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Dominion Energy Midstream Partners, LP
Form 10-Q
August 02, 2018

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 June 30, 2018

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 registrant as specified in its charter, address of principal executive office and registrant's telephone number | I.R.S. Employer Identification Number |
|------------------------|---|---------------------------------------|
| 001-36684 | Dominion Energy Midstream Partners, LP | 46-5135781 |

120 Tredegar Street

Richmond, Virginia 23219

(804) 819-2000

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

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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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Emerging growth company

Non-accelerated filer Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 126,607,641 common units outstanding at July 13, 2018.

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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, which Cove Point entered into with the Sierra Club and the Maryland Conservation Council, Inc. |
| 2017 Tax Reform Act | An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (previously known as the Tax Cuts and Jobs Act) enacted on December 22, 2017 |
| 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 predecessors and a noncontrolling interest in Cove Point held by Dominion Energy, less income from equity method investees, plus distributions from equity method investees |
| AFUDC | Allowance for funds used during construction |
| AOCI | Accumulated other comprehensive income (loss) |
| ARO | Asset retirement obligation |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| 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 |
| Cove Point | Dominion Energy Cove Point LNG, LP |
| Cove Point LNG Facility | An LNG terminalling 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 |
| Credit Agreement First Amendment | First Amendment, dated as of August 1, 2018, to the Revolving Credit Agreement |
| DECG | Dominion Energy Carolina Gas Transmission, LLC |

| | |
|----------------------------------|--|
| DECG Acquisition | The acquisition of DECG by Dominion Energy Midstream from Dominion Energy on April 1, 2015 |
| DECGS | Dominion Energy Carolina Gas Services, Inc. |
| DEQPS | Dominion Energy Questar Pipeline Services, Inc. |
| DES | Dominion Energy Services, Inc. |
| Dominion Energy | The legal entity, Dominion Energy, Inc., one or more of its consolidated subsidiaries (other than Dominion Energy Midstream GP, LLC and its subsidiaries) or operating segments, or the entirety of Dominion Energy, Inc. and its consolidated subsidiaries |
| Dominion Energy Midstream | The legal entity, Dominion Energy Midstream Partners, LP, one or more of its consolidated subsidiaries, Cove Point GP Holding Company, LLC, Iroquois GP Holding Company, LLC, DECG and Dominion Energy Questar Pipeline, or the entirety of Dominion Energy Midstream Partners, LP and its consolidated subsidiaries |
| Dominion Energy Midstream GP | The legal entity, Dominion Energy Midstream GP, LLC |
| Dominion Energy Questar Pipeline | The legal entity, Dominion Energy Questar Pipeline, LLC, one or more of its consolidated subsidiaries, or the entirety of Dominion Energy Questar Pipeline, LLC and its consolidated subsidiaries |

| Abbreviation or Acronym | Definition |
|--|--|
| Dominion Energy Questar Pipeline Acquisition | The acquisition of Dominion Energy Questar Pipeline by Dominion Energy Midstream from Dominion Energy on December 1, 2016 |
| Dth | Dekatherm |
| Eastern Market Access Project | Project to provide 294,000 Dths/day of firm transportation service to help meet demand for natural gas for Washington Gas Light Company, a local gas utility serving customers in D.C., Virginia and Maryland, and Mattawoman Energy, LLC for its new electric power generation facility to be built in Maryland |
| EBITDA | Earnings before interest and associated charges, income tax expense, depreciation and amortization |
| EPA | U.S Environmental Protection Agency |
| Export Customers | ST Cove Point, LLC, a joint venture of Sumitomo Corporation and Tokyo Gas Co., LTD., and GAIL Global (USA) LNG, LLC |
| FERC | Federal Energy Regulatory Commission |
| GAAP | U.S. generally accepted accounting principles |
| Gas Infrastructure | Gas Infrastructure Group operating segment |
| GHG | Greenhouse gas |
| Hyrum Project | Project to provide 100,000 Dths/day of firm transportation service to help meet growing demand for natural gas for Questar Gas Company, an affiliated local gas utility serving customers in Utah, Wyoming and Idaho |
| 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. |
| 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 at 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 |
| NGA | Natural Gas Act of 1938, as amended |
| NGL | Natural gas liquid |
| NYSE | New York Stock Exchange |
| Offering | The initial public offering of common units of Dominion Energy Midstream |
| Overthrust | Dominion Energy Overthrust Pipeline, LLC, a wholly-owned subsidiary of Dominion Energy Questar Pipeline |
| Preferred Equity Interest | A perpetual, non-convertible preferred equity interest in Cove Point entitled to the Preferred Return Distributions and the Additional Return Distributions |

| Abbreviation or Acronym | Definition |
|--------------------------------|--|
| Preferred Return Distributions | The first \$50.0 million of annual cash distributions made by Cove Point |
| Revolving Credit Agreement | Revolving Credit Agreement, dated as of March 20, 2018, among Dominion Energy Midstream, the several banks and other financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto |
| SCE&G | South Carolina Electric & Gas Company, a wholly-owned subsidiary of SCANA Corporation |
| SEC | Securities and Exchange Commission |
| Series A Preferred Units | Series A convertible preferred units representing limited partner interests in Dominion Energy Midstream, issued in December 2016 |
| 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 |
| Term Loan Agreement | Term Loan Agreement, dated as of October 28, 2016, among Dominion Energy Midstream, QPC Holding Company, the several banks and other financial institutions from time to time parties thereto, Royal Bank of Canada, as administrative agent, and the other agents party thereto |
| Term Loan First Amendment | First Amendment, dated as of August 1, 2018, to the Term Loan Agreement |
| Transco | Transcontinental Gas Pipe Line Company, LLC |
| VIE | Variable interest entity |
| White River Hub | White River Hub, LLC |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOMINION ENERGY MIDSTREAM PARTNERS, LP

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|-----------------------|---------|---------------------|---------|
| | June 30, 2018 | 2017 | June 30, 2018 | 2017 |
| (millions, except per unit data) | | | | |
| Operating Revenue ⁽¹⁾ | \$247.6 | \$115.7 | \$357.7 | \$245.9 |
| Operating Expenses | | | | |
| Purchased gas and other ⁽¹⁾ | 2.3 | 9.8 | 12.6 | 22.0 |
| Other operations and maintenance: | | | | |
| Affiliated suppliers | 21.8 | 16.9 | 41.2 | 32.5 |
| Other | 33.3 | 21.2 | 51.5 | 36.7 |
| Depreciation and amortization | 47.3 | 25.4 | 71.8 | 50.3 |
| Other taxes | 9.5 | 9.2 | 19.2 | 18.5 |
| Total operating expenses | 114.2 | 82.5 | 196.3 | 160.0 |
| Income from operations | 133.4 | 33.2 | 161.4 | 85.9 |
| Earnings from equity method investees | 6.1 | 5.2 | 17.1 | 13.2 |
| Other income | 1.4 | 1.3 | 3.2 | 2.6 |
| Interest and related charges ⁽¹⁾ | 8.9 | 8.1 | 15.8 | 15.8 |
| Net income including noncontrolling interest and predecessors | 132.0 | 31.6 | 165.9 | 85.9 |
| Less: Net income (loss) attributable to noncontrolling interest | 84.1 | (10.4) | 60.7 | (8.3) |
| Net income attributable to partners | \$47.9 | \$42.0 | \$105.2 | \$94.2 |
| Net income attributable to partners' ownership interest | | | | |
| Preferred unitholders' interest in net income | \$9.5 | \$9.5 | \$19.0 | \$19.0 |
| General partner's interest in net income | — | 0.3 | 8.9 | 3.0 |
| Common unitholders' interest in net income | 38.4 | 21.8 | 64.8 | 48.9 |
| Subordinated unitholder's interest in net income | — | 10.4 | 12.5 | 23.3 |
| Net income (loss) per limited partner unit (basic) | | | | |
| Common units | \$0.46 | \$0.33 | \$0.87 | \$0.73 |
| Subordinated units | (0.06) | 0.33 | 0.44 | 0.73 |
| Net income (loss) per limited partner unit (diluted) | | | | |
| Common units | \$0.42 | \$0.31 | \$0.78 | \$0.67 |
| Subordinated units | (0.06) | 0.33 | 0.44 | 0.73 |

(1) See Note 16 for amounts attributable to related parties.

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

DOMINION ENERGY MIDSTREAM PARTNERS, LP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|-----------------------|---------|---------------------|---------|
| | June 30, 2018 | 2017 | June 30, 2018 | 2017 |
| (millions) | | | | |
| Net income including noncontrolling interest and predecessors | \$ 132.0 | \$ 31.6 | \$ 165.9 | \$ 85.9 |
| Other comprehensive income (loss): | | | | |
| Net deferred gains (losses) on derivatives-hedging activities | 0.5 | (1.0) | 2.5 | (1.5) |
| Amounts reclassified to net income: | | | | |
| Net derivative (gains) losses-hedging activities | (0.2) | 0.6 | (0.1) | 0.6 |
| Other comprehensive income (loss) | 0.3 | (0.4) | 2.4 | (0.9) |
| Comprehensive income including noncontrolling interest and predecessors | 132.3 | 31.2 | 168.3 | 85.0 |
| Comprehensive income (loss) attributable to noncontrolling interests | 84.1 | (10.4) | 60.7 | (8.3) |
| Comprehensive income attributable to partners | \$48.2 | \$41.6 | \$107.6 | \$93.3 |

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

DOMINION ENERGY MIDSTREAM PARTNERS, LP

CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | June 30, 2018 | December 31, 2017 ⁽¹⁾ |
|--|------------------|-------------------------------------|
| (millions) | | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 61.8 | \$ 11.0 |
| Restricted cash and equivalents | 120.7 | 12.7 |
| Customer and other receivables (less allowance for doubtful accounts of \$0.3 and \$0.2) | 72.0 | 32.1 |
| Affiliated receivables | 11.8 | 14.1 |
| Prepayments | 5.1 | 11.3 |
| Inventories | 41.8 | 31.4 |
| Regulatory assets | 3.6 | 14.5 |
| Other ⁽²⁾ | 17.8 | 13.6 |
| Total current assets | 334.6 | 140.7 |
| Investment in Equity Method Affiliates | 253.7 | 253.8 |
| Property, Plant and Equipment | | |
| Property, plant and equipment | 7,922.1 | 7,788.9 |
| Accumulated depreciation and amortization | (1,163.6) | (1,101.5) |
| Total property, plant and equipment, net | 6,758.5 | 6,687.4 |
| Deferred Charges and Other Assets | | |
| Goodwill | 819.2 | 819.2 |
| Intangible assets, net | 59.2 | 35.1 |
| Other ⁽²⁾ | 48.0 | 44.1 |
| | 926.4 | 898.4 |

Total deferred
charges and other
assets

| | | | | |
|--------------|----|---------|----|---------|
| Total assets | \$ | 8,273.2 | \$ | 7,980.3 |
|--------------|----|---------|----|---------|

(1) Dominion Energy Midstream's Consolidated Balance Sheet at December 31, 2017 has been derived from the audited Consolidated Balance Sheet at that date.

(2) See Note 16 for amounts attributable to related parties.

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

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DOMINION ENERGY MIDSTREAM PARTNERS, LP

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(Unaudited)

| | June 30, 2018 | December 31, 2017 ⁽¹⁾ |
|--|------------------|--|
| (millions) | | |
| LIABILITIES AND EQUITY AND PARTNERS' CAPITAL | | |
| Current Liabilities | | |
| Securities due within one year | \$5.0 | \$ 5.0 |
| Accounts payable | 24.6 | 26.5 |
| Payables to affiliates | 11.4 | 12.7 |
| Dominion Energy credit facility borrowings | — | 26.4 |
| Customer deposits | 125.1 | 1.1 |
| Other ⁽²⁾ | 70.1 | 75.4 |
| Total current liabilities | 236.2 | 147.1 |
| Long-Term Debt | | |
| Long-term debt | 724.3 | 725.7 |
| Credit facility borrowings | 73.0 | — |
| Total long-term debt | 797.3 | 725.7 |
| Deferred Credits and Other Liabilities | | |
| Regulatory liabilities | 133.7 | 131.1 |
| CPCN obligation | 5.5 | 13.3 |
| Other ⁽²⁾ | 58.2 | 67.9 |
| Total deferred credits and other liabilities | 197.4 | 212.3 |
| Total liabilities | 1,230.9 | 1,085.1 |
| Commitments and Contingencies (see Note 14) | | |
| Equity and Partners' Capital | | |
| Preferred unitholders - public (18,942,714 units issued and outstanding at | | |
| June 30, 2018 and December 31, 2017) | 496.0 | 496.0 |
| Preferred unitholder - Dominion Energy (11,365,628 units issued and outstanding at | | |
| June 30, 2018 and December 31, 2017) | 303.6 | 303.6 |
| Common unitholders - public (49,455,142 and 49,318,899 units issued and | | |
| outstanding at June 30, 2018 and December 31, 2017, respectively) | 1,121.7 | 1,115.6 |
| Common unitholder - Dominion Energy (50,477,417 and 18,504,628 units issued | | |
| and outstanding at June 30, 2018 and December 31, 2017, respectively) | 958.1 | 463.2 |
| Common unitholder - General Partner (26,675,082 and --- units issued | | |
| and outstanding at June 30, 2018 and December 31, 2017, respectively) | 8.1 | — |

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| | | |
|---|-----------|-----------|
| Subordinated unitholder - Dominion Energy (--- and 31,972,789 units issued and outstanding at June 30, 2018 and December 31, 2017, respectively) | — | 493.0 |
| General Partner interest - Dominion Energy (non-economic interest) | (30.9) | (23.6) |
| Accumulated other comprehensive income | 3.8 | 1.4 |
| Total Dominion Energy Midstream Partners, LP partners' capital | 2,860.4 | 2,849.2 |
| Noncontrolling interest | 4,181.9 | 4,046.0 |
| Total equity and partners' capital | 7,042.3 | 6,895.2 |
| Total liabilities and equity and partners' capital | \$8,273.2 | \$7,980.3 |

(1) Dominion Energy Midstream's Consolidated Balance Sheet at December 31, 2017 has been derived from the audited Consolidated Balance Sheet at that date.

(2) See Note 16 for amounts attributable to related parties.

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

DOMINION ENERGY MIDSTREAM PARTNERS, LP

CONSOLIDATED STATEMENTS OF EQUITY AND PARTNERS' CAPITAL

(Unaudited)

| | Partnership | | | | | | | Total | | | |
|--|-----------------------|--------------------|--------------------------|----------|-----------------|-----------------------|----------|--|-------------------------|------------------------------------|-----------|
| | Preferred Unitholders | Common Unitholders | Subordinated Unitholders | Interest | General Partner | Non-economic interest | AOCI | Dominion Energy Midstream Partners, LP | Noncontrolling interest | Total Equity and Partners' Capital | |
| (millions) | | | | | | | | | | | |
| December 31, 2016 | \$492.1 | \$301.2 | \$1,082.1 | \$457.4 | \$— | \$483.0 | \$(29.2) | \$(0.4) | \$2,786.2 | \$3,313.7 | \$6,099.9 |
| Net income (loss) including noncontrolling interest and predecessors | 11.9 | 7.1 | 35.5 | 13.4 | — | 23.3 | 3.0 | — | 94.2 | (8.3) | 85.9 |
| Equity contributions from Dominion Energy | — | — | — | — | — | — | 4.2 | — | 4.2 | 463.6 | 467.8 |
| Distributions | (8.0) | (4.7) | (26.0) | (9.9) | — | (17.1) | (4.6) | — | (70.3) | — | (70.3) |
| Other comprehensive loss | — | — | — | — | — | — | — | (0.9) | (0.9) | — | (0.9) |
| Unit awards (net of unearned compensation) | — | — | 0.1 | — | — | — | — | — | 0.1 | — | 0.1 |
| Other | — | — | (0.1) | — | — | — | — | — | (0.1) | 0.8 | 0.7 |
| June 30, 2017 | \$496.0 | \$303.6 | \$1,091.6 | \$460.9 | \$— | \$489.2 | \$(26.6) | \$(1.3) | \$2,813.4 | \$3,769.8 | \$6,583.2 |
| December 31, 2017 | \$496.0 | \$303.6 | \$1,115.6 | \$463.2 | \$— | \$493.0 | \$(23.6) | \$1.4 | \$2,849.2 | \$4,046.0 | \$6,895.2 |

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| | | | | | | | | | | | |
|---|---------|---------|-----------|---------|-------|---------|----------|-------|-----------|-----------|-----------|
| Net income including noncontrolling interest | | | | | | | | | | | |
| and predecessors | 11.9 | 7.1 | 34.3 | 22.4 | 8.1 | 12.5 | 8.9 | — | 105.2 | 60.7 | 165.9 |
| Issuance of common units, net of offering costs | — | — | 3.8 | — | — | — | — | — | 3.8 | — | 3.8 |
| Equity contributions from Dominion Energy | — | — | — | — | — | — | — | — | — | 101.4 | 101.4 |
| Distributions | (11.9) | (7.1) | (32.2) | (12.1) | — | (20.9) | (16.2) | — | (100.4) | (26.5) | (126.9) |
| Conversion of subordinated units | — | — | — | 484.6 | — | (484.6) | — | — | — | — | — |
| Other comprehensive income | — | — | — | — | — | — | — | 2.4 | 2.4 | — | 2.4 |
| Unit awards (net of unearned compensation) | — | — | 0.2 | — | — | — | — | — | 0.2 | — | 0.2 |
| Other | — | — | — | — | — | — | — | — | — | 0.3 | 0.3 |
| June 30, 2018 | \$496.0 | \$303.6 | \$1,121.7 | \$958.1 | \$8.1 | \$— | \$(30.9) | \$3.8 | \$2,860.4 | \$4,181.9 | \$7,042.3 |

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

DOMINION ENERGY MIDSTREAM PARTNERS, LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| Six Months Ended June 30, (millions) | 2018 | 2017 |
|---|---------|---------|
| Operating Activities | | |
| Net income including noncontrolling interest and predecessors | \$165.9 | \$85.9 |
| Adjustments to reconcile net income including noncontrolling interest and predecessors to net cash provided by operating activities: | | |
| Depreciation and amortization | 71.8 | 50.3 |
| Other adjustments | (1.5) | 2.8 |
| Changes in: | | |
| Customer and other receivables | (39.9) | 17.9 |
| Affiliated receivables | 2.3 | 5.2 |
| Prepayments | 6.2 | 6.5 |
| Inventories | (10.4) | (4.1) |
| Accounts payable | 2.8 | 5.0 |
| Payables to affiliates | (1.3) | 0.4 |
| Accrued interest, payroll and taxes | 2.2 | (0.6) |
| Customer deposits | 110.5 | 4.0 |
| Other operating assets and liabilities | 8.2 | 2.2 |
| Net cash provided by operating activities | 316.8 | 175.5 |
| Investing Activities | | |
| Plant construction and other property additions | (178.8) | (536.2) |
| Other | (1.6) | (1.4) |
| Net cash used in investing activities | (180.4) | (537.6) |
| Financing Activities | | |
| Dominion Energy credit facility repayments, net | (26.4) | (0.2) |
| Issuance of long-term debt | 250.0 | — |
| Repayment of long-term debt | (250.0) | — |
| Credit facility borrowings | 73.0 | — |
| Contributions from Dominion Energy to Cove Point | 101.4 | 463.6 |
| Distributions from Cove Point to Dominion Energy | (26.5) | — |
| Distributions to preferred unitholders | (19.0) | (12.7) |
| Distributions to common unitholders | (44.3) | (35.9) |
| Distributions to subordinated unitholder | (20.9) | (17.1) |
| Distributions to general partner | (16.2) | (4.6) |
| Other | 1.3 | (0.1) |
| Net cash provided by financing activities | 22.4 | 393.0 |
| Increase in cash, restricted cash and equivalents | 158.8 | 30.9 |
| Cash, restricted cash and equivalents at beginning of period | 23.7 | 64.6 |
| Cash, restricted cash and equivalents at end of period | \$182.5 | \$95.5 |
| Supplemental Cash Flow Information | | |

Significant noncash investing and financing activities:⁽¹⁾

| | | |
|---|--------|--------|
| Accrued capital expenditures | \$16.5 | \$28.0 |
| Equity contributions from Dominion Energy to relieve payables to affiliates | — | 4.2 |

(1) See Note 4 for a description of the IDR reset and conversion of subordinated units.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Description of Business and Basis of Presentation

Description of Business

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

Dominion Energy Midstream holds the Preferred Equity Interest and non-economic general partner interest in Cove Point, the owner and operator of the Cove Point LNG Facility, the Cove Point Pipeline and the Liquefaction Project, which commenced commercial operations in April 2018. 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.

In addition, Dominion Energy Midstream owns DECG and a 25.93% noncontrolling partnership interest in Iroquois, both of which are FERC-regulated interstate natural gas pipelines. Dominion Energy Midstream also owns Dominion Energy Questar Pipeline, which owns and operates interstate natural gas pipelines and storage facilities in the western U.S., including a 50% noncontrolling partnership interest in White River Hub. Dominion Energy Questar Pipeline's operations are primarily regulated by FERC.

Basis of Presentation

The contribution by Dominion Energy to Dominion Energy 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 Energy Midstream's basis is equal to Dominion Energy's cost basis in the general partner interest in Cove Point and a portion of the Preferred Equity Interest. As discussed in Note 16 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017, Dominion Energy Midstream is the primary beneficiary of, and therefore consolidates, Cove Point. As such, Dominion Energy Midstream's investment in the Preferred Equity Interest and Cove Point's preferred equity interest are eliminated in consolidation. Dominion Energy's retained common equity interest in Cove Point is reflected as noncontrolling interest.

The financial statements for all periods presented include costs for certain general, administrative and corporate expenses assigned by DES, DECGS or DEQPS to Dominion Energy Midstream on the basis of direct and allocated methods in accordance with Dominion Energy Midstream's services agreements with DES, DECGS and DEQPS. Where costs incurred cannot be determined by specific identification, the costs are allocated based on the proportional level of effort devoted by DES, DECGS or DEQPS resources attributable to the entities, determined by reference to number of employees, salaries and wages and other similar measures for the relevant DES, DECGS or DEQPS service. Management believes the assumptions and methodologies underlying the allocation of general

corporate overhead expenses are reasonable.

Note 2. Significant Accounting Policies

Interim Financial Information and Estimates

As permitted by the rules and regulations of the SEC, Dominion Energy Midstream's accompanying unaudited Consolidated Financial Statements contain certain condensed financial information and 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 Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

In the opinion of management, the accompanying unaudited Consolidated Financial Statements contain all adjustments necessary to present fairly Dominion Energy Midstream's financial position at June 30, 2018, its results of operations for the three and six months ended June 30, 2018 and 2017 and its cash flows and changes in equity and partners' capital for the six months ended June 30, 2018 and 2017. Such adjustments are normal and recurring in nature unless otherwise noted.

Dominion Energy 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 and other expenses and other factors.

Certain amounts in Dominion Energy Midstream's 2017 Consolidated Financial Statements and Notes have been reclassified as a result of the adoption of revised accounting guidance pertaining to restricted cash and equivalents and certain distributions from equity method investees. In addition, certain other amounts have been reclassified to conform to the 2018 presentation for comparative purposes; however, such reclassifications did not affect Dominion Energy Midstream's net income, total assets, liabilities, equity and partners' capital or cash flows.

The effects of the adoption of new accounting standards on the Consolidated Financial Statements are described below. There have been no other significant changes from Note 3 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

Operating Revenue

Operating revenue is recorded on the basis of services rendered, commodities delivered or contracts settled and includes amounts yet to be billed to customers. Dominion Energy Midstream is currently generating significant revenue and earnings from annual reservation payments under long-term regasification, firm peaking storage and firm transportation contracts. Straight-fixed-variable rate designs are used to allow for recovery of substantially all fixed costs in demand or reservation charges, thereby reducing the earnings impact of volume changes on gas transportation and storage operations. Customer and affiliated receivables include accrued unbilled revenue based on estimated amounts of services provided but not yet billed to customers.

Dominion Energy Midstream collects facility charges related to certain of its expansion projects, which are considered to be contract liabilities. These facility charges are amortized to revenue over the term of the related transportation contract once the related projects have been placed into service.

The primary types of sales and service activities reported as operating revenue for Dominion Energy Midstream, subsequent to the adoption of revised guidance for revenue recognition from contracts with customers, are as follows:

Revenue from Contracts with Customers

- Regulated gas transportation and storage sales consist primarily of FERC-regulated sales of transmission and storage services;
- Nonregulated gas transportation and storage sales consist primarily of LNG terminalling services;
- Other regulated revenue consists primarily of sales associated with cooling cargos at Cove Point; and
- Other nonregulated revenue consists primarily of extracted products, gathering and processing and miscellaneous service revenues.

Other Revenue

- Other revenue consists primarily of amounts related to the monetization of a bankruptcy claim acquired as part of the DECG Acquisition.

The primary types of sales and service activities reported as operating revenue for Dominion Energy Midstream, prior to the adoption of revised guidance for revenue recognition from contracts with customers, were as follows:

Regulated gas sales consisted primarily of FERC-regulated natural gas sales;
Gas transportation and storage consisted primarily of FERC-regulated sales of storage and transmission services; and
Other revenue consisted primarily of sales of purchased gas retained for use in routine operations and LNG cargos and the renegotiated contract payments related to certain import-related contracts.

Transportation and storage contracts are primarily stand-ready service contracts that include fixed reservation and variable usage fees. LNG terminalling services are also stand-ready service contracts, primarily consisting of fixed fees, offset by service credits associated with the start-up phase of the Liquefaction Project. Fixed fees are recognized ratably over the life of the contract as the stand-ready performance obligations are satisfied, while variable usage fees are recognized when Dominion Energy Midstream has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the performance obligation completed to date. Substantially all of Dominion Energy Midstream's revenues are derived from performance obligations satisfied over time, rather than recognized at a single point in time. The contract with the

customer states the final terms of the sale, including the description, quantity and price of each product or service purchased. Payment for most sales and services varies by contract type, but is typically due within a month of billing.

Dominion Energy Midstream typically receives or retains NGLs and natural gas from customers when providing natural gas processing, transportation or storage services. The revised guidance for revenue from contracts with customers requires entities to include the fair value of the noncash consideration in the transaction price. Therefore, subsequent to the adoption of the revised guidance for revenue recognition from contracts with customers, Dominion Energy Midstream records the fair value of NGLs received during natural gas processing as service revenue recognized over time, and continues to recognize revenue from the subsequent sale of the NGLs to customers upon delivery. Dominion Energy Midstream typically retains natural gas under certain transportation service arrangements that are intended to facilitate performance of the service and allow for natural losses that occur. As the intent of the allowance is to enable fulfillment of the contract rather than to provide compensation for services, the fuel allowance is not included in revenue.

Cash, Restricted Cash and Equivalents

Restricted Cash and Equivalents

Dominion Energy Midstream holds restricted cash balances that primarily consist of amounts held for certain customer deposits as allowed under FERC gas tariffs and a distribution reserve. In October 2016, Cove Point fully funded a distribution reserve of \$25.0 million, sufficient to pay two quarters of Preferred Return Distributions. The distribution reserve was fully utilized to fund the quarterly Preferred Return Distributions paid in November 2017 and February 2018. Upon the adoption of revised accounting guidance in January 2018, restricted cash and equivalents are included within Dominion Energy Midstream's Consolidated Statements of Cash Flows, with the change in balance no longer considered a separate investing activity. The retrospective application of this guidance had no impact to the six months ended June 30, 2017. The following table provides a reconciliation of the total cash, restricted cash and equivalents reported within Dominion Energy Midstream's Consolidated Balance Sheets to the corresponding amounts reported within Dominion Energy Midstream's Consolidated Statements of Cash Flows:

| | Cash, Restricted Cash and Equivalents | | Cash, Restricted Cash and Equivalents | |
|---------------------------------------|--|---------------|---------------------------------------|-------------------|
| | at End of Period | | at Beginning of Period | |
| (millions) | June 30, 2018 | June 30, 2017 | December 31, 2017 | December 31, 2016 |
| Cash and cash equivalents | \$ 61.8 | \$ 70.5 | \$ 11.0 | \$ 39.6 |
| Restricted cash and equivalents | 120.7 | 25.0 | 12.7 | 25.0 |
| Cash, restricted cash and equivalents | | | | |
| shown in the Consolidated | | | | |
| Statements of Cash Flows | \$ 182.5 | \$ 95.5 | \$ 23.7 | \$ 64.6 |

Distributions from Equity Method Investees

Dominion Energy Midstream holds investments that are accounted for under the equity method of accounting. Effective January 2018, Dominion Energy Midstream classifies distributions from equity method investees as either cash flows from operating activities or cash flows from investing activities in the Consolidated Statements of Cash Flows according to the nature of the distribution. Distributions received are classified on the basis of the nature of the activity of the investees that generated the distribution as either a return on investment (classified as cash flows from operating activities) or a return of an investment (classified as cash flows from investing activities) when such information is available to Dominion Energy Midstream. Previously, distributions were determined to be either a return on investment or return of an investment based on a cumulative earnings approach whereby any distributions received in excess of earnings were considered to be a return of investment. Dominion Energy Midstream has applied this approach on a retrospective basis and has recast the Consolidated Statements of Cash Flows for the six months ended June 30, 2017, accordingly. As previously reported, Dominion Energy Midstream's net cash provided by operating activities and net cash used in investing activities for the six months ended June 30, 2017 was \$175.0 million and \$537.1 million, respectively.

New Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued revised accounting guidance for revenue recognition from contracts with customers. Dominion Energy Midstream adopted this revised accounting guidance for interim and annual reporting periods beginning January 1, 2018 using the modified retrospective method.

As a result of adopting this revised accounting guidance, Dominion Energy Midstream recorded offsetting operating revenue and purchased gas and other of \$2.0 million in the Consolidated Statements of Income for non-cash consideration for

performing processing and fractionation services related to NGLs for both the three and six months ended June 30, 2018. No such amounts were recorded during three and six months ended June 30, 2017. Dominion Energy Midstream no longer records offsetting operating revenue and purchased gas and other for fuel retained to offset costs on certain transportation and storage arrangements. Such amounts were \$9.2 million and \$20.1 million, recorded in the Consolidated Statements of Income, for the three and six months ended June 30, 2017, respectively.

Note 3. 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 Energy Midstream, after deducting any distributions to Series A Preferred Units and incentive distributions, by the weighted average number of common and subordinated units outstanding. See Note 4 for information regarding the conversion of the subordinated units in May 2018. Because Dominion Energy 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, Series A Preferred Units and IDRs. See Note 2 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017 for further information about the Series A Preferred Units.

Dominion Energy Midstream's net income is allocated to the limited partners in accordance with their respective partnership interests, after giving effect to priority income allocations to the holders of the Series A Preferred Units and incentive distributions, if any, to Dominion Energy, the holder of the IDRs, pursuant to the partnership agreement. The distributions are declared and paid following the close of each quarter. Undistributed (distributions in excess of) earnings are allocated to the common and subordinated unitholders based on their respective ownership interests. Payments made to Dominion Energy 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 reflects the potential dilution that could occur if securities, such as the Series A Preferred Units, were converted into common units. When it is determined that potential common units resulting from the Series A Preferred Unit conversion should be included in the diluted net income per limited partner unit calculation, the impact is calculated using the two-class method. Basic and diluted earnings per unit applicable to subordinated limited partner units are the same because there are no potentially dilutive subordinated units outstanding.

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

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|---|--|--------|---|--------|
| (millions) | 2018 | 2017 | 2018 | 2017 |
| Net income attributable to partners | \$47.9 | \$42.0 | \$105.2 | \$94.2 |
| Less: General partner allocation ⁽¹⁾ | — | (4.0) | — | (4.2) |
| Less: Preferred unitholder allocation | 9.5 | 9.5 | 19.0 | 19.0 |
| Distributions declared on: | | | | |
| IDRs ⁽²⁾ | — | 4.3 | 8.9 | 7.2 |

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| | | | | |
|---|---------|-------|---------|--------|
| Common unitholders | 44.4 | 19.4 | 67.1 | 37.8 |
| Subordinated unitholder | — | 9.2 | 10.7 | 18.0 |
| Total distributions declared | 44.4 | 32.9 | 86.7 | 63.0 |
| Undistributed (distributions in excess of) earnings | \$(6.0) | \$3.6 | \$(0.5) | \$16.4 |

(1) Represents amounts recognized as equity contributions from our general partner for incurred amounts for which Dominion Energy did not seek reimbursement. See Note 16 for further information.

(2) Dominion Energy Midstream GP holds all of the IDRs. See Note 4 for more information regarding the IDR reset in June 2018.

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Distributions are declared and paid subsequent to quarter end. The table below summarizes the quarterly distributions on common and subordinated units related to the six months ended June 30, 2017 and 2018.

| Quarterly Period Ended | Total Quarterly Distribution (per unit) | Total Cash Distribution (in millions) | Date of Declaration | Date of Record | Date of Distribution |
|------------------------|---|---------------------------------------|---------------------|------------------|----------------------|
| December 31, 2016 | \$ 0.2605 | \$ 27.5 | January 25, 2017 | February 6, 2017 | February 15, 2017 |
| March 31, 2017 | 0.2740 | 30.1 | April 21, 2017 | May 5, 2017 | May 15, 2017 |
| June 30, 2017 | 0.2880 | 32.9 | July 21, 2017 | August 4, 2017 | August 15, 2017 |
| December 31, 2017 | 0.3180 | 39.1 | January 25, 2018 | February 5, 2018 | February 15, 2018 |
| March 31, 2018 | 0.3340 | 42.3 | April 20, 2018 | May 4, 2018 | May 15, 2018 |
| June 30, 2018 | 0.3510 | 44.4 | July 25, 2018 | August 6, 2018 | August 15, 2018 |

Record holders of the Series A Preferred Units are entitled to receive cumulative quarterly distributions, payable in cash, payable in kind or a combination thereof at the option of our general partner, equal to \$0.3134 in respect of each quarter ending before December 1, 2018. The table below summarizes the quarterly distributions on the Series A Preferred Units related to the six months ended June 30, 2017 and 2018.

| Quarterly Period Ended | Total Distribution (in millions) | Amount Payable in Cash (in millions) | Amount Payable in Kind (in millions) |
|------------------------|----------------------------------|--------------------------------------|--------------------------------------|
| December 31, 2016 | \$ 3.2 | (1) \$ 3.2 | \$ — |
| March 31, 2017 | 9.5 | 9.5 | — |
| June 30, 2017 | 9.5 | 9.5 | — |
| December 31, 2017 | 9.5 | 9.5 | — |
| March 31, 2018 | 9.5 | 9.5 | — |
| June 30, 2018 | 9.5 | 9.5 | — |

(1) For the period subsequent to the issuance of the Series A Preferred Units through December 31, 2016, the initial quarterly cash distribution was calculated as the minimum quarterly distribution of \$0.3134 per unit prorated for the portion of the quarter subsequent to the issuance of the Series A Preferred Units.

Basic and diluted net income per limited partner unit for the three and six months ended June 30, 2018 are as follows:

| | General | | | | |
|---|------------------|--------------------------------------|--------------------|---------------------|---------|
| | Series A Partner | | | | |
| | Common Units | Subordinated Units ⁽¹⁾ | Preferred Units | (including IDRs) | Total |
| (millions, except for weighted average units and per unit data) | | | | | |
| Three Months Ended June 30, 2018 | | | | | |
| Preferred unitholder allocation | \$— | \$— | \$ 9.5 | \$ — | \$9.5 |
| Distributions declared | 44.4 | — | — | — | 44.4 |
| Distributions in excess of earnings | (5.1) | (0.9) | — | — | (6.0) |
| Net income (loss) attributable to partners (basic) | \$39.3 | \$(0.9) | \$ 9.5 | \$ — | \$47.9 |
| Dilutive effect of Series A Preferred Units ⁽²⁾ | 9.4 | — | | | |
| Net income (loss) attributable to partners (diluted) | 48.7 | (0.9) | | | |
| Weighted average units outstanding (basic) | 85,283,946 | 15,810,720 | | | |
| Dilutive effect of Series A Preferred Units ⁽²⁾ | 30,308,342 | — | | | |
| Weighted average units outstanding (diluted) | 115,592,288 | 15,810,720 | | | |
| Net income (loss) per limited partner unit (basic) | \$0.46 | \$(0.06) | | | |
| Net income (loss) per limited partner unit (diluted) | \$0.42 | \$(0.06) | | | |
| Six Months Ended June 30, 2018 | | | | | |
| Preferred unitholder allocation | \$— | \$— | \$ 19.0 | \$ — | \$19.0 |
| Distributions declared | 67.1 | 10.7 | — | 8.9 | 86.7 |
| Distributions in excess of earnings | (0.4) | (0.1) | — | — | (0.5) |
| Net income attributable to partners (basic) | \$66.7 | \$10.6 | \$ 19.0 | \$ 8.9 | \$105.2 |
| Dilutive effect of Series A Preferred Units ⁽²⁾ | 17.1 | — | | | |
| Net income attributable to partners (diluted) | 83.8 | 10.6 | | | |
| Weighted average units outstanding (basic) | 76,655,417 | 23,847,108 | | | |
| Dilutive effect of Series A Preferred Units ⁽²⁾ | 30,308,342 | — | | | |
| Weighted average units outstanding (diluted) | 106,963,759 | 23,847,108 | | | |
| Net income per limited partner unit (basic) | \$0.87 | \$0.44 | | | |
| Net income per limited partner unit (diluted) | \$0.78 | \$0.44 | | | |

(1) See Note 4 for more information regarding the conversion of subordinated units in May 2018.

(2) The dilutive effect of the Series A Preferred Units represents the reallocation of net income to limited partners including a reallocation of IDRs pursuant to the partnership agreement assuming conversion of the Series A Preferred Units into common units at the beginning of the period.

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Basic and diluted net income per limited partner unit for the three and six months ended June 30, 2017 are as follows:

| | Common Units | Subordinated Units | Series A Preferred Units | General Partner (including IDRs) | Total |
|---|-----------------|-----------------------|--------------------------------|---|----------|
| (millions, except for weighted average units and per unit data) | | | | | |
| Three Months Ended June 30, 2017 | | | | | |
| General partner allocation | \$— | \$— | \$ — | \$ (4.0) | \$(4.0) |
| Preferred unitholder allocation | — | — | 9.5 | — | 9.5 |
| Distributions declared | 19.4 | 9.2 | — | 4.3 | 32.9 |
| Undistributed earnings | 2.4 | 1.2 | — | — | 3.6 |
| Net income attributable to partners (basic) | \$21.8 | \$10.4 | \$ 9.5 | \$ 0.3 | \$42.0 |
| Dilutive effect of Series A Preferred Units ⁽¹⁾ | 8.6 | — | | | |
| Net income attributable to partners (diluted) | 30.4 | 10.4 | | | |
| Weighted average units outstanding (basic) | 67,241,212 | 31,972,789 | | | |
| Dilutive effect of Series A Preferred Units ⁽¹⁾ | 30,308,342 | — | | | |
| Weighted average units outstanding (diluted) | 97,549,554 | 31,972,789 | | | |
| Net income per limited partner unit (basic) | \$0.33 | \$0.33 | | | |
| Net income per limited partner unit (diluted) | \$0.31 | \$0.33 | | | |
| Six Months Ended June 30, 2017 | | | | | |
| General partner allocation | \$— | \$— | \$ — | \$ (4.2) | \$(4.2) |
| Preferred unitholder allocation | — | — | 19.0 | — | 19.0 |
| Distributions declared | 37.8 | 18.0 | — | 7.2 | 63.0 |
| Undistributed earnings | 11.1 | 5.3 | — | — | 16.4 |
| Net income attributable to partners (basic) | \$48.9 | \$23.3 | \$ 19.0 | \$ 3.0 | \$94.2 |
| Dilutive effect of Series A Preferred Units ⁽¹⁾ | 16.0 | — | | | |
| Net income attributable to partners (diluted) | 64.9 | 23.3 | | | |
| Weighted average units outstanding (basic) | 67,240,499 | 31,972,789 | | | |
| Dilutive effect of Series A Preferred Units ⁽¹⁾ | 30,308,342 | — | | | |
| Weighted average units outstanding (diluted) | 97,548,841 | 31,972,789 | | | |
| Net income per limited partner unit (basic) | \$0.73 | \$0.73 | | | |
| Net income per limited partner unit (diluted) | \$0.67 | \$0.73 | | | |

(1) The dilutive effect of the Series A Preferred Units represents the reallocation of net income to limited partners including a reallocation of IDRs pursuant to the partnership agreement assuming conversion of the Series A Preferred Units into common units at the beginning of the period.

Note 4. Unit Activity

Activity in number of units was as follows:

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| | Convertible Preferred Public | Dominion Energy | Common Public | Dominion Energy | General Partner | Subordinated | Total |
|--|---------------------------------|--------------------|------------------|--------------------|--------------------|---------------|-------------|
| Balance at December 31, 2016 | 18,942,714 | 11,365,628 | 48,734,195 | 18,504,628 | — | 31,972,789 | 129,519,954 |
| Unit-based compensation | — | — | 10,444 | — | — | — | 10,444 |
| Balance at June 30, 2017 | 18,942,714 | 11,365,628 | 48,744,639 | 18,504,628 | — | 31,972,789 | 129,530,398 |
| Balance at December 31, 2017 | 18,942,714 | 11,365,628 | 49,318,899 | 18,504,628 | — | 31,972,789 | 130,104,658 |
| Unit-based compensation | — | — | 10,424 | — | — | — | 10,424 |
| Issuance of common units | — | — | 125,819 | — | — | — | 125,819 |
| IDR reset | — | — | — | — | 26,675,082 | — | 26,675,082 |
| Conversion of subordinated units | — | — | — | 31,972,789 | — | (31,972,789) | — |
| Balance at June 30, 2018 IDR Reset | 18,942,714 | 11,365,628 | 49,455,142 | 50,477,417 | 26,675,082 | — | 156,915,983 |

In June 2018, Dominion Energy Midstream GP notified Dominion Energy Midstream that it had made an IDR reset election as defined in the partnership agreement. Under the IDR reset election, the minimum quarterly distribution was increased from \$0.1750 to \$0.3340 and the levels at which the IDRs participate in distributions were reset at higher amounts based on the formula in the partnership agreement. In connection with the IDR reset election, Dominion Energy Midstream GP was issued 26.7 million common units.

Prior to the IDR reset election, Dominion Energy Midstream GP was entitled to incentive distributions if the amount distributed with respect to one quarter exceeded specified target levels shown below:

| | Total Quarterly Distribution Per Unit | Marginal Percentage Interest in Distributions | |
|--------------------------------|---------------------------------------|---|-------------|
| | | Unitholders | IDR Holders |
| Minimum Quarterly Distribution | \$0.1750 | 100.0% | ---% |
| First Target Distribution | above \$0.1750 up to \$0.2013 | 100.0% | ---% |
| Second Target Distribution | above \$0.2013 up to \$0.2188 | 85.0% | 15.0% |
| Third Target Distribution | above \$0.2188 up to \$0.2625 | 75.0% | 25.0% |
| Thereafter | above \$0.2625 | 50.0% | 50.0% |

Subsequent to the IDR reset election, Dominion Energy Midstream GP is entitled to incentive distributions if the amount distributed with respect to one quarter exceeds specified target levels shown below:

| | Total Quarterly Distribution Per Unit | Marginal Percentage Interest in Distributions | |
|--------------------------------|---------------------------------------|---|-------------|
| | | Unitholders | IDR Holders |
| Minimum Quarterly Distribution | \$0.3340 | 100.0% | ---% |
| First Target Distribution | above \$0.3340 up to \$0.3841 | 100.0% | ---% |
| Second Target Distribution | above \$0.3841 up to \$0.4175 | 85.0% | 15.0% |
| Third Target Distribution | above \$0.4175 up to \$0.5010 | 75.0% | 25.0% |
| Thereafter | above \$0.5010 | 50.0% | 50.0% |

Conversion of Subordinated Units

In May 2018, all of the subordinated units converted into common units on a 1:1 ratio following the payment of the distribution for the first quarter of 2018. The converted units participate pro rata with the other common units in quarterly distributions. The conversion of the subordinated units will not impact the amount of distributions paid by Dominion Energy Midstream or the total number of outstanding units. The allocation of net income and distributions during the period were effected in accordance with terms of the partnership agreement.

Note 5. Operating Revenue

Dominion Energy Midstream's operating revenue, subsequent to the adoption of revised guidance for revenue recognition from contracts with customers, consists of the following:

| | |
|--------|--------|
| Three | Six |
| Months | Months |

| | Ended | Ended |
|---|----------|----------|
| | June 30, | June 30, |
| | 2018 | 2018 |
| (millions) | | |
| Regulated gas transportation and storage ⁽¹⁾ | \$ 117.7 | \$ 218.0 |
| Nonregulated gas transportation and storage | 124.0 | 124.0 |
| Other regulated revenues | 1.1 | 7.0 |
| Other nonregulated revenues ⁽¹⁾ | 4.1 | 7.2 |
| Total operating revenue from contracts with customers | 246.9 | 356.2 |
| Other revenue ⁽¹⁾ | 0.7 | 1.5 |
| Total operating revenue | \$ 247.6 | \$ 357.7 |

(1) See Note 16 for amounts attributable to affiliates.

The table below discloses the aggregate amount of the transaction price allocated to fixed-price performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period and when Dominion Energy Midstream expects to recognize this revenue. These revenues relate to contracts containing fixed prices where Dominion Energy Midstream will earn the associated revenue over time as it stands ready to perform services provided. This disclosure does not include revenue related to performance obligations that are part of a contract with original durations of one year or less. In addition, this disclosure does not include expected consideration related to performance obligations for which Dominion Energy Midstream elects to recognize revenue in the amount it has a right to invoice.

| | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|---|-------|------------|------------|------------|------------|-------------|-------------|
| (millions) | | | | | | | |
| Revenue expected to be recognized on multi-year contracts in place at | | | | | | | |
| | \$ | | | | | | |
| June 30, 2018 | 560.1 | \$ 1,120.9 | \$ 1,093.0 | \$ 1,065.9 | \$ 1,007.3 | \$ 13,291.6 | \$ 18,138.8 |

Contract liabilities represent an entity's obligation to transfer goods or services to a customer for which the entity has received consideration, or the amount that is due, from the customer. At June 30, 2018 and December 31, 2017, Dominion Energy Midstream's contract liability balances were \$16.6 million and \$15.7 million, respectively, presented in other current liabilities and other deferred credits and other liabilities in Dominion Energy Midstream's Consolidated Balance Sheets. During the six months ended June 30, 2018, \$1.7 million of revenue was recognized from the beginning contract liability balance as Dominion Energy Midstream fulfilled its obligations to provide service to its customers.

Dominion Energy Midstream's operating revenue, prior to the adoption of revised guidance for revenue recognition from contracts with customers, consisted of the following:

| | Three Months Ended | | Six Months Ended | |
|--------------------------------|--------------------|-------|------------------|-------|
| (millions) | June 30, 2017 | | June 30, 2017 | |
| Gas transportation and storage | \$ | 112.3 | \$ | 236.9 |
| Regulated gas sales | 0.2 | | 0.5 | |
| Other | 3.2 | | 8.5 | |
| Total operating revenue | \$ | 115.7 | \$ | 245.9 |

Note 6. Fair Value Measurements

Dominion Energy Midstream's fair value measurements are made in accordance with the policies discussed in Note 8 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017. See Note 7 for further information about Dominion Energy Midstream's derivatives and hedge accounting activities.

Recurring Fair Value Measurements

The following table presents Dominion Energy Midstream's assets and liabilities that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions.

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|-------|
| | | | | |

(millions)

At June 30, 2018

Assets

| | | | | | | |
|---------------------------|----|---|--------|----|---|--------|
| Interest rate derivatives | \$ | — | \$ 3.8 | \$ | — | \$ 3.8 |
|---------------------------|----|---|--------|----|---|--------|

| | | | | | | |
|--------------|----|---|--------|----|---|--------|
| Total assets | \$ | — | \$ 3.8 | \$ | — | \$ 3.8 |
|--------------|----|---|--------|----|---|--------|

At December 31, 2017

Assets

| | | | | | | |
|---------------------------|----|---|--------|----|---|--------|
| Interest rate derivatives | \$ | — | \$ 1.4 | \$ | — | \$ 1.4 |
|---------------------------|----|---|--------|----|---|--------|

| | | | | | | |
|--------------|----|---|--------|----|---|--------|
| Total assets | \$ | — | \$ 1.4 | \$ | — | \$ 1.4 |
|--------------|----|---|--------|----|---|--------|

Fair Value of Financial Instruments

Substantially all of Dominion Energy Midstream's financial instruments are recorded at fair value, with the exception of the instruments described below, which are reported at historical cost. Estimated fair values have been determined using available market information and valuation methodologies considered appropriate by management. The carrying amount of cash and cash equivalents, restricted cash and equivalents, customer and other receivables, affiliated receivables, accounts payable, payables to affiliates, Dominion Energy credit facility borrowings, affiliated current borrowings and customer deposits are representative of fair value because of the short-term nature of these instruments. For Dominion Energy Midstream's financial instruments that are not recorded at fair value, the carrying amounts and estimated fair values are as follows:

| | June 30, 2018 | | December 31, 2017 | |
|---|-----------------|-------------------------------------|-------------------|-------------------------------------|
| | Carrying Amount | Estimated Fair Value ⁽¹⁾ | Carrying Amount | Estimated Fair Value ⁽¹⁾ |
| (millions) | | | | |
| Long-term debt, including securities due within one year ⁽²⁾ | \$729.3 | \$745.1 | \$730.7 | \$760.7 |
| Credit facility borrowings | 73.0 | 73.0 | — | — |

(1) Fair value is estimated using market prices, where available, and interest rates currently available for issuance of debt with similar terms and remaining maturities. All fair value measurements are classified as Level 2. The carrying amount of debt issues with short-term maturities and variable rates refinanced at current market rates is a reasonable estimate of their fair value.

(2) Carrying amount includes amounts which represent the unamortized debt issuance costs, discount or premium. Note 7. Derivatives and Hedge Accounting Activities

Dominion Energy Midstream's accounting policies, objectives, and strategies for using derivative instruments are discussed in Note 3 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017. See Note 6 for further information about fair value measurements and associated valuation methods for derivatives.

Derivative assets and liabilities are presented gross on Dominion Energy Midstream's Consolidated Balance Sheets. Dominion Energy Midstream's derivative contracts include over-the-counter transactions. Over-the-counter contracts are bilateral contracts that are transacted directly with a third party. Certain over-the-counter contracts contain contractual rights of setoff through master netting arrangements, derivative clearing agreements, and contract default provisions. In addition, the contracts are subject to conditional rights of setoff through counterparty nonperformance, insolvency, or other conditions.

Balance Sheet Presentation

The tables below present Dominion Energy Midstream's derivative asset balances by type of financial instrument, before and after the effects of offsetting.

June 30, 2018

December 31, 2017

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| | Gross Amounts | | Net Amounts | | Gross Amounts | | Net Amounts | |
|---|----------------------------|-------|----------------------------|--------|----------------------------|-------|----------------------------|--------|
| | Presented | | of Assets | | Presented | | of Assets | |
| | in the | | in the | | in the | | in the | |
| | Consolidated Balance Sheet | | Consolidated Balance Sheet | | Consolidated Balance Sheet | | Consolidated Balance Sheet | |
| (millions) | Assets | Sheet | Assets | Sheet | Assets | Sheet | Assets | Sheet |
| Interest rate contracts: | | | | | | | | |
| Over-the-counter | \$3.8 | \$ — | \$ 3.8 | \$ 3.8 | \$1.4 | \$ — | \$ 1.4 | \$ 1.4 |
| Total derivatives, subject to a master netting or similar arrangement | \$3.8 | \$ — | \$ 3.8 | \$ 3.8 | \$1.4 | \$ — | \$ 1.4 | \$ 1.4 |
| 21 | | | | | | | | |

| | June 30, 2018 | | | | | December 31, 2017 | | | | |
|--------------------------|-------------------------------|-----------------------|--------------------------|-------------|--|-------------------------------|-----------------------|--------------------------|-------------|--|
| | Gross Amounts Not Offset | | | | | Gross Amounts Not Offset | | | | |
| | in the Consolidated | | | | | in the Consolidated | | | | |
| | Balance Sheet | | | | | Balance Sheet | | | | |
| | Net | | | | | Net | | | | |
| | Amounts | | | | | Amounts | | | | |
| | of Assets | | | | | of Assets | | | | |
| | Presented in the Consolidated | | | | | Presented in the Consolidated | | | | |
| | Balance Sheet | Financial Instruments | Cash Collateral Received | Net Amounts | | Balance Sheet | Financial Instruments | Cash Collateral Received | Net Amounts | |
| (millions) | | | | | | | | | | |
| Interest rate contracts: | | | | | | | | | | |
| Over-the-counter | \$ 3.8 | \$ — | \$ — | \$ 3.8 | | \$ 1.4 | \$ — | \$ — | \$ 1.4 | |
| Total | \$ 3.8 | \$ — | \$ — | \$ 3.8 | | \$ 1.4 | \$ — | \$ — | \$ 1.4 | |

Volumes

The following table presents the volume of Dominion Energy Midstream's derivative activity at June 30, 2018. These volumes are based on open derivative positions and represent the combined absolute value of their long and short positions, except in the case of offsetting transactions, for which they represent the absolute value of the net volume of their long and short positions.

| | Current | Noncurrent |
|------------------------------|---------|---------------|
| Interest rate ⁽¹⁾ | \$ — | \$300,000,000 |

(1) Maturity is determined based on final settlement period.

Ineffectiveness and AOCI

For the three and six months ended June 30, 2018 and 2017, there were no gains or losses on hedging instruments determined to be ineffective.

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The following table presents selected information related to gains on cash flow hedges included in AOCI in Dominion Energy Midstream's Consolidated Balance Sheet at June 30, 2018:

| | Amounts Expected | | |
|---------------|--------------------|----------------|-----------|
| | to be Reclassified | | |
| | to Earnings | | |
| | During the | Maximum | |
| (millions) | AOCI | Next 12 Months | Term |
| Interest rate | \$ 3.8 | \$ 2.2 | 17 months |
| Total | \$ 3.8 | \$ 2.2 | |

The amounts that will be reclassified from AOCI to earnings will generally be offset by the recognition of the hedged transactions (e.g., interest payments) in earnings, thereby achieving the realization of prices contemplated by the underlying risk management strategies and will vary from the expected amounts presented above as a result of changes in interest rates.

Fair Value and Gains and Losses on Derivative Instruments

The following tables present the fair values of Dominion Energy Midstream's derivatives and where they are presented in its Consolidated Balance Sheets.

| | Fair Value – Derivatives under Hedge Accounting | Total Fair Value |
|---|---|------------------------|
| (millions) | | |
| At June 30, 2018 | | |
| ASSETS | | |
| Current Assets | | |
| Interest rate | \$ 2.2 | \$ 2.2 |
| Total current derivative assets ⁽¹⁾ | 2.2 | 2.2 |
| Noncurrent Assets | | |
| Interest rate | 1.6 | 1.6 |
| Total noncurrent derivative assets ⁽²⁾ | 1.6 | 1.6 |
| Total derivative assets | \$ 3.8 | \$ 3.8 |
| At December 31, 2017 | | |
| ASSETS | | |
| Current Assets | | |
| Interest rate | \$ 0.1 | \$ 0.1 |
| Total current derivative assets ⁽¹⁾ | 0.1 | 0.1 |
| Noncurrent Assets | | |
| Interest rate | 1.3 | 1.3 |
| Total noncurrent derivative assets ⁽²⁾ | 1.3 | 1.3 |
| Total derivative assets | \$ 1.4 | \$ 1.4 |

(1) Current derivative assets are presented in other current assets in Dominion Energy Midstream's Consolidated Balance Sheets.

(2) Noncurrent derivative assets are presented in other deferred charges and other assets in Dominion Energy Midstream's Consolidated Balance Sheets.

The following tables present the gains and losses on Dominion Energy Midstream's derivatives, as well as where the associated activity is presented in its Consolidated Balance Sheets and Statements of Income.

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective | Amount of Gain (Loss) Reclassified From AOCI to Income |
|--|--|--|
|--|--|--|

Portion)⁽¹⁾

(millions)

Three Months Ended June 30, 2018

Derivative type and location of gains (losses):

Interest rate⁽²⁾ \$ 0.5 \$ 0.2

Total \$ 0.5 \$ 0.2

Three Months Ended June 30, 2017

Derivative type and location of gains (losses):

Interest rate⁽²⁾ \$ (1.0) \$ (0.6)

Total \$ (1.0) \$ (0.6)

Six Months Ended June 30, 2018

Derivative type and location of gains (losses):

Interest rate⁽²⁾ \$ 2.5 \$ 0.1

Total \$ 2.5 \$ 0.1

Six Months Ended June 30, 2017

Derivative type and location of gains (losses):

Interest rate⁽²⁾ \$ (1.5) \$ (0.6)

Total \$ (1.5) \$ (0.6)

(1) Amounts deferred into AOCI have no associated effect in Dominion Energy Midstream's Consolidated Statements of Income.

(2) Amounts recorded in Dominion Energy Midstream's Consolidated Statements of Income are classified in interest and related charges.

Note 8. Equity Method Investments

Dominion Energy Midstream uses the equity method to account for its 25.93% noncontrolling partnership interest in Iroquois and its 50% noncontrolling partnership interest in White River Hub. See further discussion of Iroquois and White River Hub in Note 10 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

The table below summarizes distributions received and income earned from Dominion Energy Midstream's equity method investees for the three and six months ended June 30, 2018 and 2017.

| (millions) | Iroquois | | White River Hub | |
|-------------------------------------|--------------|------------|-----------------|------------|
| | Three Months | Six Months | Three Months | Six Months |
| Period Ended June 30, 2018 | | | | |
| Distributions received | \$7.4 | \$ 1.2 | \$14.8 | \$ 2.4 |
| Income from equity method investees | 5.1 | 1.0 | 15.1 | 2.0 |
| Period Ended June 30, 2017 | | | | |
| Distributions received | \$5.9 | \$ 1.1 | \$11.7 | \$ 2.3 |
| Income from equity method investees | 4.3 | 0.9 | 11.4 | 1.8 |

The table below summarizes the carrying amount of the investments and excess of investment over Dominion Energy Midstream's share of underlying equity in net assets at June 30, 2018 and December 31, 2017.

| (millions) | Iroquois | | White River Hub | |
|---|---------------|-------------------|-----------------|-------------------|
| | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| Carrying amount of investment | \$215.9 | \$ 215.6 | \$ 37.8 | \$ 38.2 |
| Excess of investment over Dominion Energy Midstream's share of underlying equity in net assets ⁽¹⁾ | 122.9 | 122.9 | 16.1 | 16.1 |

(1) The difference between the carrying value of Dominion Energy Midstream's equity method investments and its share in the underlying equity in net assets reflects equity method goodwill and is not being amortized.

Note 9. Intangible Assets

In the first quarter of 2018, intangible assets increased \$25.0 million for a contractual agreement with a local government taxing authority through 2032 related to the Liquefaction Project.

Note 10. Regulatory Assets and Liabilities

Regulatory assets and liabilities include the following:

| (millions) | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| Regulatory assets: | | |
| Unrecovered gas costs ⁽¹⁾ | \$ 2.2 | \$ 11.7 |
| Interest rate hedges ⁽²⁾ | 0.6 | 0.7 |
| Other | 0.8 | 2.1 |
| Regulatory assets-current | 3.6 | 14.5 |
| Income taxes recoverable through future rates ⁽³⁾ | 3.1 | 2.8 |
| Interest rate hedges ⁽²⁾ | 33.0 | 33.3 |
| Cost of reacquired debt ⁽⁴⁾ | 1.1 | 1.3 |
| Other | 3.7 | 3.1 |
| Regulatory assets-noncurrent ⁽⁵⁾ | 40.9 | 40.5 |
| Total regulatory assets | \$ 44.5 | \$ 55.0 |
| Regulatory liabilities: | | |
| Overrecovered gas costs ⁽¹⁾ | \$ 3.3 | \$ 4.8 |
| Customer bankruptcy settlement ⁽⁶⁾ | 2.8 | 2.8 |
| Provision for future cost of removal and AROs ⁽⁷⁾ | 2.3 | 2.3 |
| Other | 2.6 | 4.1 |
| Regulatory liabilities-current ⁽⁸⁾ | 11.0 | 14.0 |
| Provision for future cost of removal and AROs ⁽⁷⁾ | 105.5 | 101.8 |
| Unrecognized other postretirement benefit costs ⁽⁹⁾ | 13.8 | 12.8 |
| Customer bankruptcy settlement ⁽⁶⁾ | 13.4 | 14.8 |
| Other | 1.0 | 1.7 |
| Regulatory liabilities-noncurrent | 133.7 | 131.1 |
| Total regulatory liabilities | \$ 144.7 | \$ 145.1 |

(1) Reflects unrecovered/overrecovered gas costs, which are subject to annual filings with FERC.

(2) Reflects interest rate cash flow hedges recoverable from customers. Dominion Energy Questar Pipeline entered into forward starting swaps totaling \$150.0 million in the second and third quarters of 2011 in anticipation of issuing \$180.0 million of notes in December 2011. Settlement of these swaps required payments of \$37.3 million in the fourth quarter of 2011 because of declines in interest rates. These swaps qualified as cash flow hedges and the settlement payments are being amortized to interest expense over the 30-year life of the debt.

(3)

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.

- (4) Represents charges incurred on the reacquisition of debt by Dominion Energy Questar Pipeline that are deferred and amortized as interest expense over the would-be remaining life of the reacquired debt. The reacquired debt costs had a weighted-average life of approximately 2.6 years at June 30, 2018.
- (5) Noncurrent regulatory assets are presented in other deferred charges and other assets in Dominion Energy Midstream's Consolidated Balance Sheets.
- (6) Represents the balance of proceeds from the monetization of a bankruptcy claim acquired as part of the DECG Acquisition, which is being amortized into operating revenue through February 2024.
- (7) 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.
- (8) Current regulatory liabilities are presented in other current liabilities in Dominion Energy Midstream's Consolidated Balance Sheets.
- (9) Reflects a regulatory liability for the collection of postretirement benefit costs allowed in rates in excess of expenses incurred at Dominion Energy Questar Pipeline.

At June 30, 2018, approximately \$41.0 million of regulatory assets represented past expenditures on which Dominion Energy Midstream does not currently earn a return. With the exception of regulatory assets related to interest rate hedges and reacquired debt, these expenditures are expected to be recovered within two years.

Note 11. 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, DECG and Dominion Energy Questar Pipeline. FERC also has jurisdiction over siting, construction and operation of natural gas import and export facilities and interstate natural gas pipeline facilities.

Other than the matters discussed below, there has been no significant developments regarding the pending regulatory matters disclosed in Note 14 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

In March 2018, FERC announced actions to address the income tax allowance component of regulated entities' cost-of-service rates as a result of the 2017 Tax Reform Act. FERC issued a notice of proposed rulemaking introducing a process for determining whether jurisdictional natural gas pipelines may be collecting unjust and unreasonable rates in light of the reduction in the corporate income tax rate. The proposed rule would require all interstate natural gas pipelines to make a one-time informational filing with FERC to provide financial information to allow FERC and other interested parties to analyze the impacts of the changes in tax law. The actions also included the reversal of FERC's policy allowing MLPs to recover an income tax allowance in cost-of-service rates and requiring other pass-through entities to justify the inclusion of an income tax allowance. FERC also issued a notice of inquiry seeking comments on whether it should take any additional actions to address changes in federal corporate income taxes, the elimination of an income tax allowance for MLPs, excess or deficient accumulated deferred income taxes and bonus depreciation, among other items.

In July 2018, FERC issued a final rule adopting and modifying the procedures for determining whether jurisdictional natural gas pipelines may be collecting unjust and unreasonable rates in light of the reduction in the corporate income tax rate. These procedures are generally the same as the proposals issued in March; however the final rule modifies the treatment of the income tax allowance for MLPs and other pass-through entities in the informational filing. Specifically, this final rule does not require MLPs to eliminate their income tax allowances when completing the informational filing, and allows entities that are wholly-owned by corporations to include an income tax allowance. Although the informational filing does not require the elimination of the income tax allowance for MLPs, and provides options to MLPs to address the income tax allowance that were previously unavailable including providing evidence that a double recovery of income taxes does not exist, there can be no assurance that MLPs would be allowed to include an income tax allowance in the future. Given these developments and associated uncertainty, Dominion Energy Midstream is currently unable to predict the outcome of these matters; however, any change in rates permitted to be charged to customers could have a material impact on results of operations, financial condition and/or cash flows.

In March 2018, Overthrust received notice that FERC is initiating an investigation under Section 5 of the NGA to determine whether its rates charged to customers are "just and reasonable." Dominion Energy Midstream is unable to predict the outcome of the investigation at this time, which could have a material impact on its results of operations, financial condition and/or cash flows.

In March 2018, Cove Point received FERC authorization to commence service of the Liquefaction Project, which commenced commercial operations in April 2018.

In January 2018, Cove Point received FERC authorization to construct and operate the Eastern Market Access Project, which is expected to be placed into service in late 2019. In July 2018, Cove Point announced it is evaluating a change to the location of a compressor station which could result in a delay of the in-service date and/or additional costs.

Note 12. Variable Interest Entities

There have been no significant changes regarding the entities Dominion Energy Midstream considers VIEs as described in Note 16 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

Dominion Energy Midstream reimburses its general partner and affiliates for the costs of providing administrative, management and other services necessary for its operations. For the three and six months ended June 30, 2018, these costs were \$0.6 million and \$1.2 million, respectively. For the three and six months ended June 30, 2017, these costs were \$0.5 million and \$0.9 million, respectively.

In addition to the services purchased by our general partner, Dominion Energy Midstream purchased shared services from DES, DECGS and DEQPS of approximately \$8.5 million, \$4.6 million and \$7.9 million for the three months ended June 30, 2018, respectively, and \$17.7 million, \$8.7 million and \$14.6 million for the six months ended June 30, 2018, respectively. Dominion

Energy Midstream purchased shared services from DES, DECGS and DEQPS of approximately \$6.7 million, \$3.7 million and \$10.8 million for the three months ended June 30, 2017, respectively, and \$13.6 million, \$6.9 million and \$17.7 million for the six months ended June 30, 2017, respectively. The Consolidated Balance Sheets at June 30, 2018 and December 31, 2017 include amounts due from Dominion Energy Midstream to DES, DECGS and DEQPS of approximately \$8.4 million and \$8.7 million, respectively.

Note 13. Significant Financing Transactions

Credit Facility

In March 2018, Dominion Energy Midstream entered into a \$500.0 million revolving credit facility with certain third party lenders to replace the existing \$300.0 million credit facility with Dominion Energy, which was terminated in May 2018. See Note 16 for further information. The credit facility matures in March 2021, bears interest at a variable rate, and can be used to support bank borrowings and the issuance of commercial paper, as well as to support up to \$250.0 million of letters of credit. Borrowings under the credit facility will be utilized primarily to fund capital expenditures and repay the outstanding balance on the terminated Dominion Energy credit facility. At June 30, 2018, Dominion Energy Midstream had \$73.0 million outstanding on this credit facility.

Long-term Debt

In January 2018, Dominion Energy Questar Pipeline issued, through private placements, \$100.0 million of 3.53% senior notes and \$150.0 million of 3.91% senior notes that mature in 2028 and 2038, respectively.

Note 14. Commitments and Contingencies

As a result of issues generated in the ordinary course of business, Dominion Energy 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 Energy Midstream to estimate a range of possible loss. For such matters that Dominion Energy 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 Energy Midstream is able to estimate a range of possible loss. For legal proceedings and governmental examinations for which Dominion Energy 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 Energy 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 Energy 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 June 30, 2018, Dominion Energy Midstream had purchased \$11.9 million of surety bonds, including \$9.3 million held by Cove Point. Under the terms of surety bonds, Dominion Energy Midstream is obligated to indemnify the respective surety bond company for any amounts paid.

Note 15. Credit Risk

Dominion Energy Midstream's accounting policy for credit risk is discussed in Note 21 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

Upon the Liquefaction Project commencing commercial operations in April 2018, the majority of Cove Point's revenue and earnings are expected to be generated from annual reservation payments under certain terminalling, storage and transportation contracts with the Export Customers. If such agreements were terminated and Cove Point was unable to replace such agreements on comparable terms, there could be a material impact on results of operations, financial condition and/or cash flows.

At June 30, 2018, Dominion Energy Midstream provided service to approximately 150 customers, including the Export Customers, Storage Customers, marketers or end users, power generators, utilities and the Import Shippers. The two largest customers comprised approximately 55% of the total operating revenues for the three months ended June 30, 2018, with Dominion Energy Midstream's largest customer representing approximately 30% of such amount during the period. The three largest customers, including an affiliate, comprised approximately 49% of the total operating revenues for the six months ended June 30, 2018, with Dominion Energy Midstream's largest customer representing approximately 21% of such amount during the period. The two largest customers comprised approximately 29% of the total transportation and storage revenues for the three months ended June 30, 2017, with Dominion Energy Midstream's largest customer, an affiliate, representing approximately 16% of such amount during the period. The three largest customers comprised approximately 41% of the total transportation and storage revenues for the six months ended June 30, 2017, with Dominion Energy Midstream's largest customer, an affiliate, representing approximately 17% of such amount during the period.

During the six months ended June 30, 2018, Dominion Energy Midstream received \$120.4 million of cash primarily as a result of a downgrade in a customer's guarantor's credit rating, in accordance with the terms of the customer's contracts and certain provisions of the FERC Gas Tariff. Such deposit may be returned to the customer upon the occurrence of certain conditions.

Note 16. Related-Party Transactions

Dominion Energy Midstream engages in related-party transactions primarily with other Dominion Energy subsidiaries (affiliates), including our general partner. Dominion Energy 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 Energy benefit plans as described in Note 18 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017. In Dominion Energy Midstream's Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, amounts due to Dominion Energy associated with these benefit plans included in other deferred credits and other liabilities were \$9.7 million and \$8.2 million, respectively, and amounts due from Dominion Energy at June 30, 2018 and December 31, 2017 included in other deferred charges and other assets were \$3.0 million and \$2.2 million, respectively. In connection with the Dominion Energy Questar Pipeline Acquisition, transition costs of \$4.1 million and \$4.3 million incurred by our general partner were expensed to operations and maintenance expense in the Consolidated Statements of Income for the three and six months ended June 30, 2017, respectively. A discussion of the remaining significant related party transactions follows.

Transactions with Affiliates

DES provides accounting, legal, finance and certain administrative and technical services to Dominion Energy Midstream, and DECGS and DEQPS provide human resources and operations services to Dominion Energy

Midstream. Refer to Note 12 for further information.

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

Affiliated transactions are presented below:

| | Three Months Ended June 30, 2018 | | Six Months Ended June 30, 2017 | |
|---|--|--------|---|--------|
| | 2018 | 2017 | 2018 | 2017 |
| (millions) | | | | |
| Sales of natural gas transportation and storage services to | | | | |
| affiliates | \$18.1 | \$19.0 | \$38.5 | \$41.6 |
| Services provided to affiliates | 0.1 | 0.3 | 0.3 | 0.9 |
| Purchased gas from affiliates | — | 1.3 | — | 3.8 |
| Goods and services provided by affiliates to Dominion Energy Midstream ⁽¹⁾ | 25.5 | 26.3 | 49.5 | 48.8 |

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(1)Includes \$3.7 million and \$8.3 million of capitalized expenditures for the three and six months ended June 30, 2018, respectively, and \$9.4 million and \$16.3 million for the three and six months ended June 30, 2017, respectively.

Dominion Energy Credit Facility

In connection with the Offering, Dominion Energy Midstream entered into a credit facility with Dominion Energy with a borrowing capacity of \$300.0 million. At December 31, 2017, \$26.4 million was outstanding against the credit facility. Interest charges related to Dominion Energy Midstream's borrowings against the facility were \$0.1 million and \$0.5 million for the three and six months ended June 30, 2018, respectively, and \$0.4 million and \$0.8 million for the three and six months ended June 30, 2017, respectively. In April and May 2018, Dominion Energy Midstream repaid \$73.0 million, representing all of the outstanding principal plus interest. In May 2018, Dominion Energy Midstream provided notice to Dominion Energy for termination of the credit facility. Dominion Energy waived the 90-day notice requirement and termination was effective immediately.

Intercompany Revolving Credit Agreement with Dominion Energy

In March 2018, Cove Point entered into a \$50.0 million intercompany revolving credit agreement with Dominion Energy, which matures in March 2019 and bears interest at a variable rate, for the purpose of funding items other than capital expenditures. There was no outstanding balance under this credit agreement at June 30, 2018. Interest charges related to Cove Point's borrowings under the credit agreement were \$0.2 million for both the three and six months ended June 30, 2018.

Unbilled Revenue

Affiliated receivables at June 30, 2018 and December 31, 2017 included \$5.9 million and \$7.0 million, respectively, of accrued unbilled revenue based on estimated amounts of services provided but not yet billed to affiliates.

Natural Gas Imbalances

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

| | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| (millions) | | |
| Imbalances payable to affiliates ⁽¹⁾ | \$ 1.0 | \$ 1.7 |
| Imbalances receivable from affiliates ⁽²⁾ | 6.5 | — |

(1)Recorded in other current liabilities in the Consolidated Balance Sheets.

(2)Recorded in other current assets in the Consolidated Balance Sheets.

Right of First Offer

In connection with the Offering, Dominion Energy Midstream entered into a right of first offer agreement with Dominion Energy as described in Note 22 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017. There have been no changes to this agreement.

Contributions from Dominion Energy

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For the three and six months ended June 30, 2018, Dominion Energy contributed \$17.6 million and \$101.4 million, respectively, to Cove Point. For the three and six months ended June 30, 2017, Dominion Energy contributed \$134.4 million and \$463.6 million, respectively to Cove Point. These contributions from Dominion Energy to Cove Point primarily represent funding for capital expenditures related to the Liquefaction Project. During the first quarter of 2018, \$25.0 million of contributions were utilized to fund the payment under a contractual agreement with a local government taxing authority at Cove Point.

For the three and six months ended June 30, 2017, Dominion Energy allocated costs of \$4.0 million and \$4.2 million, respectively, to Dominion Energy Midstream related to the Dominion Energy Questar Pipeline Acquisition for which Dominion Energy did not seek reimbursement.

Distributions from Cove Point to Dominion Energy

Until the Liquefaction Project was completed, Cove Point was prohibited from making a distribution on its common equity interests unless it had a distribution reserve sufficient to pay two quarters of the Preferred Return Distributions. Following the

commencement of commercial operations of the Liquefaction Project in April 2018, Cove Point is generating sufficient cash flows from operations and undistributed Net Operating Income to pay the Preferred Return Distributions. In June 2018, Dominion Energy Midstream caused Cove Point to pay its second quarter 2018 Preferred Return Distribution and subsequently to distribute \$26.5 million, with respect to its common equity interest, to Dominion Energy.

Note 17. Income Taxes

Dominion Energy Midstream is organized as an MLP, a pass-through entity for U.S. federal and state income tax purposes. Each unitholder is responsible for taking into account the unitholder's respective share of Dominion Energy Midstream's items of taxable income, gain, loss and deduction in the preparation of income tax returns. Accordingly, Dominion Energy Midstream's Consolidated Financial Statements do not include income taxes for the periods presented.

See Note 23 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information.

Note 18. Operating Segment

Dominion Energy Midstream is organized primarily on the basis of products and services sold in the U.S. Dominion Energy Midstream's operating segment, Gas Infrastructure, consists of gas transportation, LNG terminalling services and storage.

Dominion Energy Midstream also reports a Corporate and Other segment. The Corporate and Other segment primarily includes items attributable to Dominion Energy 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.

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

| | Gas Infrastructure | Corporate and Other | Total |
|--|-----------------------|---------------------------|---------|
| (millions) | | | |
| Three Months Ended June 30, 2018 | | | |
| Operating revenue | \$ 247.6 | \$ — | \$247.6 |
| Earnings from equity method investees | 6.1 | — | 6.1 |
| Net income including noncontrolling interest | 132.0 | — | 132.0 |
| Net income attributable to partners | 47.9 | — | 47.9 |
| Three Months Ended June 30, 2017 | | | |
| Operating revenue | \$ 115.7 | \$ — | \$115.7 |
| Earnings from equity method investees | 5.2 | — | 5.2 |
| Net income (loss) including noncontrolling interest and predecessors | 35.6 | (4.0) | 31.6 |
| Net income (loss) attributable to partners | 46.0 | (4.0) | 42.0 |
| Six Months Ended June 30, 2018 | | | |
| Operating revenue | \$ 357.7 | \$ — | \$357.7 |
| Earnings from equity method investees | 17.1 | — | 17.1 |

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| | | | |
|--|----------|--------|---------|
| Net income including noncontrolling interest and predecessors | 165.9 | — | 165.9 |
| Net income attributable to partners | 105.2 | — | 105.2 |
| Six Months Ended June 30, 2017 | | | |
| Operating revenue | \$ 245.9 | \$ — | \$245.9 |
| Earnings from equity method investees | 13.2 | — | 13.2 |
| Net income (loss) including noncontrolling interest and predecessors | 90.1 | (4.2) | 85.9 |
| Net income (loss) attributable to partners | 98.4 | (4.2) | 94.2 |

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” or other 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, severe storms, earthquakes and flooding 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 greenhouse gases and other substances, 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 and/or associated appeals;
- 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 Energy 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, or 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;
- The timing and receipt of regulatory approvals necessary for planned construction or any future expansion projects, 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;
- Changes in future levels of domestic and international natural gas production, supply or consumption;
- Fluctuations in future volumes of LNG imports or exports from the U.S. and other countries worldwide or demand for, purchases of, and prices related to natural gas or LNG;
- Additional competition in industries in which we operate;
- Changes to regulated gas transportation and storage 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 at all, or within the terms and time frames initially anticipated, including as a result of increased public involvement or intervention in such projects;
- 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, including contracts upon which our business is substantially dependent;
- 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 Energy and its affiliates.

Additionally, other risks that could cause actual results to differ from predicted results are described in Item 1A. Risk Factors in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017 and Part II, Item 1A. Risk Factors in Dominion Energy Midstream's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

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 Energy 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 predecessors before interest and related charges, income tax and depreciation and amortization. Adjusted EBITDA represents EBITDA after adjustment for the EBITDA attributable to predecessors and a noncontrolling interest in Cove Point held by Dominion Energy, less income from equity method investees, plus distributions from equity method investees. We define distributable cash flow as Adjusted EBITDA less distributions to preferred unitholders, maintenance capital expenditures and interest expense and adjusted for known timing differences between cash and income.

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 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 flow 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 June 30, 2018, there have been no significant changes with regard to the factors impacting comparability of our financial results as disclosed in MD&A in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017. The factors disclosed included the Cove Point rate case, Dominion Energy Questar Pipeline Acquisition, Iroquois rate settlement, acquisition of interest in Iroquois, DECG acquisition, import contracts, the Liquefaction Project and income taxes.

Accounting Matters

Critical Accounting Policies and Estimates

As of June 30, 2018, there have been no significant changes to the critical accounting policies and estimates disclosed in MD&A in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017. 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 and equity method investment impairment testing.

Results of Operations

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

| | Second Quarter | | | Year-To-Date | | |
|---|----------------|---------|--------------|--------------|---------|--------------|
| | 2018 | 2017 | \$ Change | 2018 | 2017 | \$ Change |
| (millions) | | | | | | |
| Operating revenue | \$247.6 | \$115.7 | \$ 131.9 | \$357.7 | \$245.9 | \$ 111.8 |
| Purchased gas and other | 2.3 | 9.8 | (7.5) | 12.6 | 22.0 | (9.4) |
| Net revenue | 245.3 | 105.9 | 139.4 | 345.1 | 223.9 | 121.2 |
| Other operations and maintenance | 55.1 | 38.1 | 17.0 | 92.7 | 69.2 | 23.5 |
| Depreciation and amortization | 47.3 | 25.4 | 21.9 | 71.8 | 50.3 | 21.5 |
| Other taxes | 9.5 | 9.2 | 0.3 | 19.2 | 18.5 | 0.7 |
| Earnings from equity method investees | 6.1 | 5.2 | 0.9 | 17.1 | 13.2 | 3.9 |
| Other income | 1.4 | 1.3 | 0.1 | 3.2 | 2.6 | 0.6 |
| Interest and related charges | 8.9 | 8.1 | 0.8 | 15.8 | 15.8 | — |
| Net income including noncontrolling | | | | | | |
| interest and predecessors | \$132.0 | \$31.6 | \$ 100.4 | \$165.9 | \$85.9 | \$ 80.0 |
| Less: Net income (loss) attributable to | | | | | | |
| noncontrolling interest | 84.1 | (10.4) | | 60.7 | (8.3) | |
| Net income attributable to partners | \$47.9 | \$42.0 | | \$105.2 | \$94.2 | |
| EBITDA | \$188.2 | \$65.1 | | \$253.5 | \$152.0 | |
| Adjusted EBITDA | \$76.3 | \$68.6 | | \$155.8 | \$144.0 | |
| Distributable cash flow | \$49.3 | \$40.7 | | \$101.4 | \$84.8 | |

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable GAAP financial measure for the three and six months ended June 30, 2018 and 2017.

| | Second | | Year-To-Date | | |
|--|-----------------|---------|--------------|---------|--------|
| | Quarter 2018 | 2017 | 2018 | 2017 | |
| (millions) | | | | | |
| Adjustments to reconcile net income including | | | | | |
| noncontrolling interest and predecessors to EBITDA and | | | | | |
| Adjusted EBITDA: | | | | | |
| Net income including noncontrolling interest and | | | | | |
| predecessors | | \$132.0 | \$31.6 | \$165.9 | \$85.9 |
| Add: | | | | | |

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| | | | | |
|--|---------|--------|---------|---------|
| Depreciation and amortization | 47.3 | 25.4 | 71.8 | 50.3 |
| Interest and related charges | 8.9 | 8.1 | 15.8 | 15.8 |
| EBITDA | \$188.2 | \$65.1 | \$253.5 | \$152.0 |
| Distributions from equity method investees | 8.6 | 7.0 | 17.2 | 14.0 |
| Less: | | | | |
| Earnings from equity method investees | 6.1 | 5.2 | 17.1 | 13.2 |
| EBITDA attributable to noncontrolling interest | 114.4 | (1.7) | 97.8 | 8.8 |
| Adjusted EBITDA | \$76.3 | \$68.6 | \$155.8 | \$144.0 |

The following table presents a reconciliation of distributable cash flow to the most directly comparable GAAP financial measure for the three and six months ended June 30, 2018 and 2017.

| (millions) | Second Quarter | | Year-To-Date | |
|---|----------------|--------|--------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Adjustments to reconcile net cash provided by | | | | |
| operating activities to distributable cash flow: | | | | |
| Net cash provided by operating activities ⁽¹⁾ | \$149.1 | \$64.9 | \$316.8 | \$175.5 |
| Less: | | | | |
| Cash attributable to noncontrolling interest ⁽²⁾ | 75.6 | 1.8 | 59.4 | 20.6 |
| Restricted cash for customer deposits | 16.0 | — | 120.4 | — |
| Other changes in working capital and noncash adjustments | 18.8 | 5.5 | 6.3 | (10.9) |
| Cash received from distribution reserve ⁽²⁾ | — | — | 12.5 | — |
| Adjusted EBITDA | 76.3 | 68.6 | 155.8 | 144.0 |
| Adjustments to cash: | | | | |
| Less: Distributions to preferred unitholders ⁽³⁾ | (9.5) | (9.5) | (19.0) | (19.0) |
| Plus (less): Contract liabilities ⁽⁴⁾ | 1.1 | (0.2) | 1.9 | (0.3) |
| Less: Amortization of regulatory liability ⁽⁵⁾ | (0.7) | (0.7) | (1.4) | (1.4) |
| Less: Maintenance capital expenditures ⁽⁶⁾ | (9.0) | (12.7) | (18.1) | (25.9) |
| Plus: Acquisition costs funded by Dominion Energy | — | 4.0 | — | 4.2 |
| Less: Interest expense and AFUDC equity | (9.0) | (8.8) | (18.0) | (16.9) |
| Plus: Non-cash director compensation | 0.1 | — | 0.2 | 0.1 |
| Distributable cash flow | \$49.3 | \$40.7 | \$101.4 | \$84.8 |

(1) Amounts for 2017 have been recast to reflect the adoption in the first quarter of 2018 of a new accounting standard for the presentation of equity method investment distributions within the Consolidated Statements of Cash Flows. As a result, net cash provided by operating activities for the three and six months ended June 30, 2017 includes \$0.2 million and \$0.5 million, respectively, of amounts previously reported in investing activities. As such, this reconciliation does not include an adjustment for equity method investee distributions included in investing activities.

(2) 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 Energy but not available for distribution until the distribution reserve has been fully funded. The \$25.0 million distribution reserve was fully funded in the fourth quarter of 2016, the remaining \$12.5 million of which was utilized in the first quarter of 2018 to fund the quarterly Preferred Return Distribution.

(3) Represents distributions to which holders of the Series A Preferred Units are entitled.

(4) Adjustment to reflect the difference between cash received and revenue recognized related to facilities payments that are deferred and 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 six months ended June 30, 2018, amount excludes \$8.2 million and \$17.0 million, respectively, of Dominion Energy funded maintenance capital expenditures related to the Cove Point LNG Facility, Cove Point Pipeline and Liquefaction Project. For the three and six months ended June 30, 2017, amount excludes \$10.0 million of \$14.2 million, respectively, of Dominion Energy funded maintenance capital expenditures related to the Cove Point LNG Facility and Cove Point Pipeline. Dominion Energy has indicated that it intends to continue providing the funding necessary for such expenditures, but it is under no obligation to do so.

Analysis of Consolidated Operations

Overview

Net revenue reflects operating revenue less purchased gas and other expense. Purchased gas and other expense includes the value of natural gas retained for use in routine operations and the cost of LNG cooling quantity purchases. LNG cooling quantity purchases are required for Cove Point to maintain the cryogenic readiness of the Cove Point LNG Facility to the extent market conditions exist that neither import nor export services are being sufficiently utilized. Historically, one or two LNG cooling cargos had been procured annually and billed to the Import Shippers pursuant to certain provisions in Cove Point's FERC Gas Tariff. Increases or decreases in purchased gas and other expenses related to LNG cooling quantities were offset by corresponding increases or decreases in operating revenues and thus had been financially neutral to Dominion Energy Midstream. Under the terms of the stipulation and settlement agreement approved by FERC in November 2017, the Import Shippers' responsibility for costs incurred for any LNG cooling cargos received prior to March 2018 was reduced to approximately half of such amounts incurred. Upon operational commencement of the Liquefaction Project in April 2018, the Import Shippers are responsible for costs incurred on certain LNG cooling quantities. As Cove Point's contracts with the Export Customers contain similar cost recovery mechanisms, any LNG cooling quantities procured will be financially neutral to Dominion Energy Midstream following operational commencement of the Liquefaction Project.

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

Second Quarter 2018 vs. 2017

Net revenue increased \$139.4 million, primarily reflecting:

▲ \$124.0 million increase from terminalling services provided to the Export Customers upon commencement of commercial operations of the Liquefaction Project in April 2018 (\$158.7 million), partially offset by credits associated with the start-up phase of the Liquefaction Project (\$34.7 million);
■ Regulated gas transportation contracts to serve the Export Customers beginning in April 2018 (\$18.5 million); and
■ The Charleston Project (\$4.3 million), which was placed into service in March 2018; partially offset by
▲ decrease from import contracts (\$4.3 million); and
■ The impact of the Cove Point rate case approved by FERC in November 2017 (\$3.1 million).
In addition, operating revenue and purchased gas and other decreased \$9.2 million for fuel retained on certain transportation and storage agreements from the adoption of revised accounting guidance in January 2018.

Other operations and maintenance increased 45%, primarily due to an increase in operating expenses from the commercial operations of the Liquefaction Project (\$10.6 million) and costs associated with regulated gas transportation contracts to serve the Export Customers (\$5.3 million).

Depreciation and amortization increased 86%, primarily due to the Liquefaction Project commencing commercial operations in April 2018.

Year-To-Date 2018 vs. 2017

Net revenue increased 54%, primarily reflecting:

▲ \$124.0 million increase from terminalling services provided to the Export Customers upon commencement of commercial operations of the Liquefaction Project in April 2018 (\$158.7 million), partially offset by credits associated with the start-up phase of the Liquefaction Project (\$34.7 million);
■ Regulated gas transportation contracts to serve the Export Customers beginning in April 2018 (\$18.5 million); and
■ The Charleston Project (\$5.7 million), which was placed into service in March 2018; partially offset by
▲ decrease from import contracts (\$19.0 million);
■ The impact of the Cove Point rate case approved by FERC in November 2017 (\$6.8 million); and
■ The unrecovered portion of an LNG cooling cargo received in February 2018 (\$3.3 million).
In addition, operating revenue and purchased gas and other decreased \$20.1 million for fuel retained on certain transportation and storage agreements from the adoption of revised accounting guidance in January 2018. These decreases were partially offset by the recovered portion of an LNG cooling cargo received in 2018 (\$5.7 million) compared to no such cargos received in 2017.

Other operations and maintenance increased 34%, primarily due to an increase in operating expenses from the commercial operations of the Liquefaction Project (\$10.6 million), costs associated with regulated gas transportation contracts to serve the Export Customers (\$5.3 million) and an increase in labor and outside service costs associated with Cove Point's operations affected by the Liquefaction Project prior to commencement of commercial operations (\$4.3 million).

Depreciation and amortization increased 43%, primarily due to the Liquefaction Project commencing commercial operations in April 2018.

Earnings from equity method investees increased 30%, primarily due to higher earnings from unsubscribed capacity as a result of an increase in heating degree days at Iroquois.

Segment Results of Operations

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

| | Second Quarter | | | Year-To-Date | | |
|---------------------|----------------|---------|-----------|--------------|---------|-----------|
| | 2018 | 2017 | \$ Change | 2018 | 2017 | \$ Change |
| (millions) | | | | | | |
| Gas Infrastructure | \$ 132.0 | \$ 35.6 | \$ 96.4 | \$ 165.9 | \$ 90.1 | \$ 75.8 |
| Corporate and Other | — | (4.0) | 4.0 | — | (4.2) | 4.2 |
| Consolidated | \$ 132.0 | \$ 31.6 | \$ 100.4 | \$ 165.9 | \$ 85.9 | \$ 80.0 |

The following table summarizes the key factors impacting Gas Infrastructure's contribution to net income including noncontrolling interest and predecessors.

| | Second Quarter | | Year-To-Date | |
|---|--------------------------------------|-------|--------------------------------------|--------|
| | 2018 vs. 2017 Increase/(Decrease) | | 2018 vs. 2017 Increase/(Decrease) | |
| (millions) | | | | |
| Liquefaction Project commercial operations | \$ | 88.0 | \$ | 88.0 |
| Transportation services to Export Customers | | 13.2 | | 13.2 |
| Import contracts | | (4.3) | | (19.0) |
| Cove Point rate case | | (1.8) | | (4.2) |
| Growth projects placed into service, excluding the | | | | |
| Liquefaction Project | | 3.8 | | 5.6 |
| Labor and outside service costs associated with the | | | | |
| Liquefaction Project during construction | | — | | (4.3) |
| Earnings from equity method investees | | 0.9 | | 3.9 |
| AFUDC on rate-regulated projects | | (1.2) | | 0.3 |
| Unrecovered portion of an LNG cooling cargo | | — | | (3.3) |
| Other | | (2.2) | | (4.4) |
| Change in net income contribution | \$ | 96.4 | \$ | 75.8 |

Corporate and Other

Corporate and Other includes items attributable to Dominion Energy Midstream's operating segment that are not included in profit measures evaluated by executive management in assessing segment performance or in allocating resources among the segments. Corporate and Other expenses were \$4.0 million and \$4.2 million for the three and six months ended June 30, 2017, respectively, consisting of certain transition costs associated with the Dominion Energy

Questar Pipeline Acquisition.

Liquidity and Capital Resources

Overview

Dominion Energy Midstream's ongoing principal sources of liquidity may include distributions received from Cove Point from our Preferred Equity Interest, cash generated from operations of DECG and Dominion Energy Questar Pipeline, distributions received from our noncontrolling partnership interests in Iroquois and White River Hub, borrowings under our credit facility and issuances of debt and equity securities. We believe that cash from these sources will be sufficient to pay distributions on our common and preferred units 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 \$0.3340 per common unit, which equates to \$42.3 million per quarter, or \$169.1 million per year in the aggregate, based on the number of common units outstanding at June 30, 2018. 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 on our common units, and there is no guarantee that we will pay distributions to such unitholders in any quarter.

Additionally, the holders of the Series A Preferred Units are entitled to receive cumulative quarterly distributions of \$0.3134 per Series A Preferred Unit for each quarter ending before December 1, 2018, which distributions commenced with the quarter ended December 31, 2016 with a prorated amount from the date of issuance to be paid for such quarter. We cannot pay any

distributions on any junior securities, including any of the common units and the IDRs, prior to paying the quarterly distribution payable to holders of the Series A Preferred Units, including any previously accrued and unpaid distributions.

IDR Reset

In June 2018, Dominion Energy Midstream GP notified Dominion Energy Midstream that it had made an IDR reset election as defined in the partnership agreement. Under the IDR reset election, the minimum quarterly distribution was increased from \$0.1750 to \$0.3340 and the levels at which the IDRs participate in distributions were reset at higher amounts based on the formula in the partnership agreement. In connection with the IDR reset election, Dominion Energy Midstream GP was issued 26.7 million common units.

Conversion of Subordinated Units

In May 2018, all of the subordinated units converted into common units on a 1:1 ratio following the payment of the distribution for the first quarter of 2018. The conversion of the subordinated units will not impact the amount of distributions paid by Dominion Energy Midstream or the total number of outstanding units. The allocation of net income and distributions during the period were effected in accordance with terms of the partnership agreement.

Outstanding Indebtedness

In connection with the Offering, Dominion Energy Midstream entered into a \$300.0 million credit facility with Dominion Energy, which had \$26.4 million outstanding at December 31, 2017. This facility was terminated in May 2018. In March 2018, Dominion Energy Midstream entered into a \$500.0 million revolving credit facility with certain third party lenders, which had \$73.0 million outstanding at June 30, 2018.

In March 2018, Cove Point entered into a \$50.0 million intercompany revolving credit agreement with Dominion Energy, which matures in March 2019 and bears interest at a variable rate, for the purposes of funding items other than capital expenditures. There was no outstanding balance under this credit agreement at June 30, 2018. See Notes 13 and 16 to the Consolidated Financial Statements for further information.

Dominion Energy has announced its intention to pursue a debt financing at Cove Point in the third quarter of 2018 of up to \$3 billion, the proceeds of which would be returned to Dominion Energy.

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 six months ended June 30, 2018, Dominion Energy Midstream paid total capital expenditures of \$178.8 million, which included \$35.1 million of maintenance capital expenditures.

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

- The Liquefaction Project was placed into service in April 2018 at a cost of \$4.1 billion, excluding financing costs.
- Total costs of the Eastern Market Access Project are estimated to be approximately \$150 million. Through June 30, 2018, approximately \$65 million of costs had been incurred. Construction on the project began in the second quarter of 2018, and the project facilities are expected to be placed into service in late 2019. In July 2018, Cove Point announced it is evaluating a change to the location of a compressor station which could result in a delay of the in-service date and/or additional costs.

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In September 2016, DECG entered into a facilities agreement with SCE&G to commit up to \$9 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, DECG is obligated to fund these station improvements only after they are mutually identified and agreed to with SCE&G. Total project costs were less than \$1 million through June 30, 2018.

In March 2017, Dominion Energy Questar Pipeline committed to upgrade certain facilities and increase capacity, including the Hyrum Project, and entered into agreements to provide firm transportation service to Questar Gas Company, an affiliate. Total costs of these projects are expected to be approximately \$10 million through 2027. Through June 30, 2018, approximately \$3 million of costs had been incurred related to these projects.

In December 2017, Dominion Energy Questar Pipeline filed with FERC to convert a portion of existing interruptible storage capacity to firm capacity and increase the minimum required deliverability at the Clay Basin storage facility by the end of 2018. Total costs of this project are estimated to be approximately \$5 million. Through June 30, 2018, approximately \$2 million of costs had been incurred related to this project.

Dominion Energy has indicated that it intends to provide the funding necessary for the capital expenditures of Cove Point, including construction of the Eastern Market Access Project, but it is under no contractual obligation to do so. It intends to finance these costs as they are incurred using its consolidated operating cash flows in addition to proceeds from capital markets transactions. If Dominion Energy 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 Energy, Cove Point would require external debt or equity financing to complete the construction of the Eastern Market Access Project or other capital expenditures.

Dominion Energy 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 Energy does not satisfy its obligations under these guarantee arrangements, Cove Point would be required to replace the guarantees with other credit support, the cost of which could be substantial.

Distributions

Distributions are declared subsequent to quarter end. The table below summarizes the quarterly distributions on common units.

| Quarterly Distribution | Total Distribution (per unit) | Total Cash Distribution (in millions) | Date of | | |
|---------------------------|-------------------------------------|--|------------------|------------------|-------------------|
| | | | Declaration | Date of Record | Distribution |
| December 31, 2016 | \$ 0.2605 | \$ 27.5 | January 25, 2017 | February 6, 2017 | February 15, 2017 |
| March 31, 2017 | 0.2740 | 30.1 | April 21, 2017 | May 5, 2017 | May 15, 2017 |
| June 30, 2017 | 0.2880 | 32.9 | July 21, 2017 | August 4, 2017 | August 15, 2017 |
| December 31, 2017 | 0.3180 | 39.1 | January 25, 2018 | February 5, 2018 | February 15, 2018 |
| March 31, 2018 | 0.3340 | 42.3 | April 20, 2018 | May 4, 2018 | May 15, 2018 |
| June 30, 2018 | 0.3510 | 44.4 | July 25, 2018 | August 6, 2018 | August 15, 2018 |

Record holders of the Series A Preferred Units are entitled to receive cumulative quarterly distributions, payable in cash, payable in kind or a combination thereof at the option of our general partner, equal to \$0.3134 per Series A Preferred Unit in respect of each quarter ending before December 1, 2018. The table below summarizes the quarterly distributions on the Series A Preferred Units.

| | | Amount | Amount |
|------------------------|---------------|---------------|---------------|
| | Total | Payable | Payable |
| | Distribution | in Cash | in Kind |
| Quarterly Period Ended | (in millions) | (in millions) | (in millions) |
| December 31, 2016 | \$ 3.2 | (1) \$ 3.2 | \$ — |
| March 31, 2017 | 9.5 | 9.5 | — |
| June 30, 2017 | 9.5 | 9.5 | — |
| December 31, 2017 | 9.5 | 9.5 | — |
| March 31, 2018 | 9.5 | 9.5 | — |
| June 30, 2018 | 9.5 | 9.5 | — |

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(1) For the period subsequent to the issuance of the Series A Preferred Units through December 31, 2016, the initial quarterly cash distribution was calculated as the minimum quarterly distribution of \$0.3134 per unit prorated for the portion of the quarter subsequent to the issuance of the Series A Preferred Units.

Cash Flows

A summary of cash flows is presented below:

| | Six Months | |
|--|------------------------|---------|
| | Ended June 30, 2018 | 2017 |
| (millions) | | |
| Cash, restricted cash and equivalents at beginning of year | \$23.7 | \$64.6 |
| Cash flows provided by (used in): | | |
| Operating activities | 316.8 | 175.5 |
| Investing activities | (180.4) | (537.6) |
| Financing activities | 22.4 | 393.0 |
| Net increase in cash, restricted cash and equivalents | 158.8 | 30.9 |
| Cash, restricted cash and equivalents at June 30 | \$182.5 | \$95.5 |

Operating Cash Flows

In the first six months of 2018, net cash provided by Dominion Energy Midstream's operating activities increased \$141.3 million, primarily due to increased customer deposits and commencement of commercial operations of the Liquefaction Project, partially offset by changes in other working capital items.

Investing Cash Flows

In the first six months of 2018, net cash used in Dominion Energy Midstream's investing activities decreased \$357.2 million, primarily due to lower expenditures for the Liquefaction Project, which was placed into service in April 2018.

Financing Cash Flows and Liquidity

In the first six months of 2018, net cash provided by Dominion Energy Midstream's financing activities decreased \$370.6 million, primarily due to lower capital contributions from Dominion Energy to fund the Liquefaction Project.

In May 2016, Dominion Energy Midstream filed an SEC shelf registration statement 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 \$150.0 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 managers and us. In July 2016, Dominion Energy Midstream entered into an equity distribution agreement with nine separate managers to effect sales under this program. In January 2018, Dominion Energy Midstream provided sales instructions to one manager and issued 125,819 units and received cash proceeds of \$3.9 million, net of fees and commissions of \$0.1 million.

In March 2018, Dominion Energy Midstream filed an SEC shelf registration statement for the ability to sell common units through an at-the-market program, to replace the existing program, and pursuant to which it may offer from time to time up to \$500.0 million aggregate amount of its common units. Sales of common units, if any, can be made by means of ordinary brokers' transactions on the NYSE, in block transactions, or as otherwise agreed to between the sales agents and us. While no additional units have been issued under the new program in 2018, the units previously

issued under the 2016 program reduce the aggregate amount of common units available under the new program by \$22.2 million. At June 30, 2018, Dominion Energy Midstream has the ability to issue \$477.8 million of common units under the new program.

Customer Concentration

Upon the Liquefaction Project commencing commercial operations in April 2018, the majority of Cove Point's revenue and earnings are expected to be generated from annual reservation payments under certain terminalling, storage and transportation contracts with the Export Customers. If such agreements were terminated and Cove Point was unable to replace such agreements on comparable terms, there could be a material impact on results of operations, financial condition and/or cash flows.

At June 30, 2018, Dominion Energy Midstream provided service to approximately 150 customers, including the Export Customers, Storage Customers, marketers or end users, power generators, utilities and the Import Shippers. The two largest customers comprised approximately 55% of the total operating revenues for the three months ended June 30, 2018 and the

three largest customers comprised approximately 49% of the total operating revenues for the six months ended June 30, 2018. See Note 15 to the Consolidated Financial Statements for additional information.

Contractual Obligations

At June 30, 2018, there have been no material changes outside the ordinary course of business to Dominion Energy Midstream's contractual obligations as disclosed in MD&A in the Dominion Energy Midstream Annual Report on Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

Other than the holding of surety bonds as discussed in Note 14 to the Consolidated Financial Statements, Dominion Energy Midstream had no off-balance sheet arrangements at June 30, 2018.

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 Energy 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 Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

Environmental Matters

Dominion Energy 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 20 in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017 and Note 14 to the Consolidated Financial Statements in this report for additional information on various environmental matters.

Legal Matters

See Notes 14 and 20 to the Consolidated Financial Statements and Item 3. Legal Proceedings in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017 and Notes 11 and 14 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 14 to the Consolidated Financial Statements in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017 and Note 11 to the Consolidated Financial Statements in this report for additional information on various regulatory matters.

ITEM 3.

QUANTITATIVE AND QUALITATIVE

DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

In connection with the Dominion Energy Questar Pipeline Acquisition, we borrowed \$300.0 million under a three-year variable rate term loan agreement. In March 2018, Dominion Energy Midstream entered into a \$500.0 million variable rate revolving credit facility with certain third party lenders. At June 30, 2018, \$73.0 million was outstanding under this facility. A hypothetical 10% increase in market interest rates would not have resulted in a material change in earnings at June 30, 2018.

Effective March 2017, Dominion Energy Midstream uses interest rate derivatives to manage risks associated with variable interest rates. At June 30, 2018, Dominion Energy Midstream had \$300.0 million in aggregate notional amounts of these interest rate derivatives outstanding, all of which were designated as cash flow hedges of forecasted interest payments. A hypothetical 10% decrease in market interest rates would have resulted in a decrease of \$0.9 million in the fair value of Dominion Energy Midstream's interest rate derivatives at June 30, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Senior management of Dominion Energy Midstream's general partner, including the general partner's CEO and CFO, evaluated the effectiveness of Dominion Energy Midstream's disclosure controls and procedures as of June 30, 2018, the end of the period covered by this report. Based on this evaluation process, the CEO and CFO of Dominion Energy Midstream's general partner have concluded that Dominion Energy Midstream's disclosure controls and procedures are effective.

During the quarter ended June 30, 2018, there were no changes in Dominion Energy Midstream's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Dominion Energy Midstream's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, Dominion Energy 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 Energy 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 Energy Midstream may be involved in various legal proceedings.

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

• Notes 14 and 20 to the Consolidated Financial Statements and Future Issues and Other Matters in MD&A in Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

• Notes 11 and 14 to the Consolidated Financial Statements and Future Issues and Other Matters in MD&A in Dominion Energy Midstream's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

• Notes 11 and 14 to the Consolidated Financial Statements and Future Issues and Other Matters in MD&A in this report.

ITEM 1A. RISK FACTORS

Dominion Energy 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 Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017 and Dominion Energy Midstream's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, 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 Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017 and Dominion Energy Midstream's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018. 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 MD&A in this report.

ITEM 5. OTHER INFORMATION

Credit Facility Amendments

The following disclosure would have otherwise been filed on a Current Report on Form 8-K under Item 1.01 Entry into a Material Definitive Agreement:

On August 1, 2018, Dominion Energy Midstream entered into the Credit Agreement First Amendment and the Term Loan First Amendment, which revise certain negative covenants contained in the Revolving Credit Agreement and the Term Loan Agreement, respectively, to permit liens on certain assets of Cove Point and allow Cove Point to incur indebtedness under certain circumstances. The purpose of the Credit Agreement First Amendment and the Term Loan First Amendment is to allow Dominion Energy to pursue a debt financing at Cove Point in the third quarter of 2018.

The Credit Agreement First Amendment and the Term Loan First Amendment do not affect the economic terms of the Revolving Credit Agreement or the Term Loan Agreement, as applicable, and are not expected to have any impact on the annual cost or availability of funds to Dominion Energy Midstream. The Credit Agreement First Amendment does not impact the amount available to Dominion Energy Midstream under the Revolving Credit Agreement. The

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Term Loan Agreement and the Revolving Credit Facility are currently scheduled to mature in December 2019 and March 2021, respectively.

A summary of the terms of the Revolving Credit Agreement and the Term Loan Agreement can be found in the Current Reports on Form 8-K filed by Dominion Energy Midstream on March 26, 2018 and October 31, 2016, respectively.

The foregoing descriptions of the Credit Agreement First Amendment and the Term Loan First Amendment do not purport to be complete and are qualified in their entirety by reference to the complete texts of such agreements, copies of which are filed as Exhibit 10.1 and Exhibit 10.2, respectively, to this Quarterly Report on Form 10-Q and are incorporated herein by reference.

GHG Emissions

The following disclosure would have otherwise been filed on a Current Report on Form 8-K under Item 8.01 Other Events:

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This section should be read in conjunction with information disclosed under the heading Environmental Regulation in Item 1. Business of Dominion Energy Midstream's Annual Report on Form 10-K for the year ended December 31, 2017.

Dominion Energy began tracking and reporting GHG emissions at the Cove Point LNG Facility in 2010 under the EPA's GHG Reporting Program and voluntarily tracked such emissions prior to 2010. A comprehensive methane leak survey is conducted each year in accordance with the EPA rule to detect leaks and to quantify leaks from compressor units.

Annual GHG emissions at the Cove Point LNG Facility remained fairly constant from 2011 to 2016, ranging from 141,250 to 183,800 metric tons of CO₂ equivalent, but increased in 2017 to 297,391 metric tons of CO₂ equivalent due to combustion emissions from additional equipment associated with the testing and start-up of the Liquefaction Project. Approximately 99% of these emissions are CO₂ emissions from combustion sources, such as compressor engines and heaters. Only 1% of the annual Cove Point GHG emissions comes from methane emissions. In 2017, annual GHG emissions from Dominion Energy Midstream's facilities, including the Cove Point LNG Facility, were approximately 829,419 metric tons of CO₂ equivalent emissions. The 2017 GHG emissions above include Dominion Energy Questar Pipeline, which was acquired by Dominion Energy Midstream in December 2016.

ITEM 6. EXHIBITS

Exhibit

Number Description

- 3.1.a Certificate of Limited Partnership of Dominion Energy Midstream Partners, LP (Exhibit 3.1, Form S-1 Registration Statement filed March 28, 2014, File No. 333-194864).
- 3.1.b Amendment to Certificate of Limited Partnership of Dominion Energy Midstream Partners, LP (Exhibit 3.1, Form 8-K filed May 16, 2017, File No. 1-36684).
- 3.2 Fourth Amended and Restated Agreement of Limited Partnership of Dominion Energy Midstream Partners, LP, dated as of February 27, 2018, by and among Dominion Energy Midstream GP, LLC and other persons who are or may become partners (Exhibit 3.2, Form 10-K for the fiscal year ended December 31, 2017, filed February 28, 2018, File No. 1-36684).
- 10.1 First Amendment, dated as of August 1, 2018, to the Revolving Credit Agreement, dated as of March 20, 2018, among Dominion Energy Midstream Partners, LP, the several banks and other financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, and the other agents party thereto (filed herewith).
- 10.2 First Amendment, dated as of August 1, 2018, to the Term Loan Agreement, dated as of October 28, 2016, among Dominion Energy Midstream Partners, LP, QPC Holding Company, the several banks and other financial institutions from time to time parties thereto, Royal Bank of Canada, as administrative agent, and the other agents party thereto (filed herewith).
- 31.a Certification by Chief Executive Officer of Dominion Energy 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 Energy 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 Energy 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 Energy Midstream's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, filed on August 2, 2018, formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Equity and Partners' Capital, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

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 ENERGY MIDSTREAM PARTNERS, LP
Registrant

By: Dominion Energy Midstream GP, LLC, its general partner

August 2, 2018 /s/ Michele L. Cardiff
Michele L. Cardiff
Vice President, Controller and
Chief Accounting Officer