

Dominion Midstream Partners, LP  
Form 10-Q  
November 09, 2016  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2016**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

<b>Commission File Number</b>	<b>Exact name of registrants as specified in their charters, address of principal executive offices and registrants</b>	<b>I.R.S. Employer Identification Number</b>
<b>001-36684</b>	<b>Dominion Midstream Partners, LP 120 Tredegar Street</b>	<b>46-5135781</b>

**Richmond, Virginia 23219**

**(804) 819-2000**

**State or other jurisdiction of incorporation or organization of the registrant: Delaware**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 45,722,371 common units and 31,972,789 subordinated units outstanding as of October 15, 2016.

**Table of Contents****INDEX**

	Page Number
<u>Glossary of Terms</u>	3
<b><u>PART I. Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4. <u>Controls and Procedures</u>	33

**PART II. Other Information**

Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 6. <u>Exhibits</u>	35

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to Cove Point, the Predecessor, our predecessor, and we, our, us, our partnership or like terms when used in a historical context (prior to October 20, 2014), refer to Dominion Cove Point LNG, LP as our predecessor for accounting purposes. When used in the present tense or prospectively (periods beginning October 20, 2014), Dominion Midstream, we, our, us like terms refer to Dominion Midstream Partners, LP; one of its wholly-owned subsidiaries, Cove Point GP Holding Company, LLC, Iroquois GP Holding Company, LLC or Dominion Carolina Gas Transmission, LLC (beginning April 1, 2015); or all of them taken as a whole.

**Table of Contents**

**GLOSSARY OF TERMS**

The following abbreviations or acronyms used in this Form 10-Q are defined below:

<b>Abbreviation or Acronym</b>	<b>Definition</b>
2005 Agreement	An agreement effective March 1, 2005, which Cove Point entered into with the Sierra Club and the Maryland Conservation Council, Inc.
Additional Return Distributions	The additional cash distribution equal to 3.0% of Cove Point's Modified Net Operating Income in excess of \$600 million distributed each year
Adjusted EBITDA	EBITDA after adjustment for EBITDA attributable to the DCG Predecessor and a noncontrolling interest in Cove Point held by Dominion subsequent to the Offering, less income from equity method investee, plus distributions from equity method investee
AFUDC	Allowance for funds used during construction
bcfe	Billion cubic feet equivalent
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Columbia to Eastover Project	Project to provide 15,800 Dths/day of firm transportation service from an existing interconnect with Southern Natural Gas Company, LLC in Aiken County, South Carolina and provide for a receipt point change of 2,200 Dths/day under an existing contract from an existing interconnect with Transco in Cherokee County, South Carolina for a total 18,000 Dths/day, to a new delivery point for the International Paper Company at its pulp and paper mill known as the Eastover Plant in Richland County, South Carolina
convertible preferred units	Units to be issued in accordance with the Series A Preferred Unit and Common Unit Purchase Agreement dated October 27, 2016
Cove Point	Dominion Cove Point LNG, LP
Cove Point LNG Facility	An LNG import/regasification and storage facility located on the Chesapeake Bay in Lusby, Maryland owned by Cove Point
Cove Point Pipeline	An approximately 136-mile natural gas pipeline owned by Cove Point that connects the Cove Point LNG Facility to interstate natural gas pipelines
CPCN	Certificate of Public Convenience and Necessity
DCG	Dominion Carolina Gas Transmission, LLC (successor by statutory conversion to and formerly known as Carolina Gas Transmission Corporation)
DCG Acquisition	The acquisition of DCG by Dominion Midstream from Dominion on April 1, 2015
DCG Predecessor	Dominion as the predecessor for accounting purposes for the period from Dominion's acquisition of DCG from SCANA on January 31, 2015 until the DCG Acquisition
DCGS	Dominion Carolina Gas Services, Inc.
Dominion	

## Edgar Filing: Dominion Midstream Partners, LP - Form 10-Q

	The legal entity, Dominion Resources, Inc., one or more of its consolidated subsidiaries (other than Dominion Midstream GP, LLC and its subsidiaries), or operating segments, or the entirety of Dominion Resources, Inc. and its consolidated subsidiaries
Dominion Midstream	The legal entity, Dominion Midstream Partners, LP, one or more of its consolidated subsidiaries, Cove Point GP Holding Company, LLC, Iroquois GP Holding Company, LLC and DCG (beginning April 1, 2015), or the entirety of Dominion Midstream Partners, LP and its consolidated subsidiaries
Dominion Payroll	Dominion Payroll Company, Inc.
Dominion Questar	The legal entity, Dominion Questar Corporation (formerly known as Questar Corporation), one or more of its consolidated subsidiaries, or operating segments, or the entirety of Dominion Questar Corporation and its consolidated subsidiaries
DRS	Dominion Resources Services, Inc.
Dth	Dekatherm
EBITDA	Earnings before interest and associated charges, income tax expense, depreciation and amortization
Edgemoor Project	Facility which provides 45,000 Dths/day of firm transportation service from an existing interconnect with Transco in Cherokee County, South Carolina to customers in Calhoun and Lexington counties, South Carolina
EPA	Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
GAAP	United States generally accepted accounting principles
GHG	Greenhouse gas
IDR	Incentive distribution right
Import Shippers	The three LNG import shippers consisting of BP Energy Company, Shell NA LNG, Inc. and Statoil Natural Gas, LLC
Iroquois	Iroquois Gas Transmission System, L.P.

**Table of Contents**

<b>Abbreviation or Acronym</b>	<b>Definition</b>
Keys Energy Project	Project to provide 107,000 Dths/day of firm transportation service from Cove Point s interconnect with Transco in Fairfax County, Virginia to Keys Energy Center, LLC s power generating facility in Prince George s County, Maryland
Liquefaction Project	A natural gas export/liquefaction facility currently under construction by Cove Point
LNG	Liquefied natural gas
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MLP	Master limited partnership, equivalent to publicly traded partnership
Modified Net Operating Income	Cove Point s Net Operating Income plus any interest expense included in the computation of Net Operating Income
Net Operating Income	Cove Point s gross revenues from operations minus its interest expense and operating expenses, but excluding depreciation and amortization, as determined for United States federal income tax purposes
NG	Collectively, North East Transmission Co., Inc. and National Grid IGTS Corp.
NGA	Natural Gas Act of 1938, as amended
NJNR	NJNR Pipeline Company
NYSE	New York Stock Exchange
Offering	The initial public offering of common units of Dominion Midstream
organizational design initiative	In the first quarter of 2016, Dominion announced an organizational design initiative that will reduce its total workforce during 2016, the goal of which was to streamline its leadership structure and push decision making lower while also improving efficiency
ppb	Parts-per-billion
Preferred Equity Interest	A perpetual, non-convertible preferred equity interest in Cove Point entitled to the Preferred Return Distributions and the Additional Return Distributions
Preferred Return Distributions	The first \$50.0 million of annual cash distributions made by Cove Point
Questar Pipeline	Questar Pipeline, LLC (successor by statutory conversion to and formerly known as Questar Pipeline Company), one or more of its consolidated subsidiaries, or the entirety of Questar Pipeline, LLC and its consolidated subsidiaries
Questar Pipeline Contribution Agreement	Contribution, Conveyance and Assumption Agreement between Dominion and Dominion Midstream dated October 28, 2016
SCANA	SCANA Corporation
SCE&G	South Carolina Electric & Gas Company
SEC	Securities and Exchange Commission
St. Charles Transportation Project	Facility which provides 132,000 Dths/day of firm transportation service from Cove Point s interconnect with Transco in Fairfax County, Virginia to Competitive Power Venture Maryland, LLC s power generating facility in Charles County, Maryland

Storage Customers	The four local distribution companies that receive firm peaking services from Cove Point, consisting of: Atlanta Gas Light Company, Public Service Company of North Carolina, Incorporated, Virginia Natural Gas, Inc. and Washington Gas Light Company
Transco	Transcontinental Gas Pipe Line Company, LLC
Transco to Charleston Project	Project to provide 80,000 Dths/day of firm transportation service from an existing interconnect with Transco in Spartanburg County, South Carolina to customers in Dillon, Marlboro, Sumter, Charleston, Lexington and Richland counties, South Carolina
VIE	Variable interest entity

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DOMINION MIDSTREAM PARTNERS, LP****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
(millions, except per unit data)				
<b>Operating Revenue<sup>(1)</sup></b>	<b>\$ 85.0</b>	\$ 103.1	<b>\$ 253.6</b>	\$ 286.9
<b>Operating Expenses</b>				
Purchased gas <sup>(1)</sup>	<b>2.6</b>	23.4	<b>7.5</b>	52.8
Other operations and maintenance:				
Affiliated suppliers	<b>6.4</b>	5.2	<b>22.8</b>	16.4
Other	<b>10.3</b>	8.6	<b>30.0</b>	26.7
Depreciation and amortization	<b>10.4</b>	9.9	<b>30.6</b>	30.4
Other taxes	<b>7.6</b>	7.3	<b>21.7</b>	20.0
<b>Total operating expenses</b>	<b>37.3</b>	54.4	<b>112.6</b>	146.3
Income from operations	<b>47.7</b>	48.7	<b>141.0</b>	140.6
Earnings from equity method investee	<b>4.7</b>		<b>14.8</b>	
Other income	<b>0.9</b>	0.2	<b>2.3</b>	0.6
Interest and related charges (benefit) <sup>(1)</sup>	<b>(0.1)</b>	0.1	<b>(0.2)</b>	0.3
Income from operations including noncontrolling interest before income taxes	<b>53.4</b>	48.8	<b>158.3</b>	140.9
Income tax expense				2.1
<b>Net income including noncontrolling interest and DCG Predecessor</b>	<b>\$ 53.4</b>	\$ 48.8	<b>\$ 158.3</b>	\$ 138.8
Less: Net income attributable to DCG Predecessor				2.3
<b>Net income including noncontrolling interest</b>	<b>53.4</b>	48.8	<b>158.3</b>	136.5
Less: Net income attributable to noncontrolling interest	<b>29.1</b>	30.8	<b>88.4</b>	89.1
<b>Net income attributable to partners</b>	<b>\$ 24.3</b>	\$ 18.0	<b>\$ 69.9</b>	\$ 47.4
<b>Net income attributable to partners ownership interest</b>				



Edgar Filing: Dominion Midstream Partners, LP - Form 10-Q

General partner's interest in net income	\$ 0.7	\$	\$ 1.7	\$ (0.7)
Common unitholders' interest in net income	13.8	10.5	40.1	26.7
Subordinated unitholder's interest in net income	9.8	7.5	28.1	21.4
<b>Net income per limited partner unit (basic and diluted)</b>				
Common units	\$ 0.30	\$ 0.28	\$ 0.88	\$ 0.75
Subordinated units	0.30	0.24	0.88	0.67

(1) See Note 14 for amounts attributable to related parties.

*The accompanying notes are an integral part of Dominion Midstream's Consolidated Financial Statements.*

**Table of Contents****DOMINION MIDSTREAM PARTNERS, LP****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(millions)	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 57.1	\$ 35.0
Customer and other receivables	26.4	27.0
Affiliated receivables	6.3	6.2
Prepayments	1.0	10.6
Materials and supplies	12.7	12.5
Regulatory assets	2.4	1.7
Other <sup>(1)</sup>	3.1	2.8
Total current assets	109.0	95.8
<b>Investment in Equity Method Affiliate</b>	<b>217.9</b>	<b>220.5</b>
<b>Property, Plant and Equipment</b>		
Property, plant and equipment	4,808.3	3,845.7
Accumulated depreciation and amortization	(376.3)	(351.0)
Total property, plant and equipment, net	4,432.0	3,494.7
<b>Deferred Charges and Other Assets</b>		
Goodwill	295.5	295.5
Intangible assets, net	14.8	15.8
Regulatory assets	4.2	2.5
Other <sup>(1)</sup>	1.4	0.4
Total deferred charges and other assets	315.9	314.2
Total assets	\$ 5,074.8	\$ 4,125.2

(1) See Note 14 for amounts attributable to related parties.

*The accompanying notes are an integral part of Dominion Midstream's Consolidated Financial Statements.*



**Table of Contents**

**DOMINION MIDSTREAM PARTNERS, LP**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**(Unaudited)**

(millions)	September 30, 2016	December 31, 2015
<b>LIABILITIES AND EQUITY AND PARTNERS CAPITAL</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 18.3	\$ 8.6
Payables to affiliates	6.0	5.2
Accrued payroll and taxes	11.7	6.0
Regulatory liabilities	3.8	6.7
Dominion credit facility borrowings	21.6	5.9
Deferred revenue	7.5	4.2
Natural gas imbalances <sup>(1)</sup>	4.3	1.0
CPCN obligation	7.9	8.0
Other	15.9	14.4
Total current liabilities	97.0	60.0
<b>Affiliated Long-Term Debt</b>	<b>300.8</b>	300.8
<b>Deferred Credits and Other Liabilities</b>		
Pension and other postretirement benefit liabilities <sup>(1)</sup>	5.9	5.0
Regulatory liabilities	65.9	66.7
CPCN obligation	21.4	29.0
Asset retirement obligation	12.8	13.0
Deferred revenue	11.0	9.1
Other	1.2	0.6
Total deferred credits and other liabilities	118.2	123.4
Total liabilities	516.0	484.2
<b>Commitments and Contingencies (see Note 12)</b>		
<b>Equity and Partners Capital</b>		
Common unitholders public (27,217,743 units issued and outstanding at September 30, 2016; 27,867,938 units issued and outstanding at December 31, 2015)	592.0	600.8
Common unitholder Dominion (18,504,628 units issued and outstanding at September 30, 2016; 17,846,672 units issued and outstanding at December 31,	456.8	438.8

2015)

Subordinated unitholder Dominion (31,972,789 units issued and outstanding at September 30, 2016 and December 31, 2015)	<b>482.0</b>	475.4
General Partner interest Dominion (non-economic interest)	<b>(11.6)</b>	(12.4)
<b>Total Dominion Midstream Partners, LP partners capital</b>	<b>1,519.2</b>	1,502.6
Noncontrolling interest	<b>3,039.6</b>	2,138.4
<b>Total equity and partners capital</b>	<b>4,558.8</b>	3,641.0
Total liabilities and equity and partners capital	<b>\$ 5,074.8</b>	\$ 4,125.2

(1) See Note 14 for amounts attributable to related parties.

*The accompanying notes are an integral part of Dominion Midstream's Consolidated Financial Statements.*

Table of Contents

**DOMINION MIDSTREAM PARTNERS, LP**  
**CONSOLIDATED STATEMENT OF EQUITY AND PARTNERS CAPITAL**  
**(Unaudited)**

	Partnership			General Partner Dominion (non- economic interest)	Total Dominion Partners, LP Equity	Noncontrolling interest	Total Equity and Partners Capital
	Common Unitholders Public	Common Unitholder Dominion	Subordinated Unitholder Dominion				
(millions)							
December 31, 2015	\$ 600.8	\$ 438.8	\$ 475.4	\$ (12.4)	\$ 1,502.6	\$ 2,138.4	\$ 3,641.0
Net income including noncontrolling interest	<b>24.0</b>	<b>16.1</b>	<b>28.1</b>	<b>1.7</b>	<b>69.9</b>	<b>88.4</b>	<b>158.3</b>
Equity contributions from Dominion				<b>0.4</b>	<b>0.4</b>	<b>812.0</b>	<b>812.4</b>
Purchase of common units by Dominion	<b>(14.2)</b>	<b>14.2</b>					
Distributions	<b>(18.5)</b>	<b>(12.3)</b>	<b>(21.5)</b>	<b>(1.3)</b>	<b>(53.6)</b>		<b>(53.6)</b>
Unit awards (net of unearned compensation)	<b>0.2</b>				<b>0.2</b>		<b>0.2</b>
Other	<b>(0.3)</b>				<b>(0.3)</b>	<b>0.8</b>	<b>0.5</b>
September 30, 2016	\$ 592.0	\$ 456.8	\$ 482.0	\$ (11.6)	\$ 1,519.2	\$ 3,039.6	\$ 4,558.8

*The accompanying notes are an integral part of Dominion Midstream's Consolidated Financial Statements.*

**Table of Contents**

**DOMINION MIDSTREAM PARTNERS, LP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

Nine Months Ended September 30, (millions)	2016	2015
<b>Operating Activities</b>		
Net income including noncontrolling interest and DCG Predecessor	\$ 158.3	\$ 138.8
Adjustments to reconcile net income including noncontrolling interest and DCG Predecessor to net cash provided by operating activities:		
Depreciation and amortization	30.6	30.4
Deferred income taxes		1.5
Other adjustments to income, net	0.9	1.5
Changes in:		
Customer and other receivables	0.6	(18.3)
Prepayments	9.6	(3.8)
Accounts payable	(3.0)	34.5
Payables to affiliates	0.8	1.8
Accrued payroll and taxes	5.8	2.5
Other operating assets and liabilities	6.5	6.7
Net cash provided by operating activities	210.1	195.6
<b>Investing Activities</b>		
Plant construction and other property additions	(960.6)	(850.0)
Other	(1.5)	(0.4)
Net cash used in investing activities	(962.1)	(850.4)
<b>Financing Activities</b>		
Dominion credit facility borrowings, net	15.7	5.9
Contributions from Dominion	812.0	614.6
Distributions to common unitholders public	(18.5)	(10.1)
Distributions to common unitholder Dominion	(12.3)	(7.8)
Distributions to subordinated unitholder Dominion	(21.5)	(16.0)
Distributions to general partner Dominion	(1.3)	
Other		(0.2)
Net cash provided by financing activities	774.1	586.4
Increase (decrease) in cash and cash equivalents	22.1	(68.4)
Cash and cash equivalents at beginning of period	35.0	175.4
Cash and cash equivalents at end of period	\$ 57.1	\$ 107.0

**Supplemental Cash Flow Information**

Significant noncash investing and financing activities:

Accrued capital expenditures	<b>\$ 25.3</b>	\$ 14.8
DCG Acquisition through issuance of debt and equity		500.8
Acquisition of a noncontrolling partnership interest in Iroquois through issuance of equity		216.0
Settlement of net current and deferred income tax assets		13.4
Equity contributions from Dominion to relieve payables to affiliates	<b>0.4</b>	1.7

*The accompanying notes are an integral part of Dominion Midstream's Consolidated Financial Statements.*



**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Description of Business and Basis of Presentation**

**Description of Business**

Dominion Midstream is a Delaware limited partnership formed in March 2014 by Dominion MLP Holding Company, LLC and Dominion Midstream GP, LLC, both indirect wholly-owned subsidiaries of Dominion, to grow a portfolio of natural gas terminaling, processing, storage, transportation and related assets.

Dominion Midstream acquired from Dominion the Preferred Equity Interest and non-economic general partner interest in Cove Point, the owner and operator of the Cove Point LNG Facility and the Cove Point Pipeline. The Preferred Equity Interest is a perpetual, non-convertible preferred equity interest entitled to Preferred Return Distributions so long as Cove Point has sufficient cash and undistributed Net Operating Income (determined on a cumulative basis from the closing of the Offering) from which to make Preferred Return Distributions. Preferred Return Distributions are made on a quarterly basis and are not cumulative. The Preferred Equity Interest is also entitled to the Additional Return Distributions.

On April 1, 2015, Dominion Midstream acquired from Dominion all issued and outstanding membership interests in DCG as described further in Note 2. DCG owns and operates nearly 1,500 miles of FERC-regulated open access, transportation-only interstate natural gas pipeline in South Carolina and southeastern Georgia.

On September 29, 2015, Dominion Midstream acquired a 25.93% noncontrolling partnership interest in Iroquois as described further in Note 7. Iroquois, a Delaware limited partnership, owns and operates a 416-mile FERC-regulated interstate natural gas transmission pipeline that extends from the Canada-United States border through the states of New York and Connecticut.

**Basis of Presentation**

The contribution by Dominion to Dominion Midstream of the general partner interest in Cove Point and a portion of the Preferred Equity Interest is considered to be a reorganization of entities under common control. As a result, Dominion Midstream's basis is equal to Dominion's cost basis in the general partner interest in Cove Point and a portion of the Preferred Equity Interest. As discussed in Note 10, Dominion Midstream is the primary beneficiary of, and therefore consolidates, Cove Point. As such, Dominion Midstream's investment in the Preferred Equity Interest and Cove Point's preferred equity interest are eliminated in consolidation. Dominion's retained common equity interest in Cove Point is reflected as noncontrolling interest.

The DCG Acquisition is considered to be a reorganization of entities under common control. As a result, Dominion Midstream's basis in DCG is equal to Dominion's cost basis in the assets and liabilities of DCG. On April 1, 2015, DCG became a wholly-owned subsidiary of Dominion Midstream and is therefore consolidated by Dominion Midstream. The accompanying financial statements and related notes have been retrospectively adjusted to include the historical results and financial position of DCG beginning January 31, 2015, the inception date of common control.

The financial statements for all periods presented include costs for certain general, administrative and corporate expenses assigned by DRS or DCGS (Dominion Payroll prior to January 1, 2016) to Dominion Midstream on the basis of direct and allocated methods in accordance with Dominion Midstream's services agreements with DRS or

DCGS (Dominion Payroll prior to January 1, 2016). Where costs incurred cannot be determined by specific identification, the costs are allocated based on the proportional level of effort devoted by DRS or DCGS (Dominion Payroll prior to January 1, 2016) resources that is attributable to the entities, determined by reference to number of employees, salaries and wages and other similar measures for the relevant DRS or DCGS (Dominion Payroll prior to January 1, 2016) department. Management believes the assumptions and methodologies underlying the allocation of general corporate overhead expenses are reasonable.

---

**Table of Contents****Note 2. Acquisitions****DCG**

On April 1, 2015, Dominion Midstream entered into a Purchase, Sale and Contribution Agreement with Dominion pursuant to which Dominion Midstream purchased from Dominion all of the issued and outstanding membership interests of DCG in exchange for total consideration of approximately \$500.8 million, as adjusted for working capital. Total consideration to Dominion consisted of the issuance of a two-year \$300.8 million senior unsecured promissory note, as adjusted for working capital, payable to Dominion at an annual interest rate of 0.6%, and 5,112,139 common units, valued at \$200.0 million, representing limited partner interests in Dominion Midstream, to Dominion. The number of units was based on the volume weighted average trading price of Dominion Midstream's common units for the 10 trading days prior to April 1, 2015, or \$39.12 per unit. For the nine months ended September 30, 2016, total transition costs of \$1.3 million were expensed as incurred to operations and maintenance expense in the Consolidated Statements of Income. These costs were paid by Dominion, and Dominion Midstream subsequently reimbursed Dominion. There were no such costs incurred during the three months ended September 30, 2016. Subsequent to the DCG Acquisition through September 30, 2015, total transaction and transition costs of \$1.5 million were expensed as incurred to operations and maintenance expense in the Consolidated Statements of Income, including \$0.5 million for the three months ended September 30, 2015. These costs were paid by Dominion. Dominion did not seek reimbursement for \$0.7 million of such costs incurred subsequent to the DCG Acquisition in 2015, and accordingly Dominion Midstream recognized a capital contribution by the general partner. The DCG Acquisition supports the expansion of Dominion Midstream's portfolio of natural gas terminaling, processing, storage, transportation and related assets.

The contribution of DCG by Dominion to Dominion Midstream is considered to be a reorganization of entities under common control. Accordingly, Dominion Midstream's net investment in DCG is recorded at Dominion's historical cost of \$501.6 million as of April 1, 2015. Common control began on January 31, 2015, concurrent with Dominion's acquisition of DCG from SCANA, which was accounted for using the acquisition method of accounting. Accordingly, the Consolidated Financial Statements of Dominion Midstream reflect DCG's financial results beginning January 31, 2015.

In connection with the DCG Acquisition, Dominion Midstream entered into a registration rights agreement with Dominion pursuant to which Dominion Midstream must register the 5,112,139 common units issued to Dominion at its request, subject to certain terms and conditions. Additionally, at the time of Dominion's acquisition of DCG, DCG entered into services agreements and an intercompany tax sharing agreement with Dominion as described in Note 14.

**Iroquois**

On August 14, 2015, Dominion Midstream entered into contribution agreements with NG and NJNR. On September 29, 2015, pursuant to the contribution agreements, Dominion Midstream acquired a 25.93% noncontrolling partnership interest in Iroquois, consisting of NG's 20.4% and NJNR's 5.53% partnership interests in Iroquois and, in exchange, Dominion Midstream issued common units representing limited partnership interests in Dominion Midstream to both NG (6,783,373 common units) and NJNR (1,838,932 common units). The number of units was based on the volume-weighted average trading price of Dominion Midstream's common units for the five trading days prior to August 14, 2015, or \$33.23 per unit. The acquisition of the 25.93% noncontrolling partnership interest in Iroquois supports the expansion of Dominion Midstream's portfolio of natural gas terminaling, processing, storage, transportation and related assets. The Iroquois investment, accounted for under the equity method, was recorded at \$216.4 million based on the value of Dominion Midstream's common units at closing, including \$0.4 million of external transaction costs.

NG and NJNR agreed to certain transfer restrictions applicable to the 8,622,305 common units issued to them, including, with limited exceptions, a one-year lockup period following the closing of the transactions described above. In addition, at closing, Dominion Midstream entered into registration rights agreements with NG and NJNR pursuant to which Dominion Midstream was required to register the common units issued to NG and NJNR for resale when Dominion Midstream became eligible to file a registration statement on Form S-3. Such registration statement, filed on November 2, 2015, did not change the lockup periods to which NG and NJNR were subject. No market issuance of the common units is planned in connection with the transactions described above.

### **Questar Pipeline**

In October 2016, Dominion Midstream, following approval by the Conflicts Committee of Dominion Midstream GP, LLC, its general partner, entered into the Questar Pipeline Contribution Agreement to acquire Questar Pipeline from Dominion. Upon closing of the agreement, expected by the end of 2016, Dominion Midstream will become the owner of all of the issued and outstanding membership interests of Questar Pipeline in exchange for consideration consisting of: (1) common units with a value between \$100.0 million and \$425.0 million with the actual number of Dominion Midstream common units to be issued to Dominion to be determined by the volume-weighted average trading price of Dominion Midstream's common units on the NYSE for the 10-day trading period immediately preceding closing, (2) 11,365,628 convertible preferred units with a value of

---

**Table of Contents**

\$300.0 million and (3) cash between \$565.0 million and \$890.0 million, \$300.0 million of which is treated as a debt-financed distribution, for total consideration of \$1.29 billion. In addition, Questar Pipeline's debt of \$435.0 million is expected to remain outstanding. As a result of the transaction, Dominion Midstream will own 100% of the membership interests in Questar Pipeline and will thereafter consolidate Questar Pipeline in its financial statements. Because the contribution of Questar Pipeline by Dominion to Dominion Midstream is considered a reorganization of entities under common control, Questar Pipeline's assets and liabilities will be recorded in Dominion Midstream's consolidated financial statements at Dominion's historical cost. Common control began on September 16, 2016, concurrent with Dominion's acquisition of Dominion Questar, which was accounted for using the acquisition method of accounting.

To facilitate the financing of the anticipated acquisition of Questar Pipeline, Dominion Midstream completed a public issuance of 15,525,000 common units, which included a 2,025,000 common unit over-allotment option that was exercised in full by the underwriters, resulting in proceeds of \$347.6 million, net of offering costs of \$12.6 million, on November 3, 2016. In addition, in October 2016, Dominion Midstream entered into an agreement for the private placement of 5,990,633 common units with a value of \$137.5 million and convertible preferred units with a value between \$450.0 million and \$600.0 million upon closing. Also in October 2016, Dominion Midstream entered into an agreement providing for a \$300.0 million three-year senior unsecured term loan, with a variable interest rate, which will fund upon closing of the acquisition. The key terms of the senior unsecured term loan include limitations on the incurrence of additional indebtedness by Dominion Midstream's subsidiaries, a requirement that amounts due and payable under the term loan agreement be paid prior to Dominion Midstream making any distributions to unitholders and the maintenance of a quarterly leverage ratio not greater than 5.0 to 1.0 (or during the period following certain acquisitions, 5.50 to 1.0). If Dominion Midstream fails to make payments under the term loan or becomes subject to bankruptcy or other insolvency proceedings, these covenants could result in the acceleration of principal and interest payments and restrictions on distributions to unitholders. Offering expenses associated with the private placement of common units and convertible preferred units and the term loan agreement may be paid through a draw on the existing revolving credit facility with Dominion. As a condition to closing under the Questar Pipeline Contribution Agreement, Dominion Midstream is required to repay the outstanding \$300.8 million senior unsecured promissory note payable to Dominion and to repurchase 6,656,839 common units from Dominion.

In connection with the anticipated acquisition of Questar Pipeline, total transaction and transition costs of \$0.4 million were expensed as incurred to operations and maintenance expense in the Consolidated Statements of Income, including \$0.3 million for the three months ended September 30, 2016. These costs were paid by Dominion and Dominion did not seek reimbursement. Accordingly, Dominion Midstream recognized an equity contribution from the general partner.

Questar Pipeline operates interstate natural gas pipelines and storage facilities in the western United States, providing natural gas transportation and underground storage services in Utah, Wyoming and Colorado. As of September 30, 2016, Questar Pipeline's natural gas system consisted of nearly 2,200 miles of interstate pipeline, and nearly 56 billion cubic feet of working gas storage capacity. Questar Pipeline's core transportation system is strategically located near large reserves of natural gas in six major Rocky Mountain producing areas. Questar Pipeline transports natural gas from these producing areas to other major pipeline systems, Questar Gas Company's distribution system and other utility systems. Questar Pipeline operates and owns 50% of White River Hub, LLC, a FERC-regulated transporter of natural gas, in western Colorado, which is accounted for under the equity method. Questar Pipeline also owns gathering lines and processing facilities in Utah, through which it provides gas-processing services. The anticipated acquisition of Questar Pipeline supports the expansion of Dominion Midstream's portfolio of natural gas terminaling, processing, storage, transportation and related assets.

**Note 3. Significant Accounting Policies**

**Interim Financial Information and Estimates**

As permitted by the rules and regulations of the SEC, Dominion Midstream's accompanying unaudited Consolidated Financial Statements exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with GAAP. These unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, the accompanying unaudited Consolidated Financial Statements contain all adjustments necessary to present fairly Dominion Midstream's financial position at September 30, 2016, its results of operations for the three and nine months ended September 30, 2016 and 2015, its cash flows for the nine months ended September 30, 2016 and 2015 and changes in equity for the nine months ended September 30, 2016. Such adjustments are normal and recurring in nature unless otherwise noted.

**Table of Contents**

Dominion Midstream makes certain estimates and assumptions in preparing its Consolidated Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from those estimates.

The results of operations for interim periods are not necessarily indicative of the results expected for the full year. Information for quarterly periods is affected by seasonal variations in sales, rate changes, purchased gas expenses and other factors.

**Restricted Cash**

In October 2016, Cove Point fully funded a distribution reserve of \$25.0 million, sufficient to pay two quarters of Preferred Return Distributions.

**Note 4. Net Income Per Limited Partner Unit**

Net income per limited partner unit applicable to common and subordinated units is computed by dividing the respective limited partners' interest in net income attributable to Dominion Midstream, after deducting any incentive distributions, by the weighted average number of common units and subordinated units outstanding. Because Dominion Midstream has more than one class of participating securities, the two-class method is used when calculating the net income per unit applicable to limited partners. The classes of participating securities include common units, subordinated units and IDRs.

Dominion Midstream's net income is allocated to the limited partners in accordance with their respective partnership interests, after giving effect to priority income allocations for incentive distributions, if any, to Dominion, the holder of the IDRs, pursuant to the partnership agreement. The distributions are declared and paid following the close of each quarter. Earnings in excess of distributions are allocated to the limited partners based on their respective ownership interests. Payments made to Dominion Midstream's unitholders are determined in relation to actual distributions declared and are not based on the net income allocations used in the calculation of earnings per limited partner unit.

Diluted net income per limited partner unit is the same as basic net income per limited partner unit as there were no potentially dilutive common or subordinated units outstanding at September 30, 2016 and 2015.

The calculation of net income per limited partner unit is as follows:

	<b>Three Months Ended</b>	<b>Nine Months Ended</b>
	<b>September 30,</b>	<b>September</b>
	<b>2016</b>	<b>30,</b>
		<b>2016</b>
(millions)		
Net income attributable to partners	\$ 24.3	\$ 69.9
Less: General partner allocation <sup>(1)</sup>	(0.3)	(0.4)
Distributions declared on <sup>(2)</sup> :		
IDRs <sup>(3)</sup>	1.0	2.1
Common unitholders	11.3	32.3
Subordinated unitholders	7.9	22.6

Total distributions declared		<b>20.2</b>		<b>57.0</b>
Undistributed earnings	\$	<b>4.4</b>	\$	<b>13.3</b>

(1) See Note 2 for further information.

(2) On October 21, 2016, the Board of Directors of our general partner declared a quarterly cash distribution of \$0.2475 per unit, totaling \$24.3 million for the three months ended September 30, 2016. This distribution will be paid on November 15, 2016 to unitholders of record on November 4, 2016. The amount of distributions declared shown above is based on the units outstanding at September 30, 2016, and therefore excludes \$3.9 million of distributions, and a corresponding \$0.2 million of additional IDRs, that will be paid on 15,525,000 common units issued to the public on November 3, 2016 in connection with Dominion Midstream's anticipated acquisition of Questar Pipeline. See Note 2 for further information.

On July 22, 2016, the Board of Directors of our general partner declared a quarterly cash distribution of \$0.2355 per unit, totaling \$19.0 million for the three months ended June 30, 2016. This distribution was paid on August 15, 2016 to unitholders of record on August 5, 2016.

On April 19, 2016, the Board of Directors of our general partner declared a quarterly cash distribution of \$0.2245 per unit, totaling \$17.8 million for the three months ended March 31, 2016. This distribution was paid on May 13, 2016 to unitholders of record on May 3, 2016.

(3) Dominion is a non-economic general partner that holds all of the IDRs.



**Table of Contents**

	Three Months Ended	Nine Months Ended
	September 30, 2015	September 30, 2015
(millions)		
Net income attributable to partners	\$ 18.0	\$ 47.4
Less: General partner allocation <sup>(1)</sup> :		(0.7)
Distributions declared on <sup>(2)</sup> :		
IDRs <sup>(3)</sup>		
Common unitholders	9.1	22.5
Subordinated unitholders	6.4	18.0
<b>Total distributions declared</b>	<b>15.5</b>	<b>40.5</b>
Undistributed earnings	\$ 2.5	\$ 7.6

(1) See Note 2 for further information.

(2) On October 23, 2015, the Board of Directors of our general partner declared a quarterly cash distribution of \$0.2000 per unit, totaling \$15.5 million for the three months ended September 30, 2015. This distribution was paid on November 13, 2015 to unitholders of record on November 3, 2015.

On July 17, 2015, the Board of Directors of our general partner declared a quarterly cash distribution of \$0.1875 per unit, totaling \$12.9 million, for the three months ended June 30, 2015. This distribution was paid on August 14, 2015 to unitholders of record on August 4, 2015. The amount of distributions declared shown above is based on the units outstanding at June 30, 2015.

On April 22, 2015, the Board of Directors of our general partner declared a quarterly cash distribution of \$0.1750 per unit, totaling \$12.1 million for the three months ended March 31, 2015. This distribution was paid on May 15, 2015 to unitholders of record on May 5, 2015.

(3) Dominion is a non-economic general partner that holds all of the IDRs.

**Basic and diluted net income per limited partner unit**

	Common Units	Subordinated Units	General Partner	Total
(millions, except for weighted average units and per unit data)				
<b>Three Months Ended September 30, 2016</b>				
General partner allocation	\$	\$	\$ (0.3)	\$ (0.3)
Distributions declared	11.3	7.9	1.0	20.2
Undistributed earnings	2.5	1.9		4.4
<b>Net income attributable to partners</b>	<b>\$ 13.8</b>	<b>\$ 9.8</b>	<b>\$ 0.7</b>	<b>\$ 24.3</b>
Weighted average units outstanding	45,722,371	31,972,789		

Net income per limited partner unit	\$	0.30	\$	0.30		
<b>Nine Months Ended September 30, 2016</b>						
General partner allocation	\$		\$		\$ (0.4)	\$ (0.4)
Distributions declared		32.3		22.6	2.1	57.0
Undistributed earnings		7.8		5.5		13.3
Net income attributable to partners	\$	40.1	\$	28.1	\$ 1.7	\$ 69.9
Weighted average units outstanding		45,722,286		31,972,789		
Net income per limited partner unit	\$	0.88	\$	0.88		

**Table of Contents****Basic and diluted net income per limited partner unit**

	Common Units	Subordinated Units	General Partner	Total
(millions, except for weighted average units and per unit data)				
<b>Three Months Ended September 30, 2015</b>				
Distributions declared	\$ 9.1	\$ 6.4	\$	\$ 15.5
Undistributed earnings	1.3	1.2		2.5
Net income attributable to partners	\$ 10.4	\$ 7.6	\$	\$ 18.0
Weighted average units outstanding	37,279,747	31,972,789		
Net income per limited partner unit	\$ 0.28	\$ 0.24		
<b>Nine Months Ended September 30, 2015</b>				
General partner allocation	\$	\$	\$ (0.7)	\$ (0.7)
Distributions declared	22.5	18.0		40.5
Undistributed earnings	4.0	3.6		7.6
Net income attributable to partners	\$ 26.5	\$ 21.6	\$ (0.7)	\$ 47.4
Weighted average units outstanding	35,470,133	31,972,789		
Net income per limited partner unit	\$ 0.75	\$ 0.67		

**Note 5. Unit Activity**

Activity in the number of units was as follows:

	Common Public	Common Dominion	Subordinated	General Partner (non-economic interest)	Total
Balance at December 31, 2015	27,867,938	17,846,672	31,972,789		77,687,399
Unit-based compensation	7,761				7,761
Dominion purchase of common units <sup>(1)</sup>	(657,956)	657,956			
Balance at September 30, 2016	27,217,743	18,504,628	31,972,789		77,695,160

(1) These shares were purchased by Dominion as part of Dominion's program initiated in September 2015, which expired in September 2016, to purchase from the market up to \$50.0 million of common units representing limited partner interests in Dominion Midstream at the discretion of Dominion's management.

**Note 6. Operating Revenue**

Dominion Midstream's operating revenue consists of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
(millions)				
Gas transportation and storage	\$ 81.0	\$ 78.1	\$ 241.7	\$ 231.7
Other	4.0	25.0	11.9	55.2
<b>Total operating revenue</b>	<b>\$ 85.0</b>	<b>\$ 103.1</b>	<b>\$ 253.6</b>	<b>\$ 286.9</b>

**Note 7. Equity Method Investments**

The Consolidated Financial Statements include Dominion Midstream's 25.93% noncontrolling partnership interest in Iroquois, which is accounted for under the equity method. See further discussion of Iroquois in Notes 1 and 10.

During the three and nine months ended September 30, 2016, Dominion Midstream received distributions of \$5.7 million and \$17.4 million, respectively, from Iroquois. At September 30, 2016, the carrying amount of Dominion Midstream's investment of \$217.9 million exceeded its share of underlying equity in net assets by approximately \$122.9 million. The difference reflects equity method goodwill and is not being amortized.

**Table of Contents**

Summarized financial information provided to us by Iroquois for 100% of Iroquois for the three and nine months ended September 30, 2016 is presented below.

	Three Months Ended	Nine Months Ended
(in millions)	September 30, 2016	September 30, 2016
Revenues	\$ 45.5	\$ 145.2
Operating income	23.1	74.3
Net income	18.9	61.6

**Note 8. Regulatory Assets and Liabilities**

Regulatory assets and liabilities include the following:

(millions)	September 30, 2016	December 31, 2015
<b>Regulatory assets:</b>		
Unrecovered gas costs <sup>(1)</sup>	\$ 2.1	\$ 1.4
Other	0.3	0.3
Regulatory assets-current	2.4	1.7
<b>Income taxes recoverable through future rates<sup>(2)</sup></b>		
	3.3	2.5
Other	0.9	
Regulatory assets-non-current	4.2	2.5
Total regulatory assets	\$ 6.6	\$ 4.2
<b>Regulatory liabilities:</b>		
Overrecovered gas costs <sup>(1)</sup>	\$ 0.2	\$ 0.1
LNG cargo obligations <sup>(3)</sup>	0.6	3.0
Customer bankruptcy settlement <sup>(4)</sup>	2.9	3.1
Other	0.1	0.5
Regulatory liabilities-current	3.8	6.7
<b>Provision for future cost of removal<sup>(5)</sup></b>		
	47.4	45.7
Customer bankruptcy settlement <sup>(4)</sup>	18.3	20.5
Other	0.2	0.5
Regulatory liabilities-non-current	65.9	66.7

Total regulatory liabilities	\$	69.7	\$	73.4
------------------------------	----	------	----	------

- (1) Reflects unrecovered/overrecovered gas costs, which are subject to annual filings with FERC.
- (2) Amounts to be recovered through future rates to pay income taxes that become payable by unitholders when rate revenue is provided to recover AFUDC-equity when such amounts are recovered through book depreciation.
- (3) Reflects obligations to the Import Shippers for LNG cargo received. See Note 12 to the Consolidated Financial Statements in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015 for further information.
- (4) Primarily represents the balance of proceeds from the monetization of a bankruptcy claim acquired as part of the DCG Acquisition, which is being amortized into operating revenue through February 2024.
- (5) Rates charged to customers include a provision for the cost of future activities to remove assets that are expected to be incurred at the time of retirement.

At September 30, 2016, approximately \$3.3 million of regulatory assets represented past expenditures on which Dominion Midstream does not currently earn a return. These expenditures are expected to be recovered within two years.

### Note 9. Regulatory Matters

FERC regulates the transportation and sale for resale of natural gas in interstate commerce under the NGA and the Natural Gas Policy Act of 1978, as amended. Under the NGA, FERC has authority over rates, terms and conditions of services performed by Cove Point and DCG. FERC also has jurisdiction over siting, construction and operation of natural gas import facilities and interstate natural gas pipeline facilities.

Other than the following matter, there have been no significant developments regarding the pending regulatory matters disclosed in Note 12 to the Consolidated Financial Statements in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015 and Note 9 to the Consolidated Financial Statements in Dominion Midstream's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016.

## **Table of Contents**

Prior to importing or exporting LNG, Cove Point must receive approvals from the Department of Energy. In September 2013, the Department of Energy granted non-free trade agreement authorization approval for the export of up to 0.77 bcf/day of natural gas to countries that do not have a free trade agreement for trade in natural gas. In June 2016, a party filed a petition for review of this approval in the United States Court of Appeals for the District of Columbia Circuit. This case is pending.

### **Note 10. Variable Interest Entities**

The primary beneficiary of a VIE is required to consolidate the VIE and to disclose certain information about its significant variable interests in the VIE. The primary beneficiary of a VIE is the entity that has both: (1) the power to direct the activities that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE.

#### **Cove Point**

Dominion Midstream concluded that Cove Point is a VIE due to the limited partners lacking the characteristics of a controlling financial interest. Dominion Midstream is the primary beneficiary of Cove Point as it has the power to direct the activities that most significantly impact its economic performance as well as the obligation to absorb losses and benefits which could be significant to it.

#### **Iroquois**

Dominion Midstream previously concluded that Iroquois was a VIE because a non-affiliated Iroquois equity holder had the ability during a limited period of time to transfer its ownership interests to another Iroquois equity holder or its affiliate. At the end of the first quarter of 2016, such right no longer existed and Dominion Midstream concluded that Iroquois is no longer a VIE.

#### **DRS, DCGS and Dominion Payroll**

In connection with the Offering, our general partner entered into a services agreement with DRS. DRS provides administrative, management and other services to Dominion and its subsidiaries as a subsidiary service company. From time to time and at the option of our general partner, our general partner will request that DRS provide, and reimburse DRS for the cost of providing, such administrative, management and other services as it deems necessary or appropriate for our operations. We will reimburse our general partner and its affiliates for the associated costs of obtaining these services. For the three and nine months ended September 30, 2016, these costs were \$0.3 million and \$0.9 million, respectively. For the three and nine months ended September 30, 2015, these costs were \$0.2 million and \$0.6 million, respectively.

Additionally, in connection with Dominion's acquisition of DCG, DCG entered into services agreements beginning February 1, 2015 with DRS, for similar services as described above, and with Dominion Payroll, which provides human resources and operations services to Dominion and its subsidiaries as a subsidiary service company. Effective January 1, 2016, DCGS provides these services to Dominion Midstream with Dominion Payroll no longer providing any services to Dominion Midstream.

Dominion Midstream purchased shared services from DRS and DCGS of approximately \$6.3 million and \$3.2 million for the three months ended September 30, 2016, respectively, and \$18.8 million and \$12.1 million for the nine months ended September 30, 2016, respectively. Dominion Midstream purchased shared services from DRS and Dominion Payroll of approximately \$3.6 million and \$3.2 million for the three months ended September 30, 2015, respectively,

and \$11.4 million and \$8.7 million for the nine months ended September 30, 2015, respectively. The Consolidated Balance Sheets at September 30, 2016 and December 31, 2015 include amounts due from Dominion Midstream to DRS, DCGS and Dominion Payroll of approximately \$3.3 million and \$2.8 million, respectively.

Dominion Midstream determined that neither it nor any of its consolidated entities is the primary beneficiary of DRS, DCGS or Dominion Payroll, as neither it nor any of its consolidated entities has both the power to direct the activities that most significantly impact their economic performance as well as the obligation to absorb losses and benefits which could be significant to them. Neither Dominion Midstream nor any of its consolidated entities has any obligation to absorb more than its allocated share of DRS, DCGS or Dominion Payroll costs.



---

**Table of Contents****Note 11. Affiliated Long-Term Debt**

In connection with the DCG Acquisition, Dominion Midstream issued a two-year, \$300.8 million senior unsecured promissory note payable to Dominion, as adjusted for working capital, at an annual fixed interest rate of 0.6%. Interest on the note is payable quarterly, and all principal and accrued interest is due and payable at maturity on April 1, 2017, which under certain conditions can be extended at the option of Dominion Midstream to October 1, 2017. As a result of the financing activity associated with the anticipated acquisition of Questar Pipeline described in Note 2, the affiliated long-term debt has been classified as a noncurrent liability in the Consolidated Balance Sheet at September 30, 2016. Interest charges related to Dominion Midstream's borrowing from Dominion were \$0.5 million and \$1.4 million for the three and nine months ended September 30, 2016, respectively, and \$0.5 million and \$1.0 million for the three and nine months ended September 30, 2015, respectively. At September 30, 2016 and December 31, 2015, accrued interest payable to Dominion of \$0.5 million was recorded in payables to affiliates on the Consolidated Balance Sheets.

The debt instrument described above is reported at historical cost. At September 30, 2016, the fair value of Dominion Midstream's outstanding debt was \$300.6 million. The estimated fair value has been determined using available market information and valuation methodologies considered appropriate by management. The fair value was calculated using market interest rates currently available for issuance of debt with similar terms and remaining maturities. The fair value measurement is classified as Level 2.

The key terms of the note payable to Dominion include a prohibition on the incurrence of additional indebtedness (other than under the credit facility with Dominion discussed in Note 14 or in connection with the repayment of outstanding debt, as is expected in connection with the anticipated acquisition of Questar Pipeline) and a negative pledge applicable to liens on the assets of Dominion Midstream, but which does not apply to the assets of subsidiaries of Dominion Midstream. The note payable does not include any financial covenants. If Dominion Midstream fails to make payments under the note payable or becomes subject to bankruptcy or other insolvency proceedings, Dominion may accelerate Dominion Midstream's payment obligations under the note payable.

**Note 12. Commitments and Contingencies**

As a result of issues generated in the ordinary course of business, Dominion Midstream is involved in legal proceedings before various courts and is periodically subject to governmental examinations (including by FERC), inquiries and investigations. Certain legal proceedings and governmental examinations involve demands for unspecified amounts of damages, are in an initial procedural phase, involve uncertainty as to the outcome of pending appeals or motions, or involve significant factual issues that need to be resolved, such that it is not possible for Dominion Midstream to estimate a range of possible loss. For such matters that Dominion Midstream cannot estimate, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the litigation or investigative processes such that Dominion Midstream is able to estimate a range of possible loss. For legal proceedings and governmental examinations for which Dominion Midstream is able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. Estimated ranges of loss are inclusive of legal fees and net of any anticipated insurance recoveries. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any accrued liability is recorded on a gross basis with a receivable also recorded for any probable insurance recoveries. Any estimated range of possible loss may not represent Dominion Midstream's maximum possible loss exposure. The circumstances of such legal proceedings and governmental examinations will change from time to time and actual results may vary significantly from the current estimate. Management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on Dominion Midstream's financial position, liquidity or results of operations.

### **Cove Point Natural Heritage Trust**

Under the terms of the 2005 Agreement, Cove Point is required to make an annual contribution to the Cove Point Natural Heritage Trust, an affiliated non-profit trust focused on the preservation and protection of ecologically sensitive sites at or near Cove Point, of \$0.3 million for each year the facility is in operation. These annual payments are recorded in other operations and maintenance expense in the Consolidated Statements of Income. If Cove Point voluntarily tenders title according to the terms of this agreement, no contributions are required. There are no current plans to voluntarily tender title to the Cove Point site.

### **Surety Bonds**

At September 30, 2016, Cove Point had purchased \$9.8 million of surety bonds. Under the terms of surety bonds, Cove Point is obligated to indemnify the respective surety bond company for any amounts paid.

### **Lease Commitments**

Dominion Midstream leases various facilities, vehicles and equipment under operating lease arrangements, the majority of which include terms of one year or less, require payments on a monthly or annual basis and can be canceled at any time. Rental expense for Dominion Midstream totaled \$0.7 million and \$2.3 million for the three and nine months ended September 30, 2016, respectively, and \$0.7 million and \$2.1 million for the three and nine months ended September 30, 2015, respectively.

## **Table of Contents**

The majority of rent expense is included within other operations and maintenance expense in the Consolidated Statements of Income.

### **Note 13. Credit Risk**

Credit risk is the risk of financial loss if counterparties fail to perform their contractual obligations. In order to minimize overall credit risk, credit policies are maintained, including the evaluation of counterparty financial condition. In addition, counterparties may make available collateral, including letters of credit, payment guarantees or cash deposits.

Dominion Midstream provides service to approximately 70 customers, including the Storage Customers, marketers or end users and the Import Shippers. The two largest customers comprised approximately 69% and 70% of the total transportation and storage revenues for the three and nine months ended September 30, 2016, respectively, with Dominion Midstream's largest customer representing approximately 54% of such amounts in each period. The two largest customers comprised approximately 71% of the total transportation and storage revenues for each of the three and nine months ended September 30, 2015, with Dominion Midstream's largest customer representing approximately 56% and 57% of such amounts in each period, respectively.

Dominion Midstream maintains a provision for credit losses based on factors surrounding the credit risk of its customers, historical trends and other information. At September 30, 2016 and December 31, 2015, the provision for credit losses was less than \$0.1 million. Management believes, based on credit policies and the September 30, 2016 provision for credit losses, that it is unlikely that a material adverse effect on financial position, results of operations or cash flows would occur as a result of counterparty nonperformance.

### **Note 14. Related-Party Transactions**

Dominion Midstream engages in related-party transactions primarily with other Dominion subsidiaries (affiliates), including our general partner. Dominion Midstream's receivable and payable balances with affiliates are settled based on contractual terms or on a monthly basis, depending on the nature of the underlying transactions. Cove Point participates in certain Dominion benefit plans as described in Note 16 to the Consolidated Financial Statements in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015. In Dominion Midstream's Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, amounts due to Dominion associated with these benefit plans included in pension and other postretirement benefit liabilities were \$5.9 million and \$5.0 million, respectively, and amounts due from Dominion at September 30, 2016 included in deferred charges and other assets were \$0.7 million. There were no such amounts due from Dominion at December 31, 2015. Transactions related to the DCG Acquisition and the anticipated acquisition of Questar Pipeline are described in Notes 2 and 11. A discussion of the remaining significant related party transactions follows.

#### **Transactions with Affiliates**

DRS provides accounting, legal, finance and certain administrative and technical services to Dominion Midstream. Effective January 1, 2016, DCGS provides human resources and operations services to Dominion Midstream as a subsidiary service company. Prior to January 1, 2016, Dominion Payroll provided human resources and operations services to Dominion Midstream as a subsidiary service company. Refer to Note 10 for further information.

Dominion may seek reimbursement from DCG for costs incurred related to Dominion's transition services agreement with SCANA to provide administrative functions related to DCG. For the three and nine months ended September 30, 2016, DCG reimbursed Dominion a total of \$0.2 million and \$1.4 million for such costs. Subsequent to the DCG

Acquisition through September 30, 2015, DCG reimbursed Dominion a total of \$2.1 million for such costs, including \$1.0 million for the three months ended September 30, 2015.

Dominion Midstream provides transportation services to affiliates and affiliates provide goods and services to Dominion Midstream.

**Table of Contents**

Affiliated transactions are presented below:

(millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Sales of natural gas transportation services to affiliates	\$ 0.5	\$ 0.6	\$ 1.4	\$ 1.7
Purchased gas from affiliates	0.1	0.1	0.2	0.4
Goods and services provided by affiliates to Dominion Midstream <sup>(1)</sup>	12.2	8.6	37.0	25.3

(1) Includes \$5.8 million and \$14.2 million of capitalized expenditures for the three and nine months ended September 30, 2016, and \$3.4 million and \$8.9 million for the three and nine months ended September 30, 2015, respectively.

**Dominion Credit Facility**

In connection with the Offering, Dominion Midstream entered into a credit facility with Dominion with a borrowing capacity of \$300 million. A summary of certain key terms of the credit facility with Dominion is included in Note 20 to the Consolidated Financial Statements in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015. At September 30, 2016 and December 31, 2015, \$21.6 million and \$5.9 million was outstanding against the credit facility, respectively. In October 2016, Dominion Midstream drew an additional \$7.3 million on the credit facility to fund capital expenditures at DCG. Outstanding borrowings are presented within current liabilities as such amounts could become payable on demand after a 90-day termination notice provided by either party. No such notice has been provided through the date of this filing. Interest charges related to Dominion Midstream's borrowings against the facility were \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2016, respectively, and less than \$0.1 million for the three and nine months ended September 30, 2015.

**Income Taxes**

DCG participated in Dominion's intercompany tax sharing agreement from February 1, 2015 through March 31, 2015. DCG's participation in this tax sharing agreement was subsequently terminated in connection with the DCG Acquisition. At the time of the DCG Acquisition, DCG settled income taxes payable and net deferred income taxes of \$13.4 million through an equity transaction with Dominion.

**Natural Gas Imbalances**

Dominion Midstream maintains natural gas imbalances with affiliates. The imbalances with affiliates are provided below:

(millions)	September 30, 2016	December 31, 2015
Imbalances payable to affiliates	\$ 1.9	\$ 0.8
Imbalances receivable from affiliates <sup>(1)</sup>	0.1	

*(1) Included within other current assets in the Consolidated Balance Sheets.*

### **Right of First Offer**

In connection with the Offering, Dominion Midstream entered into a right of first offer agreement with Dominion as described in Note 20 to the Consolidated Financial Statements in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015. There have been no changes to this agreement.

### **Contributions from Dominion**

For the three and nine months ended September 30, 2016, Dominion contributed \$273.4 million and \$812.0 million, respectively, to Cove Point. For the three and nine months ended September 30, 2015, Dominion contributed \$341.5 million and \$613.3 million, respectively, to Cove Point. In October 2016, Dominion contributed an additional \$61.8 million to Cove Point. These contributions from Dominion to Cove Point represent funding for capital expenditures related to the Liquefaction Project. In February 2015, Dominion contributed \$1.3 million in cash to DCG to fund operations.

Transaction and transition costs incurred by the DCG Predecessor were attributed to Dominion Midstream and expensed in operations and maintenance expense in the Consolidated Statements of Income. At the time of the DCG Acquisition, Dominion Midstream settled amounts payable to Dominion of \$1.0 million through equity contributions from Dominion.

Subsequent to the DCG Acquisition through September 30, 2015, Dominion allocated transaction and transition costs related to the DCG Acquisition of \$1.5 million to Dominion Midstream, of which Dominion did not seek reimbursement for \$0.7 million as described further in Note 2. For the three and nine months ended September 30, 2016, Dominion allocated costs of \$0.3 million and \$0.4 million, respectively, to Dominion Midstream related to the anticipated acquisition of Questar Pipeline for which Dominion did not seek reimbursement.

**Table of Contents****Note 15. Income Taxes**

Dominion Midstream is organized as an MLP, a pass-through entity for United States federal and state income tax purposes. Each unitholder is responsible for taking into account the unitholder's respective share of Dominion Midstream's items of taxable income, gain, loss and deduction in the preparation of income tax returns. Upon the closing of the Offering, Cove Point became a pass-through entity for United States federal and state income tax purposes. Effective April 1, 2015, the date of the DCG Acquisition, DCG is treated as a component of Dominion Midstream for income tax purposes. Accordingly, Dominion Midstream's Consolidated Financial Statements do not include income taxes for the period subsequent to the Offering, with the exception of income taxes attributable to the DCG Predecessor.

DCG operated as a taxable corporation at the time of Dominion's acquisition of DCG. In March 2015, DCG converted to a single member limited liability company and as a result, became a disregarded entity for income tax purposes and was treated as a taxable division of its corporate parent, Dominion.

Current income taxes for DCG were based on taxable income or loss, determined on a separate company basis, and, where applicable, settled in accordance with the principles of Dominion's intercompany tax sharing agreement. The settlement of DCG's federal and state income taxes payable and net deferred income taxes is reflected as an equity transaction in Dominion Midstream's Consolidated Financial Statements.

For the nine months ended September 30, 2016 and 2015, the statutory United States federal income tax rate reconciles to the effective income tax rate as follows:

<b>Nine Months Ended September 30,</b>	<b>2016</b>	<b>2015</b>
United States statutory rate	<b>35.0%</b>	35.0%
Partnership income not subject to income taxes <sup>(1)</sup>	<b>(35.0)</b>	(33.6)
Increases resulting from:		
State taxes, net of federal benefit <sup>(2)</sup>		0.1
Effective tax rate	<b>%</b>	1.5 %

(1) Reflects the pass-through entity status of Dominion Midstream, including the operations of DCG subsequent to the DCG Acquisition, and Cove Point.

(2) 2015 amounts are attributable to the operations of DCG prior to the DCG Acquisition.

See Note 21 to the Consolidated Financial Statements in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015 for additional information.

**Note 16. Operating Segment**

Dominion Midstream is organized primarily on the basis of products and services sold in the United States. Dominion Energy, Dominion Midstream's operating segment, consists of gas transportation, storage and regasification services.

Dominion Midstream also reports a Corporate and Other segment. The Corporate and Other segment primarily includes items attributable to Dominion Midstream's operating segment that are not included in profit measures

evaluated by executive management in assessing the segment's performance or in allocating resources.



**Table of Contents**

The following table presents segment information pertaining to Dominion Midstream's operations:

(millions)	Dominion Energy	Corporate and Other	Total
<b>Three Months Ended September 30, 2016</b>			
Operating revenue	\$ 85.0	\$	\$ 85.0
Earnings from equity method investee	4.7		4.7
Net income (loss) including noncontrolling interest	53.7	(0.3)	53.4
Net income (loss) attributable to partners	24.6	(0.3)	24.3
<b>Three Months Ended September 30, 2015</b>			
Operating revenue	\$ 103.1	\$	\$ 103.1
Net income (loss) including noncontrolling interest	48.8		48.8
Net income (loss) attributable to partners	18.0		18.0
<b>Nine Months Ended September 30, 2016</b>			
Operating revenue	\$ 253.6	\$	\$ 253.6
Earnings from equity method investee	14.8		14.8
Net income (loss) including noncontrolling interest	158.7	(0.4)	158.3
Net income (loss) attributable to partners	70.3	(0.4)	69.9
<b>Nine Months Ended September 30, 2015</b>			
Operating revenue	\$ 286.9	\$	\$ 286.9
Net income (loss) including noncontrolling interest and DCG Predecessor	140.5	(1.7)	138.8
Net income (loss) including noncontrolling interest	137.2	(0.7)	136.5
Net income (loss) attributable to partners	48.1	(0.7)	47.4

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

MD&A discusses our results of operations and general financial condition. MD&A should be read in conjunction with the Consolidated Financial Statements.

**Contents of MD&A**

MD&A consists of the following information:

Forward-Looking Statements

How We Evaluate Our Operations

Factors Impacting Comparability of Our Financial Results

Accounting Matters

Results of Operations

Analysis of Consolidated Operations

Segment Results of Operations

Liquidity and Capital Resources

Future Issues and Other Matters

**Forward-Looking Statements**

This report contains statements concerning expectations, plans, objectives, future financial performance and other statements that are not historical facts. In most cases, the reader can identify these forward-looking statements by such words as anticipate, estimate, forecast, expect, believe, should, could, plan, may, continue, target, words.

We make forward-looking statements with full knowledge that risks and uncertainties exist that may cause actual results to differ materially from predicted results. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additionally, other factors may cause actual results to differ

materially from those indicated in any forward-looking statement. These factors include but are not limited to:

Unusual weather conditions and their effect on energy sales to customers and energy commodity prices;

Extreme weather events and other natural disasters, including, but not limited to, hurricanes, high winds, severe storms, earthquakes, flooding and changes in water availability that can cause outages and property damage to facilities;

Federal, state and local legislative and regulatory developments, including changes in federal and state tax laws and regulations;

Changes to federal, state and local environmental laws and regulations, including those related to climate change, the tightening of emission or discharge limits for GHGs and other emissions, more extensive permitting requirements and the regulation of additional substances;

The cost of environmental compliance, including those costs related to climate change;

Changes in implementation and enforcement practices of regulators relating to environmental and safety standards and litigation exposure for remedial activities;

Difficulty in anticipating mitigation requirements associated with environmental and other regulatory approvals;

Fluctuations in energy-related commodity prices and the effect these could have on our earnings, liquidity position and the underlying value of our assets;

Counterparty credit and performance risk;

Employee workforce factors;

Risks of operating businesses in regulated industries that are subject to changing regulatory structures;

The ability to negotiate, obtain necessary approvals and consummate acquisitions from Dominion and third parties and the impacts of such acquisitions;

Receipt of approvals for, and timing of, closing dates for acquisitions;

The timing and execution of our growth strategy;

Risks associated with entities in which we share ownership and control with third parties, including risks that result from our lack of sole decision making authority, reliance on the financial condition of third parties, disputes that may arise between us and third party participants, difficulties in exiting these arrangements, requirements to contribute additional capital, the timing and amount of which may not be within our control, and rules for accounting for these entities including those requiring their consolidation or deconsolidation in our financial statements;

Political and economic conditions, including inflation and deflation;

Domestic terrorism and other threats to our physical and intangible assets, as well as threats to cybersecurity;

**Table of Contents**

The timing and receipt of regulatory approvals necessary for planned construction or any future expansion projects, including the overall development of the Liquefaction Project, and compliance with conditions associated with such regulatory approvals;

Changes in demand for our services, including industrial, commercial and residential growth or decline in our service areas, changes in supplies of natural gas delivered to our pipeline systems, failure to maintain or replace customer contracts on favorable terms, changes in customer growth or usage patterns, including as a result of energy conservation programs and the availability of energy efficient devices;

Additional competition in industries in which we operate;

Changes to regulated gas transportation rates collected by us;

Changes in operating, maintenance and construction costs;

Adverse outcomes in litigation matters or regulatory proceedings;

The impact of operational hazards, including adverse developments with respect to pipeline and plant safety or integrity, equipment loss, malfunction or failure, operator error, and other catastrophic events;

The inability to complete planned construction, conversion or expansion projects, including the Liquefaction Project, at all, or within the terms and time frames initially anticipated;

Contractual arrangements to be entered into with or performed by our customers substantially in the future, including any revenues anticipated thereunder and any possibility of termination and inability to replace such contractual arrangements;

Capital market conditions, including the availability of credit and the ability to obtain financing on reasonable terms;

Fluctuations in interest rates and increases in our level of indebtedness;

Changes in availability and cost of capital;

Changes in financial or regulatory accounting principles or policies imposed by governing bodies; and

Conflicts of interest with Dominion and its affiliates.

Additionally, other risks that could cause actual results to differ from predicted results are described in Part II, Item 1A. Risk Factors in this report.

Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. We caution the reader not to place undue reliance on forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. We undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

### **How We Evaluate Our Operations**

Dominion Midstream management uses a variety of financial metrics to analyze our performance. These metrics are significant factors in assessing our operating results and include: (1) EBITDA; (2) Adjusted EBITDA; and (3) distributable cash flow.

### **EBITDA, Adjusted EBITDA and Distributable Cash Flow**

EBITDA represents net income including noncontrolling interest and DCG Predecessor before interest and related charges, income tax and depreciation and amortization. Adjusted EBITDA represents EBITDA after adjustment for the EBITDA attributable to the DCG Predecessor and a noncontrolling interest in Cove Point held by Dominion subsequent to the Offering, less income from equity method investee, plus distributions from equity method investee. Subsequent to the DCG Acquisition in the second quarter of 2015, we define distributable cash flow as Adjusted EBITDA less maintenance capital expenditures, less interest expense and adjusted for known timing differences between cash and income. During the first quarter of 2015, the remaining net proceeds from the Offering were used to fund capital expenditures. As a result, the reconciliation of distributable cash flow no longer includes adjustments for expansion capital expenditures or the use of net proceeds from the Offering. All periods presented reflect the adjustments described above.

EBITDA, Adjusted EBITDA and distributable cash flow are non-GAAP supplemental financial measures used by our management and by external users of our financial statements, such as investors and securities analysts, to assess:

The financial performance of our assets without regard to financing methods, capital structure or historical cost basis;

The ability of our assets to generate cash sufficient to pay interest on our indebtedness, if any, and to make distributions; and

Our operating performance and return on invested capital as compared to those of other publicly traded companies that own energy infrastructure assets, without regard to their financing methods and capital structure.

The GAAP measure most directly comparable to EBITDA and Adjusted EBITDA is net income, and the GAAP measure most directly comparable to distributable cash flow is net cash provided by operating activities. EBITDA, Adjusted EBITDA and distributable cash flow should not be considered alternatives to net income, operating income, cash flow from operating



## **Table of Contents**

activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA, Adjusted EBITDA and distributable cash flow exclude some, but not all, items that affect net income, operating income and cash flows from operating activities, and these measures may vary among other companies. Therefore, EBITDA, Adjusted EBITDA and distributable cash flow as presented may not be comparable to similarly titled measures of other companies.

## **Factors Impacting Comparability of Our Financial Results**

As of September 30, 2016, with the exception of the Iroquois rate settlement described herein, there have been no significant changes with regard to the factors impacting comparability of our financial results as disclosed in MD&A in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015. The factors disclosed included the acquisition of interest in Iroquois, DCG Acquisition, import contracts, the Liquefaction Project, income taxes and general and administrative expenses.

## **Iroquois Rate Settlement**

In October 2016, FERC issued an order approving a settlement reached between the parties in the Section 5 rate case initiated on Iroquois' tariff rates. The settlement results in a reduction of Iroquois' rates to be phased in from September 2016 through September 2018. As a result, Dominion Midstream's equity method earnings from Iroquois are expected to decrease ratably during the phase-in period and ultimately by approximately 20% for 2019, excluding the effects of any growth projects. Dominion Midstream's distributions received from Iroquois are expected to remain consistent with historical levels.

## **Anticipated Acquisition of Questar Pipeline**

In October 2016, Dominion Midstream, following approval by the Conflicts Committee of Dominion Midstream GP, LLC, its general partner, entered into the Questar Pipeline Contribution Agreement to acquire Questar Pipeline from Dominion. Upon closing of the agreement, expected by the end of 2016, Dominion Midstream will become the owner of all of the issued and outstanding membership interests of Questar Pipeline in exchange for consideration consisting of common and convertible preferred units and cash. In addition, Questar Pipeline's debt is expected to remain outstanding. In connection with the financing of the anticipated acquisition of Questar Pipeline, Dominion Midstream issued 15,525,000 common units to the public in November 2016. Additionally, in October 2016, Dominion Midstream entered into agreements to issue common units and convertible preferred units through a private placement and to borrow under a three-year \$300.0 million senior unsecured term loan by the end of 2016. See Note 2 to the Consolidated Financial Statements for additional information regarding the anticipated acquisition of Questar Pipeline.

As a result of the transaction, Dominion Midstream will own 100% of the membership interests in Questar Pipeline and will thereafter consolidate Questar Pipeline in its financial statements. Because the contribution of Questar Pipeline by Dominion to Dominion Midstream is considered to be a reorganization of entities under common control, Questar Pipeline's assets and liabilities will be recorded in Dominion Midstream's consolidated financial statements at Dominion's historical cost. Common control began on September 16, 2016, concurrent with Dominion's acquisition of Dominion Questar, which is accounted for using the acquisition method of accounting.

## **Accounting Matters**

## **Critical Accounting Policies and Estimates**



As of September 30, 2016, there have been no significant changes to the critical accounting policies and estimates disclosed in MD&A in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015. The policies previously disclosed included the accounting for regulated operations, use of estimates in goodwill impairment testing and use of estimates in long-lived asset impairment testing.

**Table of Contents****Results of Operations**

Presented below are selected amounts related to Dominion Midstream's results of operations:

(millions)	Third Quarter			Year-To-Date		
	2016	2015	\$ Change	2016	2015	\$ Change
Operating revenue	\$ 85.0	\$ 103.1	\$ (18.1)	\$ 253.6	\$ 286.9	\$ (33.3)
Purchased gas	2.6	23.4	(20.8)	7.5	52.8	(45.3)
Net revenue	82.4	79.7	2.7	246.1	234.1	12.0
Other operations and maintenance	16.7	13.8	2.9	52.8	43.1	9.7
Depreciation and amortization	10.4	9.9	0.5	30.6	30.4	0.2
Other taxes	7.6	7.3	0.3	21.7	20.0	1.7
Earnings from equity method investee	4.7		4.7	14.8		14.8
Other income	0.9	0.2	0.7	2.3	0.6	1.7
Interest and related charges (benefit)	(0.1)	0.1	(0.2)	(0.2)	0.3	(0.5)
Income tax expense					2.1	(2.1)
Net income including noncontrolling interest and DCG Predecessor	\$ 53.4	\$ 48.8	\$ 4.6	\$ 158.3	\$ 138.8	\$ 19.5
Less: Net income attributable to DCG Predecessor					2.3	
Net income including noncontrolling interest	53.4	48.8		158.3	136.5	
Less: Net income attributable to noncontrolling interest	29.1	30.8		88.4	89.1	
Net income attributable to partners	\$ 24.3	\$ 18.0		\$ 69.9	\$ 47.4	
EBITDA	\$ 63.7	\$ 58.8		\$ 188.7	\$ 171.6	
Adjusted EBITDA	\$ 27.9	\$ 20.3		\$ 80.0	\$ 52.0	
Distributable cash flow	\$ 24.1	\$ 18.5		\$ 68.2	\$ 48.5	

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable GAAP financial measure for the three and nine months ended September 30, 2016 and 2015.

(millions)	Third Quarter		Year-To-Date	
	2016	2015	2016	2015

**Adjustments to reconcile net income including  
noncontrolling interest and DCG Predecessor to EBITDA  
and Adjusted EBITDA:**
**Net income including noncontrolling interest and DCG**

<b>Predecessor</b>	<b>\$ 53.4</b>	\$ 48.8	<b>\$ 158.3</b>	\$ 138.8
--------------------	----------------	---------	-----------------	----------

**Add:**

Depreciation and amortization	<b>10.4</b>	9.9	<b>30.6</b>	30.4
-------------------------------	-------------	-----	-------------	------

Interest and related charges (benefit)	<b>(0.1)</b>	0.1	<b>(0.2)</b>	0.3
--	--------------	-----	--------------	-----

Income tax expense				2.1
--------------------	--	--	--	-----

<b>EBITDA</b>	<b>\$ 63.7</b>	\$ 58.8	<b>\$ 188.7</b>	\$ 171.6
---------------	----------------	---------	-----------------	----------

Distributions from equity method investee	<b>5.7</b>		<b>17.4</b>	
---	------------	--	-------------	--

**Less:**

Earnings from equity method investee	<b>4.7</b>		<b>14.8</b>	
--------------------------------------	------------	--	-------------	--

EBITDA attributable to DCG Predecessor				5.7
--	--	--	--	-----

EBITDA attributable to noncontrolling interest	<b>36.8</b>	38.5	<b>111.3</b>	113.9
--	-------------	------	--------------	-------

<b>Adjusted EBITDA</b>	<b>\$ 27.9</b>	\$ 20.3	<b>\$ 80.0</b>	\$ 52.0
------------------------	----------------	---------	----------------	---------

The following table presents a reconciliation of distributable cash flow to the most directly comparable GAAP financial measure for the three and nine months ended September 30, 2016 and 2015.

**Table of Contents**

	Third Quarter		Year-To-Date	
	2016	2015	2016	2015
(millions)				
<b>Adjustments to reconcile net cash provided by operating activities to distributable cash flow:</b>				
<b>Net cash provided by operating activities</b>	<b>\$ 79.7</b>	\$ 70.9	<b>\$ 210.1</b>	\$ 195.6
<b>Less:</b>				
Cash attributable to noncontrolling interest <sup>(1)</sup>	<b>53.1</b>	48.9	<b>132.6</b>	128.9
Cash attributable to DCG Predecessor <sup>(2)</sup>				10.4
Other changes in working capital and noncash adjustments	<b>1.3</b>	(1.7)	<b>2.5</b>	(4.3)
<b>Adjusted EBITDA</b>	<b>27.9</b>	20.3	<b>80.0</b>	52.0
<b>Adjustments to cash<sup>(3)</sup>:</b>				
Plus: Deferred revenue <sup>(4)</sup>		3.0	<b>2.0</b>	4.0
Less: Amortization of regulatory liability <sup>(5)</sup>	<b>(0.7)</b>	(0.7)	<b>(2.1)</b>	(1.4)
Less: Maintenance capital expenditures <sup>(6)</sup>	<b>(3.0)</b>	(3.6)	<b>(10.8)</b>	(6.0)
Plus: Acquisition costs funded by Dominion	<b>0.3</b>		<b>0.4</b>	0.7
Less: Interest expense and AFUDC equity	<b>(0.5)</b>	(0.5)	<b>(1.5)</b>	(0.9)
Plus: Non-cash director compensation	<b>0.1</b>		<b>0.2</b>	0.1
<b>Distributable cash flow</b>	<b>\$ 24.1</b>	\$ 18.5	<b>\$ 68.2</b>	\$ 48.5

- (1) *The Preferred Equity Interest is a perpetual, non-convertible preferred equity interest entitled to the Preferred Return Distributions. Any excess in cash available over the \$50.0 million is attributable to the noncontrolling interest held by Dominion but not available for distribution until the distribution reserve has been fully funded.*
- (2) *Represents net cash provided by operating activities of DCG from January 31, 2015, the inception date of common control, through March 31, 2015, the date just prior to Dominion Midstream acquiring DCG.*
- (3) *Beginning in the first quarter of 2016, distributable cash flow no longer reflects an adjustment for the timing difference between cash paid for property taxes and the amount recognized into expense. All prior periods presented have been recalculated to reflect a consistent approach. Previously, distributable cash flow for the three and nine months ended September 30, 2015 was \$19.8 million and \$51.0 million, respectively.*
- (4) *Adjustment to reflect the difference between cash received and revenue recognized related to facilities payments that are deferred and will be recognized over the related customer contract periods.*
- (5) *Represents the monetization of a bankruptcy claim being amortized into income through February 2024.*
- (6) *Amounts include accruals. For the three and nine months months ended September 30, 2016, amount excludes \$6.8 million and \$12.2 million of Dominion funded maintenance capital expenditures related to the Cove Point LNG Facility and Cove Point Pipeline. For the three and nine months ended September 30, 2015, amount excludes \$1.6 million and \$8.9 million of Dominion funded maintenance capital expenditures related to the Cove Point LNG Facility and Cove Point Pipeline. Dominion has indicated that it intends to continue providing the funding necessary for such expenditures, but it is under no obligation to do so. In addition, the six month period ended June 30, 2015 excludes \$1.3 million of maintenance capital expenditures incurred by the DCG Predecessor.*

**Analysis of Consolidated Operations****Overview**

Net revenue reflects operating revenue less purchased gas expense. Purchased gas expense includes the value of natural gas retained for use in routine operations and the cost of LNG cooling cargo purchases. Increases or decreases in purchased gas expenses are offset by corresponding increases or decreases in operating revenues and are thus financially neutral to Dominion Midstream. LNG cooling cargo purchases are required for Cove Point to maintain the cryogenic readiness of the Cove Point LNG Facility. Each year, one or two LNG cooling cargos are procured and billed to the Import Shippers pursuant to certain provisions in Cove Point's FERC gas tariff.

An analysis of Dominion Midstream's results of operations follows:

### **Third Quarter 2016 vs. 2015**

**Net revenue** increased 3%, primarily due to increased transportation and storage revenue related to the Edgemoor Project (\$1.1 million), which was placed into service in December 2015, and the St. Charles Transportation Project (\$0.8 million), which was placed into service in June 2016. Operating revenue and purchased gas decreased approximately \$21.0 million due to the absence of any LNG cooling cargo receipts in the third quarter of 2016. Cove Point received one LNG cooling cargo during the period in 2015.

**Other operations and maintenance** increased 21%, primarily due to increases in labor and outside services for Cove Point's operations affected by the Liquefaction Project (\$2.3 million).

**Table of Contents**

**Earnings from equity method investee** increased \$4.7 million as a result of the September 2015 acquisition of a 25.93% noncontrolling partnership interest in Iroquois.

**Other income** increased \$0.7 million primarily related to an increase in AFUDC costs associated with rate-regulated projects in 2016.

**Year-To-Date 2016 vs. 2015**

**Net revenue** increased 5%, primarily due to DCG results being included in Dominion Midstream for nine months in 2016, as compared to eight months in 2015 (\$5.9 million) and increased transportation and storage revenue related to the Edgemoor Project (\$3.4 million), which was placed into service in December 2015, and the St. Charles Transportation Project (\$0.8 million), which was placed into service in June 2016. Operating revenue and purchased gas decreased approximately \$43.6 million due to the absence of any LNG cooling cargo receipts in 2016. Cove Point received two LNG cooling cargoes during the nine months ended September 30, 2015.

**Other operations and maintenance** increased 23%, primarily due to DCG results being included in Dominion Midstream for nine months in 2016, as compared to eight months in 2015 (\$2.4 million), increases in labor and outside services for Cove Point's operations affected by the Liquefaction Project (\$3.3 million) and organizational design initiative costs incurred during the first quarter of 2016 (\$3.3 million).

**Depreciation and amortization** increased 1%, primarily as a result of DCG depreciation and amortization expense being included in Dominion Midstream for nine months in 2016, as compared to eight months in 2015 (\$0.8 million) and depreciation related to the Edgemoor Project, which was placed into service in December 2015 and the St. Charles Transportation Project, which was placed into service in June 2016 (\$0.7 million), partially offset by the absence of accelerated depreciation from 2015 asset retirements associated with the Liquefaction Project (\$1.5 million).

**Other taxes** increased 9% primarily due to DCG results being included in Dominion Midstream for nine months in 2016, as compared to eight months in 2015 (\$0.6 million) and increased property taxes related to expansion capital projects (\$0.6 million).

**Earnings from equity method investee** increased \$14.8 million as a result of the September 2015 acquisition of a 25.93% noncontrolling partnership interest in Iroquois.

**Other income** increased \$1.7 million, primarily related to an increase in AFUDC costs associated with rate-regulated projects in 2016.

**Income tax expense** decreased \$2.1 million as a result of the absence of income taxes attributable to the DCG Predecessor.

**Segment Results of Operations**

Presented below is a summary of contributions by Dominion Midstream's operating segment to net income including noncontrolling interest and DCG Predecessor:

**Third Quarter****Year-To-Date**

(millions)	2016	2015	\$ Change	2016	2015	\$ Change
Dominion Energy	\$ 53.7	\$ 48.8	\$ 4.9	\$ 158.7	\$ 140.5	\$ 18.2
Corporate and Other	(0.3)		(0.3)	(0.4)	(1.7)	1.3
Consolidated	\$ 53.4	\$ 48.8	\$ 4.6	\$ 158.3	\$ 138.8	\$ 19.5

### Dominion Energy

The following table summarizes, on an after-tax basis, the key factors impacting Dominion Energy's contribution to net income including noncontrolling interest and DCG Predecessor. Dominion Midstream, as a pass-through entity, is generally not subject to income taxes.

**Table of Contents**

(millions)	<b>Third Quarter 2016 vs. 2015 Increase/(Decrease)</b>	<b>Year-To-Date 2016 vs. 2015 Increase/(Decrease)</b>
Acquisition of noncontrolling interest in Iroquois	\$ 4.7	\$ 14.8
Growth projects placed into service	1.6	3.5
Absence of income taxes attributable to the DCG Predecessor		2.1
DCG Acquisition		2.6
2016 organizational design initiative costs	0.2	(3.3)
Accelerated depreciation in 2015		1.5
Other	(1.6)	(3.0)
Change in net income contribution	\$ 4.9	\$ 18.2

**Corporate and Other**

Corporate and Other includes items attributable to Dominion Midstream's operating segment that are not included in profit measures evaluated by executive management in assessing segment performance or in allocating resources. Corporate and Other expenses were \$0.3 million and \$0.4 million for the three and nine months ended September 30, 2016, respectively, and \$1.7 million for the nine months ended September 30, 2015, consisting of certain acquisition costs funded by Dominion. Dominion Midstream recognized a capital contribution by the general partner for these costs.

**Liquidity and Capital Resources****Overview**

Dominion Midstream's ongoing principal sources of liquidity may include distributions received from Cove Point from our Preferred Equity Interest, cash generated from operations of DCG, distributions received from our noncontrolling partnership interest in Iroquois, borrowings under our credit facility with Dominion and issuances of debt and equity securities. We believe that cash from these sources will be sufficient to pay distributions while continuing to meet our short-term working capital requirements and our long-term capital expenditure requirements. We expect to have sufficient distributable cash flow to pay the minimum quarterly distribution of \$0.1750 per common unit and subordinated unit, which equates to \$13.6 million per quarter, or \$54.4 million per year in the aggregate, based on the number of common units and subordinated units outstanding at September 30, 2016. However, we do not have a legal or contractual obligation to pay distributions quarterly or on any other basis or at the minimum quarterly distribution rate or at any other rate, and there is no guarantee that we will pay distributions to our unitholders in any quarter.

We expect cash generated from existing sources, as well as from the operations of Questar Pipeline, to provide sufficient distributable cash flow to pay the minimum quarterly distributions on the outstanding common units and subordinated units after giving effect to the financing activities discussed in Note 2 to the Consolidated Financial Statements.

**Outstanding Indebtedness**



In connection with the Offering, Dominion Midstream entered into a \$300 million credit facility with Dominion, allowing it to competitively pursue acquisitions and future organic growth opportunities or to otherwise meet its financial needs. At September 30, 2016, \$21.6 million was outstanding against the credit facility. In October 2016, Dominion Midstream drew an additional \$7.3 million on the credit facility to fund capital expenditures at DCG.

On April 1, 2015, in connection with the DCG Acquisition, Dominion Midstream issued a two-year, \$300.8 million senior unsecured promissory note payable to Dominion, as adjusted for working capital, at an annual interest rate of 0.6%. Interest on the note is payable quarterly, and all principal and accrued interest is due and payable at maturity on April 1, 2017, which under certain conditions can be extended at the option of Dominion Midstream to October 1, 2017. As discussed in Note 2 to the Consolidated Financial Statements, in connection with the anticipated acquisition of Questar Pipeline, Dominion Midstream entered into an agreement for a three-year \$300.0 million senior unsecured term loan in October 2016, which is expected to be funded by the end of 2016. The term loan will have a variable interest rate, with interest payable quarterly. Issuance costs associated with the term loan and private placement of common units and convertible preferred units may be paid through a draw on Dominion Midstream's existing revolving credit facility with Dominion. Under the terms of the Questar Pipeline Contribution Agreement, Dominion Midstream is required to repay its existing note payable with Dominion.

See Notes 2, 11 and 14 to the Consolidated Financial Statements for further information.

## **Table of Contents**

### **Capital Requirements**

#### ***Capital Spending***

Our operations can be capital intensive, requiring investments to expand, upgrade, maintain or enhance existing operations and to meet environmental and operational regulations. As defined in our partnership agreement, our capital requirements consist of:

Maintenance capital expenditures used to maintain the long-term operating capacity and operating income of our pipelines and facilities. Examples include expenditures to refurbish and replace pipelines, terminals and storage facilities, to maintain equipment reliability, integrity and safety and to address environmental laws and regulations; and

Expansion capital expenditures used to increase our operating capacity or operating income over the long term. Examples include the acquisition of equipment, the development of a new facility or the expansion of an existing facility.

For the nine months ended September 30, 2016, Dominion Midstream paid total capital expenditures of \$960.6 million, which included \$23.0 million of maintenance capital expenditures.

Our significant capital projects, all of which are expansion projects, are described further below:

Total costs of developing the Liquefaction Project are estimated to be up to \$3.8 billion, excluding financing costs. Through September 30, 2016, Cove Point incurred approximately \$3.0 billion of development and construction costs associated with the Liquefaction Project. We caused Cove Point to use the net proceeds contributed to it from the Offering to fund a portion of development and construction costs associated with the Liquefaction Project. The Liquefaction Project is expected to be placed into service in late 2017.

Total costs of the Keys Energy Project are estimated to be approximately \$40 million. Through September 30, 2016, we incurred approximately \$18 million of costs associated with this project, and service is expected to commence in March 2017.

Total costs of the Columbia to Eastover Project are estimated to be approximately \$45 million. Through September 30, 2016, approximately \$29 million of costs had been incurred, of which Dominion Midstream incurred \$25 million subsequent to the DCG Acquisition. In June 2016, DCG received FERC authorization to construct and operate the project facilities, which are expected to be placed into service in the fourth quarter of 2016.

Total costs of the Transco to Charleston Project are estimated to be approximately \$120 million. Through September 30, 2016, approximately \$13 million of costs had been incurred, all of which Dominion Midstream incurred subsequent to the DCG Acquisition. In March 2016, DCG filed an application to request

FERC authorization to construct and operate the project facilities, which are expected to be placed into service in the fourth quarter of 2017.

In September 2016, DCG entered into a facilities agreement with SCE&G to commit up to \$9.0 million to improve certain measuring and regulation stations over the next seven years in exchange for a 20 year firm transportation commitment of 12,000 Dth/day. We currently expect to improve three to four stations per year over the next seven years, however, DCG is obligated to fund these station improvements only after they are mutually identified and agreed to with SCE&G.

Dominion has indicated that it intends to provide the funding necessary for the remaining construction costs and other capital expenditures of Cove Point, including the Liquefaction Project and Keys Energy Project, but it is under no contractual obligation to do so and has not secured all of the funding necessary to cover these costs, as it intends to finance these costs as they are incurred using its consolidated operating cash flows in addition to proceeds from capital markets transactions. However, Dominion has entered into guarantee arrangements on behalf of Cove Point to facilitate the Liquefaction Project, including guarantees supporting the terminal services and transportation agreements as well as the engineering, procurement and construction contract for the Liquefaction Project. Two of the guarantees have no stated limit, one guarantee has a \$150 million limit and one guarantee has a \$1.75 billion aggregate limit with an annual draw limit of \$175 million. In the event that Dominion does not satisfy its obligations under these guarantee arrangements or otherwise does not agree to provide the funding necessary for the remaining development costs and other capital expenditures of Cove Point, or is unable to obtain such funding in the amounts required or on terms acceptable to Dominion, Cove Point would require substantial external debt or equity financing to complete the construction of the Liquefaction Project and Keys Energy Project.

**Table of Contents****Distributions**

Distributions are declared subsequent to quarter end. The table below summarizes the quarterly cash distributions declared during 2016.

Quarterly Period Ended	Total Total Quarterly Cash Distributions		Date of Declaration	Date of Record	Date of Distribution
	(per unit)	(in millions)			
December 31, 2015	\$ 0.2135	\$ 16.8	January 21, 2016	February 5, 2016	February 15, 2016
March 31, 2016	0.2245	17.8	April 19, 2016	May 3, 2016	May 13, 2016
June 30, 2016	0.2355	19.0	July 22, 2016	August 5, 2016	August 15, 2016
September 30, 2016	0.2475	24.3	October 21, 2016	November 4, 2016	November 15, 2016

**Cash Flows**

A summary of cash flows is presented below:

(millions)	Nine Months Ended September 30,	
	2016	2015
Cash and cash equivalents at beginning of year	\$ 35.0	\$ 175.4
Cash flows provided by (used in):		
Operating activities	210.1	195.6
Investing activities	(962.1)	(850.4)
Financing activities	774.1	586.4
Net increase (decrease) in cash and cash equivalents	22.1	(68.4)
Cash and cash equivalents at September 30	\$ 57.1	\$ 107.0

**Operating Cash Flows**

In the first nine months of 2016, net cash provided by Dominion Midstream's operating activities increased by \$14.5 million, primarily due to the September 2015 acquisition of a 25.93% noncontrolling partnership interest in Iroquois.

**Investing Cash Flows**

In the first nine months of 2016, net cash used in Dominion Midstream's investing activities increased by \$111.7 million, primarily due to higher expenditures for the Liquefaction Project.

**Financing Cash Flows and Liquidity**

In the first nine months of 2016, net cash provided by Dominion Midstream's financing activities increased \$187.7 million, primarily due to higher capital contributions from Dominion to fund the Liquefaction Project.

In May 2016, Dominion Midstream filed an SEC shelf registration for the ability to sell common units through an at-the-market program and pursuant to which it may offer from time to time up to \$150 million aggregate amount of its common units. Sales of common units, if any, will be made by means of ordinary brokers' transactions on the NYSE, in block transactions, or as otherwise agreed to between the sales agent and us. In July 2016, Dominion Midstream entered into an equity distribution agreement with nine separate managers to effect sales under the program; however, we have not issued any units under the program in 2016.

In connection with the anticipated acquisition of Questar Pipeline, Dominion Midstream will provide to Dominion consideration consisting of common and convertible preferred units with a combined value of between \$400.0 million and \$725.0 million and cash of between \$565.0 million and \$890.0 million, for total consideration of \$1.29 billion. To finance the acquisition, Dominion Midstream issued \$360.2 million of common units to the public under an SEC shelf registration filed in November 2015 and entered into agreements in October 2016 for the private placement of common units and convertible preferred units with a value of \$137.5 million and between \$450.0 million and \$600.0 million, respectively, and a three-year \$300.0 million senior unsecured term loan. Dominion Midstream may draw on its existing revolving credit facility with Dominion to fund the issuance costs related to the private placement of common and convertible preferred units and the three-year senior unsecured term loan. Additionally, in connection with the financing described above, Dominion Midstream is required to repay its existing \$300.8 million note payable to Dominion and repurchase 6,656,839 common units from Dominion. See Note 2 to the Consolidated Financial Statements for additional information.

## **Table of Contents**

### *Restricted Cash*

In October 2016, Cove Point fully funded a distribution reserve of \$25.0 million, sufficient to pay two quarters of Preferred Return Distributions.

### **Customer Concentration**

Dominion Midstream provides service to approximately 70 customers, including the Storage Customers, marketers or end users and the Import Shippers. The two largest customers comprised approximately 69% and 70% of the total transportation and storage revenues for the three and nine months ended September 30, 2016, respectively. See Note 13 to the Consolidated Financial Statements for additional information.

### **Contractual Obligations**

At September 30, 2016, there have been no material changes outside the ordinary course of business to Dominion Midstream's contractual obligations as disclosed in MD&A in the Dominion Midstream Annual Report on Form 10-K for the year ended December 31, 2015.

### **Off-Balance Sheet Arrangements**

Other than the holding of surety bonds as discussed in Note 12 to the Consolidated Financial Statements, Dominion Midstream had no off-balance sheet arrangements at September 30, 2016.

### **Future Issues and Other Matters**

The following discussion of future issues and other information includes current developments of previously disclosed matters and new issues arising during the period covered by, and subsequent to, the dates of the Consolidated Financial Statements that may impact Dominion Midstream's future results of operations, financial condition and/or cash flows. This section should be read in conjunction with Item 1. Business and *Future Issues and Other Matters* in MD&A in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015 and *Future Issues and Other Matters* in MD&A in Dominion Midstream's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016.

### **Environmental Matters**

Dominion Midstream is subject to costs resulting from a number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. They can result in increased capital, operating and other costs as a result of compliance, remediation, containment and monitoring obligations. See Note 18 in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015 and Note 12 in the Consolidated Financial Statements in this report for additional information on various environmental matters.

### ***Ozone Standards***

In October 2015, the EPA issued a final rule tightening the ozone standard from 75 ppb to 70 ppb. The EPA is expected to complete attainment designations for a new standard by December 2017 and states will have until 2020 or 2021 to develop plans to address the new standard. In September 2016, the Virginia Department of Environmental Quality required that a reasonable available control technology analysis be conducted for Cove Point's compressor

stations in Loudoun County. The reasonable available control technology analysis was submitted in October 2016. Until the states have developed implementation plans, Dominion Midstream is unable to predict whether or to what extent the new rules will ultimately require additional controls.

### **Legal Matters**

See Item 3. Legal Proceedings in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015, Notes 9 and 12 to the Consolidated Financial Statements and Part II, Item 1. Legal Proceedings in Dominion Midstream's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and Notes 9 and 12 to the Consolidated Financial Statements and Part II, Item 1. Legal Proceedings in this report for additional information on various legal matters.

### **Regulatory Matters**

See Note 12 to the Consolidated Financial Statements in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015 and Note 9 in this report for additional information on various regulatory matters.

**Table of Contents**

**ITEM 3.**

**QUANTITATIVE AND QUALITATIVE**

**DISCLOSURES ABOUT MARKET RISK**

**Interest Rate Risk**

Upon the closing of the Offering, we entered into a \$300 million variable rate revolving credit facility with Dominion. We may hedge the interest on portions of our borrowings under the credit facility from time-to-time in order to manage risks associated with floating interest rates. At September 30, 2016, we have \$21.6 million outstanding indebtedness against the credit facility. A hypothetical 10% increase in market interest rates would not have resulted in a material change in earnings at September 30, 2016.

**ITEM 4. CONTROLS AND PROCEDURES**

Senior management of Dominion Midstream's general partner, including the general partner's CEO and CFO, evaluated the effectiveness of Dominion Midstream's disclosure controls and procedures at September 30, 2016, the end of the period covered by this report. Based on this evaluation process, the CEO and CFO of Dominion Midstream's general partner have concluded that Dominion Midstream's disclosure controls and procedures are effective.

During the quarter ended September 30, 2016, there were no changes in Dominion Midstream's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Dominion Midstream's internal control over financial reporting.



Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time Dominion Midstream may be alleged to be in violation or in default under orders, statutes, rules or regulations relating to the environment, compliance plans imposed or agreed to by Dominion Midstream, as applicable, or permits issued by various local, state or federal agencies for the construction or operation of facilities. Administrative proceedings may also be pending on these matters. In addition, in the ordinary course of business Dominion Midstream may be involved in various legal proceedings.

See the following for discussions on various environmental and other regulatory proceedings to which Dominion Midstream is a party, which information is incorporated herein by reference:

Notes 12 and 18 to the Consolidated Financial Statements and *Future Issues and Other Matters* in MD&A in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015.

Notes 9 and 12 to the Consolidated Financial Statements and *Future Issues and Other Matters* in MD&A in Dominion Midstream's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016.

Notes 9 and 12 to the Consolidated Financial Statements and *Future Issues and Other Matters* in MD&A in Dominion Midstream's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.

Notes 9 and 12 and *Future Issues and Other Matters* in MD&A in this report.

**ITEM 1A. RISK FACTORS**

Dominion Midstream's business is influenced by many factors that are difficult to predict, involve uncertainties that may materially affect actual results and are often beyond its control. These risk factors have been identified in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015, which should be taken into consideration when reviewing the information contained in this report. There have been no material changes with regard to the risk factors previously disclosed in Dominion Midstream's Annual Report on Form 10-K for the year ended December 31, 2015. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement or projection contained in this report, see *Forward-Looking Statements* in Part I. Item 2. MD&A.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table presents certain information with respect to Dominion's purchase of Dominion Midstream's common units during the third quarter of 2016:

**DOMINION PURCHASES OF DOMINION MIDSTREAM COMMON UNITS**

Period

Edgar Filing: Dominion Midstream Partners, LP - Form 10-Q

	Total Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Units that May Yet Be Purchased under the Plans or Programs <sup>(1)</sup>
7/1/2016 - 7/31/2016		\$		\$ <b>12.4 million</b>
8/1/2016 - 8/31/2016	<b>54,337</b>	\$ <b>25.17</b>	<b>54,337</b>	\$ <b>11.1 million</b>
9/1/2016 - 9/30/2016	<b>114,162</b>	\$ <b>25.16</b>	<b>114,162</b>	\$
Total	<b>168,499</b>	\$ <b>25.16</b>	<b>168,499</b>	

(1) *These units were purchased by Dominion as part of Dominion's program initiated on September 24, 2015, which expired on September 24, 2016, to purchase from the market up to \$50.0 million of common units representing limited partner interests in Dominion Midstream at the discretion of Dominion's management. The purchased units are held by Dominion or a subsidiary of Dominion other than Dominion Midstream. See Note 5 to the Consolidated Financial Statements for additional information.*

**Table of Contents****ITEM 6. EXHIBITS**

<b>Exhibit</b>	<b>Description</b>
<b>Number</b>	<b>Description</b>
2.1	Contribution, Conveyance and Assumption Agreement, dated as of October 28, 2016, by and among Dominion Resources, Inc., QPC Holding Company and Dominion Midstream Partners, LP (Exhibit 2.1, Form 8-K filed October 31, 2016, File No. 1-36684).
3.1	Certificate of Limited Partnership of Dominion Midstream Partners, LP (Exhibit 3.1, Form S-1 Registration Statement filed March 28, 2014, File No. 333-194864).
3.2	First Amended and Restated Agreement of Limited Partnership of Dominion Midstream Partners, LP, dated October 20, 2014, by and between Dominion Midstream GP, LLC and Dominion MLP Holding Company, LLC (Exhibit 3.1, Form 8-K filed October 20, 2014, File No. 1-36684).
10.1	Series A Preferred Unit and Common Unit Purchase Agreement, dated October 27, 2016, among Dominion Midstream Partners, LP and the purchasers party thereto (Exhibit 10.1, Form 8-K filed October 31, 2016, File No. 1-36684).
10.2	\$300,000,000 Term Loan Agreement, dated as of October 28, 2016, among Dominion Midstream Partners, LP, QPC Holding Company, as Guarantor, the several lenders from time to time parties thereto, Royal Bank of Canada, as Administrative Agent, and Mizuho Bank, Ltd., as Syndication Agent (Exhibit 10.2, Form 8-K filed October 31, 2016, File No. 1-36684).
31.a	Certification by Chief Executive Officer of Dominion Midstream Partners, LP's general partner, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.b	Certification by Chief Financial Officer of Dominion Midstream Partners, LP's general partner, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification to the Securities and Exchange Commission by Chief Executive Officer and Chief Financial Officer of Dominion Midstream Partners, LP's general partner, as required by Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101	The following financial statements from Dominion Midstream's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed on November 9, 2016, formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statement of Equity and Partners' Capital, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.

**Table of Contents**

**SIGNATURE**

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

**DOMINION MIDSTREAM PARTNERS, LP**

Registrant

By: Dominion Midstream GP, LLC, its general  
partner

November 9, 2016

/s/ Michele L. Cardiff  
Michele L. Cardiff

Vice President, Controller and

Chief Accounting Officer

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
2.1	Contribution, Conveyance and Assumption Agreement, dated as of October 28, 2016, by and among Dominion Resources, Inc., QPC Holding Company and Dominion Midstream Partners, LP (Exhibit 2.1, Form 8-K filed October 31, 2016, File No. 1-36684).
3.1	Certificate of Limited Partnership of Dominion Midstream Partners, LP (Exhibit 3.1, Form S-1 Registration Statement filed March 28, 2014, File No. 333-194864).
3.2	First Amended and Restated Agreement of Limited Partnership of Dominion Midstream Partners, LP, dated October 20, 2014, by and between Dominion Midstream GP, LLC and Dominion MLP Holding Company, LLC (Exhibit 3.1, Form 8-K filed October 20, 2014, File No. 1-36684).
10.1	Series A Preferred Unit and Common Unit Purchase Agreement, dated October 27, 2016, among Dominion Midstream Partners, LP and the purchasers party thereto (Exhibit 10.1, Form 8-K filed October 31, 2016, File No. 1-36684).
10.2	\$300,000,000 Term Loan Agreement, dated as of October 28, 2016, among Dominion Midstream Partners, LP, QPC Holding Company, as Guarantor, the several lenders from time to time parties thereto, Royal Bank of Canada, as Administrative Agent, and Mizuho Bank, Ltd., as Syndication Agent (Exhibit 10.2, Form 8-K filed October 31, 2016, File No. 1-36684).
31.a	Certification by Chief Executive Officer of Dominion Midstream Partners, LP's general partner, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.b	Certification by Chief Financial Officer of Dominion Midstream Partners, LP's general partner, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification to the Securities and Exchange Commission by Chief Executive Officer and Chief Financial Officer of Dominion Midstream Partners, LP's general partner, as required by Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101	The following financial statements from Dominion Midstream's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed on November 9, 2016, formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statement of Equity and Partners' Capital, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.