

VIRGINIA ELECTRIC & POWER CO
Form 8-K
January 06, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported) **December 31, 2005**

Virginia Electric and Power Company
(Exact Name of Registrant as Specified in Its Charter)

| | | |
|--|--|---|
| Virginia (State or other jurisdiction of incorporation) | 1-2255 (Commission File Number) | 54-0418825 (IRS Employer Identification No.) |
|--|--|---|

| | |
|--|----------------------------|
| 701 East Cary Street Richmond, Virginia (Address of Principal Executive Offices) | 23219 (Zip Code) |
|--|----------------------------|

Registrant's Telephone Number, Including Area Code **(804) 819-2000**

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.01 Completion of Acquisition or Disposition of Assets

On December 31, 2005, Virginia Electric and Power Company (Virginia Power) completed a transfer of its indirect wholly-owned subsidiary, Virginia Power Energy Marketing, Inc. (VPEM) to Dominion Resources, Inc. (Dominion), Virginia Power's parent company. Prior to the transfer, VPEM was a wholly-owned subsidiary of Virginia Power Services, LLC (VPS). The transaction was consummated through a series of dividend distributions of all of VPEM's common stock from VPS to Virginia Power, VPS's parent company, and subsequently from Virginia Power to Dominion. This resulted in a transfer of Virginia Power's negative investment in VPEM to Dominion in exchange for a capital contribution.

VPEM engages in price risk management activities on behalf of Dominion affiliates through the use of derivative contracts. Following the transfer, VPEM's results of operations will no longer be included in Virginia Power's consolidated financial statements and Virginia Power's consolidated financial statements for periods prior to the transfer will reflect VPEM as a discontinued operation.

Item 9.01. Financial Statements and Exhibits.

(b) Pro Forma Financial Information

On December 31, 2005, Virginia Power completed the transfer of its indirect wholly-owned subsidiary, VPEM, to Dominion, Virginia Power's parent company. The following unaudited pro forma condensed consolidated balance sheet of Virginia Power reflects the disposition of VPEM as if it had occurred on September 30, 2005. The accompanying unaudited pro forma condensed consolidated statements of income for the nine months ended September 30, 2005 and for the year ended December 31, 2004, reflect the disposition of VPEM as if it had occurred on January 1, 2005 and 2004, respectively.

The pro forma adjustments have been based on the operations of VPEM during the periods presented, the impact of the disposition of VPEM on December 31, 2005 and other transactions resulting from the disposition. The pro forma adjustments have been made to illustrate the anticipated financial impact of the disposition upon Virginia Power and are based upon available information and assumptions that Virginia Power believes to be reasonable at the date of this filing. Consequently, the pro forma financial information presented is not necessarily indicative of the consolidated results of operations that would have been reported had the transaction actually occurred on the dates presented.

VIRGINIA ELECTRIC AND POWER COMPANY
CONDENSED PRO FORMA CONSOLIDATED BALANCE SHEET
As of September 30, 2005
(Unaudited)

| | As Reported | Less: VPEM Disposition (millions) | Pro Forma Adjustments | Pro Forma Results |
|--|----------------|--|--------------------------|-------------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Derivative assets | \$ 3,355 | \$ 3,350 | \$ -- | \$ 5 |
| Other | 2,453 | 1,095 | 15 ⁽¹⁾ | 1,373 |
| Total current assets | 5,808 | 4,445 | 15 | 1,378 |
| Investments | 1,166 | (15) | (15) ⁽¹⁾ | 1,166 |
| Property, Plant and Equipment | | | | |
| Property, plant and equipment | 20,174 | -- | -- | 20,174 |
| Accumulated depreciation and amortization | (8,015) | -- | -- | (8,015) |
| Total property, plant and equipment, net | 12,159 | -- | -- | 12,159 |
| Deferred Charges and Other Assets | 1,410 | 727 | -- | 683 |
| Total assets | \$20,543 | \$ 5,157 | \$ -- | \$15,386 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | | | |
| Current Liabilities | | | | |
| Derivative liabilities | \$ 3,701 | \$ 3,700 | \$ -- | \$ 1 |
| Other | 3,037 | 1,080 | -- | 1,957 |
| Total current liabilities | 6,738 | 4,780 | -- | 1,958 |
| Long-Term Debt | | | | |
| Long-term debt | 3,773 | -- | -- | 3,773 |
| Affiliated long-term debt | 632 | -- | -- | 632 |
| Total long-term debt | 4,405 | -- | -- | 4,405 |
| Deferred Credits and Other Liabilities | | | | |
| Deferred income taxes and investment tax credits | 2,050 | (223) | -- | 2,273 |
| Derivative liabilities | 1,287 | 1,283 | -- | 4 |
| Other | 1,321 | -- | -- | 1,321 |

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| | | | | |
|---|----------|---------|-------|----------|
| Total deferred credits and other liabilities | 4,658 | 1,060 | -- | 3,598 |
| Total liabilities | 15,801 | 5,840 | -- | 9,961 |
| Preferred Stock Not Subject to Mandatory Redemption | 257 | -- | -- | 257 |
| Common Shareholder's Equity | | | | |
| Common stock - no par, 300,000 shares authorized; 198,047 shares outstanding | 3,388 | -- | -- | 3,388 |
| Other shareholder's equity | 1,097 | (683) | -- | 1,780 |
| Total common shareholder's equity | 4,485 | (683) | -- | 5,168 |
| Total liabilities and shareholder's equity | \$20,543 | \$5,157 | \$ -- | \$15,386 |

(1) Adjustment reflects the repayment of VPPEM's intercompany borrowings as of September 30, 2005 resulting from the transfer to Dominion.

VIRGINIA ELECTRIC AND POWER COMPANY
CONDENSED PRO FORMA CONSOLIDATED STATEMENT OF INCOME
Nine Months Ended September 30, 2005
(Unaudited)

| | As Reported | Less: VPEM Disposition (millions) | Pro Forma Results |
|--|-----------------|--|-------------------------|
| Operating Revenue | \$4,995 | \$579 | \$4,416 |
| Operating Expenses | | | |
| Electric fuel and energy purchases, net | 1,943 | -- | 1,943 |
| Purchased electric capacity | 355 | -- | 355 |
| Other purchased energy commodities | 658 | 631 | 27 |
| Other operations and maintenance - external | 1,274 | 755 | 519 |
| Other operations and maintenance - affiliated | 225 | 11 | 214 |
| Depreciation and amortization | 396 | -- | 396 |
| Other taxes | 132 | 1 | 131 |
| Total operating expenses | 4,983 | 1,398 | 3,585 |
| Income (loss) from operations | 12 | (819) | 831 |
| Other income | 55 | 3 | 52 |
| Interest and related charges | 231 | 11 | 220 |
| Income (loss) before income taxes | (164) | (827) | 663 |
| Income tax expense (benefit) | (60) | (307) | 247 |
| Net Income (Loss) | (104) | (520) | 416 |
| Preferred dividends | 12 | -- | 12 |
| Balance available for common stock | \$ (116) | \$ (520) | \$ 404 |

VIRGINIA ELECTRIC AND POWER COMPANY
CONDENSED PRO FORMA CONSOLIDATED STATEMENT OF INCOME
Year Ended December 31, 2004
(Unaudited)

| | As Reported | Less: VPEM Disposition (millions) | Pro Forma Results |
|--|----------------|--|-------------------------|
| Operating Revenue | \$5,741 | \$ 371 | \$5,370 |
| Operating Expenses | | | |
| Electric fuel and energy purchases, net | 1,750 | -- | 1,750 |
| Purchased electric capacity | 550 | -- | 550 |
| Other purchased energy commodities | 628 | 590 | 38 |
| Other operations and maintenance - external | 1,000 | 24 | 976 |
| Other operations and maintenance - affiliated | 276 | 13 | 263 |
| Depreciation and amortization | 496 | -- | 496 |
| Other taxes | 169 | 1 | 168 |
| Total operating expenses | 4,869 | 628 | 4,241 |
| Income (loss) from operations | 872 | (257) | 1,129 |
| Other income | 52 | 3 | 49 |
| Interest and related charges | 254 | 5 | 249 |
| Income (loss) before income taxes | 670 | (259) | 929 |
| Income tax expense (benefit) | 239 | (100) | 339 |
| Net Income (Loss) | 431 | (159) | 590 |
| Preferred dividends | 16 | -- | 16 |
| Balance available for common stock | \$ 415 | \$(159) | \$ 574 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**VIRGINIA
ELECTRIC
AND
POWER
COMPANY
Registrant**

/s/ Patricia A.
Wilkerson
Patricia A.
Wilkerson
Vice
President and
Corporate
Secretary

Date: January 6, 2006