CAPITOL SECURITIES MANAGEMENT, INC.
EQUITY RESEARCH

May 25, 2017

CURRENT PRICE:	**$80.97**
RATING:	**HOLD**
PRICE TARGET:	**N/A**
CURRENT YIELD:	**3.7%**

EPS Estimates - Non-GAAP

	DEC 16A	DEC 17E
1Q	$0.96	$0.97A
2Q	$0.73	$0.72
3Q	$1.14	$0.97
4Q	$0.99	$0.83
	$3.80	**$3.49**

Trading Data

52-WEEK PRICE RANGE:	**$81.07-$69.51**
SHARES OUTSTANDING:	**628.1(M)**
MARKET CAP:	**$50,857(M)**
AVG. DAILY TRADING VOLUME:	**2.28(M)**
S&P 500:	**2,415**

Valuation Data

BOOK VALUE:	**$23.61**
PRICE TO BOOK:	**3.4x**
DIVIDEND:	**$3.02**

Dominion Resources (NYSE: D)

Reports 1Q17 earnings results

Highlights

- 1Q17 operating earnings $0.97/share vs. $0.96/share during 1Q16
- Business model moving towards natural gas opportunities
- Annual dividend raised 8%
- 2017 operating earnings guidance of $3.40-$3.50/share
- Maintain HOLD rating

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 (DVP) operates D's regulated electric distribution, transmission and un-regulated retail business (gas & electric). The electric distribution business provides electricity to 2.5 million customers in VA/NC. Dominion Generation (DG) operates the electric generation plants for D. Dominion Energy (DE) operates the natural gas pipeline/storage business, a liquefied natural gas terminal at Cove Pt. Maryland, and Dominion East Ohio. D recently purchased Questar. On a combined basis, D now has 2.3 million natural gas utility customers in OH, UT, WV, & WY, 1.3 million retail energy/energy related customer accounts in 13 states, 14,400 miles of gas gathering/storage/transmission pipelines and 51,000 miles of gas distribution pipelines. Also, D owns 6,500 miles of electric transimission lines and 25,700 MW of electrical production in 11 states. Since 2003 the d has grown its dividend from $1.29/share to $3.02/share and operating earnings for 2016 improved to $3.80/share from $3.43/share during 2014.

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

Recent Earnings

D reported 1Q17 operating earnings of $0.97/share vs. $0.96/share during 1Q16. The higher results came from increased revenues from regulated growth projects, lower electric capacity expense, and the addition of Dominion Questar. Partly offsetting these improvements were milder weather in D's service territory, a reduction of Cove Point import contract revenues, and lower solar investment tax credits. Operating revenues rose to $3.38 billion from $2.92 billion and operating expenses increased to $2.26 billion from $2.04 billion. Operational income increased to $1.13 billion from $882 million and EBIT improved to $949 million from $710 million. 1Q17 GAAP earnings rose to $1.01/share from $0.88 million during 1Q17.

SEGMENT RESULTS

DVP reported operating income of $252 million vs. $246 million when comparing 1Q17 and 1Q16. The impact of mild weather was offset by higher weather normalized sales/revenues and higher than anticipated earnings from the electric transmission business. While quarterly revenues decreased slightly to $559 million from $561 million, this was more than offset by a decline in operating expenses to $307 million from $315 million. Purchased gas expense fell $28 million ($116 million vs. $144 million) while DD&A increased $15 million ($145 million vs. $130 million) and other taxes rose $5 million ($45 million vs. $40 million). Adjusted EBITDA improved to $414 million from $385 million. DVP's contribution to overall earnings was flat at $0.20/share when comparing the two quarters.

Total delivered electrical GWh decreased 2% to 19,927 GWh from 20,335 GWh. This occurred due to decreases in Residential (-5.5%) and Industrial (-3.4%). These were partly offset by increases in Government/Others (+5.5%) and Commercial (0.3%). Resale of Wholesale retail was flat at 5 GWh.

DE's 1Q17 operating income rose to $403 million from $282 million, during 1Q16, as revenues increased to $1.17 billion from $663 million and more than offset the rise of operating expenses to $764 million from $381 million. The increase in operating expenses came from electric fuel/other energy-related purchases ($5 million vs. $2 million), purchased gas ($301 million vs. $114 million), other operations/maintenance ($256 million vs. $141 million), DD&A ($124 million vs. $64 million), and other taxes ($78 million vs. $60 million). Adjusted EBITDA improved to $582 million from $377 million. DE's contribution to overall earnings rose to $0.42/share vs. $0.30/share. DE's results include results from Questar's gas-related units.

Total regulated gas revenues increased to $454 million from $65 million and regulated gas transportation/storage revenues rose to $181 million from $158 million. Natural gas deliveries rose 42.2% to 243,689 mmcf due to larger results from Residential (+49.2%), Commercial (+93.5%), Industrial (+31.2%), and Other (+18.7%).

DG reported operating income of $485 million during 1Q17 vs. $430 million during 1Q16. The impact of mild weather was more than offset by higher weather normalized sales/revenues, lower operating/maintenance expenses, and higher margins from merchant plants. Revenues decreased to $1.66 billion from $1.70 billion while operating expenses fell to $1.17 billion from $1.27 billion.

The decline in operating expenses was attributable to decreases in electric fuel/other energy related purchases (-$66 million) and excess electricity (swinging to +$17 million from -$68 million). These positives were partly offset by higher costs in other operations/maintenance (+$15 million), DD&A (+$32 million), and other taxes (+$7 million). Adjusted EBITDA increased to $695 million from $610 million. DG's contribution to overall earnings was flat at $0.41/share. Total electric sales to NEPool decreased to 4,624 GWh from 4,653 GWh while sales to the PJM Merchant Fleet rose to 2,189 GWh from 1,940 GWh.

MEETING WITH MANAGEMENT

We recently met with D's management to review the company's operating strategy and goals. D sees several potential catalysts during the next few years. First, Connecticut legislation could allow the sale of half of D's ownership in the Millstone Plant and determine what price D would get from selling electricity in that state. Second, the Cove Point LNG facility could add $600 million -$800 million in EBITDA in its first full year of operations. Assuming this facility receives final FERC approval then the building of this plant is expected to be completed and fully operational by the end of 2017 and commercially operational during 2018. Third, the cash flow contribution from D's related MLPs may allow an annual 8% increase in its common stock dividend.

D continues forward with its plans for the Atlantic Coast Pipeline. This pipeline will provide gas to the mid-Atlantic area from the Marcellus Shale gas region. Management believes if all regulatory issues are successfully navigated then the pipeline may begin construction in 2H17 with potential completion by 2H19. Management estimates the development costs could be $5.0 billion -$5.5 billion and has the potential to add $2.5 billion of additional EBITDA.

The recent acquisition of Questar allows D to access natural gas region in the Rockies and the western US gas markets. Additionally, it allows D to send natural gas west towards the California market and receive various toll fees. Potentially, D could add Questar's non-regulated assets, along with other pipeline/storage and solar assets into Dominion Energy Midstream Partners (DM).

D, having majority ownership in DM, benefits from the cash flow of this entity. Thus, increases in DM's operating results will flow to D's balance sheet. D anticipates DM's cash flow could grow 22% through 2H18. DM owns all

the outstanding preferred equity interests in Dominion Cove Point LNG LP, Dominion Carolina Gas, and a 26% in Iroquois Pipeline. Management may put other non-regulated assets into DM in the future.

D estimates operating earnings per share could grow 6%-8% per year, on a compound annual growth rate basis, from 2017-2020, if the company successfully executes its strategic growth plans. This may allow management to raise the common stock dividend approximately 8% annually from 2018-2020.

RECENT DEVELOPMENTS

Following regulatory approval, D completed its acquisition of Questar. This acquisition gives D natural gas pipelines/transportation/storage facilities, and a LDC in Rocky Mountain region thereby expanding its energy footprint into the Western US. Additionally, these assets allows D the potential to expand its business opportunities in the California Energy market. The Questar pipeline was subsequently purchased by Dominion Midstream Partners (DM) for approximately $1.73 billion and should be immediately accretive to DM's cash flow. D has a majority equity ownership in DM.

Given the acquisition of Questar's, and D moving into the Western US energy markets, the company is changing its name to Dominion Energy and will maintain the same NYSE listing symbol (D).

The Board of Directors increased the common stock annual dividend from $2.80/share to $3.02/share.

D announced a clean energy plan designed to increase its solar energy generation capabilities by signing contracts involving 900 MW of utility-scale solar projects owned by third-parties over the next five years.

A Federal judge ruled the Dominion VA Power violated the Clean Water Act due to arsenic created by its coal ash storage sites in Chesapeake VA, and seepage into nearby water ways. The judge ordered more tests by D in order to move towards a remediation plan.

Our Thoughts

D reported 1Q17 operating earnings of $0.97/share vs. $0.96/share during 1Q16. The improvement came from increased revenues from regulated growth projects, lower electric capacity expense, and the addition of Dominion Questar. Partly offsetting these improvements were milder weather in D's service territory, a reduction of Cove Point import contract revenues, and lower solar investment tax credits. 1Q17 GAAP earnings rose to $1.01/share from $0.88 million during 1Q17. The recent acquisition of Questar, adding regulated and non-regulated assets in the Western US, will expand D's geographic footprint and provide an opportunity to enter new energy markets and generate additional profits. Additionally, DM's cash flow contribution to D's balance sheet could generate annual earnings growth of 6%-8% from 2017-2020 and increase the common stock dividend. During the 1Q17 earnings call D provided 2017 operating earnings guidance of $3.40-$3.50/share. We continue to rate D a HOLD given its relative high book value per share of 3.4x book, one of the highest in the utility sector, and trading at 23.2x our 2017 earnings estimate of $3.49/share.

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.

Steven F. Marascia
Director of Research
Capitol Securities Management
804-612-9715

Dominion Resources
(in millions, except per share data)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17e	3Q17e	4Q17e	2017e
Operating Revenue	$2,921	$2,598	$3,132	$3,086	$3,384	$3,316	$3,584	$3,328	$13,612
Operating Expenses									
Electric fuel/other energy-related purchases	634	551	606	542	575	632	658	546	2,411
Purchased electric capacity	68	45	6	8	-17	18	12	22	35
Purchased gas	119	56	77	207	305	256	215	223	999
Other operations & maintenance	632	931	765	931	738	878	926	865	3,407
Depreciation, depletion, & amortization	360	447	400	369	469	392	457	398	1,716
Other taxes	159	148	145	125	189	144	154	147	634
Total operating expenses	1,972	1,817	1,987	2,267	2,259	2,320	2,362	2,201	9,142
Income from operations	949	781	1,145	819	1,125	996	1,222	1,127	4,470
Other income	52	72	63	61	116	56	69	29	270
Income before interest & income taxes	1,001	853	1,208	880	1,241	1,052	1,291	1,156	4,750
Interest & related charges	224	239	250	295	292	298	298	302	1,190
Income before income taxes	777	614	958	585	949	754	993	854	3,550
Income taxes	198	152	230	94	275	264	348	299	1,186
noncontrolling interests	7	10	38	34	42	38	34	31	145
Operating Earnings	$572	$452	$690	$457	$611	$452	$611	$524	$2,198
Operating Earnings per Share	$0.96	$0.73	$1.14	$0.73	$0.97	$0.72	$0.97	$0.83	$3.49
Items excluded from operating earnings (net of taxes)	48	12	25	161	$21	$13	$105	$55	$194
Reported Net Income	$524	$440	$605	$618	$632	$439	$716	$579	$2,366
Reported Earnings Per Common Share-Diluted	$0.88	$0.71	$1.10	$0.99	$1.01	$0.74	$1.14	$0.92	$3.81
Average shares outstanding, diluted	598.2	617	626	627.1	628.1	628.1	628.1	628.1	628.1

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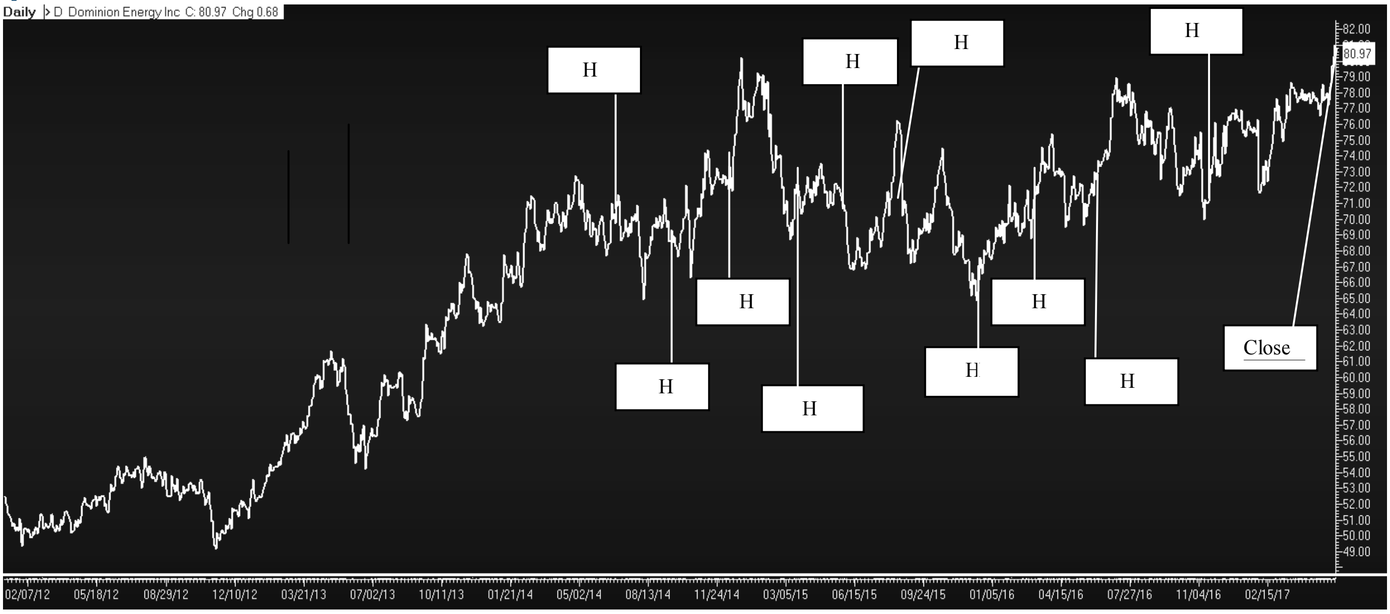
Important Disclosures



11/27/09 $36.14 Initiate BUY
6/18/10 $42 Lower Rating to HOLD
Ratings:
Buy: B
Hold: H
Sell: S

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Steven Marascia owns shares of Dominion Resources

Stock ratings used in this report are defined as follows:

(1) Buy – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
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Other Disclosures

For more information on this report, please contact us at 800.612.1484 or write to Capitol Securities, 100 Concourse Boulevard, Suite 101, Glen Allen, Virginia 23059