas, Inc. and Washington Gas Light Company
Transco	Transcontinental Gas Pipe Line Company, LLC



VIE	Variable interest entity
White River Hub	White River Hub, LLC

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## DOMINION ENERGY MIDSTREAM PARTNERS, LP

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
(millions, except per unit data)				
Operating Revenue <sup>(1)</sup>	\$ 113.0	\$ 95.2	\$ 358.9	\$ 263.8
Operating Expenses				
Purchased gas <sup>(1)</sup>	9.1	3.4	31.1	8.3
Other operations and maintenance:				
Affiliated suppliers	21.2	6.7	53.7	23.1
Other	12.0	18.2	48.7	37.9
Depreciation and amortization	26.5	12.4	76.8	32.6
Other taxes	9.3	8.0	27.8	22.1
Total operating expenses	78.1	48.7	238.1	124.0
Income from operations	34.9	46.5	120.8	139.8
Earnings from equity method investees	6.2	4.9	19.4	15.0
Other income	1.7	0.8	4.3	2.2
Interest and related charges <sup>(1)</sup>	7.9	0.8	23.7	0.7
Income from operations including noncontrolling interest				
before income taxes	34.9	51.4	120.8	156.3
Income tax expense	—	1.2	—	1.2
Net income including noncontrolling interest and				
predecessors	34.9	50.2	120.8	155.1
Less: Net loss attributable to Dominion Energy Questar				
Pipeline Predecessor	—	(3.2)	—	(3.2)
Net income including noncontrolling interest	34.9	53.4	120.8	158.3
Less: Net income (loss) attributable to noncontrolling interest	(13.7)	29.1	(22.0)	88.4
Net income attributable to partners	\$ 48.6	\$ 24.3	\$ 142.8	\$ 69.9
Net income attributable to partners' ownership interest				
Preferred unitholders' interest in net income	\$ 9.5	\$ —	\$ 28.5	\$ —
General partner's interest in net income	4.0	0.7	7.0	1.7
Common unitholders' interest in net income	23.8	13.8	72.7	40.1
Subordinated unitholder's interest in net income	11.3	9.8	34.6	28.1

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Net income per limited partner unit (basic)				
Common units	\$0.35	\$0.30	\$1.08	\$0.88
Subordinated units	0.35	0.30	1.08	0.88
Net income per limited partner unit (diluted)				
Common units	\$0.33	\$0.30	\$1.02	\$0.88
Subordinated units	0.35	0.30	1.08	0.88

(1) See Note 15 for amounts attributable to related parties.

The accompanying notes are an integral part of Dominion Energy Midstream's Consolidated Financial Statements.

## DOMINION ENERGY MIDSTREAM PARTNERS, LP

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
(millions)				
Net income including noncontrolling interest and predecessors	\$34.9	\$50.2	\$120.8	\$155.1
Other comprehensive income (loss):				
Net deferred gains (losses) on derivatives-hedging activities	0.3	—	(1.2 )	—
Amounts reclassified to net income:				
Net derivative losses-hedging activities	0.4	—	1.0	—
Other comprehensive income (loss)	0.7	—	(0.2 )	—
Comprehensive income including noncontrolling interest and predecessors	35.6	50.2	120.6	155.1
Comprehensive loss attributable to Dominion Energy Questar				
Pipeline Predecessor	—	(3.2 )	—	(3.2 )
Comprehensive income (loss) attributable to noncontrolling interests	(13.7)	29.1	(22.0 )	88.4
Comprehensive income attributable to partners	\$49.3	\$24.3	\$142.6	\$69.9

The accompanying notes are an integral part of Dominion Energy Midstream's Consolidated Financial Statements.

## DOMINION ENERGY MIDSTREAM PARTNERS, LP

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30,	December 31,
	2017	2016 <sup>(1)</sup>
(millions)		
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$78.8	\$39.6
Restricted cash	25.0	25.0
Customer and other receivables	27.4	45.9
Affiliated receivables	12.7	18.3
Prepayments	12.0	8.7
Inventories	27.6	20.1
Other <sup>(2)</sup>	12.9	13.3
Total current assets	196.4	170.9
Investment in Equity Method Affiliates	255.0	257.8
Property, Plant and Equipment		
Property, plant and equipment	7,603.5	6,911.4
Accumulated depreciation and amortization	(1,092.9)	(1,032.0)
Total property, plant and equipment, net	6,510.6	5,879.4
Deferred Charges and Other Assets		
Goodwill	819.2	819.2
Intangible assets, net	35.3	19.4
Other <sup>(2)</sup>	43.6	40.2
Total deferred charges and other assets	898.1	878.8
Total assets	\$7,860.1	\$7,186.9

(1) Dominion Energy Midstream's Consolidated Balance Sheet at December 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date.

(2) See Note 15 for amounts attributable to related parties.

The accompanying notes are an integral part of Dominion Energy Midstream's Consolidated Financial Statements.

## DOMINION ENERGY MIDSTREAM PARTNERS, LP

## CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Unaudited)

	September 30,  2017	December 31,  2016 <sup>(1)</sup>
(millions)		
<b>LIABILITIES AND EQUITY AND PARTNERS' CAPITAL</b>		
<b>Current Liabilities</b>		
Securities due within one year	\$ 250.0	\$ —
Accounts payable	28.6	21.5
Payables to affiliates	8.6	9.9
Dominion Energy credit facility borrowings	61.7	63.2
Other <sup>(2)</sup>	67.7	54.6
Total current liabilities	416.6	149.2
<b>Long-Term Debt</b>	480.2	729.9
<b>Deferred Credits and Other Liabilities</b>		
Regulatory liabilities	133.3	129.1
Other <sup>(2)</sup>	80.4	78.8
Total deferred credits and other liabilities	213.7	207.9
Total liabilities	1,110.5	1,087.0
<b>Commitments and Contingencies (see Note 13)</b>		
<b>Equity and Partners' Capital</b>		
Preferred unitholders - public (18,942,714 units issued and outstanding at		
September 30, 2017 and December 31, 2016)	496.0	492.1
Preferred unitholder - Dominion Energy (11,365,628 units issued and outstanding at		
September 30, 2017 and December 31, 2016)	303.6	301.2
Common unitholders - public (48,759,363 units issued and outstanding at September 30, 2017; 48,734,195 units issued and outstanding at December 31, 2016)	1,095.3	1,082.1
Common unitholder - Dominion Energy (18,504,628 units issued and outstanding at		
September 30, 2017 and December 31, 2016)	462.2	457.4
Subordinated unitholder - Dominion Energy (31,972,789 units issued and		
outstanding at September 30, 2017 and December 31, 2016)	491.3	483.0
General Partner interest - Dominion Energy (non-economic interest)	(25.2 )	(29.2 )
Accumulated other comprehensive loss	(0.6 )	(0.4 )
Total Dominion Energy Midstream Partners, LP partners' capital	2,822.6	2,786.2
Noncontrolling interest	3,927.0	3,313.7
Total equity and partners' capital	6,749.6	6,099.9
Total liabilities and equity and partners' capital	\$ 7,860.1	\$ 7,186.9

(1) Dominion Energy Midstream's Consolidated Balance Sheet at December 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date.

(2) See Note 15 for amounts attributable to related parties.

The accompanying notes are an integral part of Dominion Energy Midstream's Consolidated Financial Statements.

DOMINION ENERGY MIDSTREAM PARTNERS, LP

CONSOLIDATED STATEMENT OF EQUITY AND PARTNERS' CAPITAL

(Unaudited)

	Partnership							Total			
	Dominion Energy Questar Pipeline Predecessor Equity	Preferred Unitholders Public Energy	Preferred Unitholders Public Energy	Common Unitholders Public Energy	Common Unitholders Public Energy	Subordinated Unitholders Energy	General Partner Dominion Energy (non-economic) AOCI	Dominion Energy Partners, LP	Midstream Partners'	Dominion Energy Partners' Equity and Noncontrolling interest	Total Equity and Partners' Capital
(millions)											
December 31, 2015	\$—	\$—	\$—	\$600.8	\$438.8	\$475.4	\$(12.4)	\$—	\$1,502.6	\$2,138.4	\$3,641.0
Net income including noncontrolling interest	—	—	—	24.0	16.1	28.1	1.7	—	69.9	88.4	158.3
Dominion Energy Questar Pipeline Acquisition: Record Dominion Energy's net investment in											
Dominion Energy Questar Pipeline	1,019.8	—	—	—	—	—	—	—	1,019.8	—	1,019.8
Net loss attributable to Dominion Energy Questar Pipeline Predecessor	(3.2 )	—	—	—	—	—	—	—	(3.2 )	—	(3.2 )



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Equity contributions from Dominion Energy	—	—	—	—	—	—	0.4	—	0.4	812.0	812.4
Purchase of common units by Dominion Energy	—	—	—	(14.2 )	14.2	—	—	—	—	—	—
Distributions	—	—	—	(18.5 )	(12.3 )	(21.5 )	(1.3 )	—	(53.6 )	—	(53.6 )
Unit awards (net of unearned compensation)	—	—	—	0.2	—	—	—	—	0.2	—	0.2
Other	—	—	—	(0.3 )	—	—	—	—	(0.3 )	0.8	0.5
September 30, 2016	\$1,016.6	\$—	\$—	\$592.0	\$456.8	\$482.0	\$(11.6)	\$—	\$2,535.8	\$3,039.6	\$5,575.4
December 31, 2016	—	\$492.1	\$301.2	\$1,082.1	\$457.4	\$483.0	\$(29.2)	\$(0.4)	\$2,786.2	\$3,313.7	\$6,099.9
Net income (loss) including noncontrolling interest and predecessors	—	17.8	10.7	52.7	20.0	34.6	7.0	—	142.8	(22.0 )	120.8
Issuance of common units, net of offering costs	—	—	—	0.4	—	—	—	—	0.4	—	0.4
Equity contributions from Dominion Energy	—	—	—	—	—	—	5.9	—	5.9	634.0	639.9
Distributions	—	(13.9 )	(8.3 )	(40.1 )	(15.2 )	(26.3 )	(8.9 )	—	(112.7 )	—	(112.7 )
Other comprehensive loss	—	—	—	—	—	—	—	(0.2)	(0.2 )	—	(0.2 )
Unit awards (net of unearned compensation)	—	—	—	0.2	—	—	—	—	0.2	—	0.2
Other	—	—	—	—	—	—	—	—	—	1.3	1.3
September 30, 2017	—	\$496.0	\$303.6	\$1,095.3	\$462.2	\$491.3	\$(25.2)	\$(0.6)	\$2,822.6	\$3,927.0	\$6,749.6

The accompanying notes are an integral part of Dominion Energy Midstream's Consolidated Financial Statements.



## DOMINION ENERGY MIDSTREAM PARTNERS, LP

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30, (millions)	2017	2016
<b>Operating Activities</b>		
Net income including noncontrolling interest and predecessors	\$120.8	\$155.1
Adjustments to reconcile net income including noncontrolling interest and predecessors to net cash provided by operating activities:		
Depreciation and amortization	76.8	32.6
Other adjustments to income, net	5.1	0.8
Changes in:		
Customer and other receivables	18.5	7.3
Affiliated receivables	5.6	9.0
Prepayments	(3.3 )	10.7
Inventories	(7.5 )	0.4
Accounts payable	17.4	(5.5 )
Payables to affiliates	(1.3 )	3.9
Accrued interest, payroll and taxes	9.1	7.8
Other operating assets and liabilities	5.7	6.5
Net cash provided by operating activities	246.9	228.6
<b>Investing Activities</b>		
Plant construction and other property additions	(726.9)	(961.6 )
Other	(0.8 )	2.0
Net cash used in investing activities	(727.7)	(959.6 )
<b>Financing Activities</b>		
Dominion Energy credit facility borrowings (repayments), net	(1.5 )	15.7
Contributions from Dominion Energy	634.0	812.0
Distributions to preferred unitholders	(22.2 )	—
Distributions to common unitholders	(55.3 )	(30.8 )
Distributions to subordinated unitholder	(26.3 )	(21.5 )
Distributions to general partner	(8.9 )	(1.3 )
Other	0.2	—
Net cash provided by financing activities	520.0	774.1
Increase in cash and cash equivalents	39.2	43.1
Cash and cash equivalents at beginning of period	39.6	35.0
Cash and cash equivalents at end of period	\$78.8	\$78.1
<b>Supplemental Cash Flow Information</b>		
<b>Significant noncash investing and financing activities:</b>		
Accrued capital expenditures	\$27.3	\$26.2
Dominion Energy Questar Pipeline Acquisition by Dominion Energy	—	1,019.8
Equity contributions from Dominion Energy to relieve payables to affiliates	5.9	0.4

The accompanying notes are an integral part of Dominion Energy Midstream's Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

### Note 1. Description of Business and Basis of Presentation

#### Description of Business

Dominion Energy Midstream is a Delaware limited partnership formed in March 2014 by Dominion MLP Holding Company, LLC and Dominion Energy Midstream GP, LLC, both indirect wholly-owned subsidiaries of Dominion Energy, to grow a portfolio of natural gas terminaling, processing, storage, transportation and related assets.

Dominion Energy Midstream holds the Preferred Equity Interest and non-economic general partner interest in Cove Point, the owner and operator of the Cove Point LNG Facility and the Cove Point Pipeline. The Preferred Equity Interest is a perpetual, non-convertible preferred equity interest entitled to Preferred Return Distributions so long as Cove Point has sufficient cash and undistributed Net Operating Income (determined on a cumulative basis from the closing of the Offering) from which to make Preferred Return Distributions. Preferred Return Distributions are made on a quarterly basis and are not cumulative. The Preferred Equity Interest is also entitled to the Additional Return Distributions.

In addition, Dominion Energy Midstream owns DECG and a 25.93% noncontrolling partnership interest in Iroquois, both of which are FERC-regulated interstate natural gas pipelines.

In December 2016, Dominion Energy Midstream acquired from Dominion Energy all of the issued and outstanding membership interests in Dominion Energy Questar Pipeline as described further in Note 2. Dominion Energy Questar Pipeline owns and operates nearly 2,200 miles of interstate natural gas pipelines and 18 transmission and storage compressor stations in the western U.S.

#### Basis of Presentation

The contribution by Dominion Energy to Dominion Energy Midstream of the general partner interest in Cove Point and a portion of the Preferred Equity Interest is considered to be a reorganization of entities under common control. As a result, Dominion Energy Midstream's basis is equal to Dominion Energy's cost basis in the general partner interest in Cove Point and a portion of the Preferred Equity Interest. As discussed in Note 14 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016, Dominion Energy Midstream is the primary beneficiary of, and therefore consolidates, Cove Point. As such, Dominion Energy Midstream's investment in the Preferred Equity Interest and Cove Point's preferred equity interest are eliminated in consolidation. Dominion Energy's retained common equity interest in Cove Point is reflected as noncontrolling interest.

The Dominion Energy Questar Pipeline Acquisition is considered to be a reorganization of entities under common control. As a result, Dominion Energy Midstream's basis in Dominion Energy Questar Pipeline is equal to Dominion Energy's cost basis in the assets and liabilities of Dominion Energy Questar Pipeline. On December 1, 2016, Dominion Energy Questar Pipeline became a wholly-owned subsidiary of Dominion Energy Midstream and is therefore consolidated by Dominion Energy Midstream. The accompanying financial statements and related notes include the

historical results and financial position of Dominion Energy Questar Pipeline beginning September 16, 2016, the inception date of common control.

The financial statements for all periods presented include costs for certain general, administrative and corporate expenses assigned by DES, DECGS or DEQPS to Dominion Energy Midstream on the basis of direct and allocated methods in accordance with Dominion Energy Midstream's services agreements with DES, DECGS and DEQPS. Where costs incurred cannot be determined by specific identification, the costs are allocated based on the proportional level of effort devoted by DES, DECGS or DEQPS resources that are attributable to the entities, determined by reference to number of employees, salaries and wages and other similar measures for the relevant DES, DECGS or DEQPS service. Management believes the assumptions and methodologies underlying the allocation of general corporate overhead expenses are reasonable.

#### Note 2. Acquisition

##### Dominion Energy Questar Pipeline

In October 2016, Dominion Energy Midstream, following approval by the Conflicts Committee of Dominion Energy Midstream GP, LLC, its general partner, entered into the Dominion Energy Questar Pipeline Contribution Agreement to acquire Dominion Energy Questar Pipeline from Dominion Energy. Upon closing of the agreement on December 1, 2016, Dominion Energy Midstream became the owner of all of the issued and outstanding membership interests of Dominion Energy Questar Pipeline in exchange for consideration consisting of: (1) 6,656,839 common units with a value of \$167.3 million (the number

of Dominion Energy Midstream common units issued to Dominion Energy was determined by the volume-weighted average trading price of Dominion Energy Midstream's common units on the NYSE for the 10-day trading period immediately preceding closing), (2) 11,365,628 Series A Preferred Units with a value of \$300.0 million and (3) a cash payment of \$822.7 million, \$300.0 million of which was treated as a debt-financed distribution, for total consideration of \$1.29 billion. In addition, Dominion Energy Questar Pipeline's debt of \$435.0 million remained outstanding. As a result of the transaction, Dominion Energy Midstream owns 100% of the membership interests in Dominion Energy Questar Pipeline and therefore consolidates Dominion Energy Questar Pipeline in its financial statements. Because the contribution of Dominion Energy Questar Pipeline by Dominion Energy to Dominion Energy Midstream was considered a reorganization of entities under common control, Dominion Energy Questar Pipeline's assets and liabilities were recorded in Dominion Energy Midstream's consolidated financial statements at Dominion Energy's historical cost of \$989.3 million at December 1, 2016. Common control began on September 16, 2016, concurrent with Dominion Energy's acquisition of Dominion Energy Questar, which was accounted for using the acquisition method of accounting. Accordingly, the consolidated financial statements of Dominion Energy Midstream reflect Dominion Energy Questar Pipeline's financial results beginning September 16, 2016. The Dominion Energy Questar Pipeline Acquisition supports the expansion of Dominion Energy Midstream's portfolio of natural gas terminaling, processing, storage, transportation and related assets.

To facilitate the financing of the acquisition of Dominion Energy Questar Pipeline, Dominion Energy Midstream completed a public issuance of 15,525,000 common units, which included a 2,025,000 common unit over-allotment option that was exercised in full by the underwriters, resulting in proceeds of \$347.6 million, net of offering costs of \$12.6 million, in November 2016. In addition, in December 2016, Dominion Energy Midstream completed the private placement of 5,990,634 common units with a value of \$137.5 million (determined by the price of the common units in the public offering discussed above, less \$0.2475 in accordance with the Private Placement Agreement) and 18,942,714 Series A Preferred Units with a value of \$500.0 million. Also in December 2016, Dominion Energy Midstream entered into a \$300.0 million three-year term loan agreement, which bears interest at a variable rate. The key terms of the term loan agreement are discussed in Note 15 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016. Offering expenses associated with the private placement of common units (\$3.1 million), Series A Preferred Units (\$9.9 million) and the term loan agreement (\$1.5 million) were funded through a draw on the existing revolving credit facility with Dominion Energy. As a condition to closing under the Dominion Energy Questar Pipeline Contribution Agreement, Dominion Energy Midstream repaid the outstanding \$300.8 million senior unsecured promissory note payable to Dominion Energy and repurchased 6,656,839 common units from Dominion Energy for \$167.3 million (based on the volume-weighted average trading price of Dominion Energy Midstream's common units on the NYSE for the 10-day trading period immediately preceding closing) in December 2016.

In connection with the private placement of common units and Series A Preferred Units, Dominion Energy Midstream entered into a registration rights agreement under which Dominion Energy Midstream was required to register (1) the common units by March 31, 2017, (2) common units issuable upon conversion of the Series A Preferred Units by December 1, 2018, and (3) the Series A Preferred Units no earlier than December 1, 2021 provided that the required amount of units remain outstanding. Dominion Energy Midstream's registration statement for the applicable common units became effective in February 2017.

In connection with the Dominion Energy Questar Pipeline Acquisition, transition costs of \$1.8 million and \$6.1 million incurred by our general partner were expensed to operations and maintenance expense in the Consolidated Statements of Income for the three and nine months ended September 30, 2017, respectively. Dominion Energy did not seek reimbursement for \$1.7 million and \$5.9 million for the three and nine months ended September 30, 2017, respectively, of such costs and accordingly, Dominion Energy Midstream recognized an equity contribution from the general partner. Transition costs of \$0.3 million and \$0.4 million incurred by our general partner were expensed to operations and maintenance expense in the Consolidated Statements of Income for the three and nine months ended

September 30, 2016, respectively. Dominion Energy did not seek reimbursement for these costs and accordingly, Dominion Energy Midstream recognized an equity contribution from the general partner.

Dominion Energy Questar Pipeline owns and operates interstate natural gas pipelines and storage facilities in the western U.S. providing natural gas transportation and underground storage services in Utah, Wyoming and Colorado. Dominion Energy Questar Pipeline's operations are primarily regulated by FERC. At December 31, 2016, Dominion Energy Questar Pipeline owned and operated nearly 2,200 miles of natural gas transportation pipelines across northeastern and central Utah, northwestern Colorado and southwestern Wyoming and nearly 56 billion cubic feet of working gas storage capacity. Dominion Energy Questar Pipeline's core transportation system is strategically located near large reserves of natural gas in six major Rocky Mountain producing areas. Dominion Energy Questar Pipeline transports natural gas from these producing areas to other major pipeline systems, Questar Gas Company's distribution system and other utility systems. Dominion Energy Questar Pipeline operates and owns 50% of White River Hub, an 11-mile FERC-regulated natural gas transportation pipeline in western Colorado, which is accounted for under the equity method. Dominion Energy Questar Pipeline also owns gathering lines and processing facilities in Utah, through which it provides gas-processing services.



### Note 3. Significant Accounting Policies

#### Interim Financial Information and Estimates

As permitted by the rules and regulations of the SEC, Dominion Energy Midstream's 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 the Consolidated Financial Statements and Notes in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016.

In the opinion of management, the accompanying unaudited Consolidated Financial Statements contain all adjustments necessary to present fairly Dominion Energy Midstream's financial position at September 30, 2017, its results of operations for the three and nine months ended September 30, 2017 and 2016 and its cash flows and changes in equity for the nine months ended September 30, 2017 and 2016. Such adjustments are normal and recurring in nature unless otherwise noted.

Dominion Energy Midstream makes certain estimates and assumptions in preparing its 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 revenues and expenses for the periods presented. Actual results may differ from those estimates.

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, rate changes, purchased gas expenses and other factors.

Certain amounts in Dominion Energy Midstream's 2016 audited Consolidated Financial Statements and Notes have been reclassified to conform to the 2017 presentation for comparative purposes. The reclassifications did not affect Dominion Energy Midstream's net income, total assets, liabilities, equity or cash flows.

With the exception of the items described below, there have been no significant changes from Note 3 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016.

#### Derivative Instruments

Effective March 2017, Dominion Energy Midstream uses derivative instruments such as swaps to manage interest rate risks of its business operations. All derivatives, except those for which an exception applies, are required to be reported in the Consolidated Balance Sheets at fair value. Derivative contracts representing unrealized gain positions are reported as derivative assets. Derivative contracts representing unrealized losses are reported as derivative liabilities. Dominion Energy Midstream does not offset 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. Dominion Energy Midstream had no margin assets or liabilities associated with cash collateral at September 30, 2017. See Note 8 for further information about derivatives.

#### Derivative Instruments Designated as Hedging Instruments

Dominion Energy Midstream has designated all of its derivative instruments as cash flow hedges for accounting purposes. For all derivatives designated as hedges, Dominion Energy Midstream formally documents the relationship

between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for using the hedging instrument. Dominion Energy Midstream assesses whether the hedging relationship between the derivative and the hedged item is highly effective at offsetting changes in cash flows both at the inception of the hedging relationship and on an ongoing basis. Any change in the fair value of the derivative that is not effective at offsetting changes in the cash flows of the hedged item is recognized currently in earnings. Hedge accounting is discontinued prospectively for derivatives that cease to be highly effective hedges. The cash flows from the cash flow hedge derivatives and from the related hedged items are classified in operating cash flows.

Dominion Energy Midstream uses interest rate swaps to hedge its exposure to the variability of cash flows as a result of the variable interest rates on long-term debt. Changes in the fair value of the derivatives are reported in AOCI, to the extent they are effective at offsetting changes in the hedged item. Any derivative gains or losses reported in AOCI are reclassified to earnings when the forecasted item is included in earnings, or earlier, if it becomes probable that the forecasted transaction will not occur. Hedge accounting is discontinued if the occurrence of the forecasted transaction is no longer probable.

## Note 4. Net Income Per Limited Partner Unit

Basic net income per limited partner unit applicable to common and subordinated units is computed by dividing the respective limited partners' interest in net income attributable to Dominion Energy Midstream, after deducting any net income attributable to Series A Preferred Units and incentive distributions, by the weighted average number of common units and subordinated units outstanding. Because Dominion Energy Midstream has more than one class of participating securities, the two-class method is used when calculating the net income per unit applicable to limited partners. The classes of participating securities include common units, subordinated units, Series A Preferred Units and IDRs. See Note 2 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016 for further information about the Series A Preferred Units.

Dominion Energy Midstream's net income is allocated to the limited partners in accordance with their respective partnership interests, after giving effect to priority income allocations to the holders of the Series A Preferred Units and incentive distributions, if any, to Dominion Energy, the holder of the IDRs, pursuant to the partnership agreement. The distributions are declared and paid following the close of each quarter. Earnings in excess of distributions are allocated to the common and subordinated unitholders based on their respective ownership interests. Payments made to Dominion Energy Midstream's unitholders are determined in relation to actual distributions declared and are not based on the net income allocations used in the calculation of earnings per limited partner unit.

Diluted net income per limited partner unit reflects the potential dilution that could occur if securities or agreements to issue common units, such as the Series A Preferred Units, were converted into common units. When it is determined that potential common units resulting from the Series A Preferred Unit conversion should be included in the diluted net income per limited partner unit calculation, the impact is calculated using the two class method. There were no potentially dilutive common units outstanding at September 30, 2016. Basic and diluted earnings per unit applicable to subordinated limited partnerships are the same because there are no potentially dilutive subordinated units outstanding.

The calculation of net income per limited partner unit is as follows:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(millions)				
Net income attributable to partners	\$48.6	\$24.3	\$142.8	\$69.9
Less: General partner allocation <sup>(1)</sup>	(1.7 )	(0.3 )	(5.9 )	(0.4 )
Less: Preferred unitholder allocation	9.5	—	28.5	—
Distributions declared on: <sup>(2)</sup>				
IDRs <sup>(3)</sup>	5.7	1.0	12.9	2.1
Common unitholders	20.3	11.3	58.1	32.3
Subordinated unitholder	9.7	7.9	27.7	22.6
Total distributions declared	35.7	20.2	98.7	57.0
Undistributed earnings	\$5.1	\$4.4	\$21.5	\$13.3

(1) Represents amounts recognized as equity contributions from our general partner for incurred amounts for which Dominion Energy did not seek reimbursement. See Notes 2 and 15 for further information.

(2) For the three and nine months ended September 30, 2017, the amount of distributions declared shown above was based on the units outstanding at September 30, 2017, and therefore excludes \$0.1 million of distributions that will

be paid on 217,051 common units issued to the public in October 2017. For the three and nine months ended September 30, 2016, the amount of distributions declared shown above was based on the units outstanding at September 30, 2016, and therefore excludes \$3.9 million of distributions, and a corresponding \$0.2 million of additional IDRs, that were paid on 15,525,000 common units issued to the public on November 3, 2016 in connection with the Dominion Energy Questar Pipeline Acquisition.

(3) Dominion Energy is a non-economic general partner that holds all of the IDRs.

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Distributions are declared and paid subsequent to quarter end. The table below summarizes the quarterly distributions on common and subordinated units related to the nine months ended September 30, 2017 and 2016.

Quarterly Period Ended	Total Quarterly Distribution (per unit)	Total Cash Distribution (in millions)	Date of Declaration	Date of Record	Date of Distribution
December 31, 2015	\$ 0.2135	\$ 16.8	January 21, 2016	February 5, 2016	February 15, 2016
March 31, 2016	0.2245	17.8	April 19, 2016	May 3, 2016	May 13, 2016
June 30, 2016	0.2355	19.0	July 22, 2016	August 5, 2016	August 15, 2016
September 30, 2016	0.2475	24.3	October 21, 2016	November 4, 2016	November 15, 2016
December 31, 2016	0.2605	27.5	January 25, 2017	February 6, 2017	February 15, 2017
March 31, 2017	0.2740	30.1	April 21, 2017	May 5, 2017	May 15, 2017
June 30, 2017	0.2880	32.9	July 21, 2017	August 4, 2017	August 15, 2017
September 30, 2017 <sup>(1)</sup>	0.3025	35.8	October 24, 2017	November 6, 2017	November 15, 2017

(1) Total cash distribution is based on units issued through October 2017.

Record holders of the Series A Preferred Units are entitled to receive cumulative quarterly distributions, payable in cash, payable in kind or a combination thereof at the option of our general partner, equal to \$0.3134 per Series A Preferred Unit in respect of each quarter ending before December 1, 2018. The table below summarizes the quarterly distributions on the Series A Preferred Units related to the nine months ended September 30, 2017.

Quarterly Period Ended	Total Distribution (in millions)	Amount Payable in Cash (in millions)	Amount Payable in Kind (in millions)
December 31, 2016	\$ 3.2	(1) \$ 3.2	\$ —
March 31, 2017	9.5	9.5	—
June 30, 2017	9.5	9.5	—
September 30, 2017	9.5	9.5	—

(1) For the period subsequent to the issuance of the Series A Preferred Units through December 31, 2016, the initial quarterly cash distribution was calculated as the minimum quarterly distribution of \$0.3134 per unit prorated for the portion of the quarter subsequent to the issuance of the Series A Preferred Units.

Basic and diluted net income per limited partner unit for the three and nine months ended September 30, 2017 are as follows:

	General				
	Series A Partner				Total
	Common	Subordinated	Preferred	(including	
	Units	Units	Units	IDRs)	
(millions, except for weighted average units and per unit data)					
Three Months Ended September 30, 2017					
General partner allocation	\$—	\$—	\$—	\$ (1.7 )	\$(1.7 )
Preferred unitholder allocation	—	—	9.5	—	9.5
Distributions declared	20.3	9.7	—	5.7	35.7
Undistributed earnings	3.5	1.6	—	—	5.1
Net income attributable to partners (basic)	\$23.8	\$11.3	\$ 9.5	\$ 4.0	\$48.6
Dilutive effect of Series A Preferred Units <sup>(1)</sup>	8.4	—			
Net income attributable to partners (diluted)	32.2	11.3			
Weighted average units outstanding (basic)	67,241,532	31,972,789			
Dilutive effect of Series A Preferred Units <sup>(1)</sup>	30,308,342	—			
Weighted average units outstanding (diluted)	97,549,874	31,972,789			
Net income per limited partner unit (basic)	\$0.35	\$0.35			
Net income per limited partner unit (diluted)	\$0.33	\$0.35			
Nine Months Ended September 30, 2017					
General partner allocation	\$—	\$—	\$—	\$ (5.9 )	\$(5.9 )
Preferred unitholder allocation	—	—	28.5	—	28.5
Distributions declared	58.1	27.7	—	12.9	98.7
Undistributed earnings	14.6	6.9	—	—	21.5
Net income attributable to partners (basic)	\$72.7	\$34.6	\$ 28.5	\$ 7.0	\$142.8
Dilutive effect of Series A Preferred Units <sup>(1)</sup>	26.6	—			
Net income attributable to partners (diluted)	99.3	34.6			
Weighted average units outstanding (basic)	67,240,847	31,972,789			
Dilutive effect of Series A Preferred Units <sup>(1)</sup>	30,308,342	—			
Weighted average units outstanding (diluted)	97,549,189	31,972,789			
Net income per limited partner unit (basic)	\$1.08	\$1.08			
Net income per limited partner unit (diluted)	\$1.02	\$1.08			

(1) The dilutive effect of the Series A Preferred Units represents the reallocation of net income to limited partners including a reallocation of IDRs pursuant to the partnership agreement assuming conversion of the Series A Preferred Units into common units at the beginning of the period.

Basic and diluted net income per limited partner unit for the three and nine months ended September 30, 2016 are as follows:

	Common Units	Subordinated Units	General Partner (including IDRs)	Total
(millions, except for weighted average units and per unit data)				
Three Months Ended September 30, 2016				
General partner allocation	\$—	\$—	\$ (0.3 )	\$(0.3 )
Distributions declared	11.3	7.9	1.0	20.2
Undistributed earnings	2.5	1.9	—	4.4
Net income attributable to partners (basic and diluted)	\$13.8	\$9.8	\$ 0.7	\$24.3
Weighted average units outstanding	45,722,371	31,972,789		
Net income per limited partner unit (basic and diluted)	\$0.30	\$0.30		
Nine Months Ended September 30, 2016				
General partner allocation	\$—	\$—	\$ (0.4 )	\$(0.4 )
Distributions declared	32.3	22.6	2.1	57.0
Undistributed earnings	7.8	5.5	—	13.3
Net income attributable to partners (basic and diluted)	\$40.1	\$28.1	\$ 1.7	\$69.9
Weighted average units outstanding	45,722,242	31,972,789		
Net income per limited partner unit (basic and diluted)	\$0.88	\$0.88		

#### Note 5. Unit Activity

Activity in number of units was as follows:

	Convertible Preferred Public	Dominion Energy	Common Public	Dominion Energy	Subordinated	General Partner (non-economic interest)	Total
Balance at December 31, 2015	—	—	27,867,938	17,846,672	31,972,789	—	77,687,399
Unit-based compensation	—	—	7,761	—	—	—	7,761
Dominion Energy purchase of	—	—	(657,956 )	657,956	—	—	—

common units <sup>(1)</sup>							
Balance at September 30, 2016	—	—	27,217,743	18,504,628	31,972,789	—	77,695,160
Balance at December 31, 2016	18,942,714	11,365,628	48,734,195	18,504,628	31,972,789	—	129,519,954
Unit-based compensation	—	—	10,444	—	—	—	10,444
Issuance of common units	—	—	14,724	—	—	—	14,724
Balance at September 30, 2017	18,942,714	11,365,628	48,759,363	18,504,628	31,972,789	—	129,545,122

(1) These units were purchased by Dominion Energy as part of Dominion Energy's program initiated in September 2015, which expired in September 2016, to purchase from the market up to \$50.0 million of common units representing limited partner interests in Dominion Energy Midstream at the discretion of Dominion Energy's management.

In October 2017, Dominion Energy Midstream issued 217,051 common units through its at-the-market program resulting in proceeds of \$6.9 million, net of fees and commissions of \$0.1 million.



## Note 6. Operating Revenue

Dominion Energy Midstream's operating revenue consists of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
(millions)				
Gas transportation and storage	\$109.3	\$90.7	\$346.2	\$251.4
Regulated gas sales	0.1	—	0.6	—
Other	3.6	4.5	12.1	12.4
Total operating revenue	\$113.0	\$95.2	\$358.9	\$263.8

## Note 7. Fair Value Measurements

Fair value is defined 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, the use of a mid-market pricing convention (the mid-point between bid and ask prices) is permitted. Fair values are 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 Dominion Energy Midstream's own nonperformance risk on its liabilities. Fair value measurements 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). Dominion Energy Midstream applies fair value measurements to assets and liabilities associated with interest rate derivative instruments in accordance with the requirements discussed above. Credit adjustments are not considered material to the interest rate derivative fair values.

## Inputs and Assumptions

Dominion Energy Midstream maximizes the use of observable inputs and minimizes 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, price information is sought from external sources, including broker quotes and industry publications. When evaluating pricing information provided by brokers and other pricing services, Dominion Energy Midstream considers whether the broker is willing and able to trade at the quoted price, if the broker quotes are based on an active market or an inactive market and the extent to which brokers are utilizing a particular model if pricing is not readily available. If pricing information from external sources is not available, or if Dominion Energy Midstream believes that observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases, Dominion Energy Midstream must estimate prices based on available historical and near-term future price information that reflect its market assumptions.

The inputs and assumptions used in measuring fair value for interest rate derivative contracts include the following:

- Interest rate curves
- Credit quality of counterparties and Dominion Energy Midstream
- Notional value
- Credit enhancements
- Time value

Levels

Dominion Energy Midstream also utilizes 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 it has the ability to access at the measurement date.

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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 interest rate swaps.

Level 3-Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability.

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. In these cases, 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.

For derivative contracts, Dominion Energy Midstream recognizes transfers among Level 1, Level 2 and Level 3 based on fair values as of the first day of the month in which the transfer occurs. Transfers out of Level 3 represent assets and liabilities that were previously classified as Level 3 for which the inputs became observable for classification in either Level 1 or Level 2.

Dominion Energy Midstream did not have any Level 3 derivative contracts as of September 30, 2017.

#### Recurring Fair Value Measurements

Fair value measurements are separately disclosed by level within the fair value hierarchy. The following table presents Dominion Energy Midstream's assets and liabilities that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions. There were no assets or liabilities measured at fair value at December 31, 2016.

	Level 1	Level 2	Level 3	Total
(millions)				
At September 30, 2017				
Assets				
Interest rate derivative	\$ —	\$ 0.4	\$ —	\$ 0.4
Total assets	\$ —	\$ 0.4	\$ —	\$ 0.4
Liabilities				
Interest rate derivative	\$ —	\$ 0.6	\$ —	\$ 0.6
Total liabilities	\$ —	\$ 0.6	\$ —	\$ 0.6

#### Fair Value of Financial Instruments

Substantially all of Dominion Energy Midstream's financial instruments are recorded at fair value, with the exception of the instruments described below, which 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, restricted cash, customer and other receivables, affiliated receivables, Dominion Energy credit facility borrowings, payables to affiliates and accounts payable are representative of fair value because of the short-term nature of these instruments. For Dominion Energy Midstream's financial instruments that are not

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recorded at fair value, the carrying amounts and estimated fair values are as follows:

	September 30, 2017		December 31, 2016	
	Carrying	Estimated Fair	Carrying	Estimated Fair
(millions)	Amount	Value <sup>(1)</sup>	Amount	Value <sup>(1)</sup>
Long-term debt, including securities due within one year <sup>(2)</sup>	\$730.2	\$759.2	\$729.9	\$744.8

(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) Carrying amount includes amounts which represent the unamortized debt issuance costs, discount or premium.

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Note 8. Derivatives and Hedge Accounting Activities

Dominion Energy Midstream is exposed to the impact of market fluctuations in interest rate risks of its business operations. Dominion Energy Midstream uses derivative instruments to manage exposure to this risk, and has designated all of its derivative instruments as cash flow hedges for accounting purposes. See Note 7 for further information about fair value measurements and associated valuation methods for derivatives.

Derivative assets and liabilities are presented gross on Dominion Energy Midstream's Consolidated Balance Sheets. Dominion Energy Midstream's derivative contracts include over-the-counter transactions. Over-the-counter contracts are bilateral contracts that are transacted directly with a third party. Certain over-the-counter contracts contain contractual rights of setoff through master netting arrangements, derivative clearing agreements, and contract default provisions. In addition, the contracts are subject to conditional rights of setoff through counterparty nonperformance, insolvency, or other conditions.

Balance Sheet Presentation

The tables below present Dominion Energy Midstream's derivative asset and liability balances by type of financial instrument, before and after the effects of offsetting. There were no derivative asset or liability balances at December 31, 2016.

	September 30, 2017		Net Amounts	
	Gross	Offset	Gross	Net
	Amounts	in the	Amounts	Presented
	Recognized	Consolidated	Recognized	Consolidated
	Balance	Balance	Balance	Balance
	Assets	Sheet	Assets	Sheet
(millions)				
<b>Interest rate contracts:</b>				
Over-the-counter	\$0.4	\$ —	\$ 0.4	
Total derivatives, subject to a master netting or similar arrangement	\$0.4	\$ —	\$ 0.4	

September 30, 2017  
Gross Amounts Not  
Offset

in the Consolidated

Balance Sheet

Net Amounts Financial Cash Collateral

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	of Assets	Instrument	Received	Net
	Presented in the Consolidated Balance Sheet			Amounts
(millions)				
Interest rate contracts:				
Over-the-counter	\$ 0.4	\$ 0.4	\$ —	\$ —
Total	\$ 0.4	\$ 0.4	\$ —	\$ —

	September 30, 2017		
	Gross	Offset	Net
	Amounts	in the	Amounts
	Recognized	Consolidated	of Liabilities
	Balance	Balance	Presented in
	Sheet	Sheet	the Consolidated
	Liabilities	Liabilities	Balance Sheet
(millions)			
Interest rate contracts:			
Over-the-counter	\$0.6	\$ —	\$ 0.6
Total derivatives, subject to a master netting or similar arrangement	\$0.6	\$ —	\$ 0.6

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	September 30, 2017			
	Gross Amounts Not Offset			
	in the Consolidated			
	Balance Sheet			
	Net Amounts			
	of Liabilities			
	Presented in the Consolidated			
	Balance Sheet	Financial Instrument	Cash Collateral Paid	Net Amounts
(millions)				
Interest rate contracts:				
Over-the-counter	\$ 0.6	\$ 0.4	\$ —	\$ 0.2
Total	\$ 0.6	\$ 0.4	\$ —	\$ 0.2

#### Volumes

The following table presents the volume of Dominion Energy Midstream's derivative activity at September 30, 2017. 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
Interest rate <sup>(1)</sup>	\$ —	\$300,000,000

(1) Maturity is determined based on final settlement period.

#### Ineffectiveness and AOCI

For the three and nine months ended September 30, 2017, there were no gains or losses on hedging instruments determined to be ineffective.

The following table presents selected information related to losses on cash flow hedges included in AOCI in Dominion Energy Midstream's Consolidated Balance Sheet at September 30, 2017:

AOCI	Amounts Expected	Maximum
------	------------------	---------

to be Reclassified Term

to Earnings

During the

Next 12 Months

(millions)

Interest rate \$ (0.2 ) \$ (0.6 ) 26 months

Total \$ (0.2 ) \$ (0.6 )

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



Fair Value and Gains and Losses on Derivative Instruments

The following tables present the fair values of Dominion Energy Midstream's derivatives and where they are presented in its Consolidated Balance Sheets. Dominion Energy Midstream did not have any derivatives at December 31, 2016.

	Fair Value –	
	Derivatives under	Total
	Hedge Accounting	Value
(millions)		
At September 30, 2017		
<b>ASSETS</b>		
<b>Noncurrent Assets</b>		
Interest rate	\$ 0.4	\$ 0.4
Total noncurrent derivative assets <sup>(1)</sup>	0.4	0.4
Total derivative assets	\$ 0.4	\$ 0.4
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Interest rate	\$ 0.6	\$ 0.6
Total current derivative liabilities <sup>(2)</sup>	0.6	0.6
Total derivative liabilities	\$ 0.6	\$ 0.6

(1) Noncurrent derivative assets are presented in other deferred charges and other assets in Dominion Energy Midstream's Consolidated Balance Sheets.

(2) Current derivative liabilities are presented in other current liabilities in Dominion Energy Midstream's Consolidated Balance Sheets.

The following tables present the gains and losses on Dominion Energy Midstream's derivatives, as well as where the associated activity is presented in its Consolidated Balance Sheets and Statements of Income. Dominion Energy Midstream did not have any derivatives during the three and nine months ended September 30, 2016.

	Amount of Gain	Amount of
	(Loss) Recognized	Gain (Loss)
	in AOCI on	Reclassified
	Derivatives	From AOCI
	(Effective	to Income
	Portion) <sup>(1)</sup>	
Derivatives in Cash Flow Hedging Relationships		
(millions)		
Three Months Ended September 30, 2017		
Derivative type and location of gains (losses):		

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Interest rate <sup>(2)</sup>	\$ 0.3	\$ (0.4 )
Total	\$ 0.3	\$ (0.4 )

Nine Months Ended September 30, 2017

Derivative type and location of gains (losses):

Interest rate <sup>(2)</sup>	\$ (1.2 )	\$ (1.0 )
Total	\$ (1.2 )	\$ (1.0 )

(1) Amounts deferred into AOCI have no associated effect in Dominion Energy Midstream's Consolidated Statements of Income.

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

Note 9. Equity Method Investments

Dominion Energy Midstream uses the equity method to account for its 25.93% noncontrolling partnership interest in Iroquois and its 50% noncontrolling partnership interest in White River Hub. See further discussion of Iroquois and White River Hub in Note 8 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016.

The table below summarizes distributions received and income earned from Dominion Energy Midstream's equity method investees for the three and nine months ended September 30, 2017 and 2016.

(in millions)	Iroquois		White River Hub	
	Three Months		Nine Months	
Period Ended September 30, 2017				
Distributions received	\$7.2	\$ 1.0	\$18.9	\$ 3.3
Income from equity method investees	5.2	1.0	16.6	2.8
Period Ended September 30, 2016				
Distributions received	\$5.7	\$ 0.5	\$17.4	\$ 0.5
Income from equity method investees	4.7	0.2	14.8	0.2

The table below summarizes the carrying amount of the investments and excess of investment over Dominion Energy Midstream's share of underlying equity in net assets at September 30, 2017 and December 31, 2016.

(in millions)	Iroquois		White River Hub	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Carrying amount of investment	\$216.4	\$ 218.7	\$ 38.6	\$ 39.1
Excess of investment over Dominion Energy Midstream's share of underlying equity in net assets <sup>(1)</sup>	122.9	122.9	16.1	16.1

(1) The difference between the carrying value of Dominion Energy Midstream's equity method investments and its share in the underlying equity in net assets reflects equity method goodwill and is not being amortized.

Summarized financial information provided to us by Iroquois for 100% of Iroquois for the three and nine months ended September 30, 2017 and 2016 is presented below.

(in millions)	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2017	2016	2017	2016
Revenues	\$43.6	\$45.5	\$141.6	\$145.2
Operating income	23.3	23.1	79.1	74.3
Net income	19.3	18.9	65.6	61.6

Summarized financial information provided to us by White River Hub for 100% of White River Hub for the three and nine months ended September 30, 2017, and for the period from September 16, 2016 through September 30, 2016 is presented below.

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	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	Period Ended September 30, 2016
(in millions)			
Revenues	\$ 2.5	\$ 7.6	\$ 0.4
Operating income	1.9	5.5	0.3
Net income	1.9	5.5	0.3

## Note 10. Regulatory Assets and Liabilities

Regulatory assets and liabilities include the following:

(millions)	September 30, 2017	December 31, 2016
Regulatory assets:		
Unrecovered gas costs <sup>(1)</sup>	\$ 3.7	\$ 3.3
Interest rate hedges <sup>(2)</sup>	0.7	0.6
Other	1.3	1.2
Regulatory assets-current <sup>(3)</sup>	5.7	5.1
Income taxes recoverable through future rates <sup>(4)</sup>	4.9	3.6
Interest rate hedges <sup>(2)</sup>	33.5	34.0
Cost of reacquired debt <sup>(5)</sup>	1.2	1.5
Other	1.5	1.1
Regulatory assets-noncurrent <sup>(6)</sup>	41.1	40.2
Total regulatory assets	\$ 46.8	\$ 45.3
Regulatory liabilities:		
Overrecovered gas costs <sup>(1)</sup>	\$ 1.0	\$ 0.4
LNG cargo obligations <sup>(7)</sup>	0.2	3.2
Customer bankruptcy settlement <sup>(8)</sup>	2.8	2.8
Other	1.2	1.1
Regulatory liabilities-current <sup>(9)</sup>	5.2	7.5
Provision for future cost of removal and AROs <sup>(10)</sup>	103.3	100.0
Unrecognized other postretirement benefit costs <sup>(11)</sup>	12.8	11.1
Customer bankruptcy settlement <sup>(8)</sup>	15.5	17.6
Other	1.7	0.4
Regulatory liabilities-noncurrent	133.3	129.1
Total regulatory liabilities	\$ 138.5	\$ 136.6

(1) Reflects unrecovered/overrecovered gas costs, which are subject to annual filings with FERC.

(2) Reflects interest rate cash flow hedges recoverable from customers. Dominion Energy Questar Pipeline entered into forward starting swaps totaling \$150.0 million in the second and third quarters of 2011 in anticipation of issuing \$180.0 million of notes in December 2011. Settlement of these swaps required payments of \$37.3 million in the fourth quarter of 2011 because of declines in interest rates. These swaps qualified as cash flow hedges and the settlement payments are being amortized to interest expense over the 30-year life of the debt.

(3) Current regulatory assets are presented in other current assets in Dominion Energy Midstream's Consolidated Balance Sheets.

(4) Amounts to be recovered through future rates to pay income taxes that become payable by unitholders when rate revenue is provided to recover AFUDC equity when such amounts are recovered through book depreciation.

(5) Represents charges incurred on the reacquisition of debt by Dominion Energy Questar Pipeline that are deferred and amortized as interest expense over the would-be remaining life of the reacquired debt. The reacquired debt costs had a weighted-average life of approximately 3.3 years at September 30, 2017.

(6) Noncurrent regulatory assets are presented in other deferred charges and other assets in Dominion Energy Midstream's Consolidated Balance Sheets.

- (7) Reflects obligations to the Import Shippers for LNG cargo received. See Note 12 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016 for further information.
  - (8) Represents the balance of proceeds from the monetization of a bankruptcy claim acquired as part of the DECG Acquisition, which is being amortized into operating revenue through February 2024.
  - (9) Current regulatory liabilities are presented in other current liabilities in Dominion Energy Midstream's Consolidated Balance Sheets.
  - (10) Rates charged to customers include a provision for the cost of future activities to remove assets that are expected to be incurred at the time of retirement.
  - (11) Reflects a regulatory liability for the collection of postretirement benefit costs allowed in rates in excess of expenses incurred at Dominion Energy Questar Pipeline.
- At September 30, 2017, approximately \$41.8 million of regulatory assets represented past expenditures on which Dominion Energy Midstream does not currently earn a return. With the exception of regulatory assets related to interest rate hedges and reacquired debt, these expenditures are expected to be recovered within two years.

Note 11. Regulatory Matters

FERC regulates the transportation and sale for resale of natural gas in interstate commerce under the NGA and the Natural Gas Policy Act of 1978, as amended. Under the NGA, FERC has authority over rates, terms and conditions of services performed by Cove Point, DECG and Dominion Energy Questar Pipeline. FERC also has jurisdiction over siting, construction and operation of natural gas import and export facilities and interstate natural gas pipeline facilities.

Other than the matters discussed below, there have been no significant developments regarding the pending regulatory matters disclosed in Note 12 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016.

In November 2016, pursuant to the terms of a previous settlement, Cove Point filed a general rate case for its FERC-jurisdictional services, with 23 proposed rates to be effective January 1, 2017. Cove Point proposed an annual cost-of-service of approximately \$140 million. In December 2016, FERC accepted a January 1, 2017 effective date for all proposed rates but five which were suspended to be effective June 1, 2017. In August 2017, Cove Point filed a proposed stipulation and settlement agreement with FERC, which was supported or not opposed by the active parties. Under the terms of the settlement agreement, Cove Point's rates effective October 2017 would result in decreases to annual revenues and depreciation expense of approximately \$17.7 million and \$3.0 million, respectively, compared to the rates in effect through December 2016. In addition, to the extent market conditions exist that neither import nor export services are being sufficiently utilized and LNG cooling quantities are required, the Import Shippers' responsibility for costs incurred for any LNG cooling quantities received prior to the earlier of operational commencement of the Liquefaction Project or March 2018 would be reduced to approximately half of such amounts incurred. If the Liquefaction Project has not commenced operations by March 2018 and LNG cooling quantities are required, Cove Point is responsible for any costs incurred until the Liquefaction Project commences operations. Upon operational commencement of the Liquefaction Project, the Import Shippers will have responsibility for costs incurred on certain LNG cooling quantities. In September 2017, the Presiding Administrative Law Judge certified the uncontested settlement to FERC. Cove Point is awaiting final FERC approval of the settlement. This case is pending.

Two parties previously separately filed petitions for review of the FERC Order in the U.S. Court of Appeals for the D.C. Circuit, which petitions were consolidated. In July 2016, the court denied one party's petition for review of the FERC Order. The court also issued a decision remanding the other party's petition for review of the FERC Order to FERC for further explanation of how FERC's decision that a previous transaction with an existing import shipper was not unduly discriminatory. In September 2017, FERC issued its order on remand from the U.S. Court of Appeals for the D.C. Circuit, and reaffirmed its rulings in its prior orders that Cove Point did not violate the prohibition against undue discrimination by agreeing to a capacity reduction and early contract termination with the existing import shipper.

In July 2017, Cove Point submitted an application for a temporary operating permit to the Maryland Department of the Environment, as required prior to the date of first production of LNG for commercial purposes of exporting LNG. This case is pending.

In August 2017, Cove Point submitted an application to amend the CPCN granted by the Public Service Commission of Maryland in May 2014 to make necessary updates. This case is pending. See Note 17 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016 for more information on the granted CPCN.

Note 12. Variable Interest Entities

There have been no significant changes regarding the entities Dominion Energy Midstream considers VIEs as described in Note 14 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016.

Dominion Energy Midstream reimburses its general partner and affiliates for the costs of providing administrative, management and other services necessary for its operations. For the three and nine months ended September 30, 2017, these costs were \$0.6 million and \$1.5 million, respectively. For the three and nine months ended September 30, 2016, these costs were \$0.3 million and \$0.9 million, respectively.

In addition to the services purchased by our general partner, Dominion Energy Midstream purchased shared services from DES, DECGS and DEQPS of approximately \$6.8 million, \$3.1 million and \$6.6 million for the three months ended September 30, 2017, respectively, and \$20.4 million, \$10.0 million and \$24.3 million for the nine months ended September 30, 2017, respectively. Dominion Energy Midstream purchased shared services from DES and DECGS of approximately \$6.3 million and \$3.2 million for the three months ended September 30, 2016, respectively, and \$18.8 million and \$12.1 million for the nine months ended September 30, 2016, respectively. The Consolidated Balance Sheets at September 30, 2017 and December 31,



2016 include amounts due from Dominion Energy Midstream to DES, DECGS and DEQPS of approximately \$4.8 million and \$6.3 million, respectively. The Consolidated Balance Sheet at September 30, 2017 includes amounts due to Dominion Energy Midstream from DES and DEQPS of \$0.5 million. There were no such amounts due to Dominion Energy Midstream at December 31, 2016.

#### Note 13. Commitments and Contingencies

As a result of issues generated in the ordinary course of business, Dominion Energy Midstream is involved in legal proceedings before various courts and is periodically subject to governmental examinations (including by FERC), 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, or involve significant factual issues that need to be resolved, such that it is not possible for Dominion Energy Midstream to estimate a range of possible loss. For such matters that Dominion Energy Midstream cannot estimate, 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 Dominion Energy Midstream is able to estimate a range of possible loss. For legal proceedings and governmental examinations for which Dominion Energy Midstream is 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. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any accrued liability is recorded on a gross basis with a receivable also recorded for any probable insurance recoveries. Any estimated range of possible loss may not represent Dominion Energy Midstream's 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. Management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on Dominion Energy Midstream's financial position, liquidity or results of operations.

#### Cove Point Natural Heritage Trust

Under the terms of the 2005 Agreement, Cove Point is required to make an annual contribution to the Cove Point Natural Heritage Trust, an affiliated non-profit trust focused on the preservation and protection of ecologically sensitive sites at or near Cove Point, of \$0.3 million for each year the facility is in operation. These annual payments are recorded in other operations and maintenance expense in the Consolidated Statements of Income. If Cove Point voluntarily tenders title according to the terms of this agreement, no contributions are required. There are no current plans to voluntarily tender title to the Cove Point site.

#### Surety Bonds

At September 30, 2017, Dominion Energy Midstream had purchased \$11.9 million of surety bonds, including \$9.8 million held by Cove Point. Under the terms of surety bonds, Dominion Energy Midstream is obligated to indemnify the respective surety bond company for any amounts paid.

#### Note 14. Credit Risk

Credit risk is the risk of financial loss if counterparties fail to perform their contractual obligations. In order to minimize overall credit risk, credit policies are maintained, including the evaluation of counterparty financial condition. In addition, counterparties may make available collateral, including letters of credit, payment guarantees or cash deposits.

Dominion Energy Midstream provides service to approximately 140 customers, including the Storage Customers, marketers or end users, power generators, utilities and the Import Shippers. The two largest customers comprised approximately 29% of the total transportation and storage revenues for the three months ended September 30, 2017, with Dominion Energy Midstream's largest customer, an affiliate, representing approximately 17% of such amount during the period. The three largest customers comprised approximately 39% of the total transportation and storage revenues for the nine months ended September 30, 2017, with Dominion Energy Midstream's largest customer, an affiliate, representing approximately 17% of such amount during the period. The two largest customers comprised approximately 62% and 68% of the total transportation and storage revenues for the three and nine months ended September 30, 2016, respectively, with Dominion Energy Midstream's largest customer representing approximately 48% and 52% of such amounts in each period.

Dominion Energy Midstream maintains a provision for credit losses based on factors surrounding the credit risk of its customers, historical trends and other information. At September 30, 2017 and December 31, 2016, the provision for credit losses was \$0.1 million and less than \$0.1 million, respectively. Management believes, based on credit policies and the September 30, 2017 provision for credit losses, that it is unlikely that a material adverse effect on financial position, results of operations or cash flows would occur as a result of counterparty nonperformance.

#### Note 15. Related-Party Transactions

Dominion Energy Midstream engages in related-party transactions primarily with other Dominion Energy subsidiaries (affiliates), including our general partner. Dominion Energy Midstream'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. Cove Point participates in certain Dominion Energy benefit plans as described in Note 16 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016. In Dominion Energy Midstream's Consolidated Balance Sheets at September 30, 2017 and December 31, 2016, amounts due to Dominion Energy associated with these benefit plans included in other deferred credits and other liabilities were \$7.7 million and \$6.2 million, respectively, and amounts due from Dominion Energy at September 30, 2017 and December 31, 2016 included in other deferred charges and other assets were \$1.9 million and \$0.9 million, respectively. In connection with the DECG Acquisition, for the nine months ended September 30, 2016, total transition costs of \$1.3 million were expensed as incurred to operations and maintenance expense in the Consolidated Statements of Income. These costs were paid by Dominion Energy, and Dominion Energy Midstream subsequently reimbursed Dominion Energy. There were no such costs incurred during the three months ended September 30, 2016. Transactions related to the Dominion Energy Questar Pipeline Acquisition are described in Note 2. A discussion of the remaining significant related party transactions follows.

#### Transactions with Affiliates

DES provides accounting, legal, finance and certain administrative and technical services to Dominion Energy Midstream, and DECGS and DEQPS provide human resources and operations services to Dominion Energy Midstream. Refer to Note 12 for further information.

For the three and nine months ended September 30, 2016, DECG reimbursed Dominion Energy a total of \$0.2 million and \$1.4 million, respectively, for costs incurred related to Dominion Energy's transition services agreement with SCANA to provide administrative functions related to DECG. No such costs were incurred for the three and nine months ended September 30, 2017.

Dominion Energy Midstream provides transportation and other services to affiliates and affiliates provide goods and services to Dominion Energy Midstream.

Affiliated transactions are presented below:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(millions)				
Sales of natural gas transportation services to affiliates	\$ 19.0	\$ 3.4	\$ 60.6	\$ 4.3
Services provided to affiliates	0.8	0.3	1.7	0.3

Purchased gas from affiliates	1.3	0.3	5.1	0.4
Goods and services provided by affiliates to Dominion Energy Midstream <sup>(1)</sup>	23.1	15.9	71.9	40.7

(1)Includes \$18.2 million and \$17.6 million of capitalized expenditures for the nine months ended September 30, 2017 and 2016, respectively.

#### Dominion Energy Credit Facility

In connection with the Offering, Dominion Energy Midstream entered into a credit facility with Dominion Energy with a borrowing capacity of \$300.0 million. A summary of certain key terms of the credit facility with Dominion Energy is included in Note 20 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016. At September 30, 2017 and December 31, 2016, \$61.7 million and \$63.2 million was outstanding against the credit facility, respectively. In October 2017, Dominion Energy Midstream drew an additional \$5.5 million on the credit facility to fund capital expenditures at DECG. Outstanding borrowings are presented within current liabilities as such amounts could become payable on demand after a 90-day termination notice provided by either party. No such notice has been provided through the date of this filing. Interest charges related to Dominion Energy Midstream's borrowings against the facility were \$0.5 million and \$1.3 million for the three and nine months ended September 30, 2017, respectively, and \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2016, respectively.

### Affiliated Long-Term Debt

As a condition to closing under the Dominion Energy Questar Pipeline Contribution Agreement, in December 2016 Dominion Energy Midstream repaid a two-year, \$300.8 million senior unsecured promissory note payable to Dominion Energy, which was issued in connection with the DECG Acquisition. Interest charges related to Dominion Energy Midstream's borrowing from Dominion Energy were \$0.5 million and \$1.4 million for the three and nine months ended September 30, 2016, respectively.

### Natural Gas Imbalances

Dominion Energy Midstream maintains natural gas imbalances with affiliates. The imbalances with affiliates are provided below:

	September 30, 2017	December 31, 2016
(millions)		
Imbalances payable to affiliates <sup>(1)</sup>	\$ 0.6	\$ 0.1
Imbalances receivable from affiliates <sup>(2)</sup>	1.3	6.3

(1) Recorded in other current liabilities in the Consolidated Balance Sheets.

(2) Recorded in other current assets in the Consolidated Balance Sheets.

### Right of First Offer

In connection with the Offering, Dominion Energy Midstream entered into a right of first offer agreement with Dominion Energy as described in Note 20 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016. There have been no changes to this agreement.

### Contributions from Dominion Energy

For the three and nine months ended September 30, 2017, Dominion Energy contributed \$170.4 million and \$634.0 million, respectively, to Cove Point. For the three and nine months ended September 30, 2016, Dominion Energy contributed \$273.4 million and \$812.0 million, respectively, to Cove Point. In October 2017, Dominion Energy contributed an additional \$51.5 million to Cove Point. These contributions from Dominion Energy to Cove Point represent funding for capital expenditures primarily related to the Liquefaction Project.

For the three and nine months ended September 30, 2017, Dominion Energy allocated costs of \$1.7 million and \$5.9 million, respectively, to Dominion Energy Midstream related to the Dominion Energy Questar Pipeline Acquisition for which Dominion Energy did not seek reimbursement. For the three and nine months ended September 30, 2016, Dominion Energy allocated costs of \$0.3 million and \$0.4 million, respectively, to Dominion Energy Midstream related to the Dominion Energy Questar Pipeline Acquisition for which Dominion Energy did not seek reimbursement.

### Note 16. Income Taxes

Dominion Energy Midstream is organized as an MLP, a pass-through entity for U.S. federal and state income tax purposes. Each unitholder is responsible for taking into account the unitholder's respective share of Dominion Energy Midstream's items of taxable income, gain, loss and deduction in the preparation of income tax returns. Accordingly, Dominion Energy Midstream's Consolidated Financial Statements do not include income taxes for the periods

presented with the exception of income taxes attributable to the Dominion Energy Questar Pipeline Predecessor.

Dominion Energy Questar Pipeline is a disregarded entity for income tax purposes and was treated as a taxable division of its corporate parent. Its business activities from the time of the Dominion Energy Questar Combination until the Dominion Energy Questar Pipeline Acquisition were included in the consolidated U.S. federal and certain state income tax returns of Dominion Energy. Dominion Energy Midstream's Consolidated Financial Statements reflect income taxes for the same period. For periods prior to the Dominion Energy Questar Combination, Dominion Energy Questar Pipeline was included in the consolidated federal and certain state tax returns of its parent, Dominion Energy Questar.

Current income taxes for Dominion Energy Questar Pipeline were based on taxable income or loss, determined on a separate company basis, and, where applicable, settled in accordance with the principles of Dominion Energy's intercompany tax sharing agreement. The settlements of Dominion Energy Questar Pipeline's federal and state income taxes payable and net deferred income taxes are reflected as equity transactions in Dominion Energy Midstream's Consolidated Financial Statements.

See Note 21 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016 for additional information.

## Note 17. Operating Segment

Dominion Energy Midstream is organized primarily on the basis of products and services sold in the U.S. Dominion Energy Midstream's operating segment, Gas Infrastructure (previously named Dominion Energy), consists of gas transportation, LNG import and storage.

Dominion Energy Midstream also reports a Corporate and Other segment. The Corporate and Other segment primarily includes items attributable to Dominion Energy Midstream's operating segment that are not included in profit measures evaluated by executive management in assessing the segment's performance or in allocating resources. In 2017, our general partner incurred \$5.9 million of transition costs in connection with the Dominion Energy Questar Pipeline Acquisition for which Dominion Energy did not seek reimbursement. In 2016, expenses of \$5.8 million (\$5.6 million after-tax) were recorded related to certain transaction and transition costs associated with the Dominion Energy Questar Pipeline Acquisition. Additionally, \$0.4 million of such costs were incurred by our general partner in 2016, for which Dominion Energy did not seek reimbursement.

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

	Gas Infrastructure	Corporate and Other	Total
(millions)			
Three Months Ended September 30, 2017			
Operating revenue	\$ 113.0	\$ —	\$113.0
Earnings from equity method investees	6.2	—	6.2
Net income (loss) including noncontrolling interest	36.6	(1.7 )	34.9
Net income (loss) attributable to partners	50.3	(1.7 )	48.6
Three Months Ended September 30, 2016			
Operating revenue	\$ 95.2	\$ —	\$95.2
Earnings from equity method investees	4.9	—	4.9
Net income (loss) including noncontrolling interest and predecessors	56.1	(5.9 )	50.2
Net income (loss) including noncontrolling interest	53.7	(0.3 )	53.4
Net income (loss) attributable to partners	24.6	(0.3 )	24.3
Nine Months Ended September 30, 2017			
Operating revenue	\$ 358.9	\$ —	\$358.9
Earnings from equity method investees	19.4	—	19.4
Net income (loss) including noncontrolling interest	126.7	(5.9 )	120.8
Net income (loss) attributable to partners	148.7	(5.9 )	142.8
Nine Months Ended September 30, 2016			
Operating revenue	\$ 263.8	\$ —	\$263.8
Earnings from equity method investees	15.0	—	15.0
Net income (loss) including noncontrolling interest and predecessors	161.1	(6.0 )	155.1
Net income (loss) including noncontrolling interest	158.7	(0.4 )	158.3
Net income (loss) attributable to partners	70.3	(0.4 )	69.9





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

MD&A discusses our results of operations and general financial condition. MD&A should be read in conjunction with the Consolidated Financial Statements.

Contents of MD&A

MD&A consists of the following information:

- Forward-Looking Statements
- How We Evaluate Our Operations
- Factors Impacting Comparability of Our Financial Results
- Accounting Matters
- Results of Operations
- Analysis of Consolidated Operations
- Segment Results of Operations
- Liquidity and Capital Resources
- Future Issues and Other Matters

Forward-Looking Statements

This report contains statements concerning expectations, plans, objectives, future financial performance and other statements that are not historical facts. In most cases, the reader can identify these forward-looking statements by such words as “anticipate,” “estimate,” “forecast,” “expect,” “believe,” “should,” “could,” “plan,” “may,” “continue,” “target” or other words.

We 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, but not limited to, hurricanes, severe storms, earthquakes and flooding that can cause outages and property damage to facilities;
- Federal, state and local legislative and regulatory developments, including changes in federal and state tax laws and regulations;
- Changes to federal, state and local environmental laws and regulations, including those related to climate change, the tightening of emission or discharge limits for greenhouse gases and other emissions, more extensive permitting requirements and the regulation of additional substances;
- The cost of environmental compliance, including those costs related to climate change;
- Changes in implementation and enforcement practices of regulators relating to environmental and safety standards and litigation exposure for remedial activities;
- Difficulty in anticipating mitigation requirements associated with environmental and other regulatory approvals or related appeals;
- Fluctuations in energy-related commodity prices and the effect these could have on our earnings, liquidity position and the underlying value of our assets;
- Counterparty credit and performance risk;
- Employee workforce factors;

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

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- The ability to negotiate, obtain necessary approvals and consummate acquisitions from Dominion Energy and third parties and the impacts of such acquisitions;
- Receipt of approvals for, and timing of, closing dates for acquisitions;
- The timing and execution of our growth strategy;
- Risks associated with entities in which we share ownership and control with third parties, including risks that result from our lack of sole decision making authority, or reliance on the financial condition of third parties, disputes that may arise between us and third party participants, difficulties in exiting these arrangements, requirements to contribute additional capital, the timing and amount of which may not be within our control, and rules for accounting for these entities including those requiring their consolidation or deconsolidation in our financial statements;
- Political and economic conditions, including inflation and deflation;
- Domestic terrorism and other threats to our physical and intangible assets, as well as threats to cybersecurity;
- The timing and receipt of regulatory approvals necessary for planned construction or any future expansion projects, including the overall development of the Liquefaction Project, and compliance with conditions associated with such regulatory approvals;
- Changes in demand for our services, including industrial, commercial and residential growth or decline in our service areas, changes in supplies of natural gas delivered to our pipeline systems, failure to maintain or replace customer contracts on favorable terms, changes in customer growth or usage patterns, including as a result of energy conservation programs and the availability of energy efficient devices;
- Additional competition in industries in which we operate;
- Changes to regulated gas transportation and storage rates collected by us;
- Changes in operating, maintenance and construction costs;
- Adverse outcomes in litigation matters or regulatory proceedings;
- The impact of operational hazards, including adverse developments with respect to pipeline and plant safety or integrity, equipment loss, malfunction or failure, operator error, and other catastrophic events;
- The inability to complete planned construction, conversion or expansion projects, including the Liquefaction Project, at all, or within the terms and time frames initially anticipated;
- Contractual arrangements to be entered into with or performed by our customers substantially in the future, including any revenues anticipated thereunder and any possibility of termination and inability to replace such contractual arrangements, including contracts upon which our business is substantially dependent;
- Capital market conditions, including the availability of credit and the ability to obtain financing on reasonable terms;
- Fluctuations in interest rates and increases in our level of indebtedness;
- Changes in availability and cost of capital;
- Changes in financial or regulatory accounting principles or policies imposed by governing bodies; and
- Conflicts of interest with Dominion Energy and its affiliates.

Additionally, other risks that could cause actual results to differ from predicted results are described in Item 1A. Risk Factors in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016.

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

### How We Evaluate Our Operations

Dominion Energy Midstream management uses a variety of financial metrics to analyze our performance. These metrics are significant factors in assessing our operating results and include: (1) EBITDA; (2) Adjusted EBITDA; and (3) distributable cash flow.



## EBITDA, Adjusted EBITDA and Distributable Cash Flow

EBITDA represents net income including noncontrolling interest and predecessors before interest and related charges, income tax and depreciation and amortization. Adjusted EBITDA represents EBITDA after adjustment for the EBITDA attributable to predecessors and a noncontrolling interest in Cove Point held by Dominion Energy subsequent to the Offering, less income from equity method investees, plus distributions from equity method investees. Subsequent to the Dominion Energy Questar Pipeline Acquisition, we define distributable cash flow as Adjusted EBITDA less distributions to preferred unitholders, maintenance capital expenditures and interest expense and adjusted for known timing differences between cash and income.

EBITDA, Adjusted EBITDA and distributable cash flow are non-GAAP supplemental financial measures used by our management and by external users of our financial statements, such as investors and securities analysts, to assess:

- The financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
- The ability of our assets to generate cash sufficient to pay interest on our indebtedness, if any, and to make distributions; and
- Our operating performance and return on invested capital as compared to those of other publicly traded companies that own energy infrastructure assets, without regard to their financing methods and capital structure.

The GAAP measure most directly comparable to EBITDA and Adjusted EBITDA is net income, and the GAAP measure most directly comparable to distributable cash flow is net cash provided by operating activities. EBITDA, Adjusted EBITDA and distributable cash flow should not be considered alternatives to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA, Adjusted EBITDA and distributable cash flow exclude some, but not all, items that affect net income, operating income and cash flows from operating activities, and these measures may vary among other companies. Therefore, EBITDA, Adjusted EBITDA and distributable cash flow as presented may not be comparable to similarly titled measures of other companies.

## Factors Impacting Comparability of Our Financial Results

As of September 30, 2017, other than the matter discussed below, there have been no significant changes with regard to the factors impacting comparability of our financial results as disclosed in MD&A in Dominion Energy Midstream's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. The factors disclosed included the Dominion Energy Questar Pipeline Acquisition, Iroquois rate settlement, import contracts, the Liquefaction Project and income taxes.

## Cove Point Rate Case

In August 2017, Cove Point filed a proposed stipulation and settlement agreement with FERC, which was supported or not opposed by the active parties. Under the terms of the settlement agreement, Cove Point's rates effective October 2017 would result in decreases to annual revenues and depreciation expense of approximately \$17.7 million and \$3.0 million, respectively, compared to the rates in effect through December 2016. Cove Point is awaiting final FERC approval of the settlement. See Note 11 to the Consolidated Financial Statements for further information.

## Accounting Matters

### Critical Accounting Policies and Estimates

As of September 30, 2017, there have been no significant changes to the critical accounting policies and estimates disclosed in MD&A in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2016. The policies previously disclosed included the accounting for regulated operations, use of estimates in goodwill impairment testing and use of estimates in long-lived asset impairment testing.

## Results of Operations

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

	Third Quarter			Year-to-Date		
	2017	2016	\$ Change	2017	2016	\$ Change
(millions)						
Operating revenue	\$113.0	\$95.2	\$ 17.8	\$358.9	\$263.8	\$ 95.1
Purchased gas	9.1	3.4	5.7	31.1	8.3	22.8
Net revenue	103.9	91.8	12.1	327.8	255.5	72.3
Other operations and maintenance	33.2	24.9	8.3	102.4	61.0	41.4
Depreciation and amortization	26.5	12.4	14.1	76.8	32.6	44.2
Other taxes	9.3	8.0	1.3	27.8	22.1	5.7
Earnings from equity method investees	6.2	4.9	1.3	19.4	15.0	4.4
Other income	1.7	0.8	0.9	4.3	2.2	2.1
Interest and related charges	7.9	0.8	7.1	23.7	0.7	23.0
Income tax expense	—	1.2	(1.2 )	—	1.2	(1.2 )
Net income including noncontrolling interest and predecessors	\$34.9	\$50.2	\$ (15.3 )	\$120.8	\$155.1	\$ (34.3 )
Less: Net loss attributable to Dominion Energy Questar Pipeline Predecessor	—	(3.2 )		—	(3.2 )	
Net income including noncontrolling interest	34.9	53.4		120.8	158.3	
Less: Net income (loss) attributable to noncontrolling interest	(13.7 )	29.1		(22.0 )	88.4	
Net income attributable to partners	\$48.6	\$24.3		\$142.8	\$69.9	
EBITDA	\$69.3	\$64.6		\$221.3	\$189.6	
Adjusted EBITDA	\$76.2	\$27.9		\$220.2	\$80.0	
Distributable cash flow	\$45.8	\$24.1		\$130.6	\$68.2	

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable GAAP financial measure for the three and nine months ended September 30, 2017 and 2016.

	Third Quarter		Year-to-Date	
	2017	2016	2017	2016
(millions)				
Adjustments to reconcile net income including noncontrolling interest and predecessors to EBITDA and				

Adjusted EBITDA:				
Net income including noncontrolling interest and				
predecessors	\$34.9	\$50.2	\$120.8	\$155.1
Add:				
Depreciation and amortization	26.5	12.4	76.8	32.6
Interest and related charges	7.9	0.8	23.7	0.7
Income tax expense	—	1.2	—	1.2
EBITDA	\$69.3	\$64.6	\$221.3	\$189.6
Distributions from equity method investees	8.2	6.2	22.2	17.9
Less:				
Earnings from equity method investees	6.2	4.9	19.4	15.0
EBITDA attributable to Dominion Energy Questar Pipeline				
Predecessor	—	1.2	—	1.2
EBITDA attributable to noncontrolling interest	(4.9)	36.8	3.9	111.3
Adjusted EBITDA	\$76.2	\$27.9	\$220.2	\$80.0



The following table presents a reconciliation of distributable cash flow to the most directly comparable GAAP financial measure for the three and nine months ended September 30, 2017 and 2016.

	Third Quarter		Year-to-Date	
	2017	2016	2017	2016
(millions)				
Adjustments to reconcile net cash provided by				
operating activities to distributable cash flow:				
Net cash provided by operating activities	\$71.9	\$98.2	\$246.9	\$228.6
Less:				
Cash attributable to (from) noncontrolling interest <sup>(1)</sup>	(1.7 )	53.1	18.9	132.6
Cash attributable to Dominion Energy Questar Pipeline				
Predecessor	—	18.6	—	18.6
Other changes in working capital and noncash adjustments	2.6	1.4	(8.3 )	2.6
Equity method investee distributions included in investing				
activities	—	—	0.5	—
Adjusted EBITDA	76.2	27.9	220.2	80.0
Adjustments to cash:				
Less: Distributions to preferred unitholders <sup>(2)</sup>	(9.5 )	—	(28.5 )	—
Plus (less): Deferred revenue <sup>(3)</sup>	(0.1 )	—	(0.4 )	2.0
Less: Amortization of regulatory liability <sup>(4)</sup>	(0.7 )	(0.7 )	(2.1 )	(2.1 )
Less: Maintenance capital expenditures <sup>(5)</sup>	(12.8)	(3.0 )	(38.7 )	(10.8 )
Plus: Acquisition costs funded by Dominion Energy	1.7	0.3	5.9	0.4
Less: Interest expense and AFUDC equity	(9.1 )	(0.5 )	(26.0 )	(1.5 )
Plus: Non-cash director compensation	0.1	0.1	0.2	0.2
Distributable cash flow	\$45.8	\$24.1	\$130.6	\$68.2

(1) The Preferred Equity Interest is a perpetual, non-convertible preferred equity interest entitled to the Preferred Return Distributions. Any excess in cash available over the \$50.0 million is attributable to the noncontrolling interest held by Dominion Energy but not available for distribution until the distribution reserve has been fully funded. The \$25.0 million distribution reserve was fully funded in the fourth quarter of 2016. During the third quarter of 2017, excess cash available from the first half of 2017 was utilized to pay the quarterly distribution.

(2) Represents distributions to which holders of the Series A Preferred Units are entitled.

(3) Adjustment to reflect the difference between cash received and revenue recognized related to facilities payments that are deferred and recognized over the related customer contract periods.

(4) Represents the monetization of a bankruptcy claim being amortized into income through February 2024.

(5) Amounts include accruals. For the three and nine months ended September 30, 2017, amount excludes \$13.9 million and \$28.1 million, respectively, of Dominion Energy funded maintenance capital expenditures related to the Cove Point LNG Facility and Cove Point Pipeline. For the three and nine months ended September 30, 2016, amount excludes \$6.8 million and \$12.2 million, respectively, of Dominion Energy funded maintenance capital expenditures related to the Cove Point LNG Facility and Cove Point Pipeline. Dominion Energy has indicated that it intends to continue providing the funding necessary for such expenditures, but it is under no obligation to do so.

Analysis of Consolidated Operations

Overview

Net revenue reflects operating revenue less purchased gas expense. Purchased gas expense includes the value of natural gas retained for use in routine operations and the cost of LNG cooling quantity purchases. LNG cooling quantity purchases are required for Cove Point to maintain the cryogenic readiness of the Cove Point LNG Facility to the extent market conditions exist that neither import nor, once the Liquefaction Project is completed, export services are being sufficiently utilized. Historically, one or two LNG cooling cargos have been procured annually and billed to the Import Shippers pursuant to certain provisions in Cove Point's FERC Gas Tariff. Increases or decreases in purchased gas expenses related to LNG cooling quantities are offset by corresponding increases or decreases in operating revenues and thus have been financially neutral to Dominion Energy Midstream. Under the terms of a proposed stipulation and settlement agreement filed with FERC in August 2017, the Import Shippers' responsibility for costs incurred for any LNG cooling cargos received prior to the earlier of operational commencement of the Liquefaction Project or March 2018 would be reduced to approximately half of such amounts incurred. If the Liquefaction Project has not commenced operations by March 2018 and LNG cooling quantities are required, Cove Point is responsible for any costs incurred until the Liquefaction Project commences operations. Upon operational commencement of the Liquefaction Project, the Import Shippers will have responsibility for costs incurred on certain LNG cooling quantities. As Cove Point's contracts with the Export Customers contain similar cost recovery mechanisms, any LNG cooling quantities procured would be financially neutral to Dominion Energy Midstream upon operational commencement of the Liquefaction Project.

An analysis of Dominion Energy Midstream's results of operations follows:

Third Quarter 2017 vs. 2016

Net revenue increased 13%, primarily due to Dominion Energy Questar Pipeline operations being included for all of 2017 (\$49.3 million), the Columbia to Eastover Project (\$1.0 million), which was placed into service in November 2016, and the Keys Energy Project (\$1.6 million), which was placed into service in March 2017. These increases were partially offset by a decrease from import contracts in 2017 (\$41.4 million). Cove Point did not receive any LNG cooling cargos in either period.

Other operations and maintenance increased 33%, primarily due to Dominion Energy Questar Pipeline operations being included for all of 2017 (\$8.3 million) and increases in labor and outside service costs associated with Cove Point's operations affected by the Liquefaction Project (\$2.7 million), partially offset by a decrease in acquisition-related costs (\$4.3 million).

Depreciation and amortization increased \$14.1 million, primarily due to Dominion Energy Questar Pipeline operations being included for all of 2017 (\$12.7 million), revised depreciation rates at Cove Point (\$1.0 million) and depreciation related to growth projects placed into service (\$0.6 million).

Other taxes increased 16%, primarily due to Dominion Energy Questar Pipeline operations being included for all of 2017.

Earnings from equity method investees increased 27%, due to White River Hub being included for all of 2017 (\$0.8 million) and an increase from Iroquois (\$0.5 million).

Other income increased \$0.9 million, primarily due to an increase in AFUDC associated with rate-regulated projects.

Interest and related charges increased \$7.1 million, primarily due to debt acquired in the Dominion Energy Questar Pipeline Acquisition (\$5.2 million) and an increase in interest rates on outstanding long-term debt in the third quarter of 2017 as compared to the third quarter of 2016 (\$1.8 million).

Income tax expense decreased \$1.2 million as a result of the absence of income taxes attributable to the Dominion Energy Questar Pipeline Predecessor.

Year-To-Date 2017 vs. 2016

Net revenue increased 28%, primarily due to Dominion Energy Questar Pipeline operations being included for all of 2017 (\$164.5 million), the St. Charles Transportation Project (\$2.6 million), which was placed into service in June 2016, the Columbia to Eastover Project (\$3.0 million), which was placed into service in November 2016, and the Keys Energy Project (\$3.9 million), which was placed into service in March 2017. These increases were partially offset by a decrease from import contracts in 2017 (\$104.3 million). Cove Point did not receive any LNG cooling cargos in either period.

Other operations and maintenance increased 68%, primarily due to Dominion Energy Questar Pipeline operations being included for all of 2017 (\$33.0 million) and increases in labor and outside service costs associated with Cove Point's operations affected by the Liquefaction Project (\$9.1 million), partially offset by the absence of organizational design initiative costs incurred during the first quarter of 2016 (\$3.3 million) and a decrease in acquisition-related costs (\$1.4 million).

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Depreciation and amortization increased \$44.2 million, primarily due to Dominion Energy Questar Pipeline operations being included for all of 2017 (\$39.8 million), revised depreciation rates at Cove Point (\$3.0 million) and depreciation related to growth projects placed into service (\$1.5 million).

Other taxes increased 26%, primarily due to Dominion Energy Questar Pipeline operations being included for all of 2017.

Earnings from equity method investees increased 29%, due to White River Hub being included for all of 2017 (\$2.6 million) and an increase from Iroquois (\$1.8 million).

Other income increased 95%, primarily due to an increase in AFUDC associated with rate-regulated projects (\$1.2 million) and Dominion Energy Questar Pipeline operations being included for all of 2017 (\$0.4 million).

Interest and related charges increased \$23.0 million, primarily due to debt acquired in the Dominion Energy Questar Pipeline Acquisition (\$17.6 million) and an increase in interest rates on outstanding long-term debt in 2017 as compared to 2016 (\$5.1 million).

Income tax expense decreased \$1.2 million as a result of the absence of income taxes attributable to the Dominion Energy Questar Pipeline Predecessor.

### Segment Results of Operations

Presented below is a summary of contributions by Dominion Energy Midstream's operating segment, Gas Infrastructure (previously named Dominion Energy), to net income including noncontrolling interest and predecessors:

	Third Quarter			Year-to-Date		
	2017	2016	\$ Change	2017	2016	\$ Change
(millions)						
Gas Infrastructure	\$36.6	\$56.1	\$ (19.5 )	\$126.7	\$161.1	\$ (34.4 )
Corporate and Other	(1.7 )	(5.9 )	4.2	(5.9 )	(6.0 )	0.1
Consolidated	\$34.9	\$50.2	\$ (15.3 )	\$120.8	\$155.1	\$ (34.3 )

### Gas Infrastructure

The following table summarizes the key factors impacting Gas Infrastructure's contribution to net income including noncontrolling interest and predecessors.

	Third Quarter		Year-to-Date	
	2017 vs. 2016 Increase/(Decrease)		2017 vs. 2016 Increase/(Decrease)	
(millions)				
Dominion Energy Questar Pipeline Acquisition	\$ 24.1		\$ 73.5	
Import contracts	(41.4 )		(104.3 )	
Growth projects placed into service	1.2		6.9	
Labor and outside service costs associated with the				
Liquefaction Project	(2.7 )		(9.1 )	
Interest rate on long-term debt	(1.8 )		(5.1 )	
2016 organizational design initiative costs	(0.2 )		3.3	
Revised depreciation rates at Cove Point	(1.0 )		(3.0 )	
Other	2.3		3.4	
Change in net income contribution	\$ (19.5 )		\$ (34.4 )	

### Corporate and Other

Corporate and Other includes items attributable to Dominion Energy Midstream's operating segment that are not included in profit measures evaluated by executive management in assessing segment performance or in allocating

resources among the segments. Corporate and Other expenses were \$1.7 million and \$5.9 million for the three and nine months ended September 30, 2017, respectively, consisting of certain transition costs associated with the Dominion Energy Questar Pipeline Acquisition. Corporate and Other expenses were \$5.9 million and \$6.0 million for the three and nine months ended September 30, 2016, consisting of certain acquisition costs associated with the Dominion Energy Questar Pipeline Acquisition.

## Liquidity and Capital Resources

### Overview

Dominion Energy Midstream's ongoing principal sources of liquidity may include distributions received from Cove Point from our Preferred Equity Interest, cash generated from operations of DECG and Dominion Energy Questar Pipeline, distributions received from our noncontrolling partnership interests in Iroquois and White River Hub, borrowings under our credit facility with Dominion Energy and issuances of debt and equity securities. We believe that cash from these sources will be sufficient to pay distributions on our common, subordinated and preferred units while continuing to meet our short-term working capital requirements and our long-term capital expenditure requirements. We expect to have sufficient distributable cash flow to pay the minimum quarterly distribution of \$0.1750 per common unit and subordinated unit, which equates to \$17.4 million per quarter, or \$69.5 million per year in the aggregate, based on the number of common units and subordinated units outstanding at September 30, 2017. We do not have a legal or contractual obligation to pay distributions quarterly or on any other basis or at the minimum quarterly distribution rate or at any other rate on our common and subordinated units, and there is no guarantee that we will pay distributions to such unitholders in any quarter.

Additionally, the holders of the Series A Preferred Units are entitled to receive cumulative quarterly distributions of \$0.3134 per Series A Preferred Unit, which commenced with the quarter ended December 31, 2016 with a prorated amount from the date of issuance to be paid for such quarter, subject to certain exceptions for any quarter ending after December 1, 2018. We cannot pay any distributions on any junior securities, including any of the common units, subordinated units and the IDRs, prior to paying the quarterly distribution payable to holders of the Series A Preferred Units, including any previously accrued and unpaid distributions.

#### Outstanding Indebtedness

In connection with the Offering, Dominion Energy Midstream entered into a \$300.0 million credit facility with Dominion Energy, allowing it to competitively pursue acquisitions and future organic growth opportunities or to otherwise meet its financial needs. At September 30, 2017 and December 31, 2016, \$61.7 million and \$63.2 million was outstanding against the credit facility, respectively. In October 2017, Dominion Energy Midstream drew an additional \$5.5 million on the credit facility to fund capital expenditures at DECG.

See Note 15 to the Consolidated Financial Statements for further information.

#### Capital Requirements

##### Capital Spending

Our operations can be capital intensive, requiring investments to expand, upgrade, maintain or enhance existing operations and to meet environmental and operational regulations. As defined in our partnership agreement, our capital requirements consist of:

- Maintenance capital expenditures used to maintain the long-term operating capacity and operating income of our pipelines and facilities. Examples include expenditures to refurbish and replace pipelines, terminals and storage facilities, to maintain equipment reliability, integrity and safety and to address environmental laws and regulations; and

• Expansion capital expenditures used to increase our operating capacity or operating income over the long term. Examples include the acquisition of equipment, the development of a new facility or the expansion of an existing facility.

For the nine months ended September 30, 2017, Dominion Energy Midstream paid total capital expenditures of \$726.9 million, which included \$66.8 million of maintenance capital expenditures.

Our significant capital projects, all of which are expansion projects, are described further below:

• Total costs of developing the Liquefaction Project are estimated to be approximately \$4.0 billion, excluding financing costs. Through September 30, 2017, Cove Point incurred approximately \$3.9 billion of development and construction costs associated with the Liquefaction Project. The Liquefaction Project is expected to be placed into service in late 2017.

• Total costs of the Eastern Market Access Project are estimated to be approximately \$150 million. Through September 30, 2017, approximately \$24 million of costs had been incurred. Construction on the project is expected to begin in the first quarter of 2018, and the project facilities are expected to be placed into service in late 2018.

• Total costs of the Charleston Project are estimated to be approximately \$120 million. Through September 30, 2017, approximately \$76 million of costs had been incurred, all of which Dominion Energy Midstream incurred subsequent to the DECG Acquisition. In February 2017, DECG received FERC authorization to construct and operate the project facilities, which are expected to be placed into service in late 2017.

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In September 2016, DECG entered into a facilities agreement with SCE&G to commit up to \$9 million to improve certain measuring and regulation stations over the next seven years in exchange for a 20-year firm transportation commitment of 12,000 Dth/day. We currently expect to improve three to four stations per year over the next seven years, however, DECG is obligated to fund these station improvements only after they are mutually identified and agreed to with SCE&G. Total project costs were less than \$1 million through September 30, 2017.

In March 2017, Dominion Energy Questar Pipeline committed to upgrade certain facilities and increase capacity, including the Hyrum Project, and entered into agreements to provide firm transportation service to Questar Gas Company, an affiliate. Total costs of these projects are expected to be approximately \$10 million through 2027. Through September 30, 2017, less than \$1 million of costs had been incurred related to these projects.



In addition to the expansion projects described above, Cove Point will incur maintenance capital expenditures to acquire spare parts for critical components of its Liquefaction Project. These costs are expected to be approximately \$7 million from October 2017 through the first half of 2018.

Dominion Energy has indicated that it intends to provide the funding necessary for the remaining construction costs and other capital expenditures of Cove Point, including the Liquefaction Project and Eastern Market Access Project, but it is under no contractual obligation to do so and has not secured all of the funding necessary to cover these costs, as it intends to finance these costs as they are incurred using its consolidated operating cash flows in addition to proceeds from capital markets transactions. However, Dominion Energy has entered into guarantee arrangements on behalf of Cove Point to facilitate the Liquefaction Project, including guarantees supporting the terminal services and transportation agreements as well as the engineering, procurement and construction contract for the Liquefaction Project. Two of the guarantees have no stated limit, one guarantee has a \$150 million limit and one guarantee has a \$1.75 billion aggregate limit with an annual draw limit of \$175 million. In the event that Dominion Energy does not satisfy its obligations under these guarantee arrangements or otherwise does not agree to provide the funding necessary for the remaining development costs and other capital expenditures of Cove Point, or is unable to obtain such funding in the amounts required or on terms acceptable to Dominion Energy, Cove Point would require substantial external debt or equity financing to complete the construction of the Liquefaction Project and Eastern Market Access Project.

#### Distributions

Distributions are declared and paid subsequent to quarter end. The table below summarizes the quarterly cash distributions on common and subordinated units.

Quarterly Period Ended	Total	Total Cash	Date of Declaration	Date of Record	Date of Distribution
	Quarterly Distribution (per unit)	Distribution (in millions)			
December 31, 2015	\$ 0.2135	\$ 16.8	January 21, 2016	February 5, 2016	February 15, 2016
March 31, 2016	0.2245	17.8	April 19, 2016	May 3, 2016	May 13, 2016
June 30, 2016	0.2355	19.0	July 22, 2016	August 5, 2016	August 15, 2016
September 30, 2016	0.2475	24.3	October 21, 2016	November 4, 2016	November 15, 2016
December 31, 2016	0.2605	27.5	January 25, 2017	February 6, 2017	February 15, 2017
March 31, 2017	0.2740	30.1	April 21, 2017	May 5, 2017	May 15, 2017
June 30, 2017	0.2880	32.9	July 21, 2017	August 4, 2017	August 15, 2017
September 30, 2017 <sup>(1)</sup>	0.3025	35.8	October 24, 2017	November 6, 2017	November 15, 2017

(1) Total cash distribution is based on units issued through October 2017.

Record holders of the Series A Preferred Units are entitled to receive cumulative quarterly distributions, payable in cash, payable in kind or a combination thereof at the option of our general partner, equal to \$0.3134 per Series A Preferred Unit in respect of each quarter ending before December 1, 2018. The table below summarizes the quarterly distributions on the Series A Preferred Units.

	Amount		Amount
Total	Payable		Payable
Distribution	in Cash		in Kind
Quarterly Period Ended	(in millions)	(in millions)	(in millions)
December 31, 2016	\$ 3.2	(1) \$ 3.2	\$ —
March 31, 2017	9.5	9.5	—
June 30, 2017	9.5	9.5	—
September 30, 2017	9.5	9.5	—

(1) For the period subsequent to the issuance of the Series A Preferred Units through December 31, 2016, the initial quarterly cash distribution was calculated as the minimum quarterly distribution of \$0.3134 per unit prorated for the portion of the quarter subsequent to the issuance of the Series A Preferred Units.

## Cash Flows

A summary of cash flows is presented below:

	Nine Months Ended September 30,	
	2017	2016
(millions)		
Cash and cash equivalents at beginning of year	\$39.6	\$35.0
Cash flows provided by (used in):		
Operating activities	246.9	228.6
Investing activities	(727.7)	(959.6)
Financing activities	520.0	774.1
Net increase in cash and cash equivalents	39.2	43.1
Cash and cash equivalents at September 30	\$78.8	