

Public Service Company of North Carolina, Incorporated  
Condensed Consolidated Balance Sheets  
(Unaudited)

Thousands of dollars	September 30, 2011	December 31, 2010
<b>Assets</b>		
Gas Utility Plant	\$1,370,013	\$1,325,608
Accumulated Depreciation	(371,908)	(290,081)
Goodwill, net of accumulated amortization and writedown of \$256,300	209,824	209,824
<b>Gas Utility Plant, Net</b>	<b>1,207,929</b>	<b>1,245,351</b>
<b>Nonutility Property and Investments, Net</b>	<b>36,159</b>	<b>27,331</b>
<b>Current Assets:</b>		
Cash and cash equivalents	1,277	7,320
Receivables, net of allowance for uncollectible accounts of \$331 and \$910	78,712	153,211
Receivables-affiliated companies	42,112	11,733
Inventories (at average cost):		
Stored gas	61,053	50,827
Materials and supplies	7,545	6,410
Prepayments and other	1,640	8,300
<b>Total Current Assets</b>	<b>192,339</b>	<b>237,801</b>
<b>Deferred Debits and Other Assets:</b>		
Regulatory assets	52,279	53,789
Other	1,834	2,362
<b>Total Deferred Debits and Other Assets</b>	<b>54,113</b>	<b>56,151</b>
<b>Total</b>	<b>\$1,490,540</b>	<b>\$1,566,634</b>

See Notes to Condensed Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated  
Condensed Consolidated Balance Sheets (continued)  
(Unaudited)

Thousands of dollars	September 30, 2011	December 31, 2010
<b>Capitalization and Liabilities</b>		
<b>Capitalization:</b>		
Common equity	\$658,740	\$655,256
Long-term debt, net	353,955	358,165
<b>Total Capitalization</b>	<b>1,012,695</b>	<b>1,013,421</b>
<b>Current Liabilities:</b>		
Current portion of long-term debt	4,286	4,090
Accounts payable	21,015	51,004
Accounts payable-affiliated companies	5,000	1,363
Customer deposits and customer prepayments	28,098	21,546
Taxes accrued	4,496	1,659
Interest accrued	2,972	7,418
Dividends declared	7,400	8,300
Other	4,940	6,130
<b>Total Current Liabilities</b>	<b>78,207</b>	<b>101,510</b>
<b>Deferred Credits and Other Liabilities:</b>		
Deferred income taxes, net	165,341	155,747
Deferred investment tax credits	114	152
Pension and other postretirement benefits	58,311	58,243
Regulatory liabilities	150,655	212,470
Asset retirement obligations	18,251	17,548
Other	6,966	7,543
<b>Total Deferred Credits and Other Liabilities</b>	<b>399,638</b>	<b>451,703</b>
<b>Commitments and Contingencies (Note 8)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$1,490,540</b>	<b>\$1,566,634</b>

See Notes to Condensed Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated  
Condensed Consolidated Statements of Operations  
(Unaudited)

Thousands of dollars	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating Revenues	\$46,418	\$48,395	\$321,483	\$355,777
Cost of Gas	17,632	20,037	167,168	203,411
Gross Margin	28,786	28,358	154,315	152,366
Operating Expenses:				
Operation and maintenance	22,417	21,275	65,498	65,512
Depreciation and amortization	9,353	9,665	28,735	29,036
Other taxes	2,645	2,476	7,889	7,439
Total Operating Expenses	34,415	33,416	102,122	101,987
Operating Income (Loss)	(5,629)	(5,058)	52,193	50,379
Other Income (Expense):				
Other revenues	4,496	4,648	12,050	12,911
Other expenses	(2,642)	(2,890)	(7,974)	(8,816)
Allowance for equity funds used during construction	151	116	704	470
Interest charges, net of allowance for borrowed funds used during construction of \$45, \$35, \$209 and \$142	(5,839)	(6,431)	(17,936)	(17,905)
Total Other Expense	(3,834)	(4,557)	(13,156)	(13,340)
Income Before Income Taxes and Earnings from Equity Method Investments				
Equity Method Investments	(9,463)	(9,615)	39,037	37,039
Income Tax Benefit (Expense)	3,925	3,664	(14,752)	(14,804)
Income Before Earnings from Equity Method Investments	(5,538)	(5,951)	24,285	22,235
Earnings from Equity Method Investments	872	944	2,385	2,826
Net Income (Loss)	(\$4,666)	(\$5,007)	\$26,670	\$25,061

See Notes to Condensed Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

Thousands of dollars	Nine Months Ended September 30,	
	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Net income	\$26,670	\$25,061
Adjustments to reconcile net income to net cash provided from operating activities:		
Earnings from equity method investment, net of distributions	(321)	938
Deferred income taxes, net	9,111	2,531
Depreciation and amortization	30,085	29,409
Loss on sale of assets	2	-
Allowance for equity funds used during construction	(704)	(470)
Cash provided (used) by changes in certain assets and liabilities:		
Receivables	76,320	60,306
Inventories	(12,327)	(3,225)
Regulatory assets	(213)	170
Regulatory liabilities	(55)	(91)
Accounts payable	(23,505)	(19,807)
Taxes accrued	2,837	(3,758)
Changes in other assets	6,678	(7,073)
Changes in other liabilities	2,970	(11,062)
<b>Net Cash Provided From Operating Activities</b>	<b>117,548</b>	<b>72,929</b>
<b>Cash Flows From Investing Activities:</b>		
Utility property additions and construction expenditures	(54,697)	(31,474)
Nonutility property additions	(9,616)	-
Proceeds from sale of assets	10	-
Proceeds from investments	840	-
Short-term investment - affiliate	(171,500)	(79,700)
Proceeds from short-term investment - affiliate	139,300	38,500
<b>Net Cash Used For Investing Activities</b>	<b>(95,663)</b>	<b>(72,674)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from issuance of long-term debt	149,935	99,966
Repayment of long-term debt	(153,863)	(3,200)
Short-term borrowings, net	-	(81,200)
Contributions from parent	-	5,188
Dividends	(24,000)	(21,900)
<b>Net Cash Used for Financing Activities</b>	<b>(27,928)</b>	<b>(1,146)</b>
Net Decrease in Cash and Cash Equivalents	(6,043)	(891)
Cash and Cash Equivalents, January 1	7,320	3,035
<b>Cash and Cash Equivalents, September 30</b>	<b>\$1,277</b>	<b>\$2,144</b>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for - Interest (net of capitalized interest of \$209 and \$142)	\$20,212	\$18,635
- Income taxes	2,440	28,190
<b>Noncash Investing and Financing Activities:</b>		
Accrued construction expenditures	\$1,719	\$1,874
Capital lease	-	6,000
Gas utility plant	1,033	-

See Notes to Condensed Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated  
Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)

Thousands of dollars	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Income (Loss)	(\$4,666)	(\$5,007)	\$26,670	\$25,061
Other Comprehensive Income (Loss):				
Unrealized gains (losses) on hedging activities, net of taxes	(106)	158	(163)	173
Reclassification to net income - amortization of deferred employee benefit plan costs, net of taxes	27	46	78	63
Total Comprehensive Income (Loss)	(\$4,745)	(\$4,803)	\$26,585	\$25,297

Accumulated other comprehensive loss totaled \$1,455 as of September 30, 2011 and \$1,370 as of December 31, 2010.

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2011  
(Unaudited)

The following notes should be read in conjunction with the Notes to Consolidated Financial Statements appearing in Public Service Company of North Carolina, Incorporated's (PSNC Energy) financial statements for the year ended December 31, 2010. These are interim financial statements and, due to the seasonality of PSNC Energy's business and matters that may occur during the rest of the year, the amounts reported in the Condensed Consolidated Statements of Income are not necessarily indicative of amounts expected for the full year. In the opinion of management, the information furnished herein reflects all adjustments, all of a normal recurring nature, which are necessary for the fair statement of the results for the interim periods reported.

PSNC Energy has evaluated subsequent events through November 17, 2011, which is the date these financial statements are issued.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Asset Management and Supply Service Agreements

PSNC Energy utilizes asset management and supply service agreements with counterparties for certain natural gas storage facilities. At September 30, 2011, such counterparties held 50% of PSNC Energy's natural gas inventory, with a carrying value of \$28.5 million, through either capacity release or agency relationships. Under the terms of the asset management agreements, PSNC Energy receives storage asset management fees. No fees are received under supply service agreements. The agreements expire at various times through March 31, 2013.

New Accounting Matters

Effective for the first quarter of 2012, PSNC Energy will adopt accounting guidance that revises how comprehensive income is presented in its financial statements. PSNC Energy does not expect the adoption of this guidance to impact results of operations, cash flows or financial position.

Effective for the first quarter of 2012, PSNC Energy will adopt accounting guidance that permits it to make a qualitative assessment about the likelihood of goodwill impairment each year. The results of such an assessment may lead PSNC Energy to determine that performing a two-step quantitative impairment test is unnecessary. PSNC Energy does not expect the adoption of this guidance to impact results of operations, cash flows or financial position.

2. RATE AND OTHER REGULATORY MATTERS

Rate Matters

PSNC Energy is subject to a Rider D rate mechanism which allows it to recover from customers all prudently incurred gas costs and certain uncollectible expenses related to gas cost. The Rider D rate mechanism also allows PSNC Energy to recover, in any manner authorized by the North Carolina Utilities Commission (NCUC), losses on negotiated gas and transportation sales.

PSNC Energy's rates are established using a benchmark cost of gas approved by the NCUC, which may be modified periodically to reflect changes in the market price of natural gas. PSNC Energy revises its tariffs with the NCUC as necessary to track these changes and defers any over- or under-collections of the delivered cost of gas for subsequent rate consideration. The NCUC reviews PSNC Energy's gas purchasing practices annually. In addition, PSNC Energy utilizes a customer usage tracker (CUT) which allows it to adjust its base rates semi-annually for residential and commercial customers based on average per customer consumption.

#### Regulatory Assets and Regulatory Liabilities

PSNC Energy has significant cost-based, rate-regulated operations and recognizes in its financial statements certain revenues and expenses in different time periods than do enterprises that are not rate-regulated. As a result, PSNC Energy has recorded regulatory assets and regulatory liabilities which are summarized in the following tables. Substantially all of its regulatory assets are explicitly excluded from rate base or are effectively excluded from rate base due to their being offset by related liabilities.

Thousands of dollars	September 30, 2011	December 31, 2010
<b>Regulatory Assets:</b>		
Environmental remediation costs	\$ 4,602	\$ 5,477
Asset retirement obligations	14,551	13,761
Deferred employee benefit plan costs	30,108	31,831
Other	3,018	2,720
<b>Total Regulatory Assets</b>	<b>\$ 52,279</b>	<b>\$ 53,789</b>
<b>Regulatory Liabilities:</b>		
Asset removal costs	\$ 150,572	\$ 211,830
Other	83	640
<b>Total Regulatory Liabilities</b>	<b>\$ 150,655</b>	<b>\$ 212,470</b>

Environmental remediation costs represent costs associated with the assessment and cleanup of manufactured gas plant (MGP) sites currently or formerly owned by PSNC Energy. Remediation costs totaling \$0.1 million are being recovered through rates over a period ending October 2011. Incurred and estimated remaining costs of \$4.5 million have been deferred pending future approval of rate recovery. These regulatory assets are expected to be recovered over approximately 17 years.

Asset retirement obligations (ARO) represent the regulatory asset associated with conditional AROs. These regulatory assets are expected to be recovered over the related property lives and periods, which may range up to approximately 90 years.

Employee benefit plan costs of regulated utilities have historically been recovered as they have been recorded under generally accepted accounting principles. Deferred employee benefit plan costs represent amounts of pension and other postretirement benefit costs which were accrued as liabilities and treated as regulatory assets pursuant to an NCUC order. These deferred costs are expected to be recovered through utility rates over average service periods of participating employees, or up to approximately 14 years.

Asset removal costs represent estimated net collections through depreciation rates of amounts to be incurred for the removal of assets in the future. The reduction in this regulatory liability in 2011 is primarily due to the correction of an error in prior computations. The correction has no impact on earnings or cash flows; the offset was recorded in accumulated depreciation.

The NCUC has reviewed and approved through specific orders the items shown as regulatory assets, though some of the items may include costs which are awaiting specific rate consideration. In recording these costs as regulatory assets, management believes the costs will be allowable under existing rate-making concepts that are embodied in current rate orders received by PSNC Energy. However, ultimate recovery is subject to NCUC approval. In the future, as a result of deregulation or other changes in the regulatory environment or changes in accounting requirements, PSNC Energy may no longer meet the criteria of accounting for rate-regulated utilities, and could be required to write off its regulatory assets and liabilities. Such an event could have a material adverse effect on PSNC Energy's results of operations, liquidity or financial position in the period the write-off would be recorded.

### 3. LONG-TERM DEBT AND LIQUIDITY

#### Long-term Debt

In February 2011, PSNC Energy issued \$150 million of 4.59% unsecured senior notes due February 14, 2021. Proceeds from the sale of these notes were used to retire \$150 million of 6.625% medium term notes due February 15, 2011.

#### Liquidity

PSNC Energy is party to a \$100 million Five-Year Credit Agreement which expires October 23, 2015. The credit agreement is used for general corporate purposes and working capital needs, including serving to back-up the issuance of commercial paper. The committed long-term facility is a revolving line of credit under credit agreements with a syndicate of banks. Wells Fargo Bank, National Association, Bank of America, N.A. and Morgan Stanley Bank, N.A. each provide 10% of the aggregate \$100 million credit facility; Branch Banking and Trust Company, Credit Suisse AG, Cayman Islands Branch, JP Morgan Chase Bank, N.A., Mizuho Corporate Bank, Ltd., TD Bank N.A. and UBS Loan Finance LLC each provide 8%; and Deutsche Bank AG New York Branch, Union Bank, N.A. and US Bank National Association each provide 5.3%. Three other banks provide the remaining 6%. The bank credit facility supports the issuance of commercial paper by PSNC Energy. When the commercial paper markets are dislocated (due to either price or availability constraints), the credit facility is available to support the borrowing needs of PSNC Energy.

At each of September 30, 2011 and December 31, 2010, the entire \$100 million line of credit was unused and available.

### 4. INCOME TAXES

PSNC Energy recognizes interest accrued related to unrecognized tax benefits within interest expense and recognizes tax penalties within other expenses. PSNC Energy has not accrued any significant amount of interest expense related to unrecognized tax benefits or tax penalties.

### 5. DERIVATIVE FINANCIAL INSTRUMENTS

PSNC Energy recognizes all derivative instruments as either assets or liabilities in the statement of financial position and measures those instruments at fair value. PSNC Energy recognizes changes in the fair value of derivative instruments either in earnings, as a component of other comprehensive income (loss), or within regulatory assets or regulatory liabilities, depending upon the intended use of the derivative and the resulting designation. The fair value of derivative instruments is determined by reference to quoted market prices of listed contracts, published quotations or quotations from counterparties.

Policies and procedures and risk limits are established to control the level of market, credit, liquidity and operational and administrative risks assumed by PSNC Energy. SCANA Corporation's (SCANA) Board of Directors has delegated to a Risk Management Committee the authority to set risk limits, establish policies and procedures for risk management and measurement, and oversee and review the risk management process and infrastructure. The Risk Management Committee, which is comprised of certain officers, including PSNC Energy's Risk Management Officer and SCANA's senior officers, apprises the Board of Directors with regard to the management of risk and brings to the Board's attention any areas of concern. Written policies define the physical and financial transactions that are approved, as well as the authorization requirements and limits for transactions.

## Commodity Derivatives

PSNC Energy hedges natural gas purchasing activities using over-the-counter options and swaps and New York Mercantile Exchange (NYMEX) futures contracts and options. PSNC Energy's tariffs include a provision for the recovery of actual gas costs incurred. PSNC Energy records premiums, transaction fees, margin requirements and any realized gains or losses from its hedging program in deferred accounts as a regulatory asset or liability for the over- or under-recovery of gas costs. These derivative financial instruments are not designated as hedges for accounting purposes.

## Interest Rate Swap

PSNC Energy uses an interest rate swap to manage interest rate risk on a fixed rate debt instrument by converting it synthetically to a variable rate. This swap is designated as a fair value hedge.

## Quantitative Disclosures Related to Derivatives

PSNC Energy was party to natural gas derivative contracts for 7,288,000 dekatherms at September 30, 2011 and 8,217,000 dekatherms at December 31, 2010. PSNC Energy was a party to an interest rate swap designated as a fair value hedge with a notional amount of \$3.2 million at September 30, 2011 and \$6.4 million at December 31, 2010.

The fair value of energy-related derivatives and interest rate derivatives was reflected in the balance sheet as follows:

### Fair Values of Derivative Instruments

<u>Thousands of dollars</u>	<u>Asset Derivatives Balance Sheet Location</u>	<u>Fair Value</u>
<i>As of September 30, 2011</i>		
Derivatives designated as hedging instruments		
Interest rate contract	Current assets – prepayments and other	\$ 159
Derivatives not designated as hedging instruments		
Commodity contracts	Current assets – prepayments and other	\$ 396
<i>As of December 31, 2010</i>		
Derivatives designated as hedging instruments		
Interest rate contract	Deferred debits and other assets - other	\$ 309
Derivatives not designated as hedging instruments		
Commodity contracts	Current assets – prepayments and other	\$ 2,212

PSNC Energy's interest rate swap designated as a fair value hedge resulted in a reduction to interest expense of \$0.2 million for nine months ended September 30, 2011. The reduction to interest expense for the three months ended September 30, 2011 was insignificant. For the three and nine months ended September 30, 2010, interest expense was reduced \$0.1 million and \$0.3 million, respectively.

## Credit Risk Considerations

Certain of PSNC Energy's derivative instruments contain contingent provisions that require PSNC Energy to provide collateral upon the occurrence of specific events, primarily credit downgrades. As of September 30, 2011 and December 31, 2010, PSNC Energy has posted no collateral related to derivatives with contingent provisions that are in a net liability position. If all of the contingent features underlying these instruments were fully triggered as of September 30, 2011 and December 31, 2010, PSNC Energy would be required to post no collateral to its counterparties. PSNC Energy had no derivative instruments with contingent provisions that were in a net liability position as of September 30, 2011 or December 31, 2010.

## 6. FAIR VALUE MEASUREMENTS, INCLUDING DERIVATIVES

PSNC Energy uses unadjusted NYMEX prices to determine fair value for commodity derivative assets and liabilities, and considers such measures of fair value to be Level 1 for exchange traded instruments and Level 2 for over-the-counter instruments. PSNC Energy's interest rate swap agreement is valued using broker quotes. Fair value measurements, and the level within the fair value hierarchy in which the measurements fall, were as follows:

Thousands of dollars	Fair Value Measurements Using	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
<i>As of September 30, 2011</i>		
Assets – Derivative financial instruments	\$ 289	\$ 266
<i>As of December 31, 2010</i>		
Assets – Derivative financial instruments	\$ 930	\$ 1,592

There were no fair value measurements based on significant unobservable inputs (Level 3) for either period presented. In addition, there were no transfers of fair value amounts into or out of Levels 1 and 2 during any period presented.

The financial instruments for which the carrying amount may not equal estimated fair value at September 30, 2011 and December 31, 2010 were as follows:

Thousands of dollars	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$ 358,241	\$ 460,353	\$ 362,255	\$ 401,171

Fair values of long-term debt are based on quoted market prices of the instruments or similar instruments. Carrying values reflect the fair values of interest rate swaps based on settlement values obtained from counterparties. Early settlement of long-term debt may not be possible or may not be considered prudent.

## 7. EMPLOYEE BENEFIT PLANS

### Pension and Other Postretirement Benefit Plans

PSNC Energy participates in SCANA's noncontributory defined benefit pension plan, which covers substantially all regular, full-time employees, and also participates in SCANA's unfunded postretirement health care and life insurance programs, which provide benefits to active and retired employees. Components of net periodic benefit cost recorded by PSNC were as follows:

Thousands of dollars	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
<i>Three months ended September 30,</i>				
Service cost	\$ 561	\$ 557	\$ 129	\$ 126
Interest cost	1,088	220	416	379
Expected return on assets	(1,601)	(258)	-	-
Prior service cost amortization	174	34	36	37
Transition obligation amortization	-	-	113	116
Amortization of actuarial loss	327	42	19	(26)
Net periodic benefit cost	\$ 549	\$ 595	\$ 713	\$ 632

Thousands of dollars	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
<i>Nine months ended September 30,</i>				
Service cost	\$ 1,706	\$ 1,859	\$ 442	\$ 429
Interest cost	3,404	647	1,245	1,238
Expected return on assets	(4,981)	(778)	-	-
Prior service cost amortization	549	103	108	111
Transition obligation amortization	-	-	341	348
Amortization of actuarial loss	953	174	36	-
<b>Net periodic benefit cost</b>	<b>\$ 1,631</b>	<b>\$ 2,005</b>	<b>\$ 2,172</b>	<b>\$ 2,126</b>

## 8. COMMITMENTS AND CONTINGENCIES

### Environmental

PSNC Energy is responsible for environmental cleanup at five sites in North Carolina on which MGP residuals are present or suspected. PSNC Energy's actual remediation costs for these sites will depend on a number of factors, such as actual site conditions, third-party claims and recoveries from other potentially responsible parties. PSNC Energy has recorded a liability and associated regulatory asset of \$3.2 million, which reflects its estimated remaining liability at September 30, 2011. PSNC Energy expects to recover through rates any costs allocable to it arising from the remediation of these sites.

### Claims and Litigation

PSNC Energy is engaged in various claims and litigation incidental to its business operations which management anticipates will be resolved without material adverse impact on PSNC Energy's results of operations, cash flows or financial condition.

### Monroe Pipeline Capital Lease

In May 2010, PSNC Energy entered into a capital lease for gas transmission capacity. Under terms of the lease, PSNC Energy will make payments of \$6 million over six years at an interest rate of 5.42%. Lease payments are included in gas costs, as authorized by the NCUC, and deferred as a regulatory asset for future recovery from customers and included within Receivables on the balance sheet. The leased asset is recorded in gas utility plant, and the associated liability is recorded in long-term debt on the balance sheet.

### Cardinal Pipeline System Expansion

Cardinal Pipeline Company, L.L.C. (Cardinal), an equity method investee of PSNC Cardinal Pipeline Company, has executed agreements to expand its existing intrastate natural gas pipeline system in North Carolina. The expansion will increase PSNC Energy's firm capacity by 50,000 dekatherms per day. The capital cost of the project is estimated to be \$45 million, of which PSNC Energy's share is approximately \$15 million. As of September 30, 2011, PSNC Energy had expended approximately \$9.6 million for the Cardinal system expansion. Cardinal plans to place the project into service in July 2012.

## 9. AFFILIATED TRANSACTIONS

PSNC Energy owns, through its wholly owned subsidiaries, 17% of Pine Needle LNG Company, L.L.C. (Pine Needle), an LNG storage facility in North Carolina, and 33.2% of Cardinal, an intrastate natural gas pipeline. PSNC Energy accounts for each of these investments using the equity method.

PSNC Energy records as cost of gas the storage and transportation costs charged by its equity method investees. For the three and nine months ended September 30, 2011, these costs totaled \$3.4 million and \$10.3 million, respectively. For the three and nine months ended September 30, 2010, these costs totaled \$3.6 million and \$10.8 million, respectively. PSNC Energy owed these investees \$1.1 million at September 30, 2011, and \$1.2 million at December 31, 2010. PSNC Energy received cash distributions from these investees of \$0.6 million and \$2.9 million for the three and nine months ended September 30, 2011, respectively, and \$2.9 million and \$3.8 million for the three and nine months ended September 30, 2010, respectively.

Pine Needle uses an interest rate swap designated as a cash flow hedge to manage interest rate risk on a variable rate debt instrument by converting it synthetically to a fixed rate. PSNC Energy's share of the effective portion of changes in the fair value of this interest rate swap is recorded in accumulated other comprehensive income in PSNC Energy's consolidated balance sheets.

PSNC Energy made purchases of natural gas from an affiliate of approximately \$0.1 million and \$0.2 million during the three months ended September 30, 2011 and 2010, respectively. Sales of natural gas and transportation services to an affiliate for the same periods were insignificant. PSNC Energy made purchases of natural gas and transportation services from an affiliate of approximately \$0.4 million and \$0.7 million during the nine months ended September 30, 2011 and 2010, respectively. Sales of natural gas to an affiliate were approximately \$7.8 million and \$10.0 million for the same periods.

PSNC Energy participates in a utility money pool. Money pool borrowings and investments bear interest at short-term market rates. PSNC Energy's interest income and expense on money pool transactions for the three and nine months ended September 30, 2011 and 2010 were not significant. PSNC Energy had money pool investments of \$40.4 million at September 30, 2011 and \$8.2 million at December 31, 2010.