Vepco

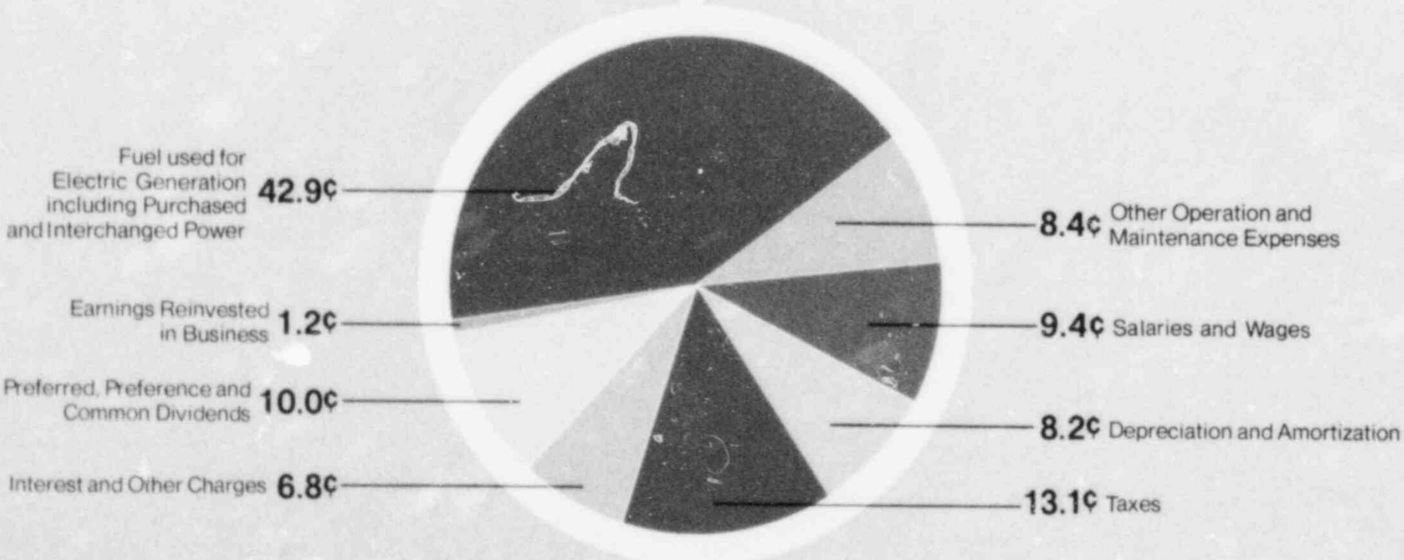
1979 Annual Report

8004010275

1979 Highlights

	1979	1978	Increase (Decrease)	% Increase (Decrease)
Financial				
Total Operating Revenues	**$1,703,309,000**	$1,464,905,000	$238,404,000	16.3
Total Operating Expenses	**$1,386,915,000**	$1,159,630,000	$227,285,000	19.6
Net Income	**$ 196,467,000**	$ 203,864,000	$ (7,397,000)	(3.6)
Balance Available for Common Stock	**$ 141,344,000**	$ 150,276,000	$ (8,932,000)	(5.9)
Average Shares of Common Stock Outstanding	**86,965,000**	80,060,000	6,905,000	8.6
Stockholders—Common, Preferred and Preference	**195,100**	180,800	14,300	7.9
Earnings Per Share of Common Stock	**$1.63**	$1.88	$(.25)	(13.3)
Dividends Per Share of Common Stock	**$1.38**	$1.30	$.08	6.2
Book Value Per Share of Common Stock	**$18.65**	$19.09	$(.44)	(2.3)
Capital Expenditures	**$ 708,756,000**	$ 529,186,000	$179,570,000	33.9
Sales of Long-Term Securities	**$ 407,198,000**	$ 439,489,000	$ (32,291,000)	(7.3)
Operations				
System Output—Megawatt-hours (thousands)	**40,484**	39,968	516	1.3
Capability—Megawatts	**9,999**	9,999	—	—
Service Area Peak Load—Megawatts	**7,929**	7,805	124	1.6
Customers—Electric—Heating	**296,234**	261,899	34,335	13.1
—Other	**1,012,866**	1,008,001	4,865	.5
Total Electric	**1,309,100**	1,269,900	39,200	3.1
Customers—Gas	**118,600**	119,300	(700)	(.6)
Average Residential Use—Electric—Kilowatt-hours	**10,721**	11,099	(378)	(3.4)
Employees—Full Time	**9,625**	9,382	243	2.6

Disposition of the 1979 Revenue Dollar



To Our Stockholders:

While there were some grounds for optimism, 1979 was a difficult year for Vepco and the Company's operating results for the year reflect it.

Revenues increased from $1.46 billion in 1978 to a record $1.7 billion, but net income was down from $203.9 million to $196.5 million.

A decline in earnings per share from $1.88 in the previous year to $1.63 in 1979 resulted from the cumulative effect of four factors: outages of existing nuclear units, delay in obtaining an operating license for a new nuclear unit, inadequate rate relief and the addition of over 6 million average shares of common stock last year.

Dividend Rate Increased

At its May meeting, the Board of Directors voted to raise the quarterly dividend rate on common stock from 33 cents to 35 cents per share, increasing the annual dividend from $1.32 to $1.40.

We believe that continued improvement in dividends is imperative, and the Company is committed to raising the dividend rate as earnings permit. We believe also that dividends should provide a fair return on the book value of our common stock, not just the market value, and we are dedicated to achieving this goal as well.

Rate relief, expected early in the year, was delayed several months, and as a result the substantial increases in operating revenues were almost entirely offset by increased costs—particularly the cost of fuel. Most of the additional fuel cost resulted from two factors. The first was the unanticipated, and we believe unnecessary, outages of our major operating nuclear units as a result of actions by the Nuclear Regulatory Commission in the wake of the Three Mile Island nuclear accident. The second was the delay in granting the operating license for North Anna Unit 2, which was essentially ready for startup last summer.

The only bright spot in the fuels situation was that the power purchases necessitated by these events were primarily from adjacent coal burning utilities, and the cost per kilowatt-hour was less than it would have been if the power had been generated by our oil burning facilities.

Uranium Litigation Settled

Other encouraging developments during the year were the settlement of the uranium supply contract litigation with Westinghouse Electric Corporation in June, together with an agreement on the repairs to the steam generators and turbine generators of Surry Units 1 and 2.

The uranium settlement provides for payment to the Company of cash, and for discounts on uranium deliveries and goods and services having a present value at the time of settlement of over $380 million. This amount equaled the value of the uranium contracts under litigation if they had been fully performed by Westinghouse. In July, $99.7 million in cash was received and another $41 million was received on February 1, 1980 under the settlement agreements.

In spite of a national downturn in the economy, the Company's customer growth was sustained with the net addition of almost 40,000 electric customers with nearly 87% having heat pumps or electric heat.

The Effects of Three Mile Island

The event with the most significant impact on the Company during the year was the nuclear accident at Three Mile Island in March. That event and its repercussions continue to have a profound effect on Vepco and on much of the electric utility industry.

Prior to Three Mile Island, the future of the nuclear industry in general, and that of Vepco in particular, looked bright. Performance of nuclear units nationwide in 1978 was the best ever, and the Nuclear Regulatory Commission appeared to be overcoming the problems of a newly created agency. In addition, it appeared that the President was about to formulate a workable policy on nuclear waste disposal sites.

At Vepco, three nuclear units were in operation in 1978 and a fourth, North Anna Unit 2, was expected to be licensed in a few months.

Nuclear Units Delayed

Following the Three Mile Island accident, the Nuclear Regulatory Commission placed a moratorium on the issuance of new nuclear licenses and has continued to keep that moratorium in effect. As a result, our North Anna Unit 2 is still not in operation as of the date of this report.

In addition, the NRC ordered early in 1979 that certain nuclear units be removed from service for reanalysis of their ability to withstand a severe earthquake. Our Surry Unit 1 had to be taken out of service in order to meet this requirement, and various changes in the NRC requirements kept it out of service until October. Our Surry Unit 2 was out of service for replacement of its steam generators at the time of the NRC order. Unit 2 will probably not be back in operation until spring of 1980 even though the steam generator work has been completed. This delay is a result of requirements, unrelated to the steam generators, that the NRC issued in 1980.

These nuclear outages also disrupted maintenance schedules on other generating units, all of which adversely affected internal generating capabilities during periods of heavy

loads. We have attempted to overcome these problems by upgrading maintenance levels and putting in place a more comprehensive preventive maintenance program. These steps are designed to improve plant operation and reliability in the future and to reduce our fuel costs.

Oil Units Converted to Coal

To further reduce fuel costs, we are also converting oil fired units on our system to coal as rapidly as possible. In 1979, Portsmouth Unit 4 (233 Mw) was converted back to coal. Four additional units totaling 638 Mw are scheduled to be converted in 1980 and a 162 Mw unit in 1982.

Two developments that we announced in the fall could have a major effect on our future cash position as well as our generating mix, and they provide some grounds at this point for optimism about the future.

The first of these is the likely sale of a portion of the Bath County Pumped Storage Project to another utility. Preliminary discussions have been held with both Allegheny Power System, Inc. and American Electric Power Company and they have indicated a strong interest in purchasing up to one-half of the Bath County Project facilities.

When we applied for the preliminary permit for the Bath County Project in April, 1971, our anticipated load growth was over 10% per year, and two more nuclear units were planned for operation prior to the completion of the pumped storage project.

Load Forecast Reduced

Today, our load forecast for the 1980's has been reduced to about 3% per year, and North Anna Units 3 and 4 have been delayed until after the Bath County Project goes into service in 1983-1984.

Stanley Ragone — T. Justin Moore, Jr.

We are in the process of arranging project financing for the remainder of the Bath County Project construction period through a financing trust until a sale takes place. At that time, the project would be transferred to a subsidiary.

The second significant development is a study we have initiated to determine the feasibility of converting North Anna Units 3 and 4 from nuclear to coal generation. The Company has no preconceived idea as to whether it will continue with the nuclear concept or convert these units to coal. The choice will be made on the basis of what economics are revealed by the study, and the answer will not be known until the study is completed this fall.

Challenges of the 80's

The decade of the 1980's will be a challenging one for Vepco, and for the electric utility industry. We are hopeful that 1980 will see the start-up of North Anna Unit 2 in the first half of the year, as well as improved operation of our other nuclear and coal fired units.

Recent developments in Iran and Afghanistan, as well as the drastic increases in the world price of crude oil, highlight the urgent need to reduce our nation's dependence on foreign oil. For the next 20 years, it is abundantly clear that much of the energy growth must come from coal and nuclear generation if there is to be an adequate supply. We remain committed to nuclear energy, and therefore, are taking every step possible to insure the efficiency and safety of our nuclear facilities.

We remain committed also to the need for conservation and the need to develop alternate sources of energy. New load management techniques, including experimental time-of-use rates, are expected also to help reduce the growth in peak loads in the near future.

We will continue also to search for innovative ways to reduce costs and improve efficiency, fight inflation, urge realistic regulations, seek adequate rates for our service, and to communicate more effectively with investors, customers, employees, government and the public at large.

Nationally, we hope the 1980's will be a period in which our country will finally unite in its effort to achieve energy self-sufficiency. In a troubled world that needs a strong America, we can settle for no less.

With the continuing loyalty of our employees and their dedication to the job of supplying electric power for the area's economic development, we are optimistic as we begin the new decade.

T. Justin Moore, Jr. Stanley Ragone

T. Justin Moore, Jr.
Chairman of the Board

Stanley Ragone
President


EARNINGS : DIVIDENDS RETAINED EARNINGS — COMMON STOCK PER SHARE
.77 1.95
.57½ 1.80
1.24 .68 1.92
1.30 .58 1.88
.25 1.63
AVERAGE SHARES OUTSTANDING — MILLIONS
75 60.9
76 68.1
77 74.0
78 80.1
79 87.0
REVENUES — MILLIONS OF DOLLARS
1,033
1,104
1,359
1,465
1,703
NET INCOME — MILLIONS OF DOLLARS
154.7
166.8
189.8
203.9
196.5
CAPITAL EXPENDITURES — MILLIONS OF DOLLARS
432.1
481.6
569.1
529.2
708.8
SALES OF ELECTRICITY — MILLIONS OF Kwh
31.5
34.1
35.5
37.1
37.6
FUEL EXPENSES-ELECTRIC INCLUDING PURCHASED AND INTERCHANGED POWER — MILLIONS OF DOLLARS
455.4
462.7
627.4
595.0
754.5

A decline in earnings per share from $1.88 in the previous year to $1.63 in 1979 resulted from the cumulative effect of four factors: outages of existing nuclear units, delay in obtaining an operating license for a new nuclear unit, inadequate rate relief and the addition of over 6 million average shares of common stock last year.

Revenues

Though kilowatt-hour sales in 1979 increased only 1% over 1978—an indication of conservation on the part of our customers as well as mild weather throughout the year—total operating revenues were up 16.3%, or $238.4 million to a record $1.7 billion. Rate relief provided $56.4 million of the increase while recovered fuel costs representing no profit accounted for $101.1 million.

Electric sales provided $1.648 billion and the sale of gas $55 million.

Expenses

Operating expenses amounted to $1.4 billion in 1979, a 19.6% increase over the comparable 1978 figure. Nuclear Regulatory Commission requirements kept the Company's nuclear units out of service during most of the year. Without economical nuclear generation, it was necessary to purchase more expensive fossil fuels for generation and to buy power from neighboring utilities to meet the needs of our customers. Fuel used in electric generation was up $101 million, excluding deferred fuel, while purchased and interchanged power expenses were up $185 million. Though the outages of the nuclear units necessitated the curtailment of maintenance on our fossil-fuel units, maintenance expenses increased $13.5 million.

Taxes totaled $174.4 million, up only 4.4% because of lower taxable income but some $33.1 million greater than the balance for common stock. State and local taxes amounted to $104.4 million of the total, including $60.9 million for gross receipts taxes and $28.5 million for property taxes.

Federal income taxes totaled $70.0 million, down 4.8% primarily because of increased operating costs resulting from substantial amounts of purchased power.

In addition, the Company collected from its customers $56.9 million in consumer utility taxes imposed by some 100 local governments without receiving any compensation for such services.

Fuel costs and purchased power represented 43% of the revenue dollar and 54% of total operating expenses.

Earnings and Dividends

The increase in operating revenues was more than offset by the increase in the cost of doing business, resulting in a decrease in both net income and in the balance available for common stock.

Earnings per average share of common stock outstanding at year-end were $1.63 or 25¢ less than the $1.88 earned in 1978 (when there were 6.9 million fewer shares outstanding) primarily the result of the outages of the licensed nuclear units, the need to purchase costly replacement power, and delays in the granting of rate relief.

Dividends paid on the common stock in 1979 amounted to $1.38 per share compared with $1.30 in 1978.

A tentative determination (which has not been reviewed by the Internal Revenue Service) indicates that 33.02% of the first quarter common stock dividends paid in 1979 and 91.95% of the second, third and fourth quarter dividends paid in 1979 constitute a return of capital and therefore are not taxable as dividend income under requirements of the Federal income tax laws. Such percentages may change based on a subsequent audit of the Company's Federal income tax returns.

Common Stock Prices and Dividends for the last two years were:

	High	Low	Dividends
1978			
First Quarter	14⅝	13½	$ .31
Second Quarter	14⅜	13½	.33
Third Quarter	15¾	14⅛	.33
Fourth Quarter	14¾	13⅝	.33
1979			
First Quarter	14¾	13	.33
Second Quarter	13½	12	.35
Third Quarter	13¼	11⅞	.35
Fourth Quarter	12¼	10⅝	.35

Electric Output

System electrical output rose a slim 1.3% in 1979 as mild weather and customer conservation reduced the growth of system load. Though the number of residential customers increased over 35,800, the average residential use of all customers declined 3.4%. The 1979 peak of 7,929 Mw, in August, was only 1.6% over the previous year's peak. A winter peak of 7,401 Mw, which occurred in February 1979, was surpassed in February 1980 when a peak of 7,445 Mw occurred. Increasing winter peaks and the more stable summer peaks continue a trend that is expected to make Vepco a winter peaking utility in the next few years. Generation from our nuclear units amounted to about half of that generated in 1978, because of outages discussed elsewhere in this report. The lack of nuclear generation necessitated the purchase of large amounts of power to meet customer needs. Purchased and interchanged power accounted for 18.9% of system output in 1979 compared to 2% in 1978. Nuclear generation contributed only 17.4% of system output in 1979, coal 26.7%, oil 34.2%, and hydro 2.8%.

Financing

The Company's service area remains one of the faster growing areas of the nation. The Company must continue its construction program to meet the growing needs of its customers. During 1979, $407.2 million in new capital was raised as shown in the following table:

		Millions of Dollars
First and Refunding Mortgage Bonds of 1979, Series A 10¼%, Due April 1, 2009		$100.0
First and Refunding Mortgage Bonds of 1979, Series B 9.95%, Due October 1, 2004		135.0
Common Stock:		84.2
Public Offering	$64.0	
Automatic Dividend Reinvestment Plan	12.9	
Employee Savings Plan	6.2	
Trasop	1.1	
$8.925 Dividend Preferred Stock		28.0
Intermediate Term Loans		60.0
TOTAL		$407.2

Rate Relief

The continuing increase in the cost of doing business required the Company to seek additional rate relief in 1979 from all of the rate making bodies having jurisdiction over its operations. Without adequate and timely rate relief, the ability to supply the energy needs of all classes of customers will be in jeopardy. In Virginia the Company received an annual increase in April of $148.1 million based on a 1977 test year—nearly $100 million less than the increase of $246 million based on a 1978 test year that had been requested. In addition, the Company has filed requests for $18 million to reflect 1978 costs under the annual review procedure in effect through 1978, and $46 million to reflect certain costs associated with the commercial operation of North Anna Unit 2. Hearings, which were not opposed by the Virginia Commission Staff, have been conducted and the Hearing Ex-

Touring financial analysts walk through huge access tunnel at Bath County Pumped Storage Project, and look down into powerhouse site at tunnel's mouth

aminer has recommended that the $18 million be granted.

In 1979, ratemaking procedures in Virginia entered a period of transition. As a result of legislation passed by the Virginia General Assembly in 1978 and 1979, the processes for establishing basic rates and for recovering fuel expenses have been changed.

Beginning in 1979, the Automatic Fuel Adjustment Clause was eliminated and replaced by a process in which utilities estimate their fuel expenses for the coming year. These estimates are reviewed in a public hearing before the State Corporation Commission in December and an order issued establishing rates for the coming year based on these estimates. During the year, quarterly hearings are held to review actual expenses as compared to the estimates, with provisions for adjustments when appropriate. At the end of the year, actual fuel expenses are compared with the estimates and adjustments made in the following year to assure that there is no over-recovery or under-recovery of prudently incurred expenses.

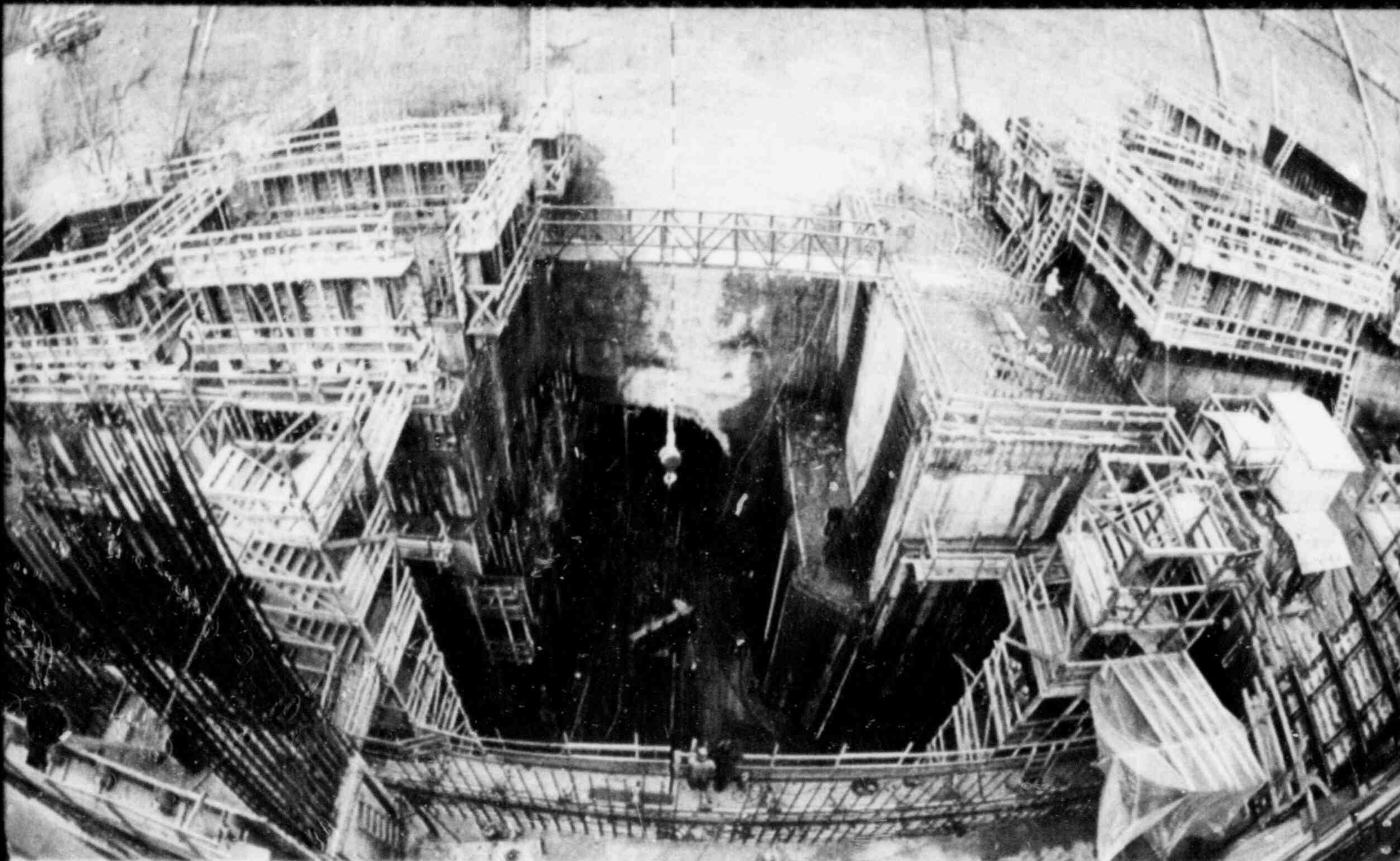
Though the Virginia Commission allowed adjustments at the quarterly hearings in 1979, at the time of our December hearing for the 1980 fuel factor the Company estimated an under-recovery of $65 million at year-end (actual $84 million) and the Commission provided for the recovery of this $65 million in 1980 in its order.

The procedure for setting basic rates also changed. The Commission now requires an annual financial review of each utility with a provision for prompt rate relief provided rates do not increase faster than the increase in the consumer price index or the President's anti-inflation guidelines. This procedure was tested in November in a proceeding in which the Commission approved 100% of our request for an increase in gas rates. The $3.6 million increase was well below the increase in the cost of living.

In late November, 1979, we reached an agreement with the city and county governments of Virginia that we serve at retail. The three-year contract that was negotiated provided about $10 million in additional revenue in 1979 with additional increases in July of 1980 and 1981. The agreement was effective July 1 and is subject to final acceptance by the individual local governments.

In July, 1979, the North Carolina Utilities Commission entered its order in the investigation, made at the request of the Governor of North Carolina, into why the Company's rates are higher than those of other major North Carolina electric utilities. The order directed a $1.6 million refund (subsequently increased to $2.9 million) and a $4.1 million annual rate reduction by the Company. That order was based upon Commission findings of inadequate maintenance at fossil-fired generating stations. The Company sought a stay of the order from the North Carolina Court of Appeals, which was granted on September 11, 1979. Briefs have now been filed and a decision is expected in late 1980. The Governor of North Carolina has publicly requested the Company to sell its North Carolina operations to another utility. The Company has stated that it has no interest in selling such facilities at this time.

The Company filed for a $3.7 million increase in West Virginia rates on February 2, 1979. The West Virginia Public Service Commission granted a $2.1 million increase based on a 9.95% rate of return—$1.6 million effective July 13, 1979 and $0.5 million effective March 15, 1980.



Construction continues on powerhouse unit at penstock tunnel's exit—one of six 350 Mw units being built at Bath County

Geographic Distribution End of Year

Common Stock	Owners	Shares
Virginia	37,549	14,333,775
New York	15,174	35,341,670
Florida	14,015	4,365,352
California	10,721	4,916,223
North Carolina	8,405	2,573,356
Illinois	7,912	3,243,380
Maryland	7,835	1,980,968
New Jersey	6,641	2,924,324
Massachusetts	5,768	3,476,563
Ohio	5,648	1,998,986
Michigan	4,938	1,330,251
Texas	4,111	1,732,555
Pennsylvania	3,707	1,549,566
Connecticut	3,393	1,300,136
Missouri	2,454	901,440
Wisconsin	2,441	645,895
South Carolina	2,220	660,269
17 States	142,932	83,274,709
33 Other States, D.C. and 37 Foreign Countries	27,502	9,599,403
TOTALS	170,434	92,874,112

Preferred and Preference Stocks	Owners	Shares
Virginia	7,564	732,075
North Carolina	2,260	472,562
Florida	1,967	292,906
New York	1,572	2,459,892
California	1,173	253,351
Maryland	1,046	169,354
South Carolina	817	154,306
Illinois	814	462,020
New Jersey	713	1,237,612
Ohio	675	110,469
West Virginia	515	41,266
Pennsylvania	504	239,614
Texas	480	152,042
Michigan	442	65,806
Massachusetts	413	177,962
Missouri	370	118,856
District of Columbia	349	52,877
16 States and D.C.	21,674	7,192,970
34 Other States and 8 Foreign Countries	3,002	1,417,942
TOTALS	24,676	8,610,912

Distribution of Ownership End of Year

Common Stock	Owners	Shares
Women	51,787	17,882,014
Men	49,717	14,217,495
Joint Accounts	45,589	10,504,094
Trust Accounts	18,448	3,799,514
Nominees	1,446	36,276,590
Institutions and Foundations	463	930,465
Brokers and Security Dealers	111	4,974,244
Others	2,873	9,289,696
TOTALS	170,434	92,874,112

Preferred and Preference Stocks	Owners	Shares
Women	8,378	785,843
Men	6,454	789,232
Joint Accounts	5,228	589,201
Trust Accounts	1,937	218,084
Nominees	814	2,027,314
Institutions and Foundations	145	1,571,517
Brokers and Security Dealers	75	33,936
Others	1,645	2,595,785
TOTALS	24,676	8,610,912

Investor Relations

Communication with our stockholders and the investment community continues to be of paramount importance. The opportunity to relate Vepco's story is always welcomed, and during 1979 your management made several appearances before members of the investment community. The Company was pleased to have a number of security analysts who follow the electric utility industry visit the Bath County Pumped Storage Project in the fall.

Since 1970 the number of our stockholders has increased from 59,000 to over 195,000. The confidence shown in Vepco by these investors is most gratifying.

Generating Facilities

Vepco remains firmly convinced that coal and nuclear power are essential if this nation is to meet its future energy needs. They are just as essential in the area served by Vepco and the Company has always planned for a balanced mixture of generation—nuclear, coal, oil and hydroelectric.

Nuclear

The unanticipated and largely unjustified shutdowns of Vepco's nuclear units by the Nuclear Regulatory

System operators monitor Vepco's generation, transmission and interconnection systems from new System Operation Center located in corporate headquarters.

Commission for varying times in 1979 were among the most significant factors in the soaring fuel costs experienced during the year and the cash flow problems that developed later in the period.

In March 1979 the NRC required that certain nuclear units be removed from service while seismic reanalyses were made of the piping systems to determine if they would withstand a severe earthquake. Surry Units 1 and 2 were included in this group of five plants, although Unit 2 was already out of service for the scheduled replacement of the steam generators.

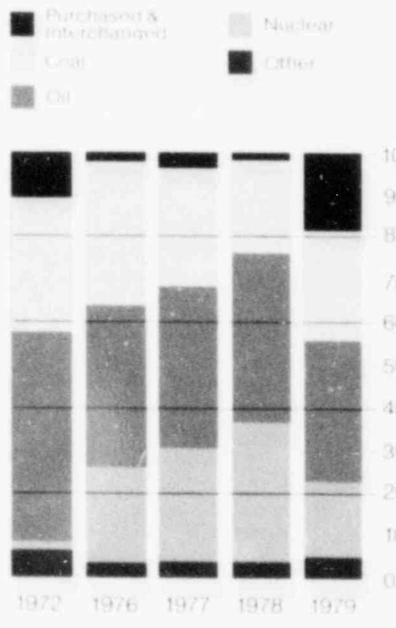
The NRC enlarged its requirements and Unit 1 was not permitted to be returned to service until October.

Although the Surry Unit 2 steam generator replacement was essentially completed in early December, the additional seismic reanalysis and modifications required by the NRC will likely extend the outage of this Unit until the spring of 1980. We are making every effort to obtain from the NRC permission to return the Unit to service and to complete the piping reanalysis with the Unit in operation just as we are doing on Surry Unit 1.

North Anna Unit 1 was taken out of service in September for a refueling and maintenance overhaul, at which time modifications required by the NRC as a result of the Three Mile Island accident were also made. The Unit resumed commercial operation in January 1980.

Because of the Three Mile Island accident last March, the NRC placed a moratorium on the issuance of new licenses and made it clear that it was not going to grant any licenses until the President's Commission issued its report in late October. We were pleased that the report did not recommend a moratorium and we hoped that the Commission would proceed promptly to issue the operating license for North Anna Unit 2 and the other new units in the nation that were awaiting operating licenses. Instead, the NRC, at a congressional hearing in November, stated it would continue the moratorium. The Governor of Virginia, the State Corporation Commission of Virginia, as well as members of the Virginia Congressional Delegation and some North Carolina Congressmen, have written the NRC requesting that they reconsider and rescind the license moratorium as it applies to North Anna Unit 2. It was pointed out that North Anna has an NRC approved evacuation plan and that the Company has met all NRC requirements and has agreed to comply with additional requirements imposed as a result of the Three Mile Island analysis. We hope that the NRC will at least let us proceed with fuel loading and low power testing of the Unit so that it may be brought into commercial operation as rapidly as possible when the license for full load operation is obtained.

Sources of Electric Energy — Percent



In October the Company began a study to determine the feasibility of converting North Anna Units 3 and 4 from nuclear to coal. The Company has no preconceived idea as to whether it will continue with the nuclear concept or change to the coal concept. Until the study is completed in 1980, the answer to this question is not known.

Despite increased costs from inflation and rapidly expanding regulation, and despite largely emotional attacks of anti-nuclear and anti-growth groups, nuclear power continues to demonstrate its ability to generate electric power at less cost than by coal or oil. The loss of this economic benefit was clearly demonstrated for Vepco customers in 1979 when energy costs rose significantly while the nuclear units were out of service. From $12 million to $15 million in additional energy costs must be passed on to our customers for each month that a nuclear unit is not in operation.

Coal

The soaring cost of oil and the uncertainties inherent in our nation's dependence on foreign oil have prompted us to convert several oil generating stations to coal. Vepco has already converted more generation from oil to coal than any other utility in the nation and has several other units that will be converted in the near future. However, despite the national emphasis on increased use of coal, government regulations have frequently delayed conversion efforts.

Though coal now produces 41% of the nation's total energy needs, U. S. coal production in 1979 was only 720 million tons (or less than 10%) above the 650 million tons mined three decades ago. Coal produced about 27% of the Company's energy supply in 1979.

In anticipation of increasing demand for coal as more units are converted from oil to coal at existing power stations, your Company initiated a study in 1979 to determine the feasibility of a coal slurry pipeline to transport Appalachian coal to Vepco's Virginia power stations. This new transportation system, if built, shows promise for reducing Vepco's fuel cost in the late 1980's while delivering supplemental water supplies to water-short areas of Virginia.

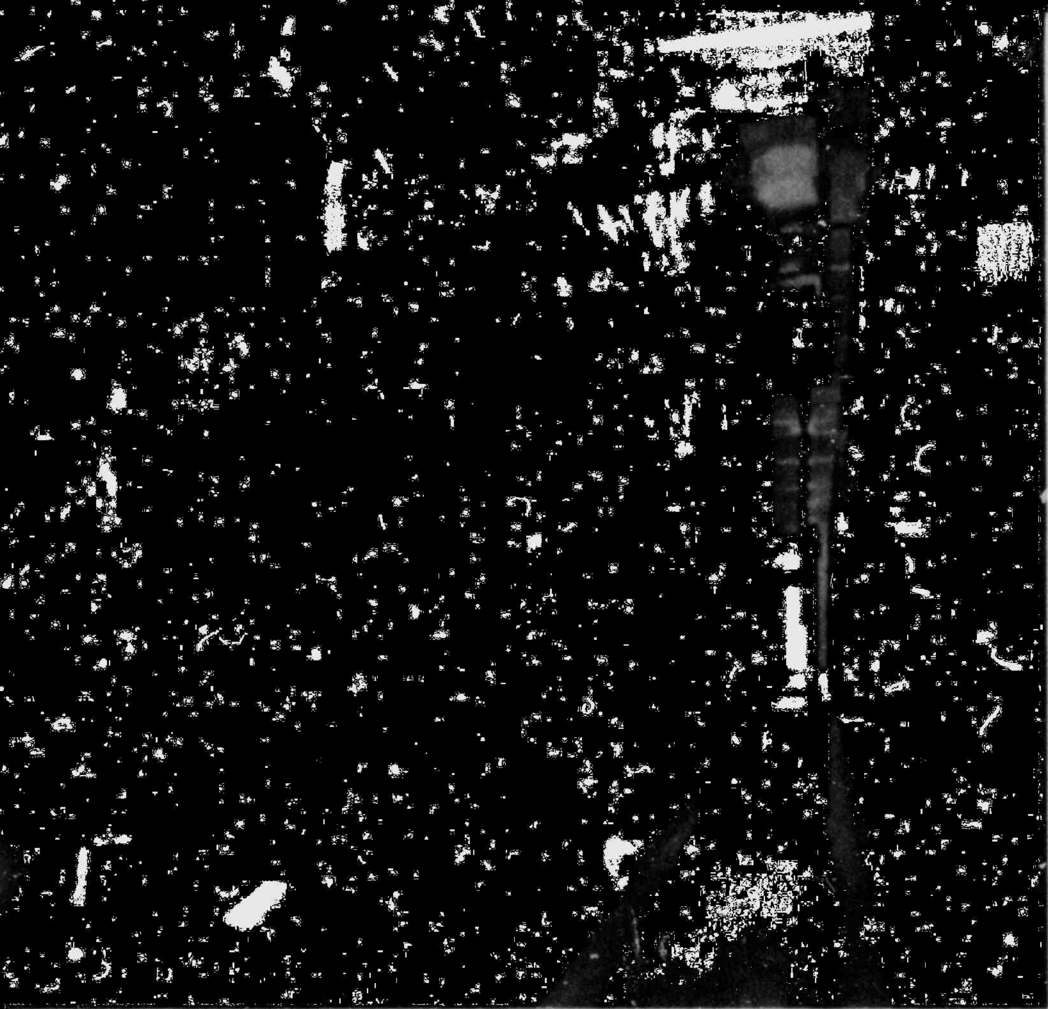
Bath County Pumped Storage Station

The demand for electric power is never constant. In a major move to more efficiently respond to these fluctuations, the Company is continuing construction of its Bath County Hydroelectric Pumped Storage Project. The Bath project, the largest of its kind in the world, will provide instantly available reserve capacity of huge amounts of electricity to meet peak demands. It will provide needed generation without over-building costly fuel burning stations that would be later under-utilized in periods when demand is low.

When the Bath project was originally conceived in 1971, the Company's load growth was over 10% per year and two more nuclear units were planned for operation prior to the completion of the Bath project. Rising costs and growing interest in conservation have steadily reduced forecast growth to about 3% per year.

The inflation rate today makes delays of the Bath project extremely costly. The Company therefore is probing the possibility of a sale of part of the station's generation to another utility so that Vepco can fully utilize the overall economic benefits of the project.

The transfer of the project to a new generating subsidiary and the employment of project financing would substantially reduce the Company's 1980



Mechanical order pickers in central warehouse greatly increase the efficiency of operations.

cash requirements. In today's inflation-riddled money markets, such a reduction in cash requirements will be of significant benefit to both the Company's stockholders and ratepayers.

Other Cost Efficiency Efforts

The Company took significant steps forward in efficiency in 1979 with:

- The operation of a new System Operations Center (SOC). The new center, a striking computer facility located at system headquarters in Richmond, is the new nerve center for controlling all the Company's power stations. It will also monitor the power as distributed over 4,600 miles of transmission lines and through 380 transmission substations. System operators, using a network of computers and communication equipment, maintain an around-the-clock surveillance of the integrity of the bulk power system. The SOC will also monitor generation and power demand and automatically provide the combination of generation—whether from Vepco stations or other utilities—that results in the lowest practicable cost at any given time. The new SOC represents the most modern control technology available and will offer invaluable economies in the Company's battle with steadily rising costs.
- The construction of a new 78,870 square foot central storeroom for use by all operating districts. The facility is designed to store over 5,000 different items with rapid retrieval and will enable the Company to reduce the number of items now located throughout the system. Savings from this new facility are expected to exceed $1.2 million each year, and additional central storage facilities for items such as insulators, transformers and similar material are currently being planned for construction so that even greater savings may be realized.
- Your Company also continued its research into non-conventional energy forms through two major projects.

First, Vepco is using new energy storage devices, heat pumps and solar collectors in a new district office to demonstrate possible ways to save money using energy management techniques coupled with solar energy. The energy storage system consists of three 10,000 gallon tanks that accumulate energy in the form of hot or cold water at night or on weekends. This energy is then used for heating or cooling on weekdays to reduce peak electric demands.

In another major project, the Company is working with the Department of Energy, Oak Ridge National Laboratory and the Home Builders Association of Richmond to construct 40 homes in the Richmond area equipped with an energy storage system designed for residential users.

Both projects are expected to demonstrate better utilization of electricity and, consequently, a lower cost for customers. The Company has under study several different residential rate schedule options which would allow time-of-day metering.

Reducing peak demand helps both the Company and its customers. It can hold down rate increases by allowing utilities to reduce the need to build new generating stations for use at peak times only. The use of off-peak electricity also allows the utility to use existing stations more efficiently.

Innovation: Key to Progress

As we enter the decade of the 80's, the Company continues to apply innovative thinking to electric utility problems. Past accomplishments that have helped to make Vepco a leader in many areas include the following:

- Built the Mt. Storm power station in the coal fields of West Virginia and reduced generating costs by eliminating the need for costly overland transportation of coal.
- Constructed the Free World's first 500,000 volt transmission line to carry electrical energy from Mt. Storm into our system.
- Constructed over 3,346 thousand kilowatts of nuclear generation.
- Converted by the end of 1979 some 1.2 million kilowatts of electrical generation from oil to coal. This is the largest amount converted by any utility in the nation. Another 800 megawatts are scheduled to be converted by 1982.
- Applied the latest technology to the Company's dispatching, transmission and generation control, load monitoring and communications needs.
- Pioneered many innovative methods of raising outside capital. We were the first utility to sell commercial paper and later the first to do so without going through a broker; and the first to issue short-term, tax-exempt pollution control notes through local industrial development authorities.

The challenges that lie ahead will require equally bold thought and action, and Vepco is fully prepared to meet them.

Management's Discussion and Analysis of the Statements of Income

Balance for Common Stock decreased $8.9 million in 1979 below 1978 as compared to an $8.2 million increase in 1978 over 1977. The decrease in 1979 balance for Common Stock resulted primarily from replacing power for nuclear units, temporarily out of service, with more expensive fossil generation and purchased and interchanged power, and as a result of other increased costs as discussed under OPERATING EXPENSES AND OTHER CHARGES. Most of the additional costs of fossil generation to replace nuclear generation are subject to fuel expense recovery procedures, but see Note B to FINANCIAL STATEMENTS as to purchased and interchanged power costs. The increase in certain other costs for 1979 was offset, in part, by rate relief granted by the Virginia Commission effective in April 1979. Earnings per share of Common Stock decreased $.25 in 1979 as compared to 1978 due to the decrease in balance for Common Stock and due to the increase in the average number of Common shares outstanding of about 6.9 million shares. Continued outages of nuclear units will require utilization of purchased power and fossil generation at costs which substantially exceed those of nuclear generation and might result in further declines in balance for Common Stock and earnings per share unless continuing fuel recovery procedures and timely rate increases are obtained to recover these costs, and to offset the effects of inflation, the placement in-service of North Anna Unit 2 and other factors.

Comparisons of the STATEMENTS OF INCOME for the years 1979 (as compared to 1978) and 1978 (as compared to 1977) appear below.

Electric Revenues

Electric revenues increased over the prior year principally as a result of the following:

	Revenues Increase From Prior Year (Millions of Dollars)	
	1979	1978
Rate increases and fuel cost recovery	$215.3	$38.7
Unit sales (excluding effect of above)	14.8	59.2
Other, net	4.0	2.0
Total	$234.1	$99.9

See Page 5 for information with respect to current requests for increased rates.

Gas Revenues

Gas revenues increased over the prior year principally as a result of the following:

	Revenues Increase From Prior Year (Millions of Dollars)	
	1979	1978
Rate increases and purchased gas cost recovery	$1.7	$5.2
Unit sales (excluding effect of above)	2.6	.9
Total	$4.3	$6.1

Operating Expenses and Other Charges

Operating expenses and other charges have changed principally as a result of the following:

	Expenses Increase (Decrease) From Prior Year (Millions of Dollars)	
	1979	1978
Fuel	$ (25.6)	$ 10.5
Purchased and interchanged power	185.2	(42.9)
Maintenance	13.5	20.4
Federal income taxes	(2.9)	12.9
Other taxes	10.9	12.3
Other operating costs	27.5	34.0

Fuel expenses have fluctuated from 1977 through 1979 as a result of changes in fuel costs (see Note F to FINANCIAL STATEMENTS), changes in requirements for purchased and interchanged power to meet customer demand, and increased sales. Purchased and interchanged power expenses have fluctuated from 1977 through 1979 as a result of temporary outages of nuclear and fossil units during 1979 and the first quarter of 1977, and the availability of additional generation in 1978 from North Anna Unit 1.

Maintenance expense increased for 1978 due to major maintenance at the Chesterfield, Yorktown, Portsmouth and Surry Power Stations. Maintenance costs increased for 1979 primarily as a result of repairs at the Surry Power Station and maintenance costs at North Anna Unit 1, placed in-service in June 1978. Federal income taxes have fluctuated from 1976 through 1979 primarily due to changes in book income, the amount of permanent differences and the reduction in 1979 in the Federal statutory rate from 48% to 46%. (See Note C to FINANCIAL STATEMENTS.) For information with respect to taxes other than Federal income taxes, see Note E to FINANCIAL STATEMENTS.

Other operating costs for 1979 and 1978 include $7.3 million and $6.8 million, respectively, of amortization of abandoned project costs relating to the cancellation of Surry Units 3 and 4. For information with respect to these costs, see Note D to FINANCIAL STATEMENTS.

Continuation of the Company's capital expenditures and the related financing together with increases in construction and uranium costs, increases in the short-term financing of deferred fuel costs during 1979, and changes in the cost of capital have resulted in the following increases:

	Increase From Prior Year (Millions of Dollars)	
	1979	1978
Depreciation	$18.8	$19.0
Interest charges (before AFC)	25.2	17.0
Preferred and preference dividends	1.5	5.9

The amounts of allowance for funds used during construction (AFC) capitalized since 1975 have increased substantially, reflecting, primarily, greater levels of investment in construction work in progress. In 1978, AFC decreased by $10.8 million, and depreciation increased by $19 million primarily as a result of the termination of AFC applicable to North Anna Unit 1 and the accrual of depreciation when the Unit was placed in-service.

Description of Business

The electric business of the Company is conducted in most of Virginia and in parts of North Carolina and West Virginia. In its service area it sells electricity to retail customers (including governmental agencies), and at wholesale to rural electric cooperatives and municipalities. Gas service is provided only in the Norfolk-Newport News area (except Portsmouth) and in the area extending from Newport News to and including Williamsburg.

Report of Management

The management of Virginia Electric and Power Company is responsible for all information and representations contained in the financial statements and other sections of the annual report. The financial statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the financial statements.

Management maintains a system of internal accounting control designed to provide reasonable assurance at a reasonable cost that the Company's assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed and recorded in accordance with established procedures. This system includes written policies, an organizational structure designed to ensure appropriate division of responsibilities, careful selection and training of qualified personnel and a program of internal audits.

The financial statements have been examined by Coopers & Lybrand, independent certified public accountants. Their examination is conducted in accordance with generally accepted auditing standards and includes a review of the Company's accounting systems, procedures and internal controls, and the performance of tests and other auditing procedures sufficient to provide reasonable assurance that the financial statements neither are materially misleading nor contain material errors.

The Audit Committee of the Board of Directors, composed entirely of directors who are not officers or employees of the Company, meets periodically with the independent auditors, the executive manager-internal auditing and management to discuss auditing, internal accounting control and financial reporting matters and to ensure that each is properly discharging its responsibilities. Both the independent auditors and the executive manager-internal auditing periodically meet alone with the Audit Committee and have free access to the Committee at any time.

VIRGINIA ELECTRIC AND POWER COMPANY

Report of Independent Certified Public Accountants

To the Stockholders and Board of Directors of Virginia Electric and Power Company:

We have examined the balance sheets of Virginia Electric and Power Company as of December 31, 1979 and 1978, and the related statements of income, earnings reinvested in business and changes in financial position for each of the five years in the period ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 7, 1979, our opinion on the 1978 and 1977 financial statements was qualified as being subject to the effects on the 1978 and 1977 financial statements of such adjustments as might have been required had it been known what part of the project costs and cancellation costs, if any, would not be recoverable as a result of the Company's cancellation of a nuclear facility. As discussed in Note D to FINANCIAL STATEMENTS, the Virginia State Corporation Commission has issued a rate order approving the amortization of these costs over a ten-year period. Accordingly, our present opinion on the 1978 financial statements, as presented herein, is no longer qualified.

As discussed in Note B to FINANCIAL STATEMENTS, the Company has deferred costs incurred in 1979 associated with purchased and interchanged power not presently recoverable from certain customers either through fuel cost recovery procedures or in base rates. At this time, it is uncertain what part of the deferred fuel costs will be recoverable.

In our opinion, subject to the effects of such adjustments, if any, on the 1979 financial statements as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Virginia Electric and Power Company as of December 31, 1979 and 1978, and the results of its operations and the changes in its financial position for each of the five years in the period ended December 31, 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

New York, February 6, 1980.

COOPERS & LYBRAND

Virginia Electric and Power Company
Statements of Income

	1979	1978	1977	1976	1975
			Years		
			(Thousands of Dollars)		
Operating revenues (Notes A and L)					
Electric	**$1,647,928**	$1,413,866	$1,313,937	$1,060,663	$ 998,933
Gas	**55,381**	51,039	44,923	43,413	34,403
Total	**1,703,309**	1,464,905	1,358,860	1,104,076	1,033,336
Operating expenses:					
Operation:					
Fuel used in electric generation (Notes A, B and F)	**559,998**	585,625	575,151	446,984	449,883
Purchased and interchanged power (Note B)	**194,547**	9,384	52,273	15,747	5,540
Other (Note F)	**210,840**	183,906	153,514	131,485	113,833
Maintenance (Note A)	**103,856**	90,317	69,885	53,749	59,906
Depreciation (Notes A and G)	**136,280**	117,481	98,527	95,191	89,805
Amortization of abandoned project costs (Note D)	**7,292**	6,760	3,173		
Taxes—Federal income (Notes A and C)	**69,744**	72,658	59,736	48,751	27,378
—Other (Note E)	**104,358**	93,499	81,174	71,413	57,169
Total	**1,386,915**	1,159,630	1,093,433	863,320	803,514
Operating income	**316,394**	305,275	265,427	240,756	229,822
Other income:					
Allowance for other funds used during construction (Note A)	**66,603**	64,002	72,361		
Allowance for funds used during construction (Note A)				80,429	66,873
Miscellaneous, net	**1,282**	2,209	(305)	283	601
Income taxes associated with miscellaneous, net	**(308)**	(867)	(358)	208	(57)
Total	**67,577**	65,344	71,698	80,920	67,417
Income before interest charges	**383,971**	370,619	337,125	321,676	297,239
Interest charges:					
Interest on long-term debt	**204,392**	184,947	168,885	147,481	122,951
Other	**12,417**	6,677	5,748	7,409	19,556
Allowance for borrowed funds used during construction (Note A)	**(29,305)**	(24,869)	(27,301)		
Total	**187,504**	166,755	147,332	154,890	142,507
Net income	**196,467**	203,864	189,793	166,786	154,732
Preferred and preference dividends	**55,123**	53,588	47,719	43,821	35,971
Balance for common stock	**$ 141,344**	$ 150,276	$ 142,074	$ 122,965	$ 118,761
Shares of common stock—average for year (thousands)	**86,965**	80,060	74,025	68,137	60,854
Earnings per share of common stock	**$1.63**	$1.88	$1.92	$1.80	$1.95
Cash dividends paid per common share	**$1.38**	$1.30	$1.24	$1.22½	$1.18

( ) Denotes red figure.
The accompanying notes are an integral part of the financial statements.

Virginia Electric and Power Company
Balance Sheets

Assets

	December 31, 1979		December 31, 1978	
	(Thousands of Dollars)			
UTILITY PLANT (Note A):				
Electric		**$5,960,549**		$5,343,985
Gas		**62,130**		60,654
Common		**14,293**		16,592
Total (includes $1,731,012,000 plant under construction [1978—$1,283,841,000])		**6,036,972**		5,421,231
Less accumulated depreciation (Note G)		**999,990**		887,383
		5,036,982		4,533,848
Nuclear fuel (less accumulated amortization of $79,151,000 [1978—$53,575,000])		**191,521**		151,865
Net utility plant		**5,228,503**		4,685,713
INVESTMENTS:				
Nonutility property at cost or written-down amounts (less allowance of $7,575,000 [1978—$5,323,000])		**5,150**		3,857
Subsidiary companies at equity (includes advances of $15,789,000 [1978—$15,718,000]) (Notes A and N)		**20,223**		19,426
Net investments		**25,373**		23,283
CURRENT ASSETS:				
Cash (Note J)		**4,868**		4,668
Temporary cash investments				31,783
Accounts receivable:				
Customers	**$156,378**		$120,658	
Uranium settlement (Note N)	**41,000**			
Other	**6,912**		8,498	
	204,290		129,156	
Less allowance for doubtful accounts	**2,038**	**202,252**	1,101	128,055
Accrued unbilled revenues		**93,802**		61,407
Materials and supplies at average cost or less:				
Plant and general (including construction materials)	**40,301**		32,429	
Fossil fuel	**131,370**	**171,671**	96,567	128,996
Prepayments:				
Taxes	**31,615**		36,523	
Other	**4,713**	**36,328**	4,090	40,613
Total current assets		**508,921**		395,522
DEFERRED DEBITS:				
Abandoned project costs (less accumulated amortization of $17,225,000 [1978—$9,933,000]) (Note D)		**56,322**		66,156
Deferred fuel costs (Notes A and B)		**89,250**		3,383
Unamortized expense on debt		**8,009**		7,480
Other		**44,206**		29,506
Total deferred debits		**197,787**		106,525
		$5,960,584		$5,211,043

(   ) Denotes red figure.
The accompanying notes are an integral part of the financial statements.

Capital and Liabilities

	December 31, 1979	December 31, 1978
	(Thousands of Dollars)	
PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION— $100 par, cumulative (Note H)	**$ 330,894**	$ 304,077
PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION— $100 par, cumulative (Note I)	**289,014**	289,014
PREFERENCE STOCK NOT SUBJECT TO MANDATORY REDEMPTION— no par, cumulative; authorized 30,000,000 shares (Note I)	**57,360**	57,360
COMMON STOCKHOLDERS' EQUITY (Note I):		
Common stock—no par; authorized 120,000,000 shares	**1,319,303**	1,235,105
Other paid-in capital	**27,859**	27,859
Earnings reinvested in business, as annexed	**384,600**	364,215
Total common stockholders' equity	**1,731,762**	1,627,179
LONG-TERM DEBT (Note K)	**2,610,308**	2,376,796
CURRENT LIABILITIES:		
Securities due within one year (Notes H and K)	**62,093**	75,293
Loans payable, pending permanent financing (Note J)	**131,730**	3,437
Accounts payable, trade	**127,684**	54,413
Customer deposits	**12,004**	12,310
Payrolls accrued	**11,365**	10,109
Taxes accrued	**25,764**	33,790
Interest accrued	**69,284**	64,651
Deferred income taxes, other (Notes A and C)	**17,316**	18,780
Other	**40,683**	38,784
Total current liabilities	**497,923**	311,567
DEFERRED CREDITS:		
Uranium settlement (Note N)	**130,346**	
Accumulated deferred income taxes (Notes A and C):		
Liberalized depreciation	**108,758**	76,341
Abandoned project costs	**24,931**	29,352
Accelerated amortization	**11,583**	13,130
Other	**39,528**	(2,016)
Deferred investment tax credits (Notes A and C)	**100,181**	103,304
Other (Note F)	**27,996**	24,939
Total deferred credits	**443,323**	245,050
COMMITMENTS AND CONTINGENCIES (Note N)		
	$5,960,584	$5,211,043

Virginia Electric and Power Company
Statements of Earnings Reinvested in Business

	Years				
	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Balance at beginning of year	**$364,215**	$318,507	$328,115	$290,260	$242,742
Net income (see "Statements of Income")	**196,467**	203,864	189,793	166,786	154,732
Total	**560,682**	522,371	517,908	457,046	397,474
Cash dividends:					
Preferred and preference stocks (at annual rates indicated below):					
Preferred stock subject to mandatory redemption:					
$7.325 preferred	**5,128**	5,128	5,128	5,128	5,128
$8.40 preferred	**6,720**	6,720	6,720	6,720	6,720
$9.125 preferred	**1,825**	1,825	1,825	345	
$8.20 preferred	**4,920**	4,920	1,134		
$8.60 preferred	**3,291**	3,392			
$8.625 preferred	**3,191**	1,785			
$8.925 preferred	**153**				
Preferred stock not subject to mandatory redemption:					
$5.00 preferred	**533**	533	1,447	1,447	1,447
$4.04 preferred	**52**	52	404	404	404
$4.20 preferred	**62**	62	420	420	420
$4.12 preferred	**134**	134	515	515	515
$4.80 preferred	**351**	351	1,440	1,440	1,440
$7.72 preferred	**2,702**	2,702	2,702	2,702	2,702
$8.84 preferred	**3,094**	3,094	3,094	3,094	3,094
$7.45 preferred	**2,980**	2,980	2,980	2,980	2,980
$7.20 preferred	**3,240**	3,240	3,240	3,240	3,240
$7.72 preferred (1972 Series)	**3,860**	3,860	3,860	3,860	3,860
$9.75 preferred	**5,850**	5,850	5,850	4,566	
Preference stock not subject to mandatory redemption:					
$2.90 preference	**6,960**	6,960	6,960	6,960	4,021
Common stock	**120,638**	103,474	91,225	82,923	70,786
Total dividends	**175,684**	157,062	138,944	126,744	106,757
Transfer to common stock as authorized by Board of Directors			60,000		
Other deductions, net	**398**	1,094	457	2,187	457
Total	**398**	1,094	60,457	2,187	457
Balance at end of year	**$384,600**	$364,215	$318,507	$328,115	$290,260

The accompanying notes are an integral part of the financial statements.

Virginia Electric and Power Company
Statements of Changes in Financial Position

	Years				
	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
SOURCE OF FUNDS:					
Funds provided by operations:					
Net income	**$196,467**	$203,864	$189,793	$166,786	$154,732
Items not affecting working capital:					
Provision for depreciation (Notes A and G)	**136,280**	117,481	98,527	95,191	89,805
Amortization of nuclear fuel (Note A)	**25,576**	29,702	14,526	8,962	385
Amortization of abandoned project costs (Note D)	**7,292**	6,760	3,173		
Allowance for other funds used during construction (Note A)	**(66,603)**	(64,002)	(72,361)		
Allowance for borrowed funds used during construction (Note A)	**(29,305)**	(24,869)	(27,301)		
Allowance for funds used during construction (Note A)				(80,429)	(66,873)
Deferred income taxes (Notes A and C)	**66,545**	14,668	31,536	14,002	28,686
Deferred investment tax credits, net (Notes A and C)	**(5,250)**	34,827	19,009	32,540	(166)
Total funds provided by operations	**331,002**	318,431	256,902	237,052	206,569
Funds provided by financing and other sources:					
Mortgage bonds (Note K)	**235,000**	213,000	150,000	220,000	276,000
Preferred stock subject to mandatory redemption (Note H)	**28,000**	37,000	60,000	20,000	
Preferred stock not subject to mandatory redemption (Note I)				60,000	
Preference stock not subject to mandatory redemption (Note I)					57,360
Common stock (Note I):					
Public offering	**64,050**	68,275	70,400	73,875	113,980
Automatic dividend reinvestment plan	**12,926**	11,690	9,229	7,727	3,456
Employee savings plan	**6,151**	4,774	4,213	3,900	3,651
Tax reduction act stock ownership plan	**1,071**				
Term notes (Note K)	**60,000**	104,750	108,500	25,000	10,000
Increase (decrease) in loans payable	**128,293**	(49,613)	26,550	(83,550)	(146,895)
Uranium settlement (Note N)	**130,346**				
Total funds provided by financing and other sources	**665,837**	389,876	428,892	326,952	317,552
	$996,839	$708,307	$685,794	$564,004	$524,121
APPLICATION OF FUNDS:					
Utility plant expenditures (excluding AFC)	**$551,881**	$422,857	$394,875	$343,693	$339,845
Nuclear fuel (excluding AFC)	**60,967**	17,458	74,531	57,479	25,421
Abandoned project costs (Note D)	**(2,542)**	2,631	16,050		
Dividends on common, preferred and preference stocks	**175,684**	157,062	138,944	126,744	106,757
Increase (decrease) in deferred debits, fuel costs (Notes A and B)	**85,867**	(29,898)	(18,812)	8,427	(32,855)
Securities reacquired or repaid	**74,883**	97,273	58,250	10,000	61,200
Increase (decrease) in investment (net of repayment of advances) in subsidiary companies (Notes A and N)	**797**	4,345	3,137	4,869	(4,873)
Increase in working capital other than loans payable*	**42,136**	36,551	14,684	10,968	17,404
Other, net	**7,166**	28	4,135	1,824	11,222
	$996,839	$708,307	$685,794	$564,004	$524,121
Changes in the individual amounts comprising working capital other than loans payable* were as follows:					
Accounts receivable (excluding uranium settlement)	**$ 33,197**	$ 20,312	$ 2,103	$ 13,017	$ (9,333)
Uranium settlement (Note N)	**41,000**				
Accrued unbilled revenues	**32,395**	(2,523)	4,965	19,386	3,790
Deferred fuel surcharge		(11,028)	628	(1,670)	12,070
Materials and supplies	**42,675**	7,284	26,392	17,080	21,040
Accounts payable, trade	**(73,271)**	19,350	1,775	(32,963)	13,183
Interest accrued	**(4,633)**	(11,388)	(6,916)	(7,177)	(7,234)
Deferred income taxes, other (Notes A and C)	**1,464**	4,657	(2,537)	(577)	(10,496)
Other, net	**(30,691)**	9,887	(11,726)	3,872	(5,616)
	$ 42,136	$ 36,551	$ 14,684	$ 10,968	$ 17,404

* Does not include reclassification as current liabilities of maturing long-term debt and cash sinking fund obligations of debt and preferred stock as follows: 1979—$62,093,000; 1978—$75,293,000; 1977—$89,433,000 and 1976—$58,250,000.

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

A. Significant Accounting Policies:

General:

The Company's accounting practices are prescribed by the Uniform System of Accounts promulgated by the regulatory commissions having jurisdiction.

Revenues:

Operating revenues are recorded on the basis of service rendered.

Utility Plant and Depreciation:

Utility plant is recorded at original cost which includes labor, materials, services, allowance for funds used during construction and other indirect costs. The cost of depreciable utility plant retired and cost of removal, less salvage, are charged to accumulated depreciation.

The cost of maintenance and repairs is charged to the appropriate operating expense and clearing accounts. The cost of renewals and betterments is charged to the appropriate utility plant account, except the cost of minor replacements which is charged to maintenance expense.

Provisions for depreciation, which include amounts applicable to estimated decommissioning costs of $22,500,000 for nuclear units in service (assuming mothballing in pairs), are recorded on the straight-line method based upon estimated service lives.

Nuclear Fuel:

Progress payments are being made for fuel to be owned or leased.

Before 1978, the Company provided for estimated reprocessing costs relating to fuel which was being burned, for all jurisdictions. Effective in 1978, the North Carolina Commission granted approval to recover the cost of permanent storage of spent fuel in base rates and the Federal Energy Regulatory Commission (FERC) allowed the recovery of these costs through the fuel clause. For periods subsequent to these two decisions, operating expenses include reprocessing costs for Virginia jurisdictional customers and costs of permanent storage for North Carolina and FERC jurisdictional customers.

Subsidiaries:

The Company has two wholly-owned subsidiaries. Laurel Run Mining Company is engaged in the underground mining of coal, which is utilized solely by the Company. On January 1, 1979, the first of two portals of the mine was declared operational. Development costs associated with the second portal are being deferred until it becomes operational. Virginia Nuclear, Inc. was organized to explore for uranium reserves; however, no such activities are presently being conducted.

Federal Income Taxes:

The Company's practice is to reduce the current provision for Federal income taxes to reflect the tax benefit resulting from the use of the double-declining-balance method of depreciation for property additions and the adoption of the Asset Depreciation Range and Class Life Systems. Effective with property additions placed in service in 1974, the Company has provided deferred income taxes on the aforementioned benefit and, subsequently, has provided deferred taxes on other differences between book income and income taxable for Federal income taxes to the extent permitted by the regulatory commissions having jurisdiction.

Investment Tax Credits:

Accumulated investment tax credits at July 1, 1970 are being amortized over a ten-year period, and credits recorded after that date are being amortized over the service lives of the property giving rise to such credits. An additional investment tax credit of 1% related to the Tax Reduction Act Stock Ownership Plan (TRASOP) does not affect net income and is recorded as a liability until the contribution is made to the TRASOP trust.

Allowance for Funds Used During Construction:

The applicable regulatory uniform system of accounts defines AFC as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

In accordance with a change in FERC accounting rules effective January 1, 1977, the Company is separately determining rates and reporting amounts applicable to borrowed funds, calculated on a net of tax basis, and to equity funds. In accordance therewith, for January through March 1979, April through December 1979, 1978, and 1977, the Company employed an aggregate rate of 7.75%, 7.82%, 7.54%, and 7.75%, respectively, for the accrual of AFC.

For the years 1975 and 1976, the Company employed the rate of 8% and reported AFC in accordance with the accounting rules then in effect. Since the assumptions as to source of construction funds, costs of such funds and capital ratios used by the Company prior to January 1, 1977 are not equivalent to those prescribed in the new accounting rules, the Company believes that retroactive reclassification of AFC in the Statements of Income for these years would be inappropriate.

Assuming that funds used to finance construction during the two years ended December 31, 1976 were obtained 35% from common equity, 52% from debt and 13% from preferred and preference stocks, the common equity component of AFC as related to earnings available for common stock amounted to 7.2% and 17.4% for the years 1975 and 1976, respectively.

Deferred Fuel Costs:

The Company is deferring for accounting and rate-making purposes that portion of the cost of fuel consumed which, through the application of the annual fuel factor, may result in increased operating revenues in a later period.

Retirement Annuity Plan:

The Company has a contributory retirement annuity plan and funds pension costs accrued. Prior service cost arising out of amendments to the plan in 1976 and 1979, and changes in actuarial assumptions in 1977 is being provided in the accounts and funded on the basis of future salaries of participants currently covered by the plan.

Leases:

The Company's practice is to account for all leases as operating leases in accordance with the rate-making practices presently in effect.

B. Deferred Fuel Accounting:

Monthly billings under the annual fuel factor, which was approved by the Virginia Commission but subject to quarterly hearings, include projected 1980 fuel costs, including net estimated fuel costs unrecovered at December 31, 1979.

In 1979, the Company incurred $21.5 million ($11.6 million net of Federal income taxes) of costs associated with purchased and interchanged power not presently recoverable through fuel cost recovery procedures or in base rates from Virginia jurisdictional customers, and such costs were deferred pending a determination by the Virginia Commission in 1980 as to their recovery for rate-making purposes. The Virginia Commission granted accounting approval for this deferral. The effect of this was to increase earnings per share of Common Stock by $.13 for 1979.

In the event that future developments dictate a change in the fuel adjustment billing lag period or in the fuel cost base, the Company will request regulatory approval to recover through billings to customers any unrecovered deferred fuel costs.

C. Federal Income Taxes:

Details of Federal income taxes were as follows:

	Years				
	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Computed tax expense on book income before Federal income taxes at statutory rate	**$122,599**	$133,147	$119,946	$103,358	$87,440
(Decreases) increases resulting from:					
Excess of tax over book depreciation not normalized	**(4,301)**	(16,402)	(9,956)	(14,840)	(18,689)
AFC	**(44,118)**	(42,658)	(47,838)	(38,606)	(32,099)
Investment tax credits, amortization	**(5,820)**	(5,467)	(4,539)	(3,028)	(2,452)
Other, net	**1,384**	4,038	2,123	1,867	(3,191)
	(52,855)	(60,489)	(60,210)	(54,607)	(56,431)
Federal income tax expense before utilization of portion of operating tax loss carry-forward	**69,744**	72,658	59,736	48,751	31,009
1974 net operating tax loss carry-forward utilized					(3,631)
Federal income tax expense	**$ 69,744**	$ 72,658	$ 59,736	$ 48,751	$27,378
Currently payable (refundable)	**$ 8,449**	$ 23,163	$ 9,191	$ 2,209	$ (1,142)
Tax effects of timing differences:					
Abandoned project costs	**(4,421)**	(1,822)	31,175		
Deferred fuel adjustment:					
Current year	**47,054**	(21,681)	(9,588)	3,243	(9,976)
Prior year (1974)					22,793
Liberalized depreciation	**32,418**	38,509	13,101	12,320	9,360
Virginia gross receipts taxes	**(1,464)**	636	2,375	1,379	4,702
Reprocessing/disposal costs on nuclear fuel	**(8,067)**	(6,791)	(6,385)	(4,076)	
Accelerated amortization	**(1,547)**	(1,547)	(1,547)	(1,547)	(1,547)
Indirect construction costs	**3,463**	3,154	2,912	1,796	2,424
Cost of removal of property retirements	**3,545**	2,484	1,696	1,426	930
Contributions in aid of construction		2,203	(2,203)		
North Anna nuclear fuel	**(4,452)**	(487)			
Other	**16**	10		(539)	
	66,545	14,668	31,536	14,002	28,686
Investment tax credits, including any carry-back	**570**	40,294	23,548	35,568	2,286
Investment tax credits, amortization	**(5,820)**	(5,467)	(4,539)	(3,028)	(2,452)
Net deferred investment tax credits	**(5,250)**	34,827	19,009	32,540	(166)
Federal income tax expense	**$ 69,744**	$ 72,658	$ 59,736	$ 48,751	$27,378

Due principally to the timing differences relating to deferred fuel costs and the excess of tax over book depreciation, the Company incurred a net operating loss for tax purposes in 1974, which after carry-back to prior years resulted in a loss carry-forward of $55.1 million. The tax effect of the entire loss carry-forward, in the amount of $26.4 million, was used to reduce the Federal income taxes currently payable for 1975, and deferred income taxes of $22.8 million were reinstated in respect of the fuel costs deferred in 1974.

The Company has investment tax credit carry-forwards of $42,086,000 of which $22,868,000 and $19,218,000 will expire in 1985 and 1986, respectively.

D. Abandoned Project Costs:

In March 1977, the Company canceled plans for construction of Surry Units 3 and 4, previously planned for completion in 1986 and 1987. At December 31, 1979, the Company had expended $73.5 million, including $4.7 million in nuclear fuel enrichment services. Furthermore, the Company estimates that additional cancellation costs could be as much as $38.6 million. The Company is attempting to reduce such costs through sales of certain equipment and negotiations with suppliers. In July 1977, the Company began amortizing costs for accounting purposes, net of Federal income taxes, over a ten-year period and will amortize additional costs as incurred and in January 1979, the Company began amortizing the nuclear fuel enrichment costs over a ten-year period. The Virginia Commission, the North Carolina Utilities Commission and the West Virginia Commission have allowed the Company to begin recovery of such costs through amortization in rates over ten years. The Company has requested the same rate-making treatment of these costs from FERC.

E. Supplementary Income Statement Information:

The amounts of royalties, advertising costs and research and development costs were not significant. Taxes other than Federal income taxes charged to expenses were as follows:

	Years				
	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Taxes, other than Federal income taxes:					
Real estate and property	**$ 28,462**	$26,333	$25,257	$22,899	$20,200
State and local gross receipts	**60,934**	54,865	49,812	42,382	31,909
State income	**57**	505	248	215	87
Other	**14,905**	11,796	5,857	5,917	4,973
Total	**$104,358**	$93,499	$81,174	$71,413	$57,169

F. Leases:

Rents charged to expenses consisted of the following:

	Years				
	1979	1978	1977	1976	1975
	(Thousands of Dollars)				
Operating leases:					
Nuclear fuel	**$11,632**	$35,491	$29,518	$21,447	$24,657
Combustion turbines	**5,611**	5,694	5,935	6,185	6,172
Other (principally buildings and teleprocessing equipment)	**10,583**	8,427	6,648	5,552	4,761
Total	**$27,826**	$49,612	$42,101	$33,184	$35,590

In 1971, the Company sold and leased back 28 combustion turbines for a term of 20 years (plus two optional five-year renewal terms). Annual rental payments are $3,674,000 for the remaining two years of the first ten-year term and $6,444,000 during the second ten-year term. Additional rentals are being accrued during the first ten years, during which time payments representing interest only are required, so that the annual effect on net income will be equalized over the twenty-year period. Deferred credits, other at December 31, 1979, include $17,669,000 with regard to such accruals. Had the lease been capitalized, the net asset value and present value of the lease commitment would be $24,851,000 and $42,601,000, respectively, at December 31, 1979 and $26,981,000 and $42,601,000, respectively, at December 31, 1978.

In 1972, the Company sold and leased back the initial core of nuclear fuel for Surry Unit 1. In 1973, the Company sold the initial core of nuclear fuel for Surry Unit 2 and entered into a heat supply contract in respect thereof. Quarterly payments are charged to income in amounts sufficient to pay for the fuel burned during each quarter (excluding reprocessing and permanent disposal costs) plus interest. Had the lease and contract been capitalized, the net asset value and present value of these commitments would be $103,395,000 and $106,162,000, respectively, at December 31, 1979 and $72,288,000 and $73,935,000, respectively, at December 31, 1978.

In 1974, the Company sold and leased back three office buildings for terms of twenty years (plus two optional five-year renewal terms). Annual rental payments are $730,000 during the initial terms of the leases. In 1978, the Company leased a newly constructed headquarters office building for a term of thirty years (plus four optional five-year renewal terms). Annual rental payments are $2,993,000 during the initial term of the lease. Had the leases been capitalized, the net asset value and present value of the lease commitments would be $38,610,000 and $40,675,000, respectively, at December 31, 1979 and $40,132,000 and $41,201,000, respectively, at December 31, 1978.

If the Company had capitalized the above noted leases and contract, the increase in operating expenses for 1979, 1978, 1977 and 1976 would not have been material.

The Company is responsible for expenses in connection with the leased turbines, nuclear fuel and buildings noted above, including insurance, taxes and maintenance.

G. Depreciation:

The provision for depreciation based on mean depreciable plant for each of the years 1975 through 1977 approximated 3.1%, 2.6% and 2.3% of Electric, Gas and Common plant, respectively. The provision approximated 3.2%, 3.1% and 2.4% for 1978, and 3.3%, 3.1% and 4.4% for 1979, of Electric, Gas and Common plant, respectively.

Pursuant to Virginia Commission approvals, the Company increased the depreciation rates for Gas plant as of January 1, 1978 and for Electric and Common plant as of April 1, 1979.

H. Preferred Stock Subject to Mandatory Redemption:

Preferred Stock Subject to Mandatory Redemption was represented by 3,320,772 shares outstanding at December 31, 1979, as follows:

	Shares		Entitled Per Share Upon Voluntary Redemption		
Dividend	Authorized	Outstanding	Amount	Through	And Thereafter to Amounts Declining in Steps to
$7.325	700,000	700,000	$110.00	3/31/83	$101.00 after 3/31/88
8.40	800,000	800,000	115.00	3/31/84	100.00 after 3/31/04
9.125	200,000	200,000(1)	110.00	9/19/81	102.00 after 9/19/91
8.20	600,000	600,000(2)	115.00	9/20/87	100.41 after 9/20/96
8.60	370,772	370,772(3,5)	107.00	12/20/87	100.00 after 12/20/97
8.625	370,000	370,000(4)	108.63	6/20/83	100.00 after 6/20/02
8.925	280,000	280,000(6)	108.93	9/20/84	100.00 after 9/20/09
Total	3,320,772	3,320,772(7)			
Less shares due within one year....		11,834(7)			
Balance		3,308,938			

(1) Issued October 1976. (2) Issued September 1977. (3) Issued December 1977. (4) 355,000 shares issued in May 1978 and 15,000 shares issued in September 1978. (5) Other than Sinking Fund requirements, no redemption prior to December 20, 1982. (6) Issued November 1979. (7) Sinking Fund requirements call for annual redemption at $100 per share as follows:

Series	Percentage of Shares Issued	Beginning	Ending
$8.60	3 %	Dec. 1978	Dec. 2010
9.125	4	Sept. 1981	Sept. 2000
8.20	5	Sept. 1983	Sept. 1996
7.325	4	April 1984	April 2008
8.625	5	June 1984	June 2002
8.925	3.75	Sept. 1984	Sept. 2009
8.40	4	April 1985	April 2009

The total number of authorized shares for all Preferred Stock is 7,500,000 shares. Upon liquidation, all Preferred Stock shares are entitled to receive $100 per share plus accrued dividends. Dividends are cumulative and payable March 20, June 20, September 20 and December 20.

I. Preferred and Preference Stock Not Subject to Mandatory Redemption, Common Stock and Other Paid-In Capital:

Preferred Stock Not Subject to Mandatory Redemption:

Preferred Stock Not Subject to Mandatory Redemption was represented by 2,890,140 shares outstanding at December 31, 1979, as follows:

	Shares		Entitled Per Share Upon Voluntary Redemption		
Dividend	Authorized	Outstanding	Amount	Through	And Thereafter to Amounts Declining in Steps to
$5.00	106,677	106,677	$112.50		
4.04	12,926	12,926	102.27		
4.20	14,797	14,797	102.50		
4.12	32,534	32,534	103.73		
4.80	73,206	73,206	101.00		
7.72	350,000	350,000	106.00	5/31/81	$101.50 after 5/31/84
8.84	350,000	350,000	107.00	8/31/82	101.00 after 8/31/85
7.45	400,000	400,000	106.00	2/28/81	101.00 after 2/29/84
7.20	450,000	450,000	106.00	1/31/82	101.00 after 1/31/85
7.72(1972 Series)	500,000	500,000	106.00	9/30/82	101.00 after 9/30/85
9.75	600,000	600,000(1)	109.75	2/28/81	101.00 after 2/28/91
Total	2,890,140	2,890,140			

(1) Issued March 1976.

The total number of authorized shares for all Preferred Stock is 7,500,000 shares. Upon liquidation, all Preferred Stock shares are entitled to receive $100 per share plus accrued dividends. Dividends are cumulative and, payable March 20, June 20, September 20 and December 20.

Preference Stock Not Subject to Mandatory Redemption:

Preference Stock Not Subject to Mandatory Redemption was authorized for issuance effective April 17, 1975. On May 22, 1975, the Company issued 2,400,000 shares of $2.90 Dividend Preference Stock at $23.90 per share which aggregated $57,360,000.

The Preference Stock is redeemable at $27.90 per share prior to May 1, 1980, and thereafter declines in steps to $25.25 on May 1, 1990. Upon liquidation, all shares are entitled to receive $25 per share plus accrued dividends. Dividends are cumulative and payable March 20, June 20, September 20 and December 20.

Common Stock:

Common Stock was represented by 92,874,112 shares outstanding at December 31, 1979. In addition, 2,150,538 shares (based on the conversion price of $23.25 per share) are reserved for conversion of the 3⅝% Convertible Debentures due May 1, 1986. During the years 1975 through 1979 the following changes in Common Stock occurred:

Year	Public Offering		Automatic Dividend Reinvestment Plan		Savings and Stock Ownership Plans		Total Outstanding	
	Shares	Additions to Capital Account	Shares	Additions to Capital Account	Shares	Additions to Capital Account	Shares	Capital Account
1979	6,000,000	$ 64,050,000	1,049,874	$12,925,755	583,138	$7,222,482	92,874,112	$1,319,303,162
1978	5,000,000	68,275,000	827,514	11,689,651	337,143	4,774,135	85,241,100	1,235,104,925
1977	5,000,000	70,400,000	626,886	9,229,553	284,167	4,212,884	79,076,443	1,150,366,139(1)
1976	5,000,000	73,875,000	541,248	7,726,113	277,798	3,900,245	73,165,390	1,006,523,702
1975	9,000,000	113,980,000	267,802	3,455,908	301,065	3,651,754	67,346,344	921,022,344
							57,777,477(2)	799,934,682

(1) In May 1977, $60,000,000 was transferred from Earnings Reinvested in Business to the Common Stock account as authorized by the Board of Directors.
(2) Outstanding January 1, 1975.

On April 22, 1976, and May 8, 1979, the number of authorized shares was increased from 70,000,000 to 95,000,000 and from 95,000,000 to 120,000,000, respectively.

Other Paid-In Capital:

In 1977, the Company solicited tenders of shares of certain series of Preferred Stock in exchange for shares of $8.60 Dividend Preferred Stock. The purpose of this exchange offer was to increase the balance sheet ratio of Common equity to total equity consistent with the objective of the Company to achieve and maintain capitalization ratios in the range of 52% long-term debt, 13% Preferred and Preference Stock and 35% Common equity. The difference between the stated value of the shares exchanged and that of the $8.60 Dividend series shares amounting to $27,859,000, net of cash paid for fractional shares, has been transferred to Other Paid-In Capital.

J. Short-Term Loans and Compensating Balances:

			Daily Average Outstanding		Month End Maximum Outstanding	
1979	Maturity	Interest Rate At End of Year (1)	Amount	Interest Rate (1)	Amount	Date
Commercial Paper	(2)	14.25%	$69,736,000	11.03%	$175,750,000	6/30/79
Master Notes	(3)	12.25	3,520,000	9.98	6,937,000	12/31/79
Pollution Control Notes	(2)	7.25	203,000	7.25	2,250,000	11/30/79
1978						
Commercial Paper	(2)	—	43,834,000	7.28	101,636,000	6/30/78
Master Notes	(3)	9.10	1,834,000	8.40	8,234,000	10/31/78

(1) Weighted average interest. (2) Principally 30 to 90 days. (3) Maximum 180 days.

Available bank lines of credit amounted to $382,875,000 at December 31, 1979, including $180,000,000 applicable to revolving credit agreements effective through August 29, 1981. The Company maintains compensating balances of up to 10% or pays fees in lieu of balances in connection with its lines of credit. Utilization under the line of credit may require additional balances or fees. Compensation for the revolving credit agreements are consistent with the compensation required for the lines of credit.

K. Long-Term Debt:

Long-term debt outstanding at December 31, 1979:

First and refunding mortgage bonds(1):	
Series H 2¾%, due 1980	$ 20,000,000
Series I 3⅜%, due 1981	20,000,000
Series J 3¼%, due 1982	20,000,000
Series DD 10½%, due 1983	75,000,000
Series K 3⅛%, due 1984	25,000,000
Series L 3¼%, due 1985	25,000,000
Series A 6⅞%, due 1985(a)	8,000,000
Series M 4⅛%, due 1986	20,000,000
Series N 4½%, due 1987	20,000,000
Series O 3⅞%, due 1988	25,000,000
Series P 4⅝%, due 1990	25,000,000
Series Q 4⅞%, due 1991	30,000,000
Series R 4⅜%, due 1993	30,000,000
Series S 4½%, due 1993	30,000,000
Series FF 11%, due 1994	125,250,000
Series EE 11%, due 1994	90,000,000
Series T 4½%, due 1995	60,000,000
Series U 5⅛%, due 1997	50,000,000
Series V 6⅞%, due 1997	50,000,000
Series KK 8.95%, due 1998	55,000,000
Series W 7⅛%, due 1999	85,000,000
Series X 7¾%, due 1999	75,000,000
Series Y 9%, due 2000	83,725,000
Series Z 8⅞%, due 2000	83,725,000
Series AA 7⅜%, due 2001	90,000,000
Series BB 7½%, due 2001	50,000,000
Series CC 7⅜%, due 2002	100,000,000
Series C 6.15%, due 2003(a)	8,000,000
1979 Series B 9.95%, due 2004	135,000,000(b)
Series A 8½%, due 2005(a)	18,000,000
Series GG 10%, due 2005	100,000,000
Series HH 9¼%, due 2006	100,000,000
Series B 6¾%, due 2006(a)	20,000,000
Series II 8¾%, due 2006	100,000,000
Series JJ 8⅝%, due 2007	150,000,000
Series LL 9⅝%, due 2008	150,000,000
1979 Series A 10¼%, due 2009	100,000,000(b)
Total	2,251,700,000
Term notes due 1980-88 (including $60,000,000 issued in 1979) (2)	330,410,000
Convertible debentures 3⅝%, due 1986	50,000,000
Pollution control revenue bonds due 1980-2004(3)	49,250,000
	2,681,360,000(4)
Less: Due within one year:	
Sinking fund obligations(1)	13,250,000
Term notes(2)	25,410,000
First and refunding mortgage bonds	20,000,000
Pollution control revenue bonds(3)	2,250,000
Unamortized discount—net of premium	10,142,000
Total long-term debt(c)	$2,610,308,000

(a) Pollution Control Series. (b) Issued in 1979.

(c) No amount of any issue is pledged, held by or for account of the Company, held by affiliates or included in sinking or other special funds of the Company. All amounts are authorized by indenture and are issued and not retired or canceled.

(1) The Mortgage provides for sinking funds as follows:

	Commencing		Annual Sinking Fund Requirements
Series H through CC	*		$10,200,000
Series EE	June	1979	5,000,000
Series FF	Jan.	1977	8,250,000
Series KK	Mar.	1984	2,750,000
Pollution Control Series A	Sept.	1986	500,000
Pollution Control Series B	May	1992	250,000
Pollution Control Series C	May	1989	375,000

* The Company may satisfy these requirements by waiving the privilege to issue an equal amount of Bonds by substituting property therefor and intends to do so in 1980.

Substantially all of the Company's property is subject to the lien of the Mortgage.

(2) Term Notes:

Principal Amount	Maturity		Variable Interest Rate: Percentage of Base Lending Rate of	Not to Exceed an Average of	Not to be Less Than an Average of	Fixed Interest Rate
$ 5,410,000	July	1980	60% (a)			
10,000,000	Feb.	1980				7¾%
10,000,000	Nov.	1980	(b)	8.15%	7½%	
60,000,000	Feb.	1981	115	8½		
5,000,000	Feb.	1981				8.15
25,000,000	Aug.	1981	(c)	9.65		
50,000,000	Jan.	1982	115	8⅞		
5,000,000	Apr.	1982				8¼
10,000,000	Apr.	1983				8¼
5,000,000	Oct.	1983				8⅝
10,000,000	Apr.	1984				8¼
5,000,000	Apr.	1984	115	9.9		
5,000,000	Apr.	1984	105 (d)	9.9		
6,000,000	May	1984				10¼
14,000,000	June	1984				10¼
10,000,000	July	1984				10¼
20,000,000	Dec.	1984				10¼
20,000,000	Feb.	1985	115	8¾		
5,000,000	Mar.	1985				8⅝
50,000,000	Mar.	1988	(e)	9	8	
$330,410,000						

(a) Pollution control note. The interest rate may not exceed 6.15% at any time. (b) Base lending rate plus ½ of 1%. (c) Base lending rate plus ¾ of 1%. (d) 107½% of base lending rate after May 8, 1980. (e) 118% of the higher of commercial paper rate plus ½ of 1% or base lending rate.

(3) Pollution Control Revenue Bonds:

Principal Amount	Maturity	Interest Rate	Mandatory Sinking Fund Requirements: Annual Amount	Period
$ 8,000,000	Dec. 1980-83*	7.1-7.4%	None	
4,750,000	Dec. 1989	8.0	$250,000	1980-1983
			500,000	1984-1986
			750,000	1987-1988
22,000,000	Oct. 2002	5⅝	500,000	1990-2001
14,500,000	Dec. 2004	8¾	750,000	1990-2003
$49,250,000				

* $2,000,000 of the $8,000,000 principal amount of Serial Bonds mature annually.

(4) In 1979, the Company redeemed the $73,700,000 of long-term debt and sinking fund obligations due in 1979. Maturities (including cash sinking fund obligations) through 1984 are as follows: 1980—$60,910,000; 1981—$125,500,000; 1982—$90,500,000; 1983—$105,500,000; and 1984—$111,500,000.

L. Effect of Rate Increases on Operating Revenues:

Rate increases which became effective for portions of the following years increased operating revenues for the respective years by the approximate amounts shown:

	(Millions of Dollars)				
	1979	1978	1977	1976	1975
Electric	$56.4	$56.9	$3.0	$6.3	$14.8
Gas	.4			.9	

The Virginia State Corporation Commission approved an increase of $148 million (including $77 million attributable to interim rate relief), effective April 10, 1979.

M. Retirement Annuity Plan:

Costs to the Company under the plan were: 1979—$9,697,000; 1978—$8,586,000; 1977—$7,594,000; 1976—$5,046,000; and 1975—$3,720,000. Changes in plan benefits and actuarial assumptions in 1979, principally relating to incidence of retirement, salary scale and mortality, resulted in a decrease in the unfunded liability of $6.1 million. At January 1, 1979, the date of the latest available actuarial report reflecting the plan's 1979 amendments, the unfunded liability of the plan amounted to approximately $13.8 million.

N. Commitments and Contingencies:

The Company has made substantial commitments in connection with its construction program, which are presently estimated to be $730 million for 1980. Additional financing is contemplated in connection with this program.

The major portion of Laurel Run Mining Company's mining equipment is leased. As guarantor, the Company has a contingent liability for annual lease payments of $1.7 million in 1980, $1.1 million in 1981, $1.0 million in 1982 and $.8 million in 1983.

The FERC has directed the Company to reclassify $6.3 million ($4.3 million of AFC and $2.0 million of other costs) associated with a boiler implosion in 1974 at Yorktown Unit 3 which the Company has capitalized on its books. The Company does not agree with FERC, and the matter was included in the FERC rate hearing which was concluded on June 15, 1979. A decision is pending.

On June 22, 1979, the Company announced final settlement with Westinghouse Electric Corporation in the dispute involving delivery of 11.5 million pounds of uranium. At that time the Company estimated the present value of the settlement, which provides over the period of 1979-1997 for receipt of cash and for discounts on uranium and goods and services, to be over $380 million, which equaled the value of uranium contracts under litigation had they been fully performed by Westinghouse. The Company received $90 million in cash and $2 million in goods and services in 1979 and $41 million in cash in February 1980. Settlement proceeds will reduce fuel expenses under procedures currently under review by regulatory authorities. On January 8, 1979 the Company filed with the Internal Revenue Service a request for a ruling with respect to the Federal income tax consequences of the settlement. Such filing requested that the value received from the settlement be treated as a reduction in fuel expense over the life of the nuclear fuel, and not as taxable income in the year of the settlement. The Company's ruling request is still under consideration by the Internal Revenue Service.

O. Quarterly Financial Data (Unaudited):

The following amounts (not examined by independent certified public accountants) reflect all adjustments, consisting of only normal recurring accruals (reference is made to Note B), necessary in the opinion of the Company for a fair statement of the results for the interim periods, subject to the outcome of the matter referred to in Note B.

Quarter	Operating Revenues	Operating Income	Balance for Common Stock	Earnings Per Share of Common Stock
1979	(Thousands of Dollars)			
1st	$403,952	$76,138	$34,710	$.41
2nd	374,082	73,039	29,772	.35
3rd	457,004	92,361	47,951	.56
4th	468,271	74,856	28,911	.31

Quarter	Operating Revenues	Operating Income	Balance for Common Stock	Earnings Per Share of Common Stock
1978	(Thousands of Dollars)			
1st	$391,771	$72,249	$40,699	$.51
2nd	329,340	67,265	32,283	.41
3rd	404,763	90,238	45,700	.57
4th	339,031	75,523	31,594	.39

Results for interim periods may fluctuate as a result of weather conditions, rate relief and other factors.

Balance for Common Stock for the fourth quarter of 1978 was increased by a reduction, as a result of the Revenue Act of 1978, of $2.2 million ($.03 per share) of Federal income taxes previously provided for contributions in aid of construction.

P. Supplementary Data On Changing Prices (Unaudited):

The following supplementary information is supplied in accordance with the requirements of FASB Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant and equipment, which includes intangible plant, property held for future use and construction work in progress, represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current cost of land and general plant was determined by using the CPI-U. The current year's provision for depreciation on the constant dollar and current cost amounts of property, plant and equipment was determined by applying the Company's depreciation rates to the indexed plant amounts.

Fuel used in electric generation has been restated to reflect the constant dollars and current cost of nuclear fuel. The cost of other types of fuel used in electric generation and gas purchased for resale have not been restated since these costs are considered to be current.

Fuel inventories, with the exception of nuclear fuel, have not been restated from their historical cost in nominal dollars. The nuclear fuel inventory is considered an integral part of the plant investment and, therefore, should be restated and written-down to net recoverable cost. As indicated above, other types of fuel inventories have not been restated since the costs of these assets are considered to be current.

Preferred stock subject to mandatory redemption has been classified as a monetary liability in determining the gain from decline in purchasing power of dollars related to net amounts owed, in accordance with the definition of a monetary liability in FASB Statement No. 33.

As prescribed in Statement 33, income taxes were not adjusted.

Under the rate-making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant and equipment, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the loss due to the write-down of property, plant and equipment to net recoverable cost should be offset by the gain from the decline in purchasing power of the dollars related to net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of the dollars related to net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant and equipment. Since the depreciation on this plant is limited by regulation to the recovery of historical costs, a holding gain on debt is not allowed and the Company is limited to recovery only of the embedded cost of the asset.

Statement of Income from Continuing Operations Adjusted for Changing Prices (Unaudited)

	For The Year Ended December 31, 1979		
	Conventional Historical Cost	Constant Dollar Average 1979 Dollars	Current Cost Average 1979 Dollars
		(Thousands of Dollars)	
Operating revenues	$1,703,309	$1,703,309	$ 1,703,309
Fuel used in electric generation	559,998	565,565	569,589
Depreciation	136,280	246,183	285,441
Other operating and maintenance expense	620,893	620,893	620,893
Federal income taxes	69,744	69,744	69,744
Interest expense (net of allowance for borrowed funds used during construction)	187,504	187,504	187,504
Other income and deductions-net	(67,577)	(67,577)	(67,577)
	1,506,842	1,622,312	1,665,594
Income from continuing operations (excluding reduction to net recoverable cost)	$ 196,467	$ 80,997*	$ 37,715
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$ 813,039
Reduction to net recoverable cost		$ (501,519)	(246,719)
Effect of increase in general price level			(1,024,557)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(458,237)
Gain from decline in purchasing power of dollars related to net amounts owed		371,363	371,363
Net		$ (130,156)	$ (86,874)

* Including the reduction to net recoverable cost, the loss from continuing operations on a constant dollar basis would have been $420,522,000 for 1979.

** At December 31, 1979, current cost of property, plant and equipment, net of accumulated depreciation and amortization was $8,850,838,000, while historical cost or net cost recoverable through depreciation and amortization was $5,228,503,000.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Unaudited)

	Years Ended December 31,				
	1979	1978	1977	1976	1975
	(In Thousands of Average 1979 Dollars)				
Operating revenues	$1,703,309	$1,629,838	$1,627,637	$1,407,778	$1,393,593
Historical cost information adjusted for general inflation					
Income from continuing operations (excluding reduction to net recoverable cost)	$80,997				
Income per common share (after dividend requirements on preferred and preference stock)	$0.30				
Net assets at year-end at net recoverable cost	$1,966,000				
Current cost information					
Income from continuing operations (excluding reduction to net recoverable cost)	$37,715				
Loss per common share (after dividend requirements on preferred and preference stock)	$(0.20)				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$458,237				
Net assets at year-end at net recoverable cost	$1,966,000				
General information					
Gain from decline in purchasing power of dollars related to net amounts owed	$371,363				
Cash dividends declared per common share	$1.38	$1.45	$1.49	$1.56	$1.59
Market price per common share at year-end	$9.93	$15.00	$16.94	$19.18	$17.98
Average consumer price index	217.4	195.4	181.5	170.5	161.2

Ten Year Comparative Summary of Performance

(Thousands of Dollars)

	1979	1978	1977	1976
Operating revenues:				
Electric	**$1,647,928**	$1,413,866	$1,313,937	$1,060,663
Gas	**55,381**	51,039	44,923	43,413
Total operating revenues	**1,703,309**	1,464,905	1,358,860	1,104,076
Expenses (operation and maintenance)	**1,069,241**	869,232	850,823	647,965
Depreciation	**136,280**	117,481	98,527	95,191
Amortization of abandoned project costs	**7,292**	6,760	3,173	
Taxes:				
Federal income:				
Currently payable (refundable)	**8,449**	23,163	9,191	2,209
Investment tax credits, including carry-back	**570**	40,294	23,548	35,568
Investment tax credits, amortization	**(5,820)**	(5,467)	(4,539)	(3,028)
Deferred—accelerated amortization	**(1,547)**	(1,547)	(1,547)	(1,547)
—liberalized depreciation	**32,418**	38,509	13,101	12,320
—other	**35,674**	(22,294)	19,982	3,229
Other	**104,358**	93,499	81,174	71,413
Total operating expenses	**1,386,915**	1,159,630	1,093,433	863,320
Operating income	**316,394**	305,275	265,427	240,756
Other income:				
Allowance for other funds used during construction	**66,603**	64,002	72,361	
Allowance for funds used during construction				8[illegible]29
Miscellaneous, net	**974**	1,342	(663)	[illegible]491
Total other income	**67,577**	65,344	71,698	80,920
Income before interest charges	**383,971**	370,619	337,125	321,676
Interest charges:				
Interest on long-term debt	**204,392**	184,947	168,885	147,481
Other	**12,417**	6,677	5,748	7,409
Allowance for borrowed funds used during construction	**(29,305)**	(24,869)	(27,301)	
Total interest charges	**187,504**	166,755	147,332	154,890
Income before cumulative effect of change in accounting method	**196,467**	203,864	189,793	166,786
Cumulative effect to January 1, 1974 of accruing estimated unbilled revenues, net of taxes				
Net income	**196,467**	203,864	189,793	166,786
Dividends paid:				
On preferred and preference stock	**55,046**	53,588	47,719	43,821
On common stock	**120,638**	103,474	91,225	82,923
Total dividends	**175,684**	157,062	138,944	126,744
Earnings reinvested in business	**$ 20,783**	$ 46,802	$ 50,849	$ 4[illegible]42
Shares of common stock—average for year (thousands)	**86,965**	80,060	74,025	68,137
Earnings per share of common stock	**$1.63**	$1.88	$1.92	$1.80
Dividends paid per share of common stock	**$1.38**	$1.30	$1.24	$1.22
Pay-out ratio	**85%**	69%	64%	67
Return of capital:				
Common stock dividends	**(2)**		72.654%	25.267
Preferred and preference stock dividends				
Utility plant at original cost	**$6,307,644**	$5,626,671	$5,109,099	$4,609,416
Utility plant expenditures	**$ 708,756**	$ 529,186	$ 569,068	$ 481,601
Accumulated depreciation and amortization	**$1,079,142**	$ 940,958	$ 803,604	$ 700,254
Capitalization:				
Preferred and preference stock	**$ 678,451**	$ 651,634	$ 619,109	$ 583,807
Common stock, other paid-in capital and earnings reinvested in business	**1,731,762**	1,627,179	1,493,521	1,334,63
Debt (excluding short-term debt)	**2,681,360**	2,460,060	2,238,400	2,038,15
Total capitalization	**$5,091,573**	$4,738,873	$4,351,030	$3,956,59
Short-term debt—pending permanent financing	**$ 131,730**	$ 3,437	$ 53,050	$ 26,50
Capitalization ratios:				
Preferred and preference stock	**13%**	14%	14%	1
Common stock and earnings reinvested in business	**34**	34	34	3
Debt (excluding short-term debt)	**53**	52	52	5

(1) Includes non-recurring cumulative effect of change in accounting for unbilled revenues of $.24 per share.
(2) 1979 Return of capital was 33.02% for the first quarter and 91.95% for the remainder of the year.

1975	1974	1973	1972	1971	1970	1969
$ 998,933	$ 735,962	$ 524,963	$ 445,668	$ 390,370	$ 353,151	$ 305,770
34,403	28,050	26,000	25,185	23,302	21,729	20,670
1,033,336	764,012	550,963	470,853	413,672	374,880	326,440
629,162	478,716	278,750	264,906	218,846	181,434	142,189
89,805	77,757	68,436	53,058	49,950	46,841	41,020
(1,142)	(7,678)	(1,010)	(6,850)	8,652	23,784	30,252
2,286	(3,195)	3,901	7,368	1,952	1,163	4,082
(2,452)	(2,412)	(2,413)	(2,225)	(2,062)	(1,318)	(516)
(1,547)	(1,547)	(1,547)	(1,547)	(1,547)	(1,547)	(1,547)
9,360	3,202					
20,873	5,018	7,265	1,356	1,050		
57,169	48,216	42,170	36,629	33,514	29,367	26,653
803,514	598,077	395,552	352,695	310,355	279,724	242,133
229,822	165,935	155,411	118,158	103,317	95,156	84,307
[illegible]873	65,735	57,359	58,451	39,993	24,175	13,602
[illegible]544	411	336	(156)	142	274	619
67,417	66,146	57,695	58,295	40,135	24,449	14,221
297,239	232,081	213,106	176,453	143,452	119,605	98,528
122,951	94,058	78,350	67,554	58,130	44,083	33,653
19,556	23,214	10,684	5,162	3,274	3,368	1,624
142,507	117,272	89,034	72,716	61,404	47,451	35,277
154,732	114,809	124,072	103,737	82,048	72,154	63,251
	12,353					
154,732	127,162	124,072	103,737	82,048	72,154	63,251
35,971	30,419	24,147	16,472	12,216	7,728	5,555
70,786	60,165	54,796	46,905	41,993	39,906	36,923
106,757	90,584	78,943	63,377	54,209	47,634	42,478
[illegible]975	$ 36,578	$ 45,129	$ 40,360	$ 27,839	$ 24,520	$ 20,773
60,854	52,100	47,021	41,883	37,829	35,881	33,264
$1.95	$1.86(1)	$2.13	$2.08	$1.85	$1.80	$1.73
$1.18	$1.18	$1.16½	$1.12	$1.12	$1.12	$1.11
60%	71%	55%	54%	60%	62%	64%
	100.000%	49.407%	100.000%	96.724%	54.243%	
	100.000%		55.565%			
4,142,900	$3,739,395	$3,298,447	$2,847,614	$2,416,130	$2,082,487	$1,754,776
432,139	$ 460,912	$ 486,709	$ 472,819	$ 380,268	$ 338,074	$ 255,493
609,301	$ 545,296	$ 476,121	$ 414,941	$ 373,834	$ 335,605	$ 298,175
503,807	$ 446,447	$ 366,447	$ 296,447	$ 201,447	$ 161,447	$ 126,447
1,211,282	1,042,677	948,369	810,121	680,800	574,633	476,666
1,803,150	1,578,350	1,289,890	1,242,440	1,070,440	932,000	762,000
3,518,239	$3,067,474	$2,604,706	$2,349,008	$1,952,687	$1,668,080	$1,365,113
110,050	$ 256,945	$ 220,150	$ 88,400	$ 61,800	$ 53,700	$ 53,900
14%	15%	14%	13%	10%	10%	9%
35	34	36	34	35	34	35
51	51	50	53	55	56	56

Ten Year Operating Statistics

ELECTRIC DEPARTMENT	1979	1978	1977	1976
Operating revenues (thousands):				
Residential	$ 637,519	$ 563,561	$ 524,336	$ 420,150
Commercial	431,191	392,101	365,340	298,681
Industrial	220,814	182,901	176,573	144,770
Other sales of electric energy	347,276	268,213	242,686	193,096
Other electric revenues	11,128	7,090	5,002	3,966
Total operating revenues—electric	$1,647,928	$1,413,866	$1,313,937	$1,060,663
Population served at retail—estimated	3,523,000	3,465,000	3,415,000	3,365,000
Number of customers:				
Residential	1,174,351	1,138,470	1,100,876	1,071,528
Commercial	117,965	115,121	111,662	108,197
Industrial	920	920	920	920
Other	15,873	15,446	14,922	14,462
Total customers	1,309,109	1,269,957	1,228,380	1,195,107
Sales of electricity—Mwh (thousands):				
Residential	12,397	12,405	11,867	11,137
Commercial	9,161	9,170	8,762	8,455
Industrial	6,460	6,152	6,022	6,011
Other	9,557	9,340	8,806	8,510
Total sales of electricity	37,575	37,067	35,457	[illegible]113
Losses and miscellaneous system uses	2,909	2,901	2,792	[illegible]261
Total distribution—energy supply	40,484	39,968	38,249	36,374
Less: Sales outside of service area				
Total distribution	40,484	39,968	38,249	36,374
Source of electricity—Mwh (thousands):				
Steam—Fossil	24,301	24,438	26,403	27,090
—Nuclear	7,055	14,098	9,481	7,740
Hydro	1,122	967	444	59[illegible]
Other	356	399	625	40[illegible]
Net purchased and interchanged	7,650	66	1,296	53[illegible]
Company energy supply	40,484	39,968	38,249	36,37[illegible]
Less: Sales outside of service area				
System output	40,484	39,968	38,249	36,37[illegible]
Interchange deliveries for account of others	325	325	325	32[illegible]
Company's service area output	40,809	40,293	38,574	36,70[illegible]
Company's service area peak load—Mw	7,929	7,805	7,902	7,04[illegible]
Power supply available for peak load—Mw				
Generating capability:				
Steam—Fossil	6,321	6,321	6,321	[illegible]
—Nuclear	2,448	2,448	1,550	[illegible]
Hydro	326	326	326	32[illegible]
Other	439	439	439	45[illegible]
Total generating capability	9,534	9,534	8,636	8,67[illegible]
SEPA power disposed of in Company's service area	165	165	165	16[illegible]
Available for firm peak load	9,699	9,699	8,801	8,84[illegible]
Purchase (sale) outside service area	300	300	300	31[illegible]
Available for service area peak load	9,999	9,999	9,101	9,15[illegible]
BTU per kilowatt-hour generated	11,067	11,018	10,933	10,73[illegible]
Average fuel cost per KWH generated-mills	20.44	14.04	15.23	12.94
Electric line—pole miles	42,149	41,698	41,446	41,186
Underground construction—miles of route	9,314	8,395	7,794	6,824
GAS DEPARTMENT				
Operating revenues (thousands):				
Residential	$ 29,380	$ 30,621	$ 26,640	$ 24,91[illegible]
Commercial and industrial	25,346	20,000	17,981	18,30[illegible]
Other	655	418	302	19[illegible]
Total operating revenues—gas	$ 55,381	$ 51,039	$ 44,923	$ 43,41[illegible]
Population served at retail—estimated	875,000	875,000	875,000	875,00[illegible]
Number of customers	118,656	119,288	120,262	122,10[illegible]
Sales—Mcf (thousands)	16,307	15,303	15,065	17,22[illegible]
Output—Mcf manufactured (thousands)	74	236	650	13[illegible]
Mcf natural gas purchased (thousands)	17,499	16,407	15,448	18,51[illegible]
Miles of main	2,095	2,096	2,099	2,10[illegible]

* Excludes the cumulative effect to January 1, 1974 of accruing estimated unbilled revenues ($18,842,000 electric—$1,565,000 gas) shown as a non-recurring item on the income statement, net of taxes.

1975	1974	1973	1972	1971	1970	1969
$ 402,889	$ 308,834	$ 229,860	$ 191,924	$ 169,113	$ 158,698	$ 133,506
288,357	211,486	150,758	130,599	113,646	99,957	86,907
137,181	106,309	66,131	58,785	48,375	41,889	39,099
166,854	106,018	75,170	61,440	56,392	50,073	43,323
3,652	3,315	3,044	2,920	2,844	2,534	2,935
$ 998,933	$ 735,962*	$ 524,963	$ 445,668	$ 390,370	$ 353,151	$ 305,770
3,315,000	3,270,000	3,225,000	3,185,000	3,150,000	3,100,000	3,025,000
1,041,234	1,018,346	989,471	954,374	920,839	895,210	878,206
105,942	105,531	103,253	100,175	98,223	97,113	96,437
918	916	910	894	874	873	881
14,881	13,045	12,350	11,817	11,392	10,948	10,216
1,162,975	1,137,838	1,105,984	1,067,260	1,031,328	1,004,144	985,740
10,373	9,850	9,911	8,775	8,121	7,873	6,870
7,970	7,307	7,330	6,471	5,980	5,617	5,035
5,404	5,658	5,535	5,136	4,683	4,456	4,256
7,741	7,120	7,268	6,529	5,902	5,560	4,861
[illegible],488	29,935	30,044	26,911	24,686	23,506	21,022
[illegible],585	2,518	2,335	2,199	2,019	1,777	1,826
34,073	32,453	32,379	29,110	26,705	25,283	22,848
					216	117
34,073	32,453	32,379	29,110	26,705	25,067	22,731
23,562	22,819	22,311	23,710	24,335	23,218	22,178
8,969	5,953	6,857	370			
988	774	949	1,071	825	445	443
226	629	459	558	323	350	276
328	2,278	1,803	3,401	1,222	1,270	(49)
34,073	32,453	32,379	29,110	26,705	25,283	22,848
					216	117
34,073	32,453	32,379	29,110	26,705	25,067	22,731
325	325	315	312	307	301	315
34,398	32,778	32,694	29,422	27,012	25,368	23,046
7,133	6,734	6,900	6,232	5,295	4,852	4,639
[illegible],321	5,684	4,866	4,306	4,334	4,330	4,330
[illegible]576	1,576	1,576	788			
326	326	326	326	326	326	326
469	530	530	530	530	342	254
8,692	8,116	7,298	5,950	5,190	4,998	4,910
165	165	165	132	132	131	131
8,857	8,281	7,463	6,082	5,322	5,129	5,041
316	251	122	680	610	194	(165)
9,173	8,532	7,585	6,762	5,932	5,323	4,876
10,892	10,868	10,673	10,529	10,382	10,268	10,162
13.06	12.43	4.98	4.63	4.28	3.55	2.96
40,663	40,121	39,578	39,055	38,404	37,803	37,336
6,266	5,641	4,772	4,055	3,367	2,763	2,282
21,280	$ 17,265	$ 16,038	$ 16,132	$ 14,847	$ 14,600	$ 14,446
12,944	10,598	9,775	8,858	8,252	6,922	5,932
179	187	187	195	203	207	292
34,403	$ 28,050*	$ 26,000	$ 25,185	$ 23,302	$ 21,729	$ 20,670
875,000	864,000	853,000	852,000	850,000	800,000	655,000
122,486	124,395	125,525	125,277	124,029	122,489	122,264
15,017	16,888	17,666	17,620	17,772	16,239	15,345
92	12	297	247	341	378	288
16,274	17,938	18,696	18,824	18,563	17,035	16,257
2,014	2,012	1,992	1,993	1,955	1,909	1,850

Membership of Committees of the Board

○ Committee Chairman ● Member ■ Ex Officio

Directors

Director	Finance	Audit	Nominating	Organization and Compensation	Employees' Benefit
James F. Betts, President, Continental Financial Services Company, Richmond					●
Charles F. Burroughs, Jr., Chairman of the Board, Royster Company, Norfolk	●	●	●		
Milton L. Drewer, Jr., President, First American Bank of Virginia, McLean	●				
Mrs. Mary C. Fray, Culpeper					●
Dr. Allix B. James, President Emeritus Virginia Union University, Richmond					○
John M. McGurn, Retired Chairman of the Board	○			■	■
T. Justin Moore, Jr., Chairman of the Board of Directors	■			■	
William S. Peebles, III, President, W.S. Peebles and Company, Inc., Lawrenceville		○	●		
Shirley S. Pierce, President, The Ahoskie Fertilizer Company, Inc., Ahoskie, N.C.					●
Stanley Ragone, President	■				■
Kenneth A. Randall, President, The Conference Board, New York	●			●	
William T. Roos, President, Penn Luggage, Inc., Hampton		●			●
Roy R. Smith, Chairman of the Board, Smith's Transfer Corporation, Staunton				○	
William F. Vosbeck, Jr., President, VVKR Incorporated, Alexandria			○	●	

Officers

T. Justin Moore, Jr., Chairman of the Board and Chief Executive Officer, Age 54 (23)
Stanley Ragone, President and Chief Operating Officer, Age 54 (31)
William W. Berry, Executive Vice President, Age 47 (22)
Jack H. Ferguson, Executive Vice President, (Effective 2/1/80), Age 48 (20)

Senior Vice Presidents

Samuel C. Brown, Jr., Power Station Engineering and Construction, Age 54 (26)
Leon D. Johnson, III, Support Services, Age 62 (40)
William L. Proffitt, Commercial Operations, Age 50 (24)

Vice Presidents

Wadsworth Bugg, Jr., Age 58 (33)
Charles M. Jarvis, Age 51 (32)
B.D. Johnson, Vice President and Controller, Age 47 (23)
Donald B. McCammond, Age 64 (9)
John I. Oatts, Age 50 (27)
O. James Peterson, III, Vice President and Treasurer, Age 44 (9)
William C. Spencer, Age 47 (12)
Carlton M. Stallings, Age 61 (37)
William N. Thomas, Age 56 (31)

Corporate Secretary

S. Brooks Robertson, Age 62 (41)

Division Vice Presidents

Northern Division, James P. Cox, Jr., Age 61 (40)
Eastern Division, Harrison Hubard, Age 62 (40)
Southern Division, Randolph D. McIver, Age 49 (20)
Western Division, Richard W. Carroll, Age 61 (33)
Central Division, David W. Poole, Age 55 (29)

( ) Years of utility experience

Stock and Convertible Debenture Listings

New York Stock Exchange

Transfer Agents

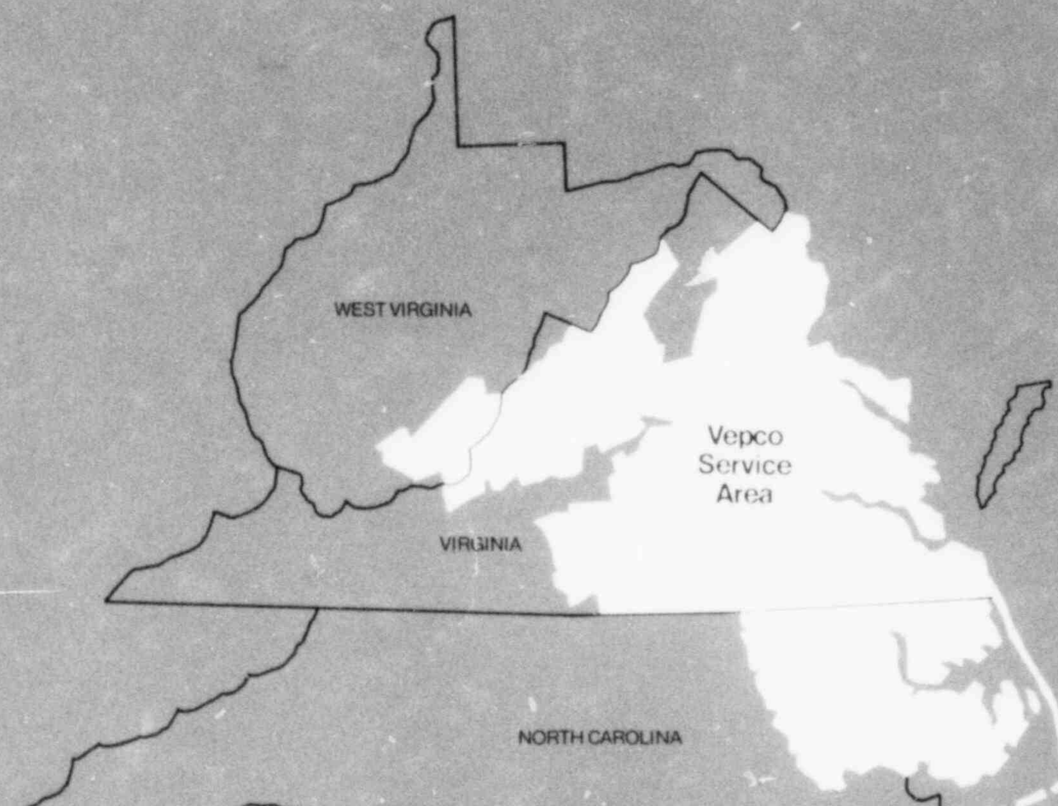
United Virginia Bank, Richmond
The Chase Manhattan Bank (N.A.), New York

Registrars

Central Fidelity Bank, N.A., Richmond
Manufacturers Hanover Trust Company, New York

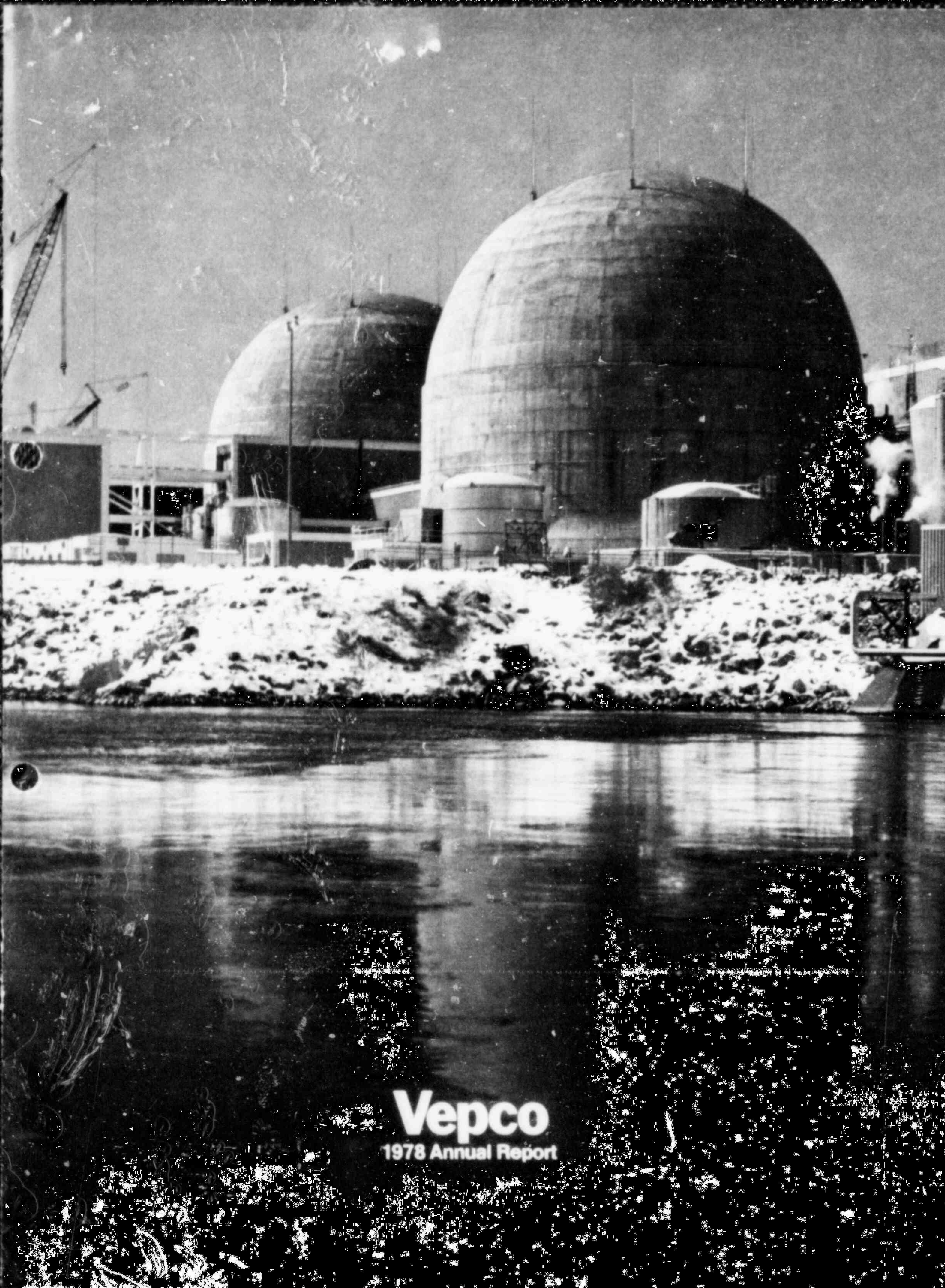
Annual Meeting

April 16, 1980


WEST VIRGINIA
Vepco
Service
Area
VIRGINIA
NORTH CAROLINA

Vepco

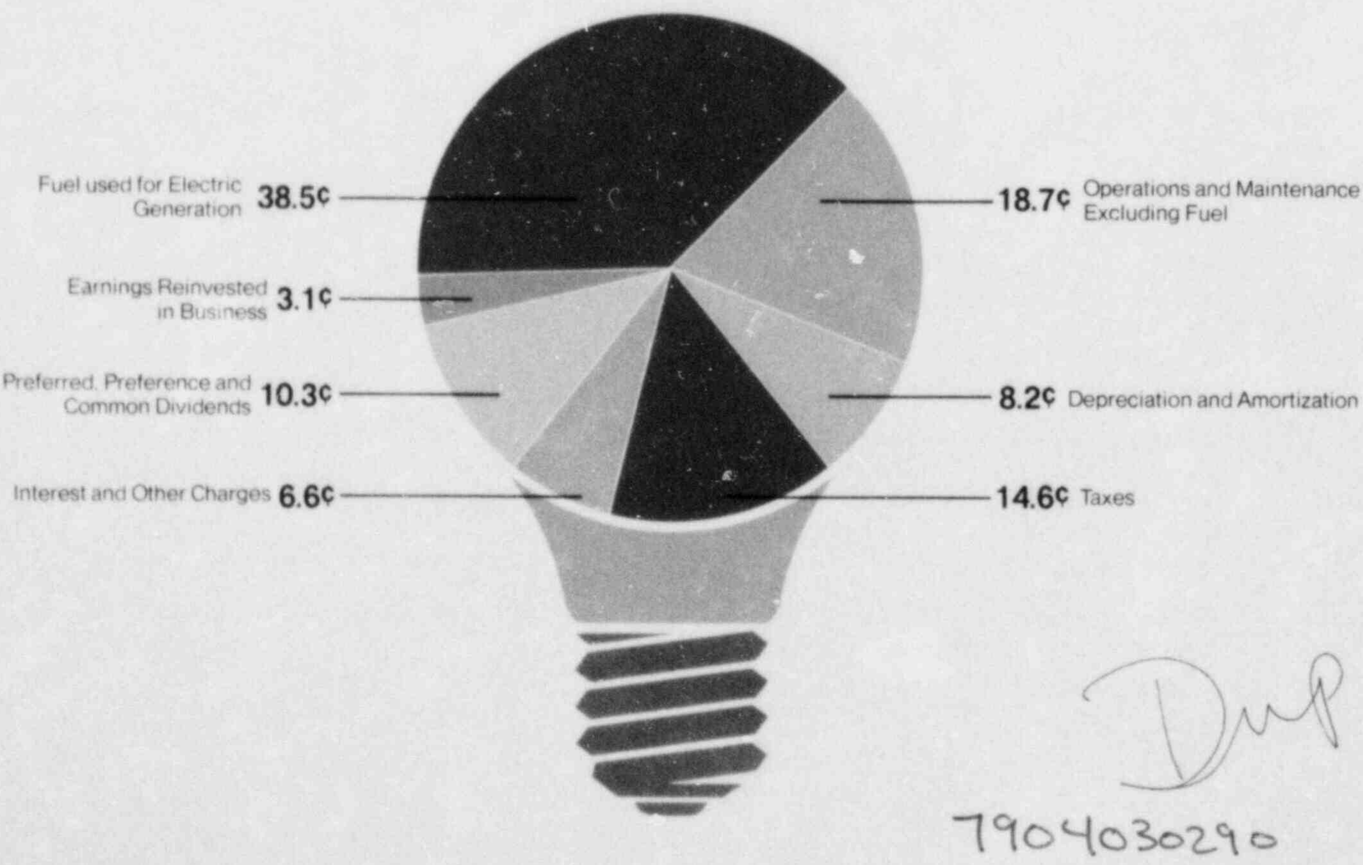
Virginia Electric and Power Company
P.O. Box 26666 • Richmond, Virginia 23261


Vepco
1978 Annual Report

1978 Highlights

	1978	1977	Increase (Decrease)	% Increase (Decrease)
Financial				
Total Operating Revenues	**$1,464,905,000**	$1,358,860,000	$106,045,000	7.8
Total Operating Expenses	**$1,159,630,000**	$1,093,433,000	$ 66,197,000	6.1
Net Income	**$ 203,864,000**	$ 189,793,000	$ 14,071,000	7.4
Balance Available for Common Stock	**$ 150,276,000**	$ 142,074,000	$ 8,202,000	5.8
Average Shares of Common Stock Outstanding	**80,060,000**	74,025,000	6,035,000	8.2
Stockholders—Common, Preferred and Preference	**180,800**	167,200	13,600	8.1
Earnings Per Share of Common Stock	**$1.88**	$1.92	$(.04)	(2.1)
Dividends Per Share of Common Stock	**$1.30**	$1.24	$.06	4.8
Book Value Per Share of Common Stock	**$19.09**	$18.89	$.20	1.1
Capital Expenditures	**$ 529,186,000**	$ 569,068,000	$(39,882,000)	(7.0)
Sales of Securities	**$ 439,489,000**	$ 402,342,000	$ 37,147,000	9.2
Operations				
System Output—Megawatt-hours (thousands)	**39,968**	38,249	1,719	4.5
Capability—Megawatts	**9,999**	9,101	898	9.9
Service Area Peak Load—Megawatts	**7,805**	7,902	(97)	(1.2)
Customers—Electric—Heating	**261,899**	227,509	34,390	15.1
—Other	**1,008,001**	1,000,791	7,210	.7
Total Electric	**1,269,900**	1,228,300	41,600	3.4
Customers—Gas	**119,300**	120,300	(1,000)	(.8)
Average Residential Use—Electric—Kilowatt-hours	**11,099**	10,944	155	1.4
Employees—Full Time	**9,382**	8,821	561	6.4

Disposition of the 1978 Revenue Dollar



Dup

7904030290

An overview of 1978 for our Stockholders:

The year 1978 was one of notable achievements for the Company. We wish to share them with you in this message highlighting the important points set forth in greater detail throughout the pages of this report.

The key operating event of the year was the beginning of commercial service of unit 1 at the North Anna Nuclear Power Station shown on the cover. This milestone for Vepco occurred on June 6, 1978 and generated substantial benefits during the year beyond those anticipated. When all four planned units are completed, North Anna will be one of the nation's largest nuclear stations. We are equally proud of the fact that its associated facilities—in particular the newly created Lake Anna—will afford enormous environmental and recreational benefits to the area.

Customers continued to use more electricity and records were set in kilowatt-hour sales, in total operating revenues (and expenses), and in net income. Earnings per share, however, did not reach the level attained in 1977 when 6 million fewer shares were outstanding and, in fact, decreased by $.04 per share to $1.88. This reflects the continuing problems experienced by the Company under the necessity of issuing new securities to finance the construction of essential facilities.

Other factors contributing to lower earnings per share were the increased average number of shares outstanding and the regulatory delay in timely rate decisions in spite of a concentrated effort by management to seek rate relief to cover higher costs. Many calculations in rate cases are based on the prior year's operations, yet inflation continues during the entire period of time from the filing of a rate case until a rate increase is granted and takes effect. Very often during the protracted lag in time between request and decision the high rate of inflation that has occurred has offset all or a substantial portion of the rate relief requested.

Results of our attempts to secure rate relief in 1978 are treated in more detail on page 10. The Company had hoped and expected to receive a decision on its $246 million rate request from the Virginia Commission prior to the printing of this Report. The Company will continue to seek increases when justified to offset increased costs and to assure our ability to raise new capital when required, thus enabling us to provide adequate service in the future to our growing area.

An increase in common stock dividends in June 1978, set a record for dividends paid with a 1978 pay-out of $1.30 per share, compared to the $1.24 per share paid in 1977.

New capital raised in 1978 totalled over $439 million including the successful public offering of 5 million additional shares of common stock reflecting continued investor confidence in the Company and the area we serve.

Progress was made in our continuing program to reduce dependence on costly imported oil. Power generated by nuclear fuel reached a new high of 35.3% of our customers' electric energy demands for the year.

Excellent progress was made throughout the year toward the scheduled completion of the Bath County Pumped Storage Station in 1982. This facility will have the world's largest powerhouse of this type, and will provide an efficient solution to a utility's most challenging problem—that of meeting peak demand without over-building.

New ground in financing was broken when Vepco became the first utility to sell its commercial paper notes directly to investors. Sales were made to regional investors in our area, and created significant savings in the cost of short-term debt.

Efficiency of management and operations improved with the move into new corporate headquarters at One James River Plaza. The leasing of this structure achieved working economies through the central location of personnel formerly housed in seven separate buildings.

Persistent and pervasive inflation was prominent among the factors which pushed expenses upward during the year, offsetting significant economies in operations. Rising costs of fuels, higher depreciation and higher taxes contributed to an overall increase of 6% in the expenses of doing business. The gain in nuclear operations with North Anna brought reductions in the average cost of generating a kilowatt-hour and reduced the Company's need for purchased and interchanged power.

The first unit at our second nuclear station (North Anna) performed at levels well above the national average. Put into service in June, North Anna's unit 1 operated for the remaining seven months of 1978 at a capacity factor of 81.3%. The two Surry units operated at a capacity factor of 74.2%. By contrast, the national average for nuclear units was a capacity factor of 67.2% for the year.

The power generated at North Anna played a significant part in limiting the effects of inflation on our customers' bills. During the month of November, Surry and North Anna nuclear units accounted for 52% of Vepco's generation—the first time nuclear power supplied over half of our energy for any one month. In mid-1979, we expect to bring North Anna unit 2 into service with its 934 Mw capacity.

The Bath County and North Anna projects are your Company's response to one of its prime responsibilities—that of providing dependable electric service to meet our customers' growing energy needs. The challenge of planning for the future is highlighted by the fact that sales of electricity have almost doubled over the past decade.

Beyond 1979 the Company plans to have 2,100 Mw of capacity from the Bath County Project in operation in 1982, and North Anna units 3 and 4 will bring 938 Mw each into service when needed in the mid or late 1980's. Our present forecast indicates that this new capacity will be needed to meet the normal peak demands of the 1980's.

Expenditures have reached $326 million to meet regulatory and conservation requirements at North Anna and Bath County.

Five years have now passed since the Arabs imposed their oil embargo, with little apparent action, except by the utilities themselves, to try to cut down the nation's reliance on the politics and production of the OPEC nations. Meanwhile, our balance of trade has established a record deficit, and fluctuations in the value of the dollar have been almost as turbulent as the turmoil in the Middle East.

Polls indicate, fortunately, that the public is beginning to recognize the seriousness of the energy problem in the years ahead. It is a popular pastime for special interest groups to accuse the nation of energy waste, yet consumers

have conserved. Whether it is the sheer economic pressure of increasing prices or for patriotic reasons, the growth in the rate of consumption of electric energy is declining.

Opinion surveys also indicate continued strong public support for nuclear power as one energy alternative urgently needed to get us through the next quarter of a century and reduce reliance on foreign oil. The average citizen today appears to be well aware of the perils to living standards and jobs from an energy shortage, despite the unceasing efforts of small, special interest groups to halt growth and block construction of new generating facilities. At some public hearings on our rates in Virginia last year, witnesses demonstrated a keen awareness of these problems and of the seriousness of delays by regulatory commissions as well. The NAACP was one of those who recognized the need for a strong energy supply in any formula for a strong economy if those who have not yet attained a decent standard of living are to have their opportunity assured.

It should embarrass all Americans that it takes 10 to 12 years to build a nuclear plant in this country whereas the Japanese, Germans and French can build identical plants in half the time. Foreign countries are building breeder reactors that our national policy prohibits at home as a solution to future energy problems. Coal should be a prime fuel for energy use, but we face increasing environmental restrictions on the mining and utilization of coal, shortages of young people in the coal fields and of coal cars and locomotives on the rails. Our coal output today is just about the same as it was 30 years ago.

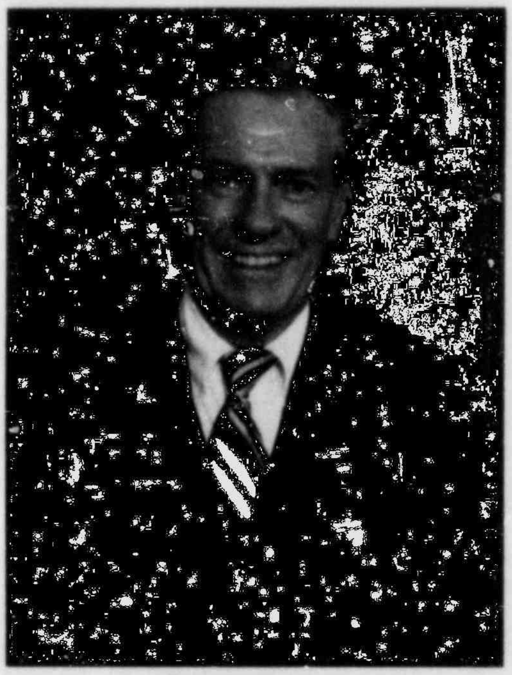
The utility industry, both public and private, has a strong, joint research and development program under way designed to improve existing systems, and to develop sources and alternatives for the future, including solar, fusion, geothermal and the breeder reactor.

It has been our policy for many years to strive to produce electricity at the lowest practicable cost in a socially responsive manner. We have cited a few of the contributing factors to the increasing cost of electricity, but we will continue our efforts to achieve our policy objectives. We have a strong and dedicated organization committed to our obligation to provide an adequate and reliable supply of electricity for all customers and an adequate and reliable source of return to our stockholders and investors who provide the funds for keeping the system economically healthy.

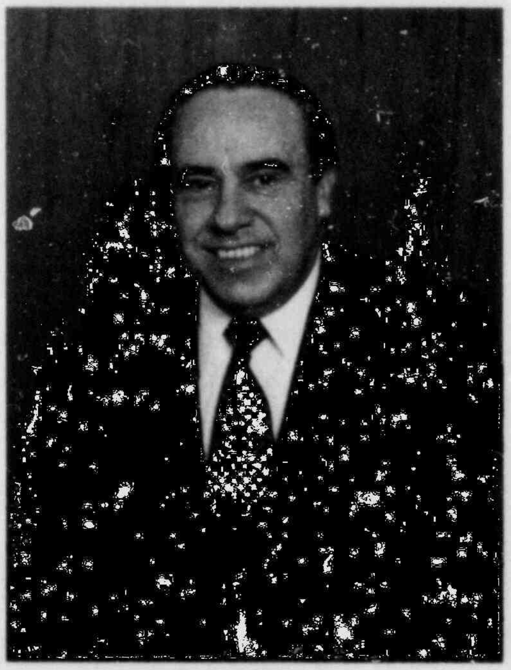
We express our appreciation for the loyalty and hard work of those Vepco employees who made 1978's achievements possible. We appreciate the continued support of our stockholders. With these two assets, we are confident that 1979 will be another year of accomplishment.

T. Justin Moore, Jr.
Chairman of the Board

Stanley Ragone
President



T. Justin Moore, Jr.



Stanley Ragone

The major factors that shaped Vepco's operations during 1978 are summarized graphically on these two pages.

Rising by 7.8%, **Revenues** set a record total of $1,465 million. Expenses, however, continued to increase and resulted in a gain in net income of only $14.1 million, or 7.4%. From the year's balance available for common stock of $150.3 million, the Company paid **Dividends** of $103.5 million, an increase of 13.4%. Quarterly dividends received by stockholders amounted to $1.30 per share of common stock for 1978, compared to $1.24 in 1977, up 4.8%.

Revenues increased during the year, despite the lack of substantial rate relief, due primarily to increased customer demands for electric service. In meeting this demand, a 4.5% increase in electrical output was required with over 35% of the total being generated by nuclear units. Both figures were substantially above national averages.

Inflation and other factors pushed **Expenses** up by 6% for the year, in spite of lower fuel costs resulting from nuclear generating efficiencies. The net increase in operating expense was $66 million with a year-end total of $1,160 million. There were significant increases in operation and maintenance expenses ($18.4 million), depreciation ($19.0 million) and taxes ($25.2 million). Purchased and interchanged power costs were $43 million lower than in 1977.

The increase in nuclear generation during 1978 was the major factor in holding down spiraling **Fuel Costs**. These costs, amounting to $585.6 million compared to $575.2 million last year when fewer kilowatt-hours were generated reflected an increase of $10.4 million. The overall economy of nuclear generation was realized by the reduced fuel cost per revenue dollar— down this year to only 38.5% of the revenue dollar, compared to 40.8% of the revenue dollar in 1977.

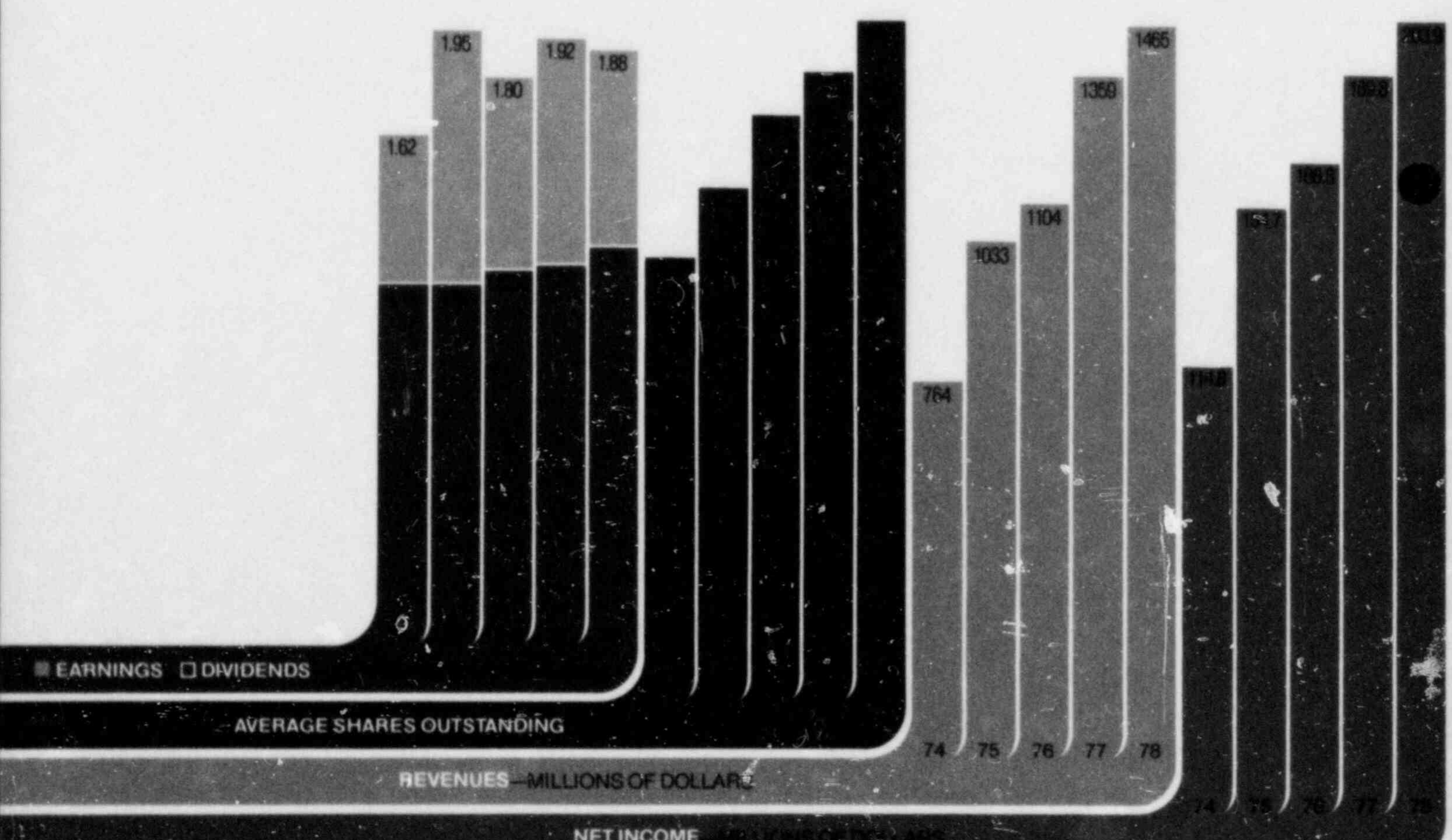
A large share of the customer dollar went to pay increasing **Taxes**, up 18% for a total of $166.2 million. State and local taxes amounted to $93.5 million of which gross receipt taxes were $54.9 million and property taxes were $26.3 million.

In addition, the Company collected from its customers $54.7 million in utility taxes imposed by local governments and passed on to them without any service or handling fees.

Federal income taxes amounted to $72.7 million, an increase of 21.6% over 1977.

Much of the increase in taxes resulted from the record **Sales of Electricity**. Total electric operating revenues were $1,414 million from sales of 37,067 thousand Mwh, a significant increase in consumption over 1977. Electric output was up 4.5%, topping the national average increase of 3.7%. The number of residential customers increased to 1,138,470. These customers consumed 12,405 thousand Mwh ($564 million in revenues).

The Company achieved another innovation in **Financing** for utilities in 1978 by being the first utility in the nation to sell commercial paper notes directly to investors. Significant savings were realized



in the cost of funds for daily operations through the sale of these short-term notes, which were placed directly with regional investors. This has an additional benefit of promoting wider support for the Company with large investors in our area.

Major sources of long-term money for new capital totalling over $439 million included $105 million from bank and insurance company loans; $37 million from Preferred Stock; $205 million from First and Refunding Mortgage Bonds; and $8 million from Pollution Control Bonds. The sale of 5 million shares of Common Stock in December provided $68 million in funds. An additional $11.7 million was obtained from the issuance of Common Stock through the Automatic Dividend Reinvestment Plan and $4.8 million through the Employees' Savings Plan.

The number of stockholders increased during the year by 13,600 to a total of 180,800. They represent a broad spectrum of investors living in all 50 of the United States and numerous foreign countries. Over 30% of our stockholders are residents of the Company's three-state service area.

Common Stock Prices and Dividends for the last two years were:

	High	Low	Dividends
1978			
First Quarter	14⅜	13½	$ .31
Second Quarter	14⅜	13½	.33
Third Quarter	15¼	14⅛	.33
Fourth Quarter	14¾	13⅝	.33
1977			
First Quarter	15⅝	14	.31
Second Quarter	15½	14⅛	.31
Third Quarter	15¾	14¼	.31
Fourth Quarter	15½	14	.31

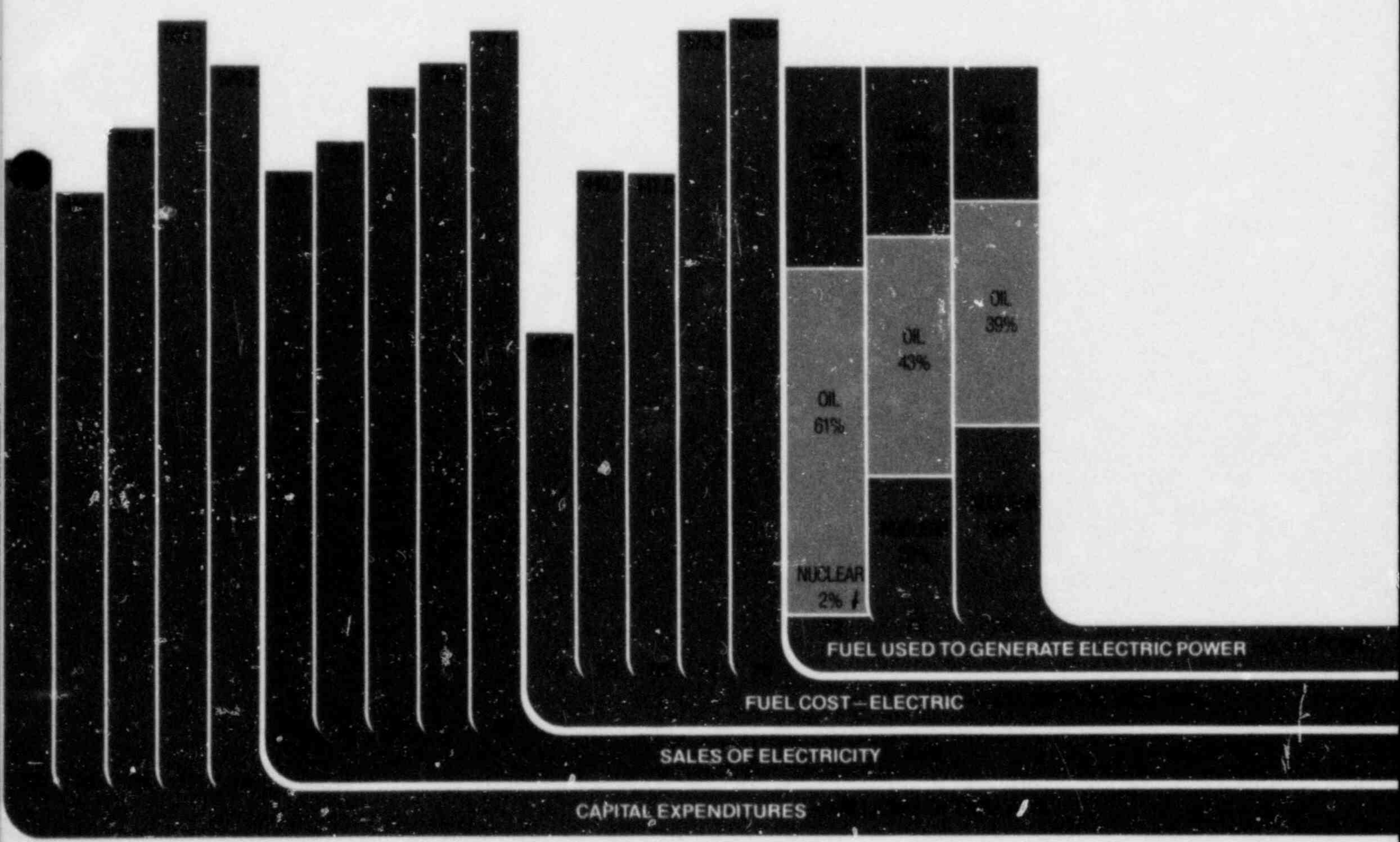
Vepco's **Energy Picture** was placed in a very favorable perspective at year-end because of the efficiency demonstrated by our three in-service nuclear units.

Both the North Anna and Surry units performed well above the average for nuclear stations nationally. In operation for seven months, North Anna Nuclear unit 1 operated at a capacity factor of 81.3%. The two Surry units performed with a capacity factor of 74.2% for the year. The national average in this yardstick of efficiency was 67.2% for 1978.

Measured in terms of fuel economy, the three nuclear units generated energy that would have used 25.4 million barrels of oil at an additional cost to customers of over $230 million. This same power produced by coal instead of oil would have added over $170 million to operating expenses and customers' bills for the year.

The picture in types of fuel has changed dramatically since 1972, when our first commercial nuclear operation began. The ratio of fuel oil used has dropped from 61% in 1972 to a 39% level in 1978. Over the same six years, nuclear generation has steadily grown from 2% to about 36%. This represents a long step forward in reducing the Company's use of oil, now being imported at spiraling costs.

For greater energy flexibility and operating economy, Vepco's plans for the future, which include nuclear, lower cost coal and pumped storage hydro generating facilities, are reviewed on the following pages of this Report.



North Anna Nuclear Power Station

Game fish nosed into favored feeding spots and new homes were springing up along the shoreline of Lake Anna as Virginia's second nuclear power facility generated its first commercial output on June 6, 1978.

When Vepco planned the 13,000 acre Lake Anna to supply cooling water for the four-unit North Anna Nuclear Power Station, it was designed to become an environmental asset to our area as well as a functional water source. Today that promise is being fulfilled as North Anna unit 1 commenced operation of a facility which will ultimately have a capacity of 3.7 million Kw.

Located strategically along the North Anna River between Washington, D.C. and Richmond, Virginia, Vepco's newest nuclear station represents a capital outlay of $1.7 billion through 1978. It was available for operation 92% of the time since its in-service date in June and produced energy at a capacity factor of 81.3% for the year.

North Anna unit 2 is scheduled for commercial operation in mid-1979 and will complete the project's first phase. The scope of this initial phase includes the pouring of some 320,000 cubic yards of concrete and the laying of 993 miles of electrical cable—enough to reach from Richmond to Oklahoma City.

Each of the four units at North Anna will use over 5,000 tons of uranium oxide over its life, which will produce energy equal to that of more than 12 billion gallons of oil or 75 million tons of coal. Planned construction of North Anna's second phase, units 3 and 4, is moving along toward scheduled operation when needed in the mid or late 1980's.

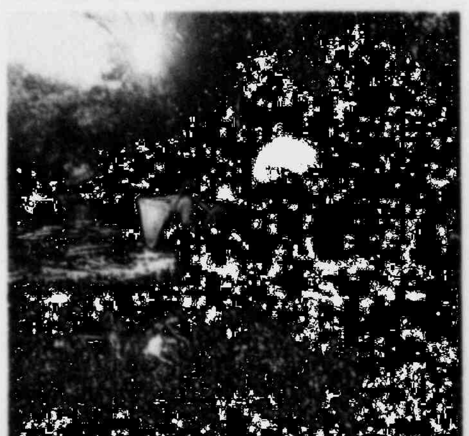
At left. Lake Anna at sunset reveals one of many recreational benefits, with domes of Units 1 and 2 in background.

With North Anna unit 1 now in operation, Vepco can proceed with planned replacement of steam generator lower assemblies at Surry units 1 and 2. Approved by the Nuclear Regulatory Commission (NRC), the process is timed to coincide with scheduled fueling and maintenance. Outage of the two units will be spaced so that loss of generating capacity is held to a minimum.

Significantly, in this replacement Vepco will for the first time manage the project itself rather than have an agent provide the management. This emphasizes our commitment to assume more responsibility for major projects through closer control over construction and should also minimize outage time.

During 1978, the NRC approved the Company's new Nuclear Training Simulator installed at the former information center at Surry. An exact duplicate of the control room at Surry unit 1, the simulator reproduces the operation of the actual equipment. As a trainee responds to realistic situations (both routine and unexpected) his reactions are evaluated by an examiner at a control console behind a one-way vision glass screen.

Below. Vepco personnel collect samples of aquatic life as part of continuing environmental studies around North Anna.



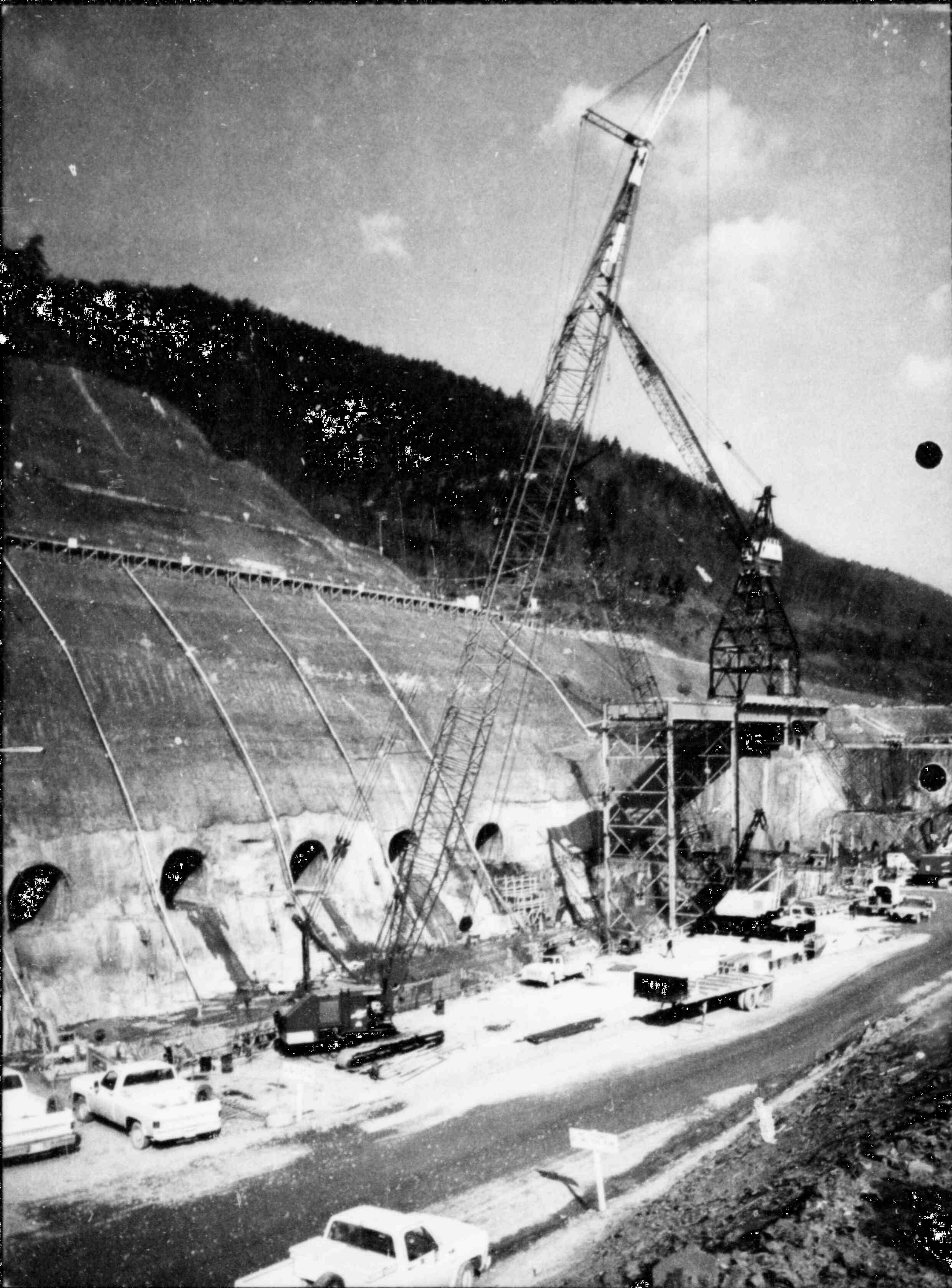
In the first six months, 28 reactor operators were trained on this simulator. Savings of over $1 million are expected each year with a program to train 15 new operators and retrain some 100 licensed operators annually. Other types of training will also be done at the Surry Center, as the NRC requires a rigorous and extensive program for reactor operators which ends in their testing and the issuing of a license that must be renewed regularly.

Environmental Investment

The building of North Anna and its huge reservoir has involved a tremendous outlay of Vepco's resources. A considerable portion has been invested in caring for and protecting the total environment—both natural surroundings and manmade public/private additions.

Lake Anna serves many functions. Year-round and summer homes have been built along its shoreline, together with marinas conveniently placed for public access to excellent boating and fishing. The reservoir is essentially a run of the river facility but its waters are also

Below. Examiner in one way observation booth creates realistic nuclear control situations to test trainees on the new Surry simulator.



Rising 460 feet, the upper dam at Bath County will span this valley to store "water energy" equal to 23.7 million Kwh.

released at periods of low flow to maintain the vitality of the North Anna River and provide a dependable water supply for a downstream county water system. A multi-purpose shoreline park is planned by the state for the future.

More than 30,000 fishermen-days were chalked up in 1978, with reported catches of large mouth bass of over 8 pounds. Studies have shown that Lake Anna supports a balanced, well-fed and fast-growing fish population.

For environmental protection Vepco spent $322 million at North Anna on such items as five sewage treatment plants, a waste heat treatment facility, an environmental lab and other waste management facilities, as well as environmental safeguards required by the Nuclear Regulatory Commission.

Comprehensive studies keep track of the "health" of Lake Anna much as a physician does by examining a patient. The Virginia Commission of Game and Inland Fisheries conducts annual creel surveys to determine fishing success. Vepco and its consultants study many phases of the lake's ecology—phytoplankton, zooplankton, bottom organisms and aquatic insects. These ongoing studies, estimated to cost nearly a half million dollars in 1979, have one aim—to detect and remedy any imbalance in the lake ecosystem.

Bath County Pumped Storage Station

Nestled in the rugged Appalachian peaks and valleys where Virginia meets West Virginia, Vepco is also building one of the world's largest pumped storage hydro-electric generating stations.

Behind a 460 foot high dam enough water will be stored in the upper reservoir to provide 23.7 million kilowatt-hours of electricity. During hot summer days when air conditioning demands build to a peak or on cold winter days when electric usage also is high, this stored energy will be tapped as 7.3 billion gallons of water drop more than 1,000 feet. The rushing waters will drive six massive turbine-generators, each capable of producing 350,000 kilowatts of electricity.

At night and on weekends as energy use diminishes, energy is then drawn from economical nuclear and coal units to reverse the process at Bath County. The turbine-generators function as motor-pumps to return the water to the upper reservoir, storing it until it is needed again for generation.

Functioning in similar fashion to a giant storage battery that can be recharged, the Bath County station is designed to maximize the use of the Company's large base-load units. Pumped storage in combination with our nuclear and fossil units will achieve a higher utilization of our facilities at minimum costs.

Pumped storage hydroelectric power is an economical way to solve a dilemma common to all utilities. It provides an instantly available reserve capacity of huge amounts of electricity to meet peak demands without over-building costly fuel burning stations that will be under-utilized.

This project is also being developed with concern for the environment, as more than $13 million will be spent in studies, facilities and action programs. Over $4 million of the $13 million has already been spent on erosion and sediment control and sewage and industrial waste treatment. Major efforts have been successful in preventing stream degradation caused by erosion from work areas.

Tree and game food planting is scheduled for 1979 under plans submitted to the Federal Energy Regulatory Commission (FERC) to minimize effects on fish and wildlife. These programs were developed by the Company and consultants from Virginia Polytechnic Institute and State University in discussions with the U.S. Forest Service, the U.S. Fish and Wildlife Service and the Virginia Commission of Game and Inland Fisheries.

Ongoing surveys are monitoring

t left. Bath County powerhouse will contain six 350 Mw generating units

sediment load and water quality in Back Creek and Little Back Creek. Both streams will benefit from control over flow and flooding when the dams are completed. During natural droughts, planned releases from the two reservoirs will maintain a good environment for aquatic life downstream. In flood seasons, the project can particularly reduce down stream flows for the commonly occurring floods on Back Creek.

The reservoirs will be unsuitable for recreation because of their extreme water level fluctuation. However, as required under the Federal Power Act, Vepco will develop a 325 acre recreation area downstream from the lower dam. Two large ponds covering 85 acres will be available for fishing, boating and swimming. Visitors will also be able to enjoy picnic and camping facilities and hiking trails.

Bath County's pumped storage units, together with North Anna's four nuclear units, represent a substantial capital outlay over the next six years. They are the major elements in our efforts to assure adequate energy for the future at practicable cost.

Rates and Responsibility

Emergency repairs to ice-damaged power lines bring a public spotlight to bear on Vepco's responsibility, and commitment, for adequate electric service at all times.

Behind this dramatic scene is our continuing effort to build new facilities to meet increasing demands, while dealing with the daily problems of operation and maintenance. In both areas, the persistent effects of inflation add a heavy burden of increasing costs.

Vepco is also committed to acting as a responsible steward for the investments of its stockholders and for providing them with a reasonable return on their investment. Improving performance in this area will improve our ability to acquire new capital on favorable terms.

To offset rising costs and strengthen our financial posture, management continues to seek increased revenues through timely rate relief. Our efforts in 1978 met with mixed success as we sought total increases of $313.6 million.

The major request in Virginia was for a $246 million increase in permanent rate relief. The State Corporation Commission of Virginia granted an interim $82 million at the same time North Anna went into service in June 1978. Although hearings on the remainder were completed in September, a decision is still pending.

The Company negotiated a $17.2 million increase with governmental customers in Virginia. Applications filed with FERC for wholesale service to cooperatives and municipalities totalled $27.6 million, and settlement was reached with cooperatives for $11.8 million. North Carolina's Utilities Commission approved an increase of $10.8 million annually, or 82% of the rate relief requested. At the request of the Governor of North Carolina, the Commission has instituted an examination of the difference between the Company's rates and other utilities in North Carolina. The matter is set for public hearing in April.

With every increase in rates, the Company experiences an increase in customer reactions. In view of this, Vepco's program for responding to customers has been strengthened. For example, specially-trained "customer contact" employees follow up phone calls to satisfactory solutions.

A new concept has taken Chairman T. Justin Moore, Jr. to some of our customers' homes for spontaneous video tape interviews. Excerpts from these totally unrehearsed interviews will be shown on television since they deal with the most often asked questions about Company operations.

The following questions and answers are representative samples of this "Ongoing Dialog" with our customers.

Q. Can you tell me why Vepco rates have gone up—doubled in the past five years?
A. I'll start off by saying we don't like it any more than you do. But we're faced with two very serious problems. First, inflation has run up the cost of everything we buy. And secondly, we have to build for the new customers and new businesses that are moving into this area.

Q. These nuclear plants, I feel like they're just a waste of money.
A. Well, they're just the opposite... they're actually the cheapest kind of plants going. They are our base-load plants, the ones we run right around the clock. Right now a nuclear plant can produce a kilowatt hour at a much lower total cost than coal or oil, and environmentally it's a whole lot better.

Q. In my opinion really a monopoly can do what it pleases. If we had competition in this state, I do believe we could get a whole lot better rates.
A. That's a popular misconception, sir, because Vepco is a very regulated public utility. We can't raise our rates or change our way of serving customers unless the regulatory authorities approve it. On the other hand, look at it this way. Think of what a mess it would be if you had two or three sets of power lines going down this street of yours.

Q. Well, aren't you asking for a 20% increase right now? Is it 20% or 25%?
A. It works out to be 20%. And that will be our first one in about two years, and during that period the cost of living has gone up exactly that same amount. So that gets back to what you were saying. We've all got to try to bring inflation under control.

Designs for Efficiency

As a theme, "Working Together for Service" describes Vepco's approach to the management of human skills and technical resources in providing reliable power most efficiently and economically.

During 1978 this goal was realized in a literal way. Our corporate headquarters moved to a more efficient new home at One James River Plaza—just three blocks from its 1913 office tower in downtown Richmond.

Though short in distance, the move is a long step forward in efficiency. For the first time in years, our administrative people are working together in one building with all the advantages of centralized operations. Current arrangements also provide space for other occupants—space which will be available for Vepco expansion in the future.

In recent years, our personnel have been forced to operate from seven separate buildings because of rapid growth as use of electricity increased eightfold. In the past fifteen years our ranks have increased by almost 4,000 to a year-end total of nearly 9,400.

Since it interacts with every other department, our corporate computer center is an excellent illustration of the new effectiveness level. Previously, due to space limitations, our programmers worked in a building across the street from our computers. Many other departments using computer services also were forced to communicate from scattered locations.

At One James River Plaza, all computer-related operations are housed together—including the carefully controlled environment necessary for our computers. These computers provide capacity for maintaining all company records along with daily operations. The computer center has on-site storage with security for all master tapes, and duplicates are also stored in an off-site vault.

Centralizing the computer operations provides greater versatility in utilizing these resources. Our engineers use computer programs to assist in the design of stations and calculate the performance of system construction. Such information as stockholder records and

personnel files can be printed out on microfilm for study and storage.

The computers are also important in customer relations, since they are used to print monthly bills. These bills are inserted through an automated system at about 60,000 per day, and mailed to 1,389,200 customers. When someone inquires about a bill, the computer flashes a complete history of the account to the customer contact employee who answers the call.

Another automated system, interconnected with the computer, results in the most efficient handling of bill payments. Key to the Vepco method is combining the speed of machines that automatically open envelopes and handle the contents with electronic reading and matching of payments to records.

On the heaviest mail days, up to 60,000 payments are processed and operators average recording one entry every 6 seconds. All information is recorded and accounts posted by the computers and verified against deposits made daily at various banks. This automated centralized system results in a substantial savings each year over manual methods.

One James River Plaza will also eventually house Vepco's new System Operations Center. This modern "nerve center" will be used to control the generation and transmission system to insure both reliability and economy. The huge command center, with its own dual computers and advanced technology, has been designed to replace Vepco's present System Operators Office and computer now located elsewhere. Interesting features of the new system include a panoramic diagram wall to display the complete transmission system layout and color television displays to alert the operator to changing power supply conditions.

As the Company continues to grow, a prime goal continues to be the optimum use of our human resources. Several specific programs, many of them underway for years, are aimed toward reaching this goal.

Among these are plans for evaluating the skills of our present employees for functions formerly provided by contractors; recruiting experienced personnel from industry and entry level professionals from colleges and universities; tuition refunds for employees who want to enlarge their skills by education; and evaluating salary and benefit levels to remain competitive.

Vepco is committed to a concerted effort to train and develop men and women to help them increase their skills and general potential for advancement. We believe that continued success will come from "Working Together for Service."

Computer center in new corporate headquarters (at left) serves all departments, manages and stores data.

Management's Discussion and Analysis of the Statements of Income

Balance for Common Stock increased $8.2 million in 1978 over 1977 as compared to a $19.1 million increase in 1977 over 1976. The slight increase in 1978 Balance for Common Stock resulted principally from increased sales and lower fuel expenses achieved through improved nuclear operations at Surry during 1978 and the start up of North Anna 1 in June. Regulatory delays in the Company's request for rate relief prevented further improvement. The additional revenues were offset in part in 1978 and 1977 by continued inflation and rapid escalation of operating and capital costs.

Comparisons of the STATEMENTS OF INCOME for the years 1978 (as compared to 1977) and 1977 (as compared to 1976) appear below.

Electric Revenues

Electric revenues increased over the prior year principally as a result of the following:

	Revenues Increase From Prior Year (Millions of Dollars)	
	1978	1977
Rate increases and fuel cost recovery	**$38.7**	$206.5
Unit sales (excluding effect of above)	**59.2**	45.6
Other, net	**2.0**	1.2
Total	**$99.9**	$253.3

See Page 10 for information with respect to current requests for increased rates, including interim increases already in effect.

Gas Revenues

Gas revenues increased over the prior year principally as a result of the following:

	Revenues Increase (Decrease) From Prior Year (Millions of Dollars)	
	1978	1977
Rate increases and purchased gas cost recovery	**$5.2**	$ 6.3
Unit sales (excluding effect of above)	**.9**	(4.8)
Total	**$6.1**	$ 1.5

Operating Expenses and Other Charges

Operating expenses and other charges have changed principally as a result of the following:

	Expenses Increase (Decrease) From Prior Year (Millions of Dollars)	
	1978	1977
Fuel	**$ 10.5**	$128.2
Purchased and interchanged power	**(42.9)**	36.5
Maintenance	**20.4**	16.1
Federal income taxes	**12.9**	11.0
Other taxes	**12.3**	9.8
Other operating costs	**34.0**	25.2

Fuel expenses have fluctuated from 1976 through 1978 as a result of changes in fuel costs (see Notes A and G to FINANCIAL STATEMENTS), increased sales and changes in requirements for purchased and interchanged power to meet the increased sales (see below). For information with respect to unrecovered deferred fuel costs written-off in 1977, see Note C to FINANCIAL STATEMENTS. Purchased and interchanged power expenses have fluctuated from 1976 through 1978 as a result of temporary outages of major coal and nuclear units during the last quarter of 1976 and the first quarter of 1977 and the availability of additional generation in 1978 from North Anna Unit 1.

Maintenance costs increased for 1977 due to repair costs incurred for the above mentioned coal and nuclear unit outages during the last quarter of 1976 and the first quarter of 1977. Maintenance expense increased for 1978 due to major maintenance at the Chesterfield, Yorktown, Portsmouth and Surry Power Stations. Federal income taxes have fluctuated from 1976 through 1978 primarily due to changes in book income and to the increase in the provision for deferred taxes from normalization accounting. For the year 1974, the Company incurred a net operating loss for tax purposes, which, after carry-back to prior years, resulted in a loss carry-forward of $55.1 million. The tax effect of the entire loss carry-forward, in the amount of $26.4 million, was used to reduce the Federal income taxes currently payable for 1975, and deferred income taxes of $22.8 million were reinstated in respect of the 1974 deferred fuel adjustment. (See Notes B and D to FINANCIAL STATEMENTS.) For information with respect to taxes other than Federal income taxes, see Note F to FINANCIAL STATEMENTS.

Other operating costs for 1978 and 1977 include $6.8 million and $3.2 million, respectively, of amortization of abandoned project costs relating to the cancellation of Surry Units 3 and 4. For information with respect to these costs, see Note E to FINANCIAL STATEMENTS.

Continuation of the Company's large capital expenditures and the related financing together with increases in construction and uranium costs and changes in the cost of capital, have resulted in the following increases:

	Increase From Prior Year (Millions of Dollars)	
	1978	1977
Depreciation	**$19.0**	$ 3.3
Interest charges (before AFC)	**17.0**	19.7
Preferred and preference dividends	**5.9**	3.9

The amounts of allowance for funds used during construction (AFC) capitalized since 1974 have increased substantially, reflecting, primarily, greater levels of investment in construction work in progress. Although AFC increased by more than $19 million in 1977, this increase was more than offset by increased interest costs and Preferred and Preference dividends. In 1978, AFC decreased by $10.8 million, and depreciation increased by $19 million primarily as a result of the termination of AFC applicable to North Anna Unit 1 and the accrual of depreciation when that Unit was placed in-service.

Description of Business

The electric business of the Company is conducted in most of Virginia and in parts of North Carolina and West Virginia. In its service area it sells electricity to retail customers (including governmental agencies), and at wholesale to rural electric cooperatives and municipalities. Gas service is provided only in the Norfolk-Newport News area (except Portsmouth) and in the area extending from Newport News to and including Williamsburg.

Virginia Electric and Power Company
Statements of Income

	Years				
	1978	1977	1976	1975	1974
	(Thousands of Dollars)				
Operating revenues (Notes A, B and L):					
Electric	**$1,413,866**	$1,313,937	$1,060,663	$ 998,933	$735,962
Gas	**51,039**	44,923	43,413	34,403	28,050
Total	**1,464,905**	1,358,860	1,104,076	1,033,336	764,012
Operating expenses:					
Operation:					
Fuel used in electric generation (Notes A, C and G)	**585,625**	575,151	446,984	449,883	300,384
Purchased and interchanged power	**9,384**	52,273	15,747	5,540	44,609
Other (Note G)	**183,906**	153,514	131,485	113,833	95,399
Maintenance (Note A)	**90,317**	69,885	53,749	59,906	38,324
Depreciation (Notes A and H)	**117,481**	98,527	95,191	89,805	77,757
Amortization of abandoned project costs (Note E)	**6,760**	3,173			
Taxes—Federal income (Notes A and D)	**72,658**	59,736	48,751	27,378	(6,612)
—Other (Note F)	**93,499**	81,174	71,413	57,169	48,216
Total	**1,159,630**	1,093,433	863,320	803,514	598,077
Operating income	**305,275**	265,427	240,756	229,822	165,935
Other income:					
Allowance for other funds used during construction (Note A)	**64,002**	72,361			
Allowance for funds used during construction (Note A)			80,429	66,873	65,735
Miscellaneous, net	**2,209**	(305)	283	601	938
Income taxes associated with miscellaneous, net	**(867)**	(358)	208	(57)	(527)
Total	**65,344**	71,698	80,920	67,417	66,146
Income before interest charges	**370,619**	337,125	321,676	297,239	232,081
Interest charges:					
Interest on long-term debt	**184,947**	168,885	147,481	122,951	94,058
Other	**6,677**	5,748	7,409	19,556	23,214
Allowance for borrowed funds used during construction (Note A)	**(24,869)**	(27,301)			
Total	**166,755**	147,332	154,890	142,507	117,272
Income before cumulative effect of change in accounting method	**203,864**	189,793	166,786	154,732	114,809
Cumulative effect (to January 1, 1974) of accruing estimated unbilled revenues, net of Federal income taxes of $6,810,000 (Note B)					12,353
Net income (Note B)	**203,864**	189,793	166,786	154,732	127,162
Preferred and preference dividends	**53,588**	47,719	43,821	35,971	30,419
Balance for common stock	**$ 150,276**	$ 142,074	$ 122,965	$ 118,761	$ 96,743
Shares of common stock—average for year (thousands)	**80,060**	74,025	68,137	60,854	52,100
Earnings per share of common stock:					
Income before cumulative effect of change in accounting method	**$1.88**	$1.92	$1.80	$1.95	$1.62
Cumulative effect (to January 1, 1974) of accruing estimated unbilled revenues					.24
Balance for common stock	**$1.88**	$1.92	$1.80	$1.95	$1.86
Cash dividends paid per common share	**$1.30**	$1.24	$1.22½	$1.18	$1.18

( ) Denotes red figure.
The accompanying notes are an integral part of the financial statements.

Virginia Electric and Power Company
Balance Sheets

Assets

	December 31, 1978		December 31, 1977	
	(Thousands of Dollars)			
UTILITY PLANT (Note A):				
Electric		**$5,343,985**		$4,852,295
Gas		**60,654**		60,042
Common		**16,592**		13,058
Total (includes $1,283,841,000 plant under construction [1977—$1,682,768,000])		**5,421,231**		4,925,395
Less accumulated depreciation (Note H)		**887,383**		779,731
		4,533,848		4,145,664
Nuclear fuel (less accumulated amortization of $53,575,000 [1977—$23,873,000])		**151,865**		159,831
Net utility plant		**4,685,713**		4,305,495
INVESTMENTS:				
Nonutility property at cost or written-down amounts (less allowance of $5,323,000)		**3,857**		3,260
Subsidiary companies at equity (includes advances of $15,718,000 [1977—$11,372,000]) (Notes A and N)		**19,426**		15,081
Net investments		**23,283**		18,341
CURRENT ASSETS:				
Cash (Note J)		**4,668**		4,936
Temporary cash investments		**31,783**		
Accounts receivable:				
Customers	**$120,658**		$106,483	
Other	**8,498**		2,383	
	129,156		108,866	
Less allowance for doubtful accounts	**1,101**	**128,055**	1,123	107,743
Accrued unbilled revenues (Note B)		**61,407**		63,930
Deferred fuel surcharge (Note C)				11,028
Materials and supplies at average cost or less:				
Plant and general (including construction materials)	**32,429**		26,760	
Fossil fuel	**96,567**	**128,996**	94,952	121,712
Prepayments:				
Taxes	**36,523**		29,962	
Other	**4,090**	**40,613**	1,669	31,631
Total current assets		**395,522**		340,980
DEFERRED DEBITS:				
Unamortized abandoned project costs (less accumulated amortization of $9,933,000 [1977—$3,173,000]) (Note E)		**66,156**		70,285
Deferred fuel costs (Notes A and C):				
Surcharge				7,878
Other		**3,383**		25,403
Unamortized expense on debt		**7,480**		7,179
Other		**29,596**		26,448
Total deferred debits		**106,525**		137,193
		$5,211,043		$4,802,009

( ) Denotes red figure.

The accompanying notes are an integral part of the financial statements.

Capital and Liabilities

	December 31, 1978	December 31, 1977
	(Thousands of Dollars)	
CAPITAL STOCK (Note I):		
Preferred stock—$100 par, cumulative; authorized 7,500,000 shares	**$ 593,091**	$ 560,566
Preference stock—no par, cumulative; authorized 30,000,000 shares	**57,360**	57,360
Common stock—no par; authorized 95,000,000 shares	**1,235,105**	1,150,366
OTHER PAID-IN CAPITAL (Note I)	**27,859**	24,648
EARNINGS REINVESTED IN BUSINESS, as annexed	**364,215**	318,507
Total stockholders' equity	**2,277,630**	2,111,447
LONG-TERM DEBT (Note K)	**2,376,796**	2,141,883
CURRENT LIABILITIES:		
Securities due within one year (Notes I and K)	**75,293**	89,433
Loans payable, pending permanent financing (Note J)	**3,437**	53,050
Accounts payable, trade	**54,413**	73,763
Customer deposits	**12,310**	10,349
Payrolls accrued	**10,109**	9,133
Taxes accrued	**33,790**	13,364
Interest accrued	**64,651**	53,263
Deferred income taxes, other (Notes A and D)	**18,780**	23,437
Other	**38,784**	31,537
Total current liabilities	**311,567**	357,329
DEFERRED CREDITS:		
Accumulated deferred income taxes (Note D):		
Liberalized depreciation (Note A)	**76,341**	37,832
Abandoned project costs (Note A)	**29,352**	31,175
Accelerated amortization	**13,130**	14,678
Other (Note A)	**(2,016)**	13,808
Deferred investment tax credits (Notes A and D)	**103,304**	71,675
Customer advances for construction	**2,945**	2,533
Other (Note G)	**21,994**	19,649
Total deferred credits	**245,050**	191,350
COMMITMENTS AND CONTINGENCIES (Note N)		
	$5,211,043	$4,802,009

Virginia Electric and Power Company
Statements of Earnings Reinvested in Business

	Years				
	1978	1977	1976	1975	1974
	(Thousands of Dollars)				
Balance at beginning of year	**$318,507**	$328,115	$290,260	$242,742	$206,586
Net income (see "Statements of Income")	**203,864**	189,793	166,786	154,732	127,162
Total	**522,371**	517,908	457,046	397,474	333,748
Cash dividends:					
Preferred and preference stocks (at annual rates indicated below):					
$5.00 preferred	**533**	1,447	1,447	1,447	1,447
$4.04 preferred	**52**	404	404	404	404
$4.20 preferred	**62**	420	420	420	420
$4.12 preferred	**134**	515	515	515	515
$4.80 preferred	**351**	1,440	1,440	1,440	1,440
$7.72 preferred	**2,702**	2,702	2,702	2,702	2,702
$8.84 preferred	**3,094**	3,094	3,094	3,094	3,094
$7.45 preferred	**2,980**	2,980	2,980	2,980	2,980
$7.20 preferred	**3,240**	3,240	3,240	3,240	3,240
$7.72 preferred (1972 Series)	**3,860**	3,860	3,860	3,860	3,860
$7.325 preferred	**5,128**	5,128	5,128	5,128	5,128
$8.40 preferred	**6,720**	6,720	6,720	6,720	5,189
$9.75 preferred	**5,850**	5,850	4,566		
$9.125 preferred	**1,825**	1,825	345		
$8.20 preferred	**4,920**	1,134			
$8.60 preferred	**3,392**				
$8.625 preferred	**1,785**				
$2.90 preference	**6,960**	6,960	6,960	4,021	
Common stock	**103,474**	91,225	82,923	70,786	60,165
Total dividends	**157,062**	138,944	126,744	106,757	90,584
Transfer to common stock as authorized by Board of Directors		60,000			
Other deductions, net	**1,094**	457	2,187	457	422
Total	**1,094**	60,457	2,187	457	422
Balance at end of year	**$364,215**	$318,507	$328,115	$290,260	$242,742

The accompanying notes are an integral part of the financial statements.

Virginia Electric and Power Company
Statements of Changes in Financial Position

	1978	1977	1976	1975	1974
			Years		
			(Thousands of Dollars)		
SOURCE OF FUNDS:					
Funds provided by operations:					
Net income (Note B)	**$203,864**	$189,793	$166,786	$154,732	$127,162
Items not affecting working capital:					
Provision for depreciation (Notes A and H)	**117,481**	98,527	95,191	89,805	77,757
Amortization of nuclear fuel (Note A)	**29,702**	14,526	8,962	385	
Amortization of abandoned project costs (Note E)	**6,760**	3,173			
Allowance for other funds used during construction (Note A)	**(64,002)**	(72,361)			
Allowance for borrowed funds used during construction (Note A)	**(24,869)**	(27,301)			
Allowance for funds used during construction (Note A)			(80,429)	(66,873)	(65,735)
Deferred income taxes (Notes A and D)	**14,668**	31,536	14,002	28,686	12,956
Deferred investment tax credits, net (Notes A and D)	**34,827**	19,009	32,540	(166)	(5,607)
Total funds provided by operations	**318,431**	256,902	237,052	206,569	146,533
Funds provided by financing:					
Mortgage bonds (Note K)	**213,000**	150,000	220,000	276,000	175,000
Preferred stock (Note I)	**37,000**	60,000	80,000		80,000
Preference stock (Note I)				57,360	
Common stock (Note I):					
Public offering	**68,275**	70,400	73,875	113,980	54,945
Automatic dividend reinvestment plan	**11,690**	9,229	7,727	3,456	
Employee savings plan	**4,774**	4,213	3,900	3,651	3,207
Term notes (Note K)	**104,750**	108,500	25,000	10,000	122,700
Increase (decrease) in loans payable	**(49,613)**	26,550	(83,550)	(146,895)	36,795
Total funds provided by financing	**389,876**	428,892	326,952	317,552	472,647
	$708,307	$685,794	$564,004	$524,121	$619,180
APPLICATION OF FUNDS:					
Utility plant expenditures (excluding AFC)	**$422,857**	$394,875	$343,693	$339,845	$386,271
Nuclear fuel (excluding AFC)	**17,458**	74,531	57,479	25,421	8,906
Abandoned project costs (Note E)	**2,631**	16,050			
Dividends on common, preferred and preference stocks	**157,062**	138,944	126,744	106,757	90,584
Increase (decrease) in deferred debits, fuel costs (Notes A and C)	**(29,898)**	(18,812)	8,427	(32,855)	64,850
Securities reacquired or repaid	**97,273**	58,250	10,000	61,200	9,240
Increase (decrease) in investment (net of repayment of advances) in subsidiary companies (Notes A and N)	**4,345**	3,137	4,869	(4,873)	2,054
Increase in working capital other than loans payable*	**36,551**	14,684	10,968	17,404	48,025
Other, net	**28**	4,135	1,824	11,222	9,250
	$708,307	$685,794	$564,004	$524,121	$619,180
Changes in the individual amounts comprising working capital other than loans payable* were as follows:					
Accounts receivable	**$ 20,312**	$ 2,103	$ 13,017	$ (9,333)	$ 43,884
Accrued unbilled revenues (Note B)	**(2,523)**	4,965	19,386	3,790	35,789
Deferred fuel surcharge (Note C)	**(11,028)**	628	(1,670)	12,070	
Materials and supplies	**7,284**	26,392	17,080	21,040	10,622
Accounts payable, trade	**19,350**	1,775	(32,963)	13,183	(26,135)
Interest accrued	**(11,388)**	(6,916)	(7,177)	(7,234)	(14,366)
Deferred income taxes, other (Notes A and D)	**4,657**	(2,537)	(577)	(10,496)	(3,493)
Other, net	**9,887**	(11,726)	3,872	(5,616)	1,724
	$ 36,551	$ 14,684	$ 10,968	$ 17,404	$ 48,025

*Does not include reclassification as current liabilities of maturing long-term debt and cash sinking fund obligations of debt and preferred stock as follows: 1978—$75,293,000; 1977—$89,433,000; 1976—$58,250,000 and 1974—$61,200,000.

The accompanying notes are an integral part of the financial statements.

Report of Independent Certified Public Accountants

To the Stockholders and Board of Directors of Virginia Electric and Power Company:

We have examined the balance sheets of Virginia Electric and Power Company as of December 31, 1978 and 1977, and the related statements of income, earnings reinvested in business and changes in financial position for each of the five years in the period ended December 31, 1978. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note E to FINANCIAL STATEMENTS, the Company canceled plans to construct a nuclear facility. The Company may also incur substantial contract cancellation costs. At this time, it is uncertain what part of the project costs and contract cancellation costs ultimately to be incurred, will be recoverable.

In our opinion, subject to the effect, if any, on the financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of Virginia Electric and Power Company as of December 31, 1978 and 1977, and the results of its operations and the changes in its financial position for each of the five years in the period ended December 31, 1978, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change in 1974, with which we concur, in the method of accounting for estimated unbilled revenues as described in Note B to FINANCIAL STATEMENTS.

Coopers & Lybrand

COOPERS & LYBRAND

New York, February 7, 1979.

Notes to Financial Statements

A. Significant Accounting Policies:

General:

The Company's accounting practices are prescribed by the Uniform System of Accounts promulgated by the regulatory commissions having jurisdiction.

Revenues:

Operating revenues are recorded on the basis of service rendered.

Utility Plant and Depreciation:

Utility plant is recorded at original cost which includes labor, materials, services, allowance for funds used during construction and other indirect costs. The cost of depreciable utility plant retired and cost of removal, less salvage, are charged to accumulated depreciation.

The cost of maintenance and repairs is charged to the appropriate operating expense and clearing accounts. The cost of renewals and betterments is charged to the appropriate utility plant account, except the cost of minor replacements which is charged to maintenance expense.

Provisions for depreciation, which include amounts applicable to estimated decommissioning costs of $22,500,000 for nuclear units in service (assuming mothballing in pairs), are recorded on the straight-line method based upon estimated service lives.

Nuclear Fuel:

Advance payments are being made for fuel to be owned or leased.

The Company has been providing for estimated reprocessing costs relating to fuel which is presently being burned. The Company has requested commission approval to recover on a current basis through fuel adjustment provisions the cost of permanent storage of spent fuel to be discharged from its nuclear reactors after 1978 and to recover through base rates such costs in excess of the reprocessing costs previously recovered of spent fuel discharged before 1979 over a ten-year period. Effective September 1, 1978, the North Carolina Commission granted approval to recover such costs in base rates, and effective October 1, 1978 the Federal Energy Regulatory Commission (FERC) allowed the recovery of these costs through the fuel clause. For periods subsequent to these two decisions, operating expenses include costs of permanent storage applicable to North Carolina and FERC jurisdictional customers.

Subsidiaries:

The Company has two wholly-owned subsidiaries. Laurel Run Mining Company is engaged in the underground mining of coal, which is utilized solely by the Company. On January 1, 1979, the first of two portals of the mine was declared operational and coal from such portal will be priced to include current production costs, amortization of deferred development costs and a return on the Company's investment in Laurel Run at the last overall rate of return approved by the Virginia State Corporation Commission. Development costs associated with the second portal are being deferred until it becomes operational. Virginia Nuclear, Inc. was organized to explore for uranium reserves; however, no such activities are presently being conducted.

Federal Income Taxes:

The Company's practice is to reduce the current provision for Federal income taxes to reflect the tax benefit resulting from the use of the double-declining-balance method of depreciation for property additions and the adoption of the Asset Depreciation Range and Class Life Systems. Effective with property additions placed in service in 1974, the Company has provided deferred income taxes on the aforementioned benefit and, subsequently,

has provided deferred taxes on other differences between book income and income taxable for Federal income taxes to the extent permitted by the regulatory commissions having jurisdiction.

Investment Tax Credits:

Accumulated investment tax credits at July 1, 1970 are being amortized over a ten-year period, and credits recorded after that date are being amortized over the service lives of the property giving rise to such credits. An additional investment tax credit of 1% related to the Tax Reduction Act Stock Ownership Plan (TRASOP) does not affect net income and is recorded as a liability until the contribution is made to the TRASOP trust.

Allowance for Funds Used During Construction:

The applicable regulatory uniform system of accounts defines AFC as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

In accordance with a change in FERC accounting rules effective January 1, 1977, the Company is separately determining rates and reporting amounts applicable to borrowed funds, calculated on a net of tax basis, and to equity funds. In accordance therewith, for 1978 the Company employed an aggregate rate of 7.54% for the accrual of AFC and for 1977 employed an aggregate rate of 7.75%.

For the years 1974 through 1976, the Company employed the rate of 8% and reported AFC in accordance with the accounting rules then in effect. Since the assumptions as to source of construction funds, costs of such funds and capital ratios used by the Company prior to January 1, 1977 are not equivalent to those prescribed in the new accounting rules, the Company believes that retroactive reclassification of AFC in the Statements of Income for these years would be inappropriate.

Assuming that funds used to finance construction during the three years ended December 31, 1976 were obtained 35% from common equity, 52% from debt and 13% from preferred and preference stocks, the common equity component of AFC as related to earnings available for common stock amounted to 15.9%, 7.2% and 17.4% for the years 1974 through 1976, respectively.

Deferred Fuel Costs:

The Company is deferring for accounting and rate-making purposes that portion of the cost of fuel consumed which, through the application of the annual fuel factor may result in increased operating revenues in a later period.

Retirement Annuity Plan:

The Company has a contributory retirement annuity plan and funds pension costs accrued. Prior service cost arising out of amendments to the plan in 1976 and changes in actuarial assumptions in 1977 is being provided in the accounts and funded on the basis of future salaries of participants currently covered by the plan.

Leases:

The Company's practice is to account for all leases as operating leases in accordance with the rate-making practices presently in effect.

B. Accounting Change:

Prior to 1974, the Company did not accrue the estimated amount of utility revenues for service rendered but not billed at the end of each accounting period. This practice, while not providing a matching of costs and revenues, did not result in a significant distortion in net income for the years prior to 1974. As a result of rate increases granted during 1974, the continuation of such practice would have resulted in a significant understatement of net income for the year. Therefore, in December 1974, effective January 1, 1974, the Company adopted the policy of accruing estimated unbilled revenues. As a result, net income for 1974 increased by $16,531,000 or 32 cents per share, of which the cumulative effect of the change to January 1, 1974 was $12,353,000 or 24 cents per share (increase in estimated unbilled revenues of $20,407,000 less related expenses of $1,244,000 and Federal income taxes of $6,810,000).

C. Deferred Fuel Accounting:

Effective December 31, 1978, monthly billings applicable to Virginia jurisdictional customers based on fuel costs experienced during a three-month period were terminated. Monthly billings after that date will include under the new annual fuel factor, approved by the Virginia Commission but subject to quarterly hearings, the projected fuel costs for 1979, including the amount of fuel costs unrecovered at December 31, 1978 under the previous fuel adjustment clause and the surcharge placed in effect after a revision of the fuel adjustment clause in 1975.

Effective May 2, 1976, a new fuel clause under the jurisdiction of FERC automatically took effect and a surcharge became effective, subject to refund, designed to recover over a two-year period deferred fuel expenses of approximately $7.2 million. On June 20, 1977, FERC issued an Order prohibiting further surcharge collection and requiring a refund of the approximately $4.9 million that had been collected under the surcharge. The refund and the write-off of deferred fuel attributable to FERC and retail governmental customers resulted in a charge to income in 1977, before Federal income taxes, of $14.7 million. A petition for rehearing of the FERC refund Order was denied and on appeal by the Company, the United States Court of Appeals for the Fourth Circuit affirmed the FERC decision.

In the event that future developments dictate a change in the fuel adjustment billing lag period or in the fuel cost base, the Company will request regulatory approval to recover through billings to customers any unrecovered deferred fuel costs.

D. Federal Income Taxes:

Details of Federal income taxes were as follows:

	Years				
	1978	1977	1976	1975	1974
	(Thousands of Dollars)				
Computed tax expense on book income before Federal income taxes at statutory rate	**$133,147**	$119,946	$103,358	$87,440	$61,386
(Decreases) increases resulting from:					
Excess of tax over book depreciation not normalized	**(16,402)**	(9,956)	(14,840)	(18,689)	(25,089)
AFC	**(42,658)**	(47,838)	(38,606)	(32,099)	(31,553)
Investment tax credits, amortization	**(5,467)**	(4,539)	(3,028)	(2,452)	(2,412)
Other, net	**4,038**	2,123	1,867	(3,191)	(2,134)
	(60,489)	(60,210)	(54,607)	(56,431)	(61,188)
Federal income tax expense before utilization of portion of operating tax loss carry-forward	**72,658**	59,736	48,751	31,009	198
1974 net operating tax loss carry-forward utilized				(3,631)	
Federal income tax expense	**$ 72,658**	$ 59,736	$ 48,751	$27,378	$ 198
Currently payable (refundable)	**$ 23,163**	$ 9,191	$ 2,209	$ (1,142)	$ (7,151)
Tax effects of timing differences:					
Abandoned project costs	**(1,822)**	31,175			
Deferred fuel adjustment:					
Current year	**(21,681)**	(9,588)	3,243	(9,976)	7,808
Prior year (1974)				22,793	
Liberalized depreciation	**38,509**	13,101	12,320	9,360	3,202
Virginia gross receipts taxes	**635**	2,375	1,379	4,702	3,493
Reprocessing/disposal costs on nuclear fuel	**(6,791)**	(6,385)	(4,076)		
Accelerated amortization	**(1,547)**	(1,547)	(1,547)	(1,547)	(1,547)
Indirect construction costs	**3,154**	2,912	1,796	2,424	
Cost of removal of property retirements	**2,484**	1,696	1,426	930	
Contributions in aid of construction	**2,203**	(2,203)			
North Anna nuclear fuel	**(487)**				
Other	**10**		(539)		
	14,668	31,536	14,002	28,686	12,956
Investment tax credits, including any carry-back	**40,294**	23,548	35,568	2,286	(3,195)
Investment tax credits, amortization	**(5,467)**	(4,539)	(3,028)	(2,452)	(2,412)
Net deferred investment tax credits	**34,827**	19,009	32,540	(166)	(5,607)
Federal income tax expense	**$ 72,658**	$ 59,736	$ 48,751	$27,378	$ 198
Charged (credited) to operating expense	**$ 72,658**	$ 59,736	$ 48,751	$27,378	$ (6,612)
Charged to cumulative effect of accounting change					6,810
Federal income tax expense	**$ 72,658**	$ 59,736	$ 48,751	$27,378	$ 198

Due principally to the timing differences relating to deferred fuel costs and the excess of tax over book depreciation, the Company incurred a net operating loss for tax purposes in 1974, which after carry-back to prior years resulted in a loss carry-forward of $55.1 million. The tax effect of the entire loss carry-forward, in the amount of $26.4 million, was used to reduce the Federal income taxes currently payable for 1975, and deferred income taxes of $22.8 million were reinstated in respect of the fuel costs deferred in 1974.

The Company has an investment tax credit carry-forward of $14,246,000 which will expire in 1985.

E. Abandoned Project Costs:

In March 1977, the Company canceled plans for construction of Surry Units 3 and 4, previously planned for completion in 1986 and 1987. At December 31, 1978, the Company had expended $76.1 million, including $7.3 million in nuclear fuel enrichment services. Additional cancellation costs could be as much as $52 million. The Company is attempting to reduce such costs through sale of certain equipment and negotiations with suppliers. In July 1977, the Company began amortizing for accounting purposes costs, net of Federal income taxes, over a ten-year period and will amortize additional costs as incurred and the $7.3 million of nuclear fuel enrichment costs over a ten-year period. The North Carolina Utilities Commission has allowed the Company to begin recovery of such costs through amortization in rates over ten years. Continuation of this treatment is based on the Commission's approval, within one year, of the Company's construction program. The Company has requested the same rate-making treatment of these costs from the Virginia Commission, FERC and the West Virginia Commission.

F. Supplementary Income Statement Information:

The amounts of royalties, advertising costs and research and development costs were not significant. Taxes other than Federal income taxes charged to expenses were as follows:

	Years				
	1978	1977	1976	1975	1974
	(Thousands of Dollars)				
Taxes, other than Federal income taxes:					
Real estate and property	**$26,333**	$25,257	$22,899	$20,200	$20,821
State and local gross receipts	**54,865**	49,812	42,382	31,909	23,048
State income	**505**	248	215	87	175
Other	**11,796**	5,857	5,917	4,973	4,172
Total	**$93,499**	$81,174	$71,413	$57,169	$48,216

G. Leases:

Rents charged to expenses consisted of the following:

	Years				
	1978	1977	1976	1975	1974
	(Thousands of Dollars)				
Operating leases:					
Combustion turbines	**$ 5,694**	$ 5,935	$ 6,185	$ 6,172	$ 6,329
Nuclear fuel	**35,491**	29,518	21,447	24,657	15,073
Other (principally buildings and teleprocessing equipment)	**8,427**	6,648	5,552	4,761	3,691
Total	**$49,612**	$42,101	$33,184	$35,590	$25,093

In September 1971, the Company sold 28 combustion turbines for $45,285,000 and leased back such turbines for a term of 20 years (plus two optional five-year renewal terms). Annual rental payments were $3,906,000 during the first four years. As a result of casualties, the Company terminated the lease with respect to two turbines. Consequently, the annual payments have been reduced to $3,848,000 for 1976, $3,790,000 for 1977 and $3,674,000 for the remaining four years of the first ten-year term and $6,444,000 during the second ten-year term. Additional rentals are being accrued during the first ten years, during which time payments representing interest only are required, so that the annual effect on net income will be equalized over the twenty-year period. Deferred credits, other at December 31, 1978, include $15,997,000 with regard to such accruals. Had the lease been capitalized, the net asset value and present value of the lease commitment would be $26,981,000 and $42,601,000, respectively, at December 31, 1978 and $29,111,000 and $42,601,000, respectively, at December 31, 1977.

In August 1972, the Company sold and leased back the initial core of nuclear fuel for Surry Unit 1 for $22,800,000. In June 1973, the Company sold the initial core of nuclear fuel for Surry Unit 2 for $22,100,000 and entered into a heat supply contract in respect thereof. Quarterly payments are charged to income in amounts sufficient to pay for the fuel burned during each quarter (excluding reprocessing and permanent disposal costs) plus interest. Had the lease and contract been capitalized, the net asset value and present value of these commitments would be $72,288,000 and $73,935,000, respectively, at December 31, 1978 and $69,161,000 and $69,880,000, respectively, at December 31, 1977.

In December 1974, the Company sold and leased back three office buildings for $7,300,000 for terms of twenty years (plus two optional five-year renewal terms). Annual rental payments are $730,000 during the initial terms of the leases. In August 1978, the Company leased a newly constructed headquarters office building for a term of thirty years (plus four optional five-year renewal terms). Annual rental payments are $2,993,000 during the initial term of the lease. Had the leases been capitalized, the net asset value and present value of the lease commitments would be $40,132,000 and $41,201,000, respectively, at December 31, 1978 and $6,205,000 and $6,795,000, respectively, at December 31, 1977.

If the Company had capitalized the above noted leases and contract, the increase in operating expenses for 1978, 1977 and 1976 would not have been material.

The Company is responsible for expenses in connection with the leased turbines, nuclear fuel and buildings noted above, including insurance, taxes and maintenance.

H. Depreciation:

The provision for depreciation based on mean depreciable plant for the years 1974 through 1977 approximated 3.1%, 2.6% and 2.3% of Electric, Gas and Common plant, respectively, and for 1978 approximated 3.2%, 3.1% and 2.4% for Electric, Gas and Common, respectively.

The Company received approval from the Virginia Commission to increase the depreciation rate on Gas plant effective January 1, 1978. This change resulted in an increase in the provision based on mean depreciable Gas plant at December 31, 1978, to 3.1%.

I. Capital Stock and Other Paid-In Capital:

Preferred Stock:

Preferred Stock was represented by 5,942,746 shares outstanding at December 31, 1978, as follows:

	Shares		Entitled Per Share Upon Voluntary Redemption		
Dividend	Authorized	Outstanding	Amount	Through	And Thereafter To Amounts Declining In Steps To
$5.00	106,677	106,677	$112.50		
4.04	12,926	12,926	102.27		
4.20	14,797	14,797	102.50		
4.12	32,534	32,534	103.73		
4.80	73,206	73,206	101.00		
7.72	350,000	350,000	106.00	5/31/81	$101.50 after 5/31/84
8.84	350,000	350,000	107.00	8/31/82	101.00 after 8/31/85
7.45	400,000	400,000	106.00	2/28/81	101.00 after 2/29/84
7.20	450,000	450,000	106.00	1/31/82	101.00 after 1/31/85
7.72 (1972 Series)	500,000	500,000	106.00	9/30/82	101.00 after 9/30/85
7.325	700,000	700,000	110.00	3/31/83	101.00 after 3/31/88
8.40	800,000	800,000(1)	115.00	3/31/84	100.00 after 3/31/04
9.75	600,000	600,000(2)	109.75	2/28/81	101.00 after 2/28/91
9.125	200,000	200,000(3)	110.00	9/19/81	102.00 after 9/19/91
8.20	600,000	600,000(4)	115.00	9/20/87	100.41 after 9/20/96
8.60	382,606	382,606(5,7)	107.00	12/20/87	100.00 after 12/20/97
8.625	370,000	370,000(6)	108.63	6/20/83	100.00 after 6/20/02
Total	5,942,746	5,942,746(8)			
Less shares due within one year		11,834(8)			
Balance		5,930,912			

(1) Issued March 1974. (2) Issued March 1976. (3) Issued October 1976. (4) Issued September 1977.
(5) Issued December 1977. (6) 355,000 shares issued in May 1978 and 15,000 shares issued in September 1978.
(7) No redemption prior to December 20, 1982.
(8) Sinking Fund requirements call for annual redemption at $100 per share as follows:

Series	Percentage of Shares Issued	Beginning	Ending
$8.60	3%	Dec. 1978	Dec. 2010
9.125	4	Sept. 1981	Sept. 2000
8.20	5	Sept. 1983	Sept. 1996
7.325	4	April 1984	April 2008
8.625	5	June 1984	June 2002
8.40	4	April 1985	April 2009

Upon involuntary liquidation, all shares are entitled to receive $100 per share plus accrued dividends. Dividends are cumulative and payable March 20, June 20, September 20 and December 20.

Preference Stock:

Preference Stock was authorized for issuance effective April 17, 1975. On May 22, 1975, the Company issued 2,400,000 shares of $2.90 Dividend Preference Stock at $23.90 per share which aggregated $57,360,000.

The Preference Stock is redeemable at $27.90 per share prior to May 1, 1980, and thereafter declines in steps to $25.25 on May 1, 1990. Upon liquidation, all shares are entitled to receive $25 per share plus accrued dividends. Dividends are cumulative and payable March 20, June 20, September 20 and December 20.

Common Stock:

Common Stock was represented by 85,241,100 shares outstanding at December 31, 1978. In addition, 2,051,282 shares (based on the conversion price of $24.375 per share) are reserved for conversion of the 3⅝% Convertible Debentures due May 1, 1986. During the years 1974 through 1978 the following changes in Common Stock occurred:

Year	Public Offering		Automatic Dividend Reinvestment Plan		Savings Plan		Total Outstanding	
	Shares	Additions To Capital Account	Shares	Additions To Capital Account	Shares	Additions To Capital Account	Shares	Capital Account
1978	5,000,000	$ 68,275,000	827,514	$11,689,651	337,143	$4,774,135	85,241,100	$1,235,104,925
1977	5,000,000	70,400,000	626,886	9,229,553	284,167	4,212,884	79,076,443	1,150,366,139(1)
1976	5,000,000	73,875,000	541,248	7,726,113	277,798	3,900,245	73,165,390	1,006,523,702
1975	9,000,000	113,980,000	267,802	3,455,908	301,065	3,651,754	67,346,344	921,022,344
1974	6,600,000	54,945,000			323,825	3,206,975	57,777,477	799,934,682
							50,853,652(2)	741,782,707

(1) In May 1977, $60,000,000 was transferred from Earnings Reinvested in Business to the Common Stock account as authorized by the Board of Directors.
(2) Outstanding January 1, 1974.

On April 22, 1976, the number of authorized shares was increased from 70,000,000 to 95,000,000.

Other Paid-In Capital:

In November 1977, the Company solicited tenders of shares of $5.00 Dividend, $4.80 Dividend, $4.20 Dividend, $4.12 Dividend and $4.04 Dividend series of Preferred Stock in exchange for shares of $8.60 Dividend Preferred Stock. The exchange offer expired January 4, 1978. The purpose of this exchange offer was to increase the balance sheet ratio of Common equity to total equity, consistent with the objective of the Company to achieve and maintain capitalization ratios in the range of 52% long-term debt, 13% Preferred and Preference Stock and 35% Common equity. No determination has been made by the Virginia State Corporation Commission as to rate-making treatment of the exchange offer. As of December 31, 1977, 594,850 shares of the various series of Preferred Stock, having an aggregate stated value of $59,485,000, were tendered for 347,873 shares of $8.60 Dividend series having a stated value of $34,787,000. The difference of $24,648,000, net of cash paid for fractional shares, has been transferred to Other Paid-In Capital. In addition, 79,482 shares of the various series of Preferred Stock, having an aggregate stated value of $7,948,000, were tendered in January 1978 for 46,567 shares of $8.60 Dividend series having a stated value of $4,657,000. The difference of $3,211,000, net of cash paid for fractional shares, has been transferred to Other Paid-In Capital.

J. Short-Term Loans and Compensating Balances:

			Daily Average Outstanding		Month End Maximum Outstanding	
1978	Maturity	Interest Rate At End Of Year(1)	Amount	Interest Rate(1)	Amount	Date
Commercial Paper	(2)	—	$43,833,690	7.28%	$101,636,000	6/30/78
Master Notes	(3)	9.10%	1,833,970	8.40	8,234,000	10/31/78
1977						
Commercial Paper	(2)	6.76	34,356,000	5.88	71,500,000	1/31/77

(1) Weighted average interest. (2) Principally 30 to 90 days. (3) Maximum 180 days.

Available bank lines of credit amounted to $259,400,000 at December 31, 1978, including $80,000,000 applicable to a revolving credit arrangement effective through December 31, 1979. However, a limitation in that arrangement on total short-term indebtedness of the lesser of $300,000,000 or available bank lines of credit would have permitted the issuance of only $255,963,000 of additional short-term debt at December 31, 1978. The Company maintains compensating balances of up to 10% or pays fees in lieu of balances in connection with its lines of credit. The balances may be increased if the Company is utilizing the line of credit. The revolving credit agreement provides for commitment and other fees, which would aggregate 7½% of the prime rate plus ½ of 1% of the commitment.

K. Long-Term Debt:

Long-term debt outstanding at December 31, 1978:

First and refunding mortgage bonds (1):

Series G	2⅞%, due 1979	$ 20,000,000
Series H	2¾%, due 1980	20,000,000
Series I	3⅜%, due 1981	20,000,000
Series J	3¼%, due 1982	20,000,000
Series DD	10½%, due 1983	75,000,000
Series K	3⅛%, due 1984	25,000,000
Series L	3¼%, due 1985	25,000,000
Series A	6⅞%, due 1985(a)	[illegible],000,000
Series M	4⅛%, due 1986	20,000,000
Series N	4½%, due 1987	20,000,000
Series O	3⅞%, due 1988	25,000,000
Series P	4⅝%, due 1990	25,000,000
Series Q	4⅞%, due 1991	30,000,000
Series R	4⅜%, due 1993	30,000,000
Series S	4½%, due 1993	30,000,000
Series FF	11%, due 1994	133,500,000
Series EE	11%, due 1994	100,000,000
Series T	4½%, due 1995	60,000,000
Series U	5⅛%, due 1997	50,000,000
Series V	6⅞%, due 1997	50,000,000
Series KK	8.95%, due 1998	55,000,000(b)
Series W	7⅛%, due 1999	85,000,000
Series X	7¾%, due 1999	75,000,000
Series Y	9%, due 2000	83,725,000
Series Z	8⅞%, due 2000	83,725,000
Series AA	7⅜%, due 2001	90,000,000
Series BB	7½%, due 2001	50,000,000
Series CC	7⅜%, due 2002	100,000,000
Series C	6.15%, due 2003(a)	8,000,000(b)
Series A	8½%, due 2005(a)	18,000,000
Series GG	10%, due 2005	100,000,000
Series HH	9¼%, due 2006	100,000,000
Series B	6¾%, due 2006(a)	20,000,000
Series II	8¾%, due 2006	100,000,000
Series JJ	8⅝%, due 2007	150,000,000
Series LL	9⅝%, due 2008	150,000,000(b)
Total		2,054,950,000
Term notes due 1979-88 (including $100,410,000 issued in 1978) (2)		303,610,000
Convertible debentures 3⅝%, due 1986		50,000,000
Pollution control revenue bonds due 1979-2004(3)		51,500,000
		2,460,060,000(4)
Less: Due within one year:		
Sinking fund obligations(1)		13,250,000
Term notes(2)		38,610,000
First and Refunding Mortgage Bonds		20,000,000
Pollution Control Revenue Bonds(3)		2,250,000
Unamortized discount—net of premium		9,154,000
Total long-term debt(c)		$2,376,796,000

(a) Pollution Control Series. (b) Issued in 1978.

(c) No amount of any issue is pledged, held by or for account of the Company, held by affiliates or included in sinking or other special funds of the Company. All amounts are authorized by indenture and are issued and not retired or canceled.

(1) The Mortgage provides for sinking funds as follows:

	Commencing	Annual Sinking Fund Requirements
Series G through CC	*	$10,400,000
Series EE	June 1979	5,000,000
Series FF	Jan. 1977	8,250,000
Series KK	Mar. 1984	2,750,000
Pollution Control Series A	Sept. 1986	500,000
Pollution Control Series B	May 1992	250,000
Pollution Control Series C	May 1989	375,000

*The Company may satisfy these requirements by waiving the privilege to issue an equal amount of Bonds by substituting property therefor and intends to do so in 1979.

Substantially all of the Company's property is subject to the lien of the Mortgage.

(2) Term Notes:

		Variable Interest Rate			
Principal Amount	Maturity	Percentage of Base Lending Rate of	Not to Exceed An Average of	Not to be Less Than An Average of	Fixed Interest Rate
$ 13,200,000	Feb. 1979				8.15
5,410,000	Oct. 1979	60%(a)			
20,000,000	Dec. 1979				8.35
10,000,000	Feb. 1980				7¾
10,000,000	Nov. 1980	(b)	8.15%	7½%	
60,000,000	Feb. 1981	115	8½		
5,000,000	Feb. 1981				8.15
25,000,000	Aug. 1981	(c)	8½(c)		
50,000,000	Jan. 1982	115	8⅞		
5,000,000	Apr. 1982				8¼
10,000,000	Apr. 1983				8¼
5,000,000	Oct. 1983				8⅝
10,000,000	Apr. 1984				8¼
20,000,000	Feb. 1985	115	8¾		
5,000,000	Mar. 1985				8⅝
50,000,000	Mar. 1988	(d)	9	8	
$303,610,000					

(a) Pollution control note. The interest rate may not exceed 5⅞% at any time. (b) Base lending rate plus ½ of 1%.

(c) Base lending rate plus ¾ of 1%. The 8½% average interest rate expires in August 1979.

(d) 118% of the higher of commercial paper rate plus ½ of 1% or base lending rate.

(3) Pollution Control Revenue Bonds:

			Mandatory Sinking Fund Requirements	
Principal Amount	Maturity	Interest Rate	Annual Amount	Period
$10,000,000	Dec.1979-83*	7.0-7.4%	None	
5,000,000	Dec. 1989	8.0	$250,000	1979-1983
			500,000	1984-1986
			750,000	1987-1988
22,000,000	Oct. 2002	5⅝	500,000	1990-2001
14,500,000	Dec. 2004	8¾	750,000	1990-2003
$51,500,000				

*$2,000,000 of the $10,000,000 principal amount of Serial Bonds mature annually.

(4) In the first quarter of 1978, the Company redeemed the $88,250,000 of long-term debt and sinking fund obligations due in 1978. Maturities (including cash sinking fund obligations) through 1983 are as follows: 1979—$74,110,000; 1980—$55,500,000; 1981—$125,500,000; 1982—$90,500,000; and 1983—$105,500,000.

L. Effect of Rate Increases on Operating Revenues:

Rate increases which became effective for portions of the following years increased operating revenues for the respective years by the approximate amounts shown:

	(Millions of Dollars)				
	1978	1977	1976	1975	1974
Electric	$56.9	$3.0	$6.3	$14.8	$52.5
Gas	—	—	.9	—	.3

Electric operating revenues for 1978 include $47.1 million subject to refund with interest pertaining to temporary surcharges associated with the placing in-service of North Anna Unit 1 applicable to Virginia jurisdictional customers and certain nonjurisdictional customers. It is the Company's opinion that the likelihood of a required refund of any of this amount is remote.

M. Retirement Annuity Plan:

Costs to the Company under the plan were: 1978—$8,586,000; 1977—$7,594,000; 1976—$5,046,000; 1975—$3,720,000 and 1974—$2,609,000. Changes in actuarial assumptions in 1977, principally relating to incidence of retirement, salary scale and mortality, resulted in an increase in the unfunded liability of $8.9 million at that time. At January 1, 1978, the date of the latest available actuarial report, the unfunded liability of the plan amounted to approximately $20.3 million. At that date, the actuarially computed amount of vested benefits exceeded the cost basis of the plan's assets by $3.7 million.

N. Commitments and Contingencies:

The Company has made substantial commitments in connection with its construction program, which is presently estimated to be in the range of $650-$750 million for 1979, subject to review pending resolution of the rate case before the Virginia Commission. Additional financing is contemplated in connection with this program.

In December 1975, Laurel Run Mining Co. sold to a nonaffiliated party and leased back the major portion of its coal mining equipment. In 1976, additional equipment was leased under the same agreement. As guarantor, the Company has a contingent liability for annual lease payments of $2.3 million in 1979, $2.1 million in 1980, $1.4 million in 1981, $1.4 million in 1982 and $1.1 million in 1983.

As a result of a routine periodic audit of the Company's compliance with the Uniform System of Accounts for the years 1970 through 1974, which has been in progress during the past two years, the FERC by letter dated November 20, 1978 directed the Company to reclassify $6.3 million ($4.3 million of AFC and $2.0 million of other costs) associated with a boiler implosion in August 1974 at Yorktown Unit 3 at the time such unit was first placed in service which the Company has capitalized on its books. The Company, whose accounting for this item has been approved for rate-making purposes, does not agree with FERC and has requested a hearing before the full Commission but the outcome of this proceeding is presently uncertain.

In September 1975, Westinghouse Electric Corporation announced its intention not to perform the contracts it had with the Company and a number of other utilities for the delivery of uranium. As a result, suits were instituted against Westinghouse and on October 27, 1978, the United States District Court for the Eastern District of Virginia ruled that Westinghouse was not excused from performance under the commercial impracticability provisions of the Uniform Commercial Code. The court also held that the Company had a minimum-maximum contract, not a requirement contract which was the position of the Company throughout the proceeding. This added substantially to the amount of uranium to be delivered under the contract. The amount of damages to which the Company is entitled has not been determined but is to be considered at a later trial expected to begin in the summer of 1979. The Company is engaged in settlement discussions with Westinghouse, but no agreement has yet been reached.

O. Quarterly Financial Data (Unaudited):

The following amounts (not examined by independent certified public accountants) reflect all adjustments, consisting of only normal recurring accruals, necessary in the opinion of the Company for a fair statement of the results for the interim periods.

Quarter	Operating Revenues	Operating Income	Balance for Common Stock	Earnings Per Share of Common Stock
	(Thousands of Dollars)			
1978				
1st	$391,771	$72,249	$40,699	$.51
2nd	329,340	67,265	32,283	.41
3rd	404,763	90,238	45,700	.57
4th	339,031	75,523	31,594	.39

Quarter	Operating Revenues	Operating Income	Balance for Common Stock	Earnings Per Share of Common Stock
	(Thousands of Dollars)			
1977				
1st	$344,604	$60,699	$31,617	$.43
2nd	298,506	59,505	28,139	.38
3rd	387,006	81,238	49,611	.67
4th	328,744	63,985	32,707	.44

Results for interim periods may fluctuate as a result of weather conditions, rate relief and other factors.

Balance for Common Stock for the fourth quarter of 1978 was increased by a reduction, as a result of the Revenue Act of 1978, of $2.2 million ($.03 per share) of Federal income taxes previously provided for contributions in aid of construction.

P. Replacement Cost Data (Unaudited):

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's financial statements. In compliance with reporting requirements, estimated replacement cost information is disclosed in the Company's Annual Report to the Securities and Exchange Commission on Form 10-K.

Ten Year Comparative Summary of Performance

	1978	1977	1976	1975
	(Thousands of Dollars)			
Operating revenues:				
Electric	**$1,413,866**	$1,313,937	$1,060,663	$ 998,93
Gas	**51,039**	44,923	43,413	34,40
Total operating revenues	**1,464,905**	1,358,860	1,104,076	1,033,33
Expenses (operation and maintenance)	**869,232**	850,823	647,965	629,16
Depreciation	**117,481**	98,527	95,191	89,80
Amortization of abandoned project costs	**6,760**	3,173		
Taxes:				
Federal income:				
Currently payable (refundable)	**23,163**	9,191	2,209	(1,14
Investment tax credits, including carry-back	**40,294**	23,548	35,568	2,28
Investment tax credits, amortization	**(5,467)**	(4,539)	(3,028)	(2,45
Deferred—accelerated amortization	**(1,547)**	(1,547)	(1,547)	(1,54
—liberalized depreciation	**38,509**	13,101	12,320	9,36
—other	**(22,294)**	19,982	3,229	20,87
Other	**93,499**	81,174	71,413	57,16
Total operating expenses	**1,159,630**	1,093,433	863,320	[illegible]
Operating income	**305,275**	265,427	240,756	[illegible]
Other income:				
Allowance for other funds used during construction	**64,002**	72,361		
Allowance for funds used during construction			80,429	66,87
Miscellaneous, net	**1,342**	(663)	491	54
Total other income	**65,344**	71,698	80,920	67,41
Income before interest charges	**370,619**	337,125	321,676	297,23
Interest charges:				
Interest on long-term debt	**184,947**	168,885	147,481	122,95
Other	**6,677**	5,748	7,409	19,55
Allowance for borrowed funds used during construction	**(24,869)**	(27,301)		
Total interest charges	**166,755**	147,332	154,890	142,50
Income before cumulative effect of change in accounting method	**203,864**	189,793	166,786	154,73
Cumulative effect to January 1, 1974 of accruing estimated unbilled revenues, net of taxes				
Net income	**203,864**	189,793	166,786	154,73
Dividends:				
On preferred and preference stock	**53,588**	47,719	43,821	[illegible]
On common stock	**103,474**	91,225	82,923	[illegible]
Total dividends	**157,062**	138,944	126,744	106,757
Earnings reinvested in business	**$ 46,802**	$ 50,849	$ 40,042	$ 47,975
Shares of common stock—average for year (thousands) (1)	**80,060**	74,025	68,137	60,854
Earnings per share of common stock	**$1.88**	$1.92	$1.80	$1.95
Dividends paid per share of common stock (1)	**$1.30**	$1.24	$1.22½	$1.18
Pay-out ratio	**69%**	64%	67%	60
Return of capital:				
Common stock dividends		72.654%	25.267%	
Preferred and preference stock dividends				
Utility plant at original cost	**$5,626,671**	$5,109,099	$4,609,416	$4,142,900
Utility plant expenditures	**$ 529,186**	$ 569,068	$ 481,601	$ 432,139
Accumulated depreciation and amortization	**$ 940,958**	$ 803,604	$ 700,254	$ 609,304
Capitalization:				
Preferred and preference stock	**$ 651,634**	$ 619,109	$ 583,807	$ 503,807
Common stock, other paid-in capital and earnings reinvested in business	**1,627,179**	1,493,521	1,334,639	1,211,282
Debt (excluding short-term debt)	**2,460,060**	2,238,400	2,038,150	1,803,150
Total capitalization	**$4,738,873**	$4,351,030	$3,956,596	$3,518,239
Short-term debt—pending permanent financing	**$ 3,437**	$ 53,050	$ 26,500	$ 110,050
Capitalization ratios:				
Preferred and preference stock	**14%**	14%	15%	14
Common stock and earnings reinvested in business	**34**	34	34	35
Debt (excluding short-term debt)	**52**	52	51	51

(1) Restated to reflect the split of common stock (4 for 3) effected April 1968.
(2) Includes non-recurring cumulative effect of change in accounting for unbilled revenues of $.24 per share.

1974	1973	1972	1971	1970	1969	1968
735,962	$ 524,963	$ 445,668	$ 390,370	$ 353,151	$ 305,770	$ 278,725
28,050	26,000	25,185	23,302	21,729	20,670	18,817
764,012	550,963	470,853	413,672	374,880	326,440	297,542
478,716	278,750	264,906	218,846	181,434	142,189	122,717
77,757	68,436	53,058	49,950	46,841	41,020	37,944
(7,678)	(1,010)	(6,850)	8,652	23,784	30,252	33,569
(3,195)	3,901	7,368	1,952	1,163	4,082	3,070
(2,412)	(2,413)	(2,225)	(2,062)	(1,318)	(516)	(424)
(1,547)	(1,547)	(1,547)	(1,547)	(1,547)	(1,547)	(1,547)
3,202						
5,018	7,265	1,356	1,050			
48,216	42,170	36,629	33,514	29,367	26,653	24,603
598,077	395,552	352,695	310,355	279,724	242,133	219,932
[illegible]935	155,411	118,158	103,317	95,156	84,307	77,610
65,735	57,359	58,451	39,993	24,175	13,602	6,682
411	336	(156)	142	274	619	66
66,146	57,695	58,295	40,135	24,449	14,221	6,748
232,081	213,106	176,453	143,452	119,605	98,528	84,358
94,058	78,350	67,554	58,130	44,083	33,653	24,920
23,214	10,684	5,162	3,274	3,368	1,624	1,625
117,272	89,034	72,716	61,404	47,451	35,277	26,545
114,809	124,072	103,737	82,048	72,154	63,251	57,813
12,353						
127,162	124,072	103,737	82,048	72,154	63,251	57,813
30,419	24,147	16,472	12,216	7,728	5,555	4,226
[illegible]165	54,796	46,905	41,993	39,906	36,923	34,293
90,584	78,943	63,377	54,209	47,634	42,478	38,519
36,578	$ 45,129	$ 40,360	$ 27,839	$ 24,520	$ 20,773	$ 19,294
52,100	47,021	41,883	37,829	35,881	33,264	32,521
$1.86(2)	$2.13	$2.08	$1.85	$1.80	$1.73	$1.65
$1.18	$1.16½	$1.12	$1.12	$1.12	$1.11	$1.06½
71%	55%	54%	60%	62%	64%	64%
100.000%	49.407%	100.000%	96.724%	54.243%		
100.000%		55.565%				
3,739,395	$3,298,447	$2,847,614	$2,416,130	$2,082,487	$1,754,776	$1,508,640
460,912	$ 486,709	$ 4[illegible]2,819	$ 380,268	$ 338,074	$ 255,493	$ 177,967
545,296	$ 476,121	$ 414,941	$ 373,834	$ 335,605	$ 298,175	$ 265,356
446,447	$ 366,447	$ 296,447	$ 201,447	$ 161,447	$ 126,447	$ 91,447
1,042,677	948,369	810,121	680,800	574,633	476,666	453,577
1,578,350	1,289,890	1,242,440	1,070,440	932,000	762,000	602,800
3,067,474	$2,604,706	$2,349,008	$1,952,687	$1,668,080	$1,365,113	$1,147,824
256,945	$ 220,150	$ 88,400	$ 61,800	$ 53,700	$ 53,900	$ 63,100
15%	14%	13%	10%	10%	9%	8%
34	36	34	35	34	35	39
51	50	53	55	56	56	53

Ten Year Operating Statistics

ELECTRIC DEPARTMENT	1978	1977	1976	1975
Operating revenues (thousands):				
Residential	$ 563,561	$ 524,336	$ 420,150	$ 402,88
Commercial	392,101	365,340	298,681	288,35
Industrial	182,901	176,573	144,770	137,18
Other sales of electric energy	268,213	242,686	193,096	166,85
Other electric revenues	7,090	5,002	3,966	3,65
Total operating revenues—electric	$1,413,866	$1,313,937	$1,060,663	$ 998,93
Population served at retail—estimated	3,465,000	3,415,000	3,365,000	3,315,00
Number of customers:				
Residential	1,138,470	1,100,876	1,071,528	1,041,23
Commercial	115,121	111,662	108,197	105,94
Industrial	920	920	920	91
Other	15,446	14,922	14,462	14,88
Total customers	1,269,957	1,228,380	1,195,107	1,162,97
Sales of electricity—Mwh (thousands):				
Residential	12,405	11,867	11,137	10,37
Commercial	9,170	8,762	8,455	[illegible]
Industrial	6,152	6,022	6,011	[illegible]
Other	9,340	8,806	8,510	7,74
Total sales of electricity	37,067	35,457	34,113	31,48
Losses and miscellaneous system uses	2,901	2,792	2,261	2,58
Total distribution—energy supply	39,968	38,249	36,374	34,07
Less: Sales outside of service area				
Total distribution	39,968	38,249	36,374	34,07
Source of electricity—Mwh (thousands):				
Steam—Fossil	24,438	26,403	27,090	23,562
—Nuclear	14,098	9,481	7,740	8,969
Hydro	967	444	599	988
Other	399	625	407	226
Net purchased and interchanged	66	1,296	538	328
Company energy supply	39,968	38,249	36,374	34,073
Less: Sales outside of service area				
System output	39,968	38,249	36,374	34,073
Interchange deliveries for account of others	325	325	326	325
Company's service area output	40,293	38,574	36,700	34,398
Company's service area peak load—Mw	7,805	7,902	7,040	7,133
Power supply available for peak load—Mw				
Generating capability:				
Steam—Fossil	6,321	6,321	6,321	6,321
—Nuclear	2,448	1,550	1,576	1,576
Hydro	326	326	326	326
Other	439	439	454	469
Total generating capability	9,534	8,636	8,677	8,692
SEPA power disposed of in Company's service area	165	165	165	165
Available for firm peak load	9,699	8,801	8,842	8,857
Purchase (sale) outside service area	300	300	313	316
Available for service area peak load	9,999	9,101	9,155	9,173
BTU per kilowatt-hour generated	11,018	10,933	10,739	10,892
Average fuel cost per KWH generated-mills	14.04	15.23	12.94	13.06
Electric line—pole miles	41,698	41,446	41,186	40,663
Underground construction—miles of route	8,395	7,794	6,824	6,266
GAS DEPARTMENT				
Operating revenues (thousands):				
Residential	$ 30,621	$ 26,640	$ 24,914	$ 21,280
Commercial and industrial	20,000	17,981	18,308	12,944
Other	418	302	191	179
Total operating revenues—gas	$ 51,039	$ 44,923	$ 43,413	$ 34,403
Population served at retail—estimated	875,000	875,000	875,000	875,000
Number of customers	119,288	120,262	122,103	122,486
Sales—Mcf (thousands)	15,303	15,065	17,228	15,017
Output—Mcf manufactured (thousands)	236	650	138	92
Mcf natural gas purchased (thousands)	16,[illegible]07	15,448	18,519	16,274
Miles of main	2,096	2,099	2,100	2,014

*Excludes the cumulative effect to January 1, 1974 of accruing estimated unbilled revenues ($18,842,000 electric—$1,565,000 gas) shown as a non-recurring item on the income statement, net of taxes.

1974	1973	1972	1971	1970	1969	1968
308,834	$ 229,860	$ 191,924	$ 169,113	$ 158,698	$ 133,506	$ 120,515
211,486	150,758	130,599	113,646	99,957	86,907	79,379
106,309	66,131	58,785	48,375	41,889	39,099	36,974
106,018	75,170	61,440	56,392	50,073	43,323	39,968
3,315	3,044	2,920	2,844	2,534	2,935	1,889
735,962*	$ 524,963	$ 445,668	$ 390,370	$ 353,151	$ 305,770	$ 278,725
270,000	3,225,000	3,185,000	3,150,000	3,100,000	3,025,000	2,975,000
018,346	989,471	954,374	920,839	895,210	878,206	853,429
105,531	103,253	100,175	98,223	97,113	96,437	94,857
916	910	894	874	873	881	848
13,045	12,350	11,817	11,392	10,948	10,216	9,561
137,838	1,105,984	1,067,260	1,031,328	1,004,144	985,740	958,695
9,850	9,911	8,775	8,121	7,873	6,870	6,011
[illegible],307	7,330	6,471	5,980	5,617	5,035	4,488
[illegible]558	5,535	5,136	4,683	4,456	4,256	3,995
7,120	7,268	6,529	5,902	5,560	4,861	4,517
29,935	30,044	26,911	24,686	23,506	21,022	19,011
2,518	2,335	2,199	2,019	1,777	1,826	1,812
32,453	32,379	29,110	26,705	25,283	22,848	20,823
				216	117	354
32,453	32,379	29,110	26,705	25,067	22,731	20,469
22,819	22,311	23,710	24,335	23,218	22,178	20,525
5,953	6,857	370				
774	949	1,071	825	445	443	487
629	459	558	323	350	276	44
2,278	1,803	3,401	1,222	1,270	(49)	(233)
32,453	32,379	29,110	26,705	25,283	22,848	20,823
				216	117	354
32,453	32,379	29,110	26,705	25,067	22,731	20,469
325	315	312	307	301	315	310
32,778	32,694	29,422	27,012	25,368	23,046	20,779
6,734	6,900	6,232	5,295	4,852	4,639	4,253
5,684	4,866	4,306	4,334	4,330	4,330	3,676
1,576	1,576	788				
326	326	326	326	326	326	327
530	530	530	530	342	254	128
8,116	7,298	5,950	5,190	4,998	4,910	4,131
165	165	132	132	131	131	131
8,281	7,463	6,082	5,322	5,129	5,041	4,262
251	122	680	610	194	(165)	69
8,532	7,585	6,762	5,932	5,323	4,876	4,331
10,868	10,673	10,529	10,382	10,268	10,162	9,961
12.43	4.98	4.63	4.28	3.55	2.96	2.80
40,121	39,578	39,055	38,404	37,803	37,336	36,686
5,641	4,772	4,055	3,367	2,763	2,282	1,614
17,265	$ 16,038	$ 16,132	$ 14,847	$ 14,600	$ 14,446	$ 13,341
10,598	9,775	8,858	8,252	6,922	5,932	5,272
187	187	195	203	207	292	204
28,050*	$ 26,000	$ 25,185	$ 23,302	$ 21,729	$ 20,670	$ 18,817
864,000	853,000	852,000	850,000	800,000	655,000	652,000
124,395	125,525	125,277	124,029	122,489	122,264	119,143
16,888	17,666	17,620	17,772	16,239	15,345	13,809
12	297	247	341	378	288	407
17,938	18,696	18,824	18,563	17,035	16,257	14,961
2,012	1,992	1,993	1,955	1,909	1,850	1,768

Directors

Stanley Ragone William F. Vosbeck, Jr. Kenneth A. Randall

Dr. Allix B. James James F. Betts Shirley S. Pierce

T. Justin Moore, Jr.

Roy R. Smith

Charles F. Burroughs, Jr. William T. Roos Mrs. Mary C. Fray

John M. McGurn William S. Peebles

Milton L. Drewer, Jr.

John M. McGurn—An Appreciation

Spanning more than half of Vepco's modern history, the 44-year career of John M. McGurn has also shaped its future. His aggressive stance has set a pattern of striving for technical excellence, financial strength and reliable customer service. His unselfish leadership extended beyond company ranks to national industry groups as well as local community service. Transplanted from Texas as a power station engineer, he rose to become Chairman of the Board. Although he retired in 1978, his fellow directors look forward to the benefits of his expertise and dynamic personality as a member of the Board of Directors of the Company.

Membership of Committees of the Board

Committee Chairman Member Ex Officio

	Finance	Audit	Organization and Compensation	Employees' Benefit
James F. Betts, President, The Life Insurance Company of Virginia, Richmond				
Charles F. Burroughs, Jr., Chairman of the Board, Royster Company, Norfolk				
Milton L. Drewer, Jr., President, First American Bank of Virginia, McLean				
Mrs. Mary C. Fray, Culpeper				
Dr Allix B. James, President, Virginia Union University, Richmond				
John M. McGurn, Retired Chairman of the Board				
T. Justin Moore, Jr., Chairman of the Board of Directors				
William S. Peebles, III, President, W.S. Peebles and Company, Lawrenceville				
Shirley S. Pierce, President, The Ahoskie Fertilizer Company, Inc., Ahoskie, N.C.				
Stanley Ragone, President				
Kenneth A. Randall, President, The Conference Board, New York				
William T. Roos, President, Penn Luggage, Inc., Hampton				
Roy R. Smith, Chairman of the Board, Smith's Transfer Corporation, Staunton				
William F. Vosbeck, Jr., Managing Partner, VVKR Partnership, Alexandria				

T. Justin Moore, Jr., Chairman of the Board and Chief Executive Officer, Age 53 (22)
Stanley Ragone, President and Chief Operating Officer, Age 53 (30)
William W. Berry, Executive Vice President, Age 46 (21)

Samuel C. Brown Jr., Power Station Engineering and Construction, Age 53 (25)
Lemuel L. Eley, Jr., Commercial Operations, Age 62 (41)
Leon D. Johnson, III, Support Services, Age 61 (39)
William L. Proffitt, Power, Age 49 (23)

Wadsworth Bugg, Jr., Age 57 (32)
Charles M. Jarvis, Age 50 (31)
B.D. Johnson, Vice President and Controller, Age 46 (22)
Donald B. McCammond, Age 63 (8)
John I. Oatts, Age 49 (26)
O. James Peterson, III, Vice President and Treasurer, Age 43 (8)
William C. Spencer, Age 46 (11)
Carlton M. Stallings, Age 60 (36)
William N. Thomas, Age 55 (30)

S. Brooks Robertson, Age 61 (40)

Northern Division, James P. Cox, Jr., Age 60 (39)
Eastern Division, Harrison Hubard, Age 61 (39)
Southern Division, Randolph D. McIver, Age 48 (19)
Western Division, Charles S. Betts, Jr., Age 64 (45)
Central Division, David W. Poole, Age 54 (28)

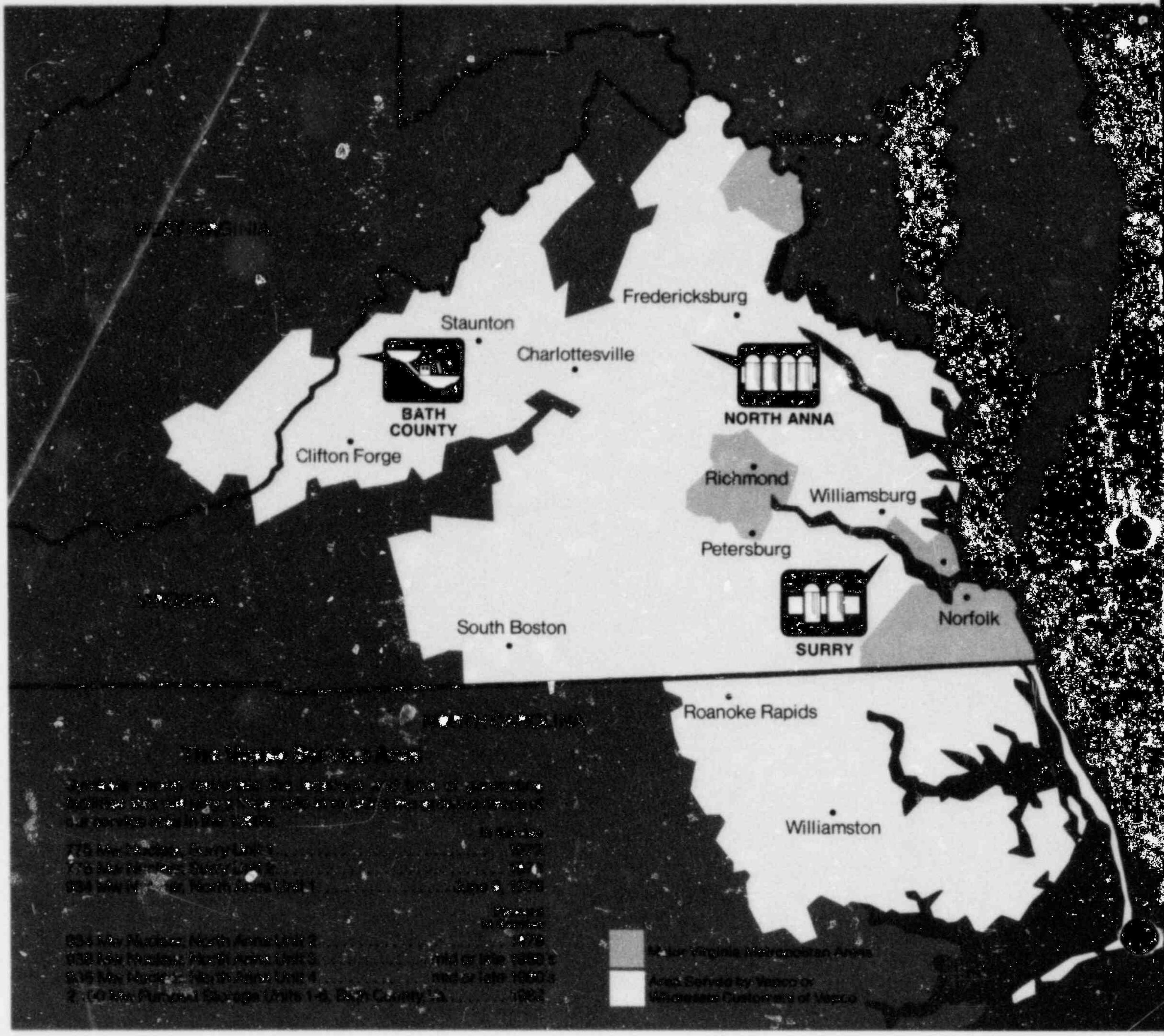
( ) Years of utility experience

New York Stock Exchange

United Virginia Bank, Richmond
The Chase Manhattan Bank (N.A.), New York

The Central National Bank of Richmond
Manufacturers Hanover Trust Company, New York

April 18, 1979



Vepco

Virginia Electric and Power Company
P.O. Box 26666 • Richmond, Virginia 23261