



June 18, 2010

CURRENT PRICE: \$42.00
RATING: NEUTRAL
PRICE TARGET: \$42
CURRENT YIELD: 4.4%

DOMINION RESOURCES (NYSE:D)

Achieves Our Price Target; Lowering Rating to Neutral

HIGHLIGHTS

- D achieves our price target of \$42/share
- Lowering our rating to Neutral from Outperform

EPS Estimates - Non-GAAP

	DEC 09A	DEC 10E
1Q	\$0.97 A	\$0.96
2Q	\$0.68 A	\$0.65 e
3Q	\$0.99 A	\$1.01 e
4Q	\$0.63 A	\$0.64 e
	\$3.27	\$3.26

Trading Data

52-WEEK PRICE RANGE: **\$42.56-\$30.12**
 SHARES OUTSTANDING: **600.9(M)**
 MARKET CAP: **\$25,219(M)**
 AVG. DAILY TRADING VOLUME: **3.28(M)**
 S&P 500: **1,117**

Valuation Data

BOOK VALUE: **\$18.42**
 PRICE TO BOOK: **2.28x**
 DIVIDEND: **\$1.83**

COMPANY SUMMARY

Dominion Resources, headquartered in Richmond VA, is one of the largest US electric utilities. The company has three operating units: Dominion Virginia Power, Dominion Generation, and Dominion Energy. Dominion Virginia Power operates D's regulated electric distribution, transmission and un-regulated retail business (gas & electric). The electric distribution business provides electricity to 2.4 million customers in VA/NC, and 1.6 million un-regulated retail energy customer accounts in 12 states. Dominion Generation operates the electric generation plants for D. This unit has 27,500 megawatts of generation capacity and 67% of this generation goes to D's regulated electric customers in VA/NC with the remaining 33% allocated to the non-regulated customers in the northeast US and the Mid-Atlantic areas. Dominion Energy operates the natural gas pipeline/storage business, a liquefied natural gas terminal at Cove Pt. Maryland, and Dominion East Ohio. Energy assets include 14,000 miles of natural gas transmission, gathering and storage pipelines. Since 2003 dividend has grown from \$1.29/share to \$1.83/share and operating earnings for 2009 were \$3.27/share compared to \$3.16/share during 2008.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last page of this report.

100 Concourse Boulevard, Suite 101
 Glen Allen, Virginia 23059

804.612.9700 ■ 800.612.1484
 804.527.1104

www.CapitolSecurities.com

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EQUITY RESEARCH

RECENT EARNINGS

Dominion Resources reported 1Q10 GAAP earnings of \$0.29/share vs \$0.42/share during 1Q09. Operating earnings were \$0.96/share vs \$0.98/share on a quarter-to-quarter basis. D's operating earnings results are what management tends to focus on in terms of measuring profitability. The decline in 1Q10's results were due to lower merchant generation profitability, lower gas/oil production due to the expiration of overriding royalty interests from former projects and lower contributions from D's producer services. Partly offsetting these were increased contributions from the regulated electric utility and gas transmission segments where favorable weather during the quarter improved results in the regulated electric business. Overall revenues declined to \$4.13 billion from \$4.6 billion and overall operating expenses fell to \$3.07 billion from \$3.5 billion. Earnings for Dominion Virginia Power declined slightly to \$114 million from \$115 million, while Dominion Energy's earnings fell to \$175 million from \$177 million. Dominion Generation saw its profitability reduced to \$325 million from \$369 million due to lower pricing in the electric wholesale market. Corporate and other expenses decline to \$38 million from \$87 million.

OUR THOUGHTS

While the operating picture appears positive for the company, we are lowering our rating on D to NEUTRAL from OUTPERFORM since D has achieved our price target of \$42/share. This stock appreciated 16.7% since we initiated coverage of D with an outperform rating on 11/27/09, and this return excludes the 4.5% dividend yield. The utility sector has rallied mirroring the advance of the general stock markets since March 2009. We recently lowered our 2010 earnings estimate to \$3.26/share from \$3.34/share, in line with D's guidance of \$3.20-\$3.40/share for this fiscal year.



RISKS

There is no guarantee D will improve earnings/cash flow. Declining US electric sales volumes may hurt the company's revenues and profits. Rising interest rates, higher fuel prices, negative rate case decisions, tax issues, or rising operating costs could negatively impact D's earnings. D's stock may be adversely impacted by negative equity/credit markets, terrorist attacks, and failure to comply with Sarbanes Oxley guidelines.

Steve Marascia
Director of Research
Capitol Securities Management
804-612-9715
smarascia@capitolsecurities.com

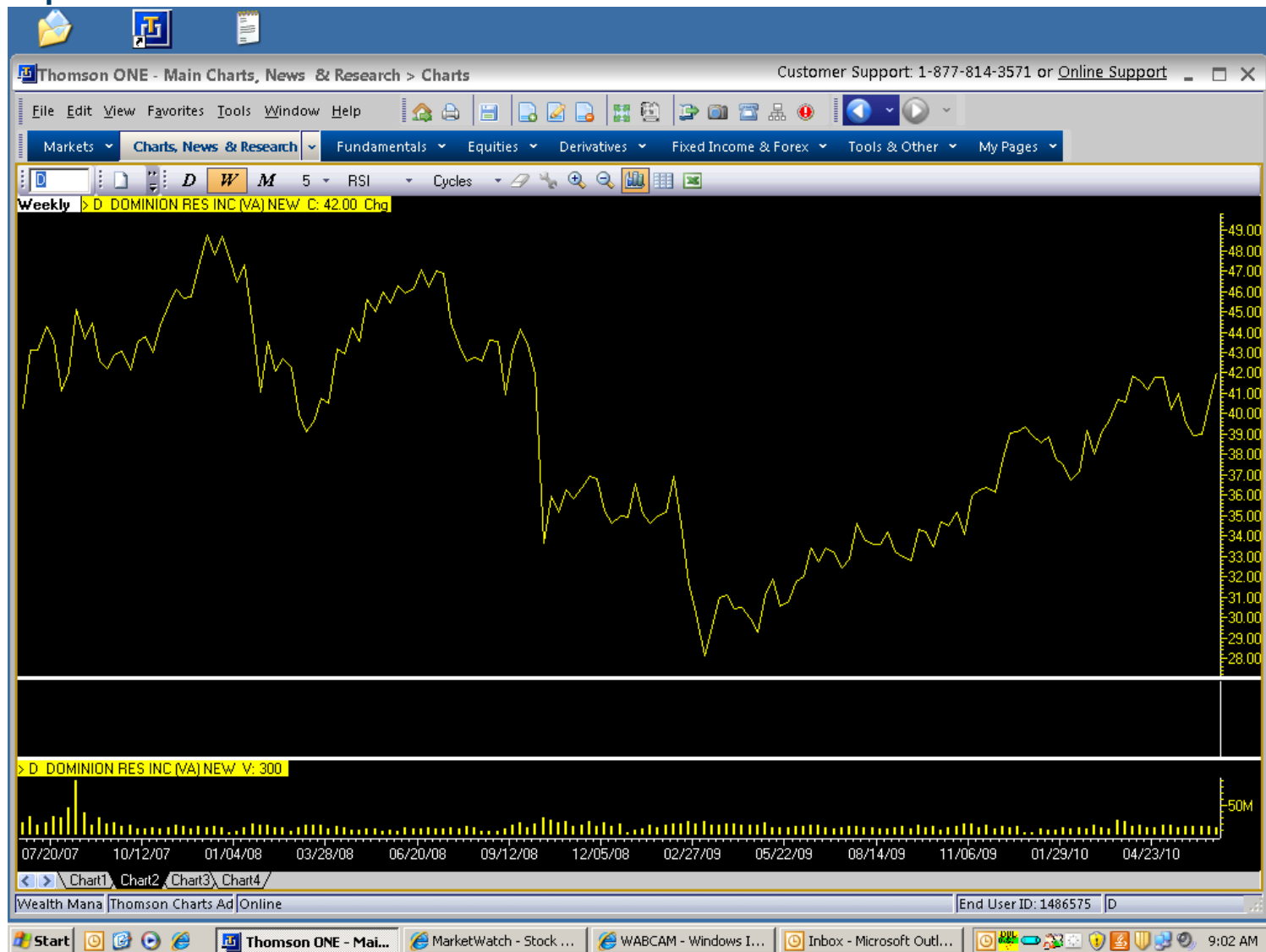


EQUITY RESEARCH

Dominion Resources
(in millions, except per share data)

	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10e	3Q10e	4Q10e	FY10
Operating Revenue	\$4,510	3,388	\$3,623	\$3,617	\$4,168	\$3,396	\$3,679.00	\$3,625	\$15,048
Operating Expenses									
Electric fuel/other energy-related purchases	1,141	996	1,072	946	1,028	984	1,086	939	4,031
Purchased electric capacity	108	105	96	102	108	103	93	103	410
Purchased gas	952	339	279	560	792	351	284	561	2,054
Other operations & maintenance	773	773	709	937	1,068	762	705	942	3,198
Depreciation, depletion, & amortization	278	272	274	290	269	274	276	295	1,137
Other taxes	147	105	104	117	169	109	103	119	455
Total operating expenses	3,399	2,590	2,534	2,952	3,434	2,583	2,547	2,959	11,285
Income from operations	1,111	798	1,089	665	734	813	1,132	666	3,763
Other income	45	52	72	54	71	48	67	52	235
Income before interest & income taxes	1,156	850	1,161	719	805	861	1,199	718	3,998
Interest & related charges	223	221	217	232	183	232	218	225	903
Income before income taxes	933	629	944	487	622	629	981	493	3,095
Income taxes	364	219	348	108	295	242	373	109	1,115
noncontrolling interests		4	4	5	4	5	4	4	13
Operating Earnings	\$569	\$406	\$592	\$375	\$323	\$392	\$614	\$380	\$1,987
Operating Earnings per Share	\$0.97	\$0.68	\$0.99	\$0.63	\$0.96	\$0.65	\$1.01	\$0.64	\$3.26
Items excluded from operating earnings (net of taxes)	-321	48	2	-209	-149	29	-63	-185	-344
Reported Net Income	\$248	\$454	\$594	\$165	\$174	\$421	\$551	\$195	\$1,341
Reported Earnings Per Common Share-Diluted	\$0.42	\$0.76	\$1.00	\$0.28	\$0.29	\$0.74	\$0.92	\$0.33	\$2.79
Average shares outstanding, diluted	585.7	594	596.3	598.7	600.9	600.9	600.9	600.9	600.9

Important Disclosures



11/27/09 \$36.14 Initiate OUTPERFORM
6/18/10 \$42 Lower Rating to NEUTRAL

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Steven Marascia owns shares of Dominion Resources.

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