

DOMINION RESOURCES INC /VA/
Form 8-K
July 09, 2007

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) July 2, 2007

DOMINION RESOURCES, INC.

(Exact Name of Registrant as Specified in Its Charter)

VIRGINIA
(State or other jurisdiction
of incorporation)

001-08489
(Commission File Number)

54-1229715
(IRS Employer
Identification No.)

120 TREDEGAR 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)

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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))
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Item 2.01 Completion of Acquisition or Disposition of Assets

In November 2006, we announced our decision to pursue the disposition of all of our oil and natural gas exploration and production (E&P) operations and assets, with the exception of those located in the Appalachian Basin. At December 31, 2006, our natural gas and oil assets excluding the Appalachian Basin included about 5.5 trillion cubic feet of proved reserves. The Appalachian assets that we will retain constituted approximately 15% of our total reserves at December 31, 2006.

In connection with this process, on July 2, 2007, we completed the sale to Eni Petroleum Co. Inc. (Eni Petroleum) of substantially all of our offshore E&P operations for approximately \$4.73 billion. Our offshore operations included approximately 967 billion cubic feet equivalent (bcfe) of proved natural gas and oil reserves in the outer continental shelf and deepwater areas of the Gulf of Mexico at December 31, 2006. Of this total, approximately 961 bcfe were sold to Eni Petroleum. Eni Petroleum's obligations under the agreement are guaranteed by its parent company, Eni S.p.A. Remaining offshore E&P operations were disposed of in a separate transaction at the end of June 2007.

Additionally, we have sold or entered into agreements to sell the following E&P operations:

- i On June 26, 2007, we completed the sale of our Canadian E&P operations to Paramount Energy Trust and Baytex Energy Trust for approximately \$624 million. These operations included approximately 267 bcfe of proved reserves in western Canada at December 31, 2006.

- i In June 2007, we reached an agreement to sell our E&P operations in the Alabama, Michigan and Permian basins to Loews Corporation for approximately \$4.025 billion. The transaction is expected to close by August 2007, subject to customary closing conditions and adjustments. These operations included approximately 2.5 trillion cubic feet equivalent (Tcfe) of proved reserves at December 31, 2006.

- i In June 2007, we reached an agreement to sell our E&P operations in the Gulf Coast, Rockies, South Louisiana and San Juan basin of New Mexico to XTO Energy, Inc. for approximately \$2.5 billion. The transaction is expected to close by August 2007, subject to customary closing conditions and adjustments. These operations included approximately 1 Tcfe of proved reserves at December 31, 2006.

- i In June 2007, we reached an agreement to sell our E&P operations in the Mid-Continent basin to Linn Energy, LLC for approximately \$2.05 billion. The transaction is expected to close by the end of the third quarter of 2007, subject to customary closing conditions and adjustments. These operations included approximately 780 bcfe of proved reserves at December 31, 2006.

With the announcement of the Mid-Continent sale in July, we have now sold or agreed to sell all of the E&P operations that we plan to divest. We have previously announced our intention to use the after-tax proceeds from these dispositions to reduce our outstanding debt by between \$3.2 billion to \$3.5 billion and to use the remaining net proceeds for repurchasing shares of our common stock.

Item 9.01. Financial Statements and Exhibits.

(b) Pro Forma Financial Information

In July 2007, we completed the sale to Eni Petroleum of substantially all of our offshore E&P operations for approximately \$4.73 billion. Additionally, we have sold or entered into agreements to sell the remainder of our non-Appalachian E&P operations. The following unaudited pro forma condensed consolidated balance sheet of Dominion Resources, Inc. (Dominion) reflects the disposition of all of our non-Appalachian E&P operations as if it had occurred on March 31, 2007. The accompanying unaudited pro forma condensed consolidated statements of income for the three months ended March 31, 2007 and for the year ended December 31, 2006, reflect the disposition of all of our non-Appalachian E&P operations as if it had occurred on January 1, 2007 and 2006, respectively.

The pro forma adjustments are based on the results of our non-Appalachian E&P operations during the periods presented, the impact of the disposition of these operations and other transactions resulting from the disposition. The pro forma adjustments have been made to illustrate the anticipated financial impact of the disposition upon Dominion and are based upon available information and assumptions that Dominion 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. Moreover, the pro forma financial information does not purport to indicate the future results that Dominion will experience.

DOMINION RESOURCES, INC.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

Three Months Ended March 31, 2007

(Unaudited)

| (millions, except per share amounts) | As Reported | Less: E&P Dispositions | Pro Forma Adjustments | Pro Forma Results |
|---|----------------|---------------------------|--------------------------|----------------------|
| Operating Revenue | \$ 4,712 | \$ 628 | \$ | \$ 4,084 |
| Operating Expenses | | | | |
| Electric fuel and energy purchases | 918 | | | 918 |
| Purchased electric capacity | 119 | | | 119 |
| Purchased gas | 1,148 | 36 | | 1,112 |
| Other energy-related commodity purchases | 56 | | | 56 |
| Other operations and maintenance | 857 | 146 | | 711 |
| Depreciation, depletion and amortization | 422 | 201 | | 221 |
| Other taxes | 184 | 39 | | 145 |
| Total operating expenses | 3,704 | 422 | | 3,282 |
| Income from operations | 1,008 | 206 | | 802 |
| Other income | 50 | | | 50 |
| Interest and related charges | 259 | | (63) ⁽¹⁾ | 196 |
| Income from continuing operations before income tax expense and minority interest | 799 | 206 | 63 | 656 |
| Income tax expense | 313 | 75 | 25 ⁽²⁾ | 263 |
| Minority interest | 5 | | | 5 |
| Income from continuing operations | \$ 481 | \$ 131 | \$ 38 | \$ 388 |
| Earnings Per Share | | | | |
| Income from continuing operations | Basic | \$ 1.38 | | \$ 1.32 |
| Income from continuing operations | Diluted | \$ 1.37 | | \$ 1.31 |
| Weighted average shares outstanding | Basic | 348.4 | (55.0) ⁽³⁾ | 293.4 |
| Weighted average shares outstanding | Diluted | 350.8 | (55.0) ⁽³⁾ | 295.8 |

- (1) Represents the decrease in interest expense expected to result from the repayment of \$3.4 billion in debt with a portion of the expected proceeds from the disposition of our non-Appalachian E&P operations (disposition). This amount is comprised of \$2.5 billion in long term debt being retired pursuant to our pending Offer to Purchase dated June 13, 2007 which is scheduled to expire on July 11, 2007; \$500 million of bank debt incurred at our Consolidated Natural Gas Company (CNG) subsidiary which was repaid prior to the merger of that subsidiary with and into Dominion, effective June 30, 2007; \$200 million of junior subordinated notes originally issued by CNG, which have been called for redemption on July 17, 2007 and \$200 million of senior notes originally issued by our and CNG's subsidiary Dominion Oklahoma Texas Exploration and Production, Inc., which were redeemed on June 29, 2007.
- (2) Reflects the income tax effects of the pro forma adjustments associated with the disposition of our non-Appalachian E&P operations based on the weighted average statutory rates for all jurisdictions that would have applied during the period.
- (3) Reflects our announced plan to repurchase 55 million shares at a price of not more than \$92 per share, with a portion of the proceeds received from the disposition.

DOMINION RESOURCES, INC.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31, 2006

(Unaudited)

| (millions, except per share amounts) | As Reported | Less: E&P Dispositions | Pro Forma Adjustments | Pro Forma Results |
|---|----------------|---------------------------|--------------------------|----------------------|
| Operating Revenue | \$ 16,482 | \$ 2,982 | \$ | \$ 13,500 |
| Operating Expenses | | | | |
| Electric fuel and energy purchases | 3,236 | | | 3,236 |
| Purchased electric capacity | 481 | | | 481 |
| Purchased gas | 2,937 | 409 | | 2,528 |
| Other energy-related commodity purchases | 1,022 | 165 | | 857 |
| Other operations and maintenance | 3,280 | 418 | | 2,862 |
| Depreciation, depletion and amortization | 1,606 | 743 | | 863 |
| Other taxes | 575 | 132 | | 443 |
| Total operating expenses | 13,137 | 1,867 | | 11,270 |
| Income from operations | 3,345 | 1,115 | | 2,230 |
| Other income | 174 | 2 | | 172 |
| Interest and related charges | 1,030 | 1 | (254) ⁽¹⁾ | 775 |
| Income from continuing operations before income tax expense and minority interest | 2,489 | 1,116 | 254 | 1,627 |
| Income tax expense | 920 | 408 | 99 ⁽²⁾ | 611 |
| Minority interest | 6 | | | 6 |
| Income from continuing operations | \$ 1,563 | \$ 708 | \$ 155 | \$ 1,010 |
| Earnings Per Share | | | | |
| Income from continuing operations Basic | \$ 4.47 | | | \$ 3.43 |
| Income from continuing operations Diluted | \$ 4.45 | | | \$ 3.41 |
| Weighted average shares outstanding Basic | 349.7 | | (55) ⁽³⁾ | 294.7 |
| Weighted average shares outstanding Diluted | 351.6 | | (55) ⁽³⁾ | 296.6 |

- (1) Represents the decrease in interest expense expected to result from the repayment of \$3.4 billion in debt with a portion of the expected proceeds from the disposition of our non-Appalachian E&P operations. This amount is comprised of \$2.5 billion in long term debt being retired pursuant to our pending Offer to Purchase dated June 13, 2007 which is scheduled to expire on July 11, 2007; \$500 million of bank debt incurred at our CNG subsidiary which was repaid prior to the merger of that subsidiary with and into Dominion, effective June 30, 2007; \$200 million of junior subordinated notes originally issued by CNG, which have been called for redemption on July 17, 2007 and \$200 million of senior notes originally issued by our and CNG's subsidiary Dominion Oklahoma Texas Exploration and Production, Inc., which were redeemed on June 29, 2007.
- (2) Reflects the income tax effects of the pro forma adjustments associated with the disposition of our non-Appalachian E&P operations based on the weighted average statutory rates for all jurisdictions that would have applied during the period.
- (3) Reflects our announced plan to repurchase 55 million shares at a price of not more than \$92 per share, with a portion of the proceeds received from the disposition.

DOMINION RESOURCES, INC.

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

As of March 31, 2007

(Unaudited)

| (millions) | As Reported | Less: E&P Dispositions | Pro Forma Adjustments | Pro Forma Results |
|---|----------------|---------------------------|--------------------------|----------------------|
| ASSETS | | | | |
| Current Assets | \$ 7,264 | \$ 94 | \$ 13,801 ⁽¹⁾ | \$ 11,952 |
| | | | (5,060) ⁽²⁾ | |
| | | | (3,613) ⁽³⁾ | |
| | | | (346) ⁽⁴⁾ | |
| Investments | 3,853 | 7 | | 3,846 |
| Property, Plant and Equipment | | | | |
| Property, plant and equipment | 44,404 | 9,403 | | 35,001 |
| Accumulated depreciation, depletion and amortization | (14,570) | (201) | | (14,369) |
| Total property, plant and equipment, net | 29,834 | 9,202 | | 20,632 |
| Deferred Charges and Other Assets | 7,624 | 883 | (263) ⁽⁴⁾ | 6,478 |
| Total assets | 48,575 | 10,186 | 4,519 | 42,908 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| Current Liabilities | 10,960 | 334 | (732) ⁽³⁾ | 13,653 |
| | | | 3,759 ⁽⁴⁾ | |
| Long-Term Debt | | | | |
| Long-term debt | 12,371 | | (2,468) ⁽³⁾ | 9,903 |
| Junior subordinated notes payable | 1,950 | | (206) ⁽³⁾ | 1,744 |
| Total long-term debt | 14,321 | | (2,674) | 11,647 |
| Deferred Credits and Other Liabilities | | | | |
| Deferred income taxes and investment tax credits | 5,944 | | (2,101) ⁽⁴⁾ | 3,843 |
| Other | 4,103 | 352 | | 3,751 |
| Total deferred credits and other liabilities | 10,047 | 352 | (2,101) | 7,594 |
| Total liabilities | 35,328 | 686 | (1,748) | 32,894 |
| Minority Interest | 27 | | | 27 |
| Subsidiary Preferred Stock Not Subject to Mandatory Redemption | 257 | | | 257 |
| Common Shareholders Equity | | | | |
| Common stock no par | 11,344 | | (5,060) ⁽²⁾ | 6,284 |
| Other | 1,619 | 9,500 | 11,327 | 3,446 |
| Total common shareholders equity | 12,963 | 9,500 | 6,267 | 9,730 |
| Total liabilities and shareholders equity | \$ 48,575 | \$ 10,186 | \$ 4,519 | \$ 42,908 |

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- (1) Represents expected net cash proceeds of \$13.8 billion from the disposition.
- (2) Reflects the impact of our announced plan to repurchase 55 million shares at a price of not more than \$92 per share, with a portion of the proceeds received from the disposition.
- (3) Reflects the impact of the use of a portion of the proceeds from the disposition to decrease our outstanding debt. This primarily reflects \$2.5 billion in long term debt being retired pursuant to our pending Offer to Purchase dated June 13, 2007 which is scheduled to expire on July 11, 2007; \$500 million of bank debt incurred at our CNG subsidiary which was repaid prior to the merger of that subsidiary with and into Dominion, effective June 30, 2007; \$200 million of junior subordinated notes originally issued by CNG, which have been called for redemption on July 17, 2007 and \$200 million of senior notes originally issued by our and CNG's subsidiary Dominion Oklahoma Texas Exploration and Production, Inc., which were redeemed on June 29, 2007. This amount also includes any related accrued interest and call premiums.

- (4) Represents the estimated reversal of historic deferred taxes on the properties sold as of March 31, 2007, and the assumed current income taxes payable associated with the gain on sale calculated using the estimated weighted average statutory rates for all applicable jurisdictions.

DOMINION RESOURCES, INC.

NOTES TO CONDENSED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Nonrecurring items related to the dispositions

The following nonrecurring items resulting from the disposition of our non-Appalachian E&P operations have not been reflected in the accompanying condensed pro form consolidated statements of income:

The disposition of our non-Appalachian E&P operations will result in an initial pre-tax charge of approximately \$580 million, which will be reported in our second quarter 2007 earnings. This reflects the discontinuance of hedge accounting for certain cash flow hedges related to our non-Appalachian E&P operations since it became probable that the forecasted sales of gas and oil will not occur. In connection with the discontinuance of hedge accounting for these contracts, we will reclassify approximately \$580 million of pre-tax losses from AOCI to earnings. We have entered into offsetting positions for these gas and oil derivatives that will minimize the volatility that would have resulted from these contracts being marked to market through earnings.

As a result of the disposition of certain of our onshore E&P operations to Loews Corporation and XTO Energy, Inc., we expect to pay approximately \$249 million in connection with the termination of certain volumetric production payment agreements through which we had sold a fixed-term overriding royalty interest in certain of our natural gas reserves. The termination of these contracts will result in a pre-tax charge of approximately \$139 million. We are retaining the repurchased fixed-term overriding royalty interests formerly associated with the volumetric production payment agreements.

We expect to recognize a pre-tax gain of between approximately \$4.0 billion to \$4.5 billion from the disposition of our non-Appalachian E&P operations. This includes expenses related to the disposition plan of between approximately \$150 million and \$175 million. These expenses include cash expenditures for transaction costs, including employee-related, legal and other costs. These amounts are exclusive of costs associated with the discontinuance of hedge accounting and termination of volumetric production payments described above. The actual gain will depend on the book values of the disposed properties and related liabilities at the closing date.

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.

DOMINION RESOURCES, INC.
Registrant

/s/ Steven A. Rogers
Steven A. Rogers
Senior Vice President and

Chief Accounting Officer

Date: July 9, 2007