Dominion Midstream Partners, LP
Form 10-Q
November 03, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from __________ to __________

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

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 x 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 x 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 x (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 x

The registrant had 45,714,610 common units and 31,972,789 subordinated units outstanding as of September 30, 2015.

Table of Contents

INDEX

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 (p 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:

Abbreviation or Acronym	Definition
2005 Agreement	An agreement effective March 1, 2005, in which Cove Point entered into a new agreement 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
AFUDC	Allowance for funds used during construction
ARO	Asset retirement obligation
CAA	Clean Air Act
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
Cove Point	Dominion Cove Point LNG, LP
Cove Point Facilities	Collectively, the Liquefaction Project, Cove Point LNG Facility and Cove Point Pipeline
Cove Point Holdings	Cove Point GP Holding Company, LLC
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
CRA	Compliance Resolution Agreement
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
DCPI	Dominion Cove Point, Inc.
Dominion	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 Holdings, 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.
DRS	Dominion Resources Services, Inc.
Dth	Dekatherm
EBITDA	Earnings before interest and associated charges, income tax expense, depreciation and amortization
Edgemoor Project	Project to provide 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	U.S. 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

Abbreviation or Acronym	Definition
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 liquefaction/export 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 U.S. 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
NSPS	New Source Performance Standards
Offering	The initial public offering of common units of Dominion Midstream
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
SCANA	SCANA Corporation
SEC	Securities and Exchange Commission
St. Charles Transportation Project	Project to provide 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
U.S.	United States of America
VIE	Variable interest entity
VOC	Volatile organic compounds

4

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOMINION MIDSTREAM PARTNERS, LP

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014 (Predecessor)	**2015**	2014 (Predecessor)
(millions, except per unit data)				
Operating Revenue[1]	**$ 103.1**	$ 65.7	**$ 286.9**	$ 245.8
Operating Expenses				
Purchased gas[1]	**23.4**	2.4	**52.8**	55.5
Other operations and maintenance:				
Affiliated suppliers	**5.2**	2.1	**16.4**	6.0
Other	**8.6**	4.9	**26.7**	22.2
Depreciation and amortization	**9.9**	7.8	**30.4**	23.5
Other taxes	**7.3**	5.7	**20.0**	16.8
Total operating expenses	**54.4**	22.9	**146.3**	124.0
Income from operations	**48.7**	42.8	**140.6**	121.8
Other income (expense)	**0.2**	(0.1)	**0.6**	(0.1)
Interest and related charges[1]	**0.1**		**0.3**	
Income from operations including noncontrolling interest before income taxes	**48.8**	42.7	**140.9**	121.7
Income tax expense		16.3	**2.1**	46.5
Net income including noncontrolling interest and DCG Predecessor	**$ 48.8**	$ 26.4	**$ 138.8**	$ 75.2
Less: Net income attributable to DCG Predecessor			**2.3**	
Net income including noncontrolling interest	**48.8**		**136.5**	
Less: Net income attributable to noncontrolling interest	**30.8**		**89.1**	
Net income attributable to partners	**$ 18.0**		**$ 47.4**	

Net income attributable to partners ownership interest		
General partner s interest in net income	**$**	**$ (0.7)**
Common unitholders interest in net income	**10.5**	**26.7**
Subordinated unitholder s interest in net income	**7.5**	**21.4**
Net income per limited partner unit (basic and diluted)		
Common units	**$ 0.28**	**$ 0.75**
Subordinated units	**$ 0.24**	**$ 0.67**

(1) See Note 17 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, 2015**	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 107.0**	$ 175.4
Customer and other receivables	**44.9**	19.9
Affiliated receivables	**6.2**	6.1
Prepayments	**13.4**	9.5
Materials and supplies	**12.4**	8.7
Regulatory assets	**2.2**	1.7
Other	**2.7**	4.7
Total current assets	**188.8**	226.0
Investment in Equity Method Affiliate	**216.4**	
Property, Plant and Equipment		
Property, plant and equipment	**3,416.8**	2,203.1
Accumulated depreciation and amortization	**(344.2)**	(231.2)
Total property, plant and equipment, net	**3,072.6**	1,971.9
Deferred Charges and Other Assets		
Goodwill	**295.5**	45.9
Intangible assets, net	**15.9**	12.1
Regulatory assets	**2.7**	2.5
Other	**0.3**	
Total deferred charges and other assets	**314.4**	60.5
Total assets	**$ 3,792.2**	$ 2,258.4

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, 2015	December 31, 2014
LIABILITIES AND EQUITY AND PARTNERS CAPITAL		
Current Liabilities		
Accounts payable	$ 43.9	$ 3.3
Payables to affiliates	4.5	2.5
Accrued payroll and taxes	4.8	1.5
Regulatory liabilities	6.8	3.6
Dominion credit facility borrowings	5.9	
Deferred revenue	7.4	3.9
Natural gas imbalances(1)	1.1	2.7
CPCN obligation	7.9	7.9
Other	16.1	6.4
Total current liabilities	98.4	31.8
Affiliated Long-Term Debt	300.8	
Deferred Credits and Other Liabilities		
Pension and other postretirement benefit liabilities(1)	4.9	4.4
Regulatory liabilities	69.6	33.5
CPCN obligation	29.0	36.2
Asset retirement obligation	12.9	0.3
Other	5.6	1.4
Total deferred credits and other liabilities	122.0	75.8
Total liabilities	521.2	107.6
Commitments and Contingencies (see Note 15)		
Equity and Partners Capital		
Common unitholders - public (28,677,286 units issued and outstanding at September 30, 2015; 20,127,322 units issued and outstanding at December 31, 2014)	615.2	395.4
Common unitholder - Dominion (17,037,324 units issued and outstanding at September 30, 2015; 11,847,789 units issued and outstanding at December 31, 2014)	418.8	213.7
Subordinated unitholder - Dominion (31,972,789 units issued and outstanding at September 30, 2015 and December 31, 2014)	471.6	466.2

General Partner interest - Dominion (non-economic interest)		**(12.6)**		
Total Dominion Midstream Partners, LP partners capital		**1,493.0**		1,075.3
Noncontrolling interest		**1,778.0**		1,075.5
Total equity and partners capital		**3,271.0**		2,150.8
Total liabilities and equity and partners capital	**$**	**3,792.2**	$	2,258.4

(1) See Note 17 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						
(millions)	DCG Predecessor Equity	Common Unitholders Public	Common Unitholder Dominion	Subordinated Unitholder Dominion	General Partner Dominion (non-economic interest)	**Total Dominion Midstream Partners, LP Partners Equity and Capital**	Noncontrolling interest	**Total Equity and Partners Capital**
December 31, 2014	$	$ 395.4	$ 213.7	$ 466.2	$	$ 1,075.3	$ 1,075.5	$ 2,150.8
Net income including noncontrolling interest		**15.3**	**11.4**	**21.4**	**(0.7)**	**47.4**	**89.1**	**136.5**
DCG Acquisition:								
Record Dominion s net investment in DCG	**497.0**					**497.0**		**497.0**
Net income attributable to DCG Predecessor	**2.3**					**2.3**		**2.3**
Contribution from Dominion to DCG prior to DCG Acquisition	**2.3**					**2.3**		**2.3**
Allocation of DCG Predecessor investment	**(501.6)**				**501.6**			
Settlement of net current and deferred income tax assets					**(13.4)**	**(13.4)**		**(13.4)**
Consideration provided to Dominion for DCG Acquisition			**200.0**		**(500.8)**	**(300.8)**		**(300.8)**
Equity contributions from Dominion					**0.7**	**0.7**	**613.3**	**614.0**
Consideration provided to acquire a noncontrolling partnership interest in Iroquois		**216.0**				**216.0**		**216.0**
Purchase of common units by Dominion		**(1.5)**	**1.5**					
Distributions		**(10.1)**	**(7.8)**	**(16.0)**		**(33.9)**		**(33.9)**
Unit awards (net of unearned compensation)		**0.1**				**0.1**		**0.1**

Other							**0.1**	**0.1**
September 30, 2015	**$**	**$ 615.2**	**$ 418.8**	**$ 471.6**	**$ (12.6)**	**$ 1,493.0**	**$ 1,778.0**	**$ 3,271.0**

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)	**2015**	2014 (Predecessor)
Operating Activities		
Net income including noncontrolling interest and DCG Predecessor	**$ 138.8**	$ 75.2
Adjustments to reconcile net income including noncontrolling interest and DCG Predecessor to net cash provided by operating activities:		
Depreciation and amortization	**30.4**	23.5
Deferred income taxes	**1.5**	11.4
Other adjustments to income, net	**1.5**	
Changes in:		
Customer and other receivables	**(18.3)**	0.1
Affiliated receivables	**(0.1)**	(1.5)
Prepayments	**(3.8)**	(8.1)
Accounts payable	**34.5**	1.5
Payables to affiliates	**1.8**	1.7
Accrued payroll and taxes	**2.5**	1.3
Other operating assets and liabilities	**6.8**	4.4
Net cash provided by operating activities	**195.6**	109.5
Investing Activities		
Plant construction and other property additions	**(850.0)**	(353.9)
Other	**(0.4)**	(0.4)
Net cash used in investing activities	**(850.4)**	(354.3)
Financing Activities		
Dominion credit facility borrowings	**5.9**	
Contributions from Dominion	**614.6**	233.6
Distributions to common unitholders - public	**(10.1)**	
Distribution to common unitholder - Dominion	**(7.8)**	
Distribution to subordinated unitholder - Dominion	**(16.0)**	
Other	**(0.2)**	
Net cash provided by financing activities	**586.4**	233.6
Decrease in cash and cash equivalents	**(68.4)**	(11.2)
Cash and cash equivalents at beginning of period	**175.4**	11.2

Cash and cash equivalents at end of period	**$ 107.0**	$
Supplemental Cash Flow Information		
Cash paid during the period for:		
Income taxes	**$**	$ 38.6
Significant noncash investing and financing activities:		
Accrued capital expenditures	**14.8**	7.6
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 contribution from Dominion to relieve payables to affiliates	**1.7**	20.0
Equity contribution from Dominion related to income taxes		1.1

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 on March 11, 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. On October 20, 2014, Dominion Midstream completed the Offering of 20,125,000 common units (including 2,625,000 common units issued pursuant to the exercise of the underwriters over-allotment option) representing limited partner interests. A registration statement on Form S-1, as amended through the time of its effectiveness, was filed by Dominion Midstream with the SEC and was declared effective on October 10, 2014.

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 Notes 2 and 7. Iroquois, a Delaware limited partnership, owns and operates a 416-mile FERC-regulated interstate natural gas transmission pipeline that extends from the Canada-U.S. 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. Dominion Midstream owns the general partner interest and controls Cove Point 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.

For the period prior to the closing of the Offering on October 20, 2014, the financial statements included in this Quarterly Report on Form 10-Q were derived from the financial statements and accounting records of Cove Point, as our predecessor for accounting purposes. The financial statements were prepared using Dominion s historical basis in the assets and liabilities of Cove Point and include all revenues, costs, assets and liabilities attributed to Cove Point. For the period subsequent to the closing of the Offering, the Consolidated Financial Statements represent the consolidated results of operations, financial position and cash flows of Dominion Midstream.

The financial statements for all periods presented include costs for certain general, administrative and corporate expenses assigned by DRS or Dominion Payroll to Dominion Midstream and Cove Point on the basis of direct and allocated methods in accordance with Dominion Midstream s services agreements with DRS and Dominion Payroll and Cove Point s services agreement with DRS. Where costs incurred cannot be determined by specific identification, the costs are allocated based on the proportional level of effort devoted by DRS or Dominion Payroll 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 Dominion Payroll department. Management believes the assumptions and methodologies underlying the allocation of general corporate overhead expenses are reasonable. Nevertheless, the Consolidated Financial Statements prior to the Offering may not include all of the actual expenses that would have been incurred had we been a stand-alone publicly traded partnership during the periods presented, and may not reflect our actual results of operations, financial position and cash flows had we been a stand-alone publicly traded partnership during the periods prior to the Offering.

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. Subsequent to the DCG Acquisition, 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, 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 17.

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 is 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, does not change the lockup periods to which NG and NJNR are subject. No market issuance of the common units is planned in connection with the transactions described above.

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, 2014.

In the opinion of management, the accompanying unaudited Consolidated Financial Statements contain all adjustments necessary to present fairly Dominion Midstream s financial position as of September 30, 2015, its results of operations for the three and nine months ended September 30, 2015 and 2014, its cash flows for the nine months ended September 30, 2015 and 2014, and its changes in equity for the nine months ended September 30, 2015. Such adjustments are normal and recurring in nature unless otherwise noted.

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.

Asset Retirement Obligations

Dominion Midstream recognizes AROs at fair value as incurred or when sufficient information becomes available to determine a reasonable estimate of the fair value of future retirement activities to be performed. These amounts are generally capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, fair value is estimated using discounted cash flow analyses. At least annually, Dominion Midstream evaluates the key assumptions underlying its AROs including estimates of the amounts and timing of future cash flows associated with retirement activities. AROs are adjusted when significant changes in these assumptions are identified. Dominion Midstream reports accretion of AROs and depreciation on asset retirement costs associated with its natural gas pipeline assets as an adjustment to the related regulatory liabilities when revenue is recoverable from customers for AROs.

Investment in Equity Method Affiliate

Investments in affiliates where Dominion Midstream exercises significant influence over the operating activities of the entity, but does not control the entity, are accounted for using the equity method. Such investments are included in investment in equity method affiliate in the Consolidated Balance Sheets. Dominion Midstream records equity method adjustments in earnings from equity method affiliate in the Consolidated Statements of Income, including its proportionate share of investee income or loss and other adjustments required by the equity method.

Dominion Midstream periodically evaluates its equity method investment to determine whether a decline in fair value should be considered other-than-temporary. If a decline in fair value of the investment is determined to be other-than-temporary, the investment is written down to its fair value at the end of the reporting period.

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.

Net income per limited partner unit is only calculated for the periods subsequent to the Offering as no units were outstanding prior to October 20, 2014. 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 as of September 30, 2015.

Table of Contents

The calculation of earnings per limited partner unit is as follows:

(millions)		Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015
Net income attributable to partners	$	18.0	$	47.4
Less: General partner allocation[1]				(0.7)
Distributions declared on:				
Incentive distribution holder rights[2]				
Common units[3]		9.1		22.5
Subordinated units[3]		6.4		18.0
Total distributions declared		15.5		40.5
Undistributed earnings	$	2.5	$	7.6

(1) See Note 2 for further information.
(2) Dominion is a non-economic general partner that holds all of the IDRs.
(3) 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 will be paid on November 13, 2015 to unitholders of record on November 3, 2015. The amount of distributions declared for the three months ended September 30, 2015 is based on the units outstanding at that date.

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.

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.

Basic and diluted net income per limited partner unit

(millions, except for weighted average units and per unit data)		Common Units		Subordinated Units		General Partner	Total
Three Months Ended September 30, 2015							
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		
Nine Months Ended September 30, 2015				
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		

Table of Contents

Note 5. Unit Activity

Activity in the number of units was as follows:

	Common				
	Public	**Dominion**	**Subordinated**	**General Partner** (non-economic interest)	**Total**
Balance at December 31, 2014	20,127,322	11,847,789	31,972,789		63,947,900
Unit-based compensation	**5,055**				**5,055**
Units issued in connection with the DCG Acquisition		**5,112,139**			**5,112,139**
Units issued in connection with the acquisition of a noncontrolling partnership interest in Iroquois	**8,622,305**				**8,622,305**
Dominion purchase of common units[1]	**(77,396)**	**77,396**			
Balance at September 30, 2015	**28,677,286**	**17,037,324**	**31,972,789**		**77,687,399**

(1) These shares were purchased by Dominion as part of Dominion s program initiated in September 2015 to purchase from the market up to $50.0 million common units representing limited partner interests in Dominion Midstream by September 2016 at the discretion of Dominion s management. In October 2015, Dominion purchased approximately 478,000 additional common units.

Note 6. Operating Revenue

Dominion Midstream s operating revenue consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
(millions)				