

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

Thousands of dollars	June 30, 2009	December 31, 2008
Assets		
Gas Utility Plant	\$1,251,560	\$1,236,348
Accumulated Depreciation	(266,906)	(256,412)
Acquisition Adjustment	209,824	209,824
Gas Utility Plant, Net	1,194,478	1,189,760
Nonutility Property and Investments, Net	28,047	27,713
Current Assets:		
Cash and cash equivalents	133,400	7,352
Receivables, net of allowance for uncollectible accounts of \$428 and \$802	51,626	149,025
Receivables-affiliated companies	2,416	9,215
Inventories (at average cost):		
Stored gas	58,820	117,193
Materials and supplies	6,374	6,667
Derivative financial instruments	1,785	6,056
Other	5,685	1,303
Total Current Assets	260,106	296,811
Deferred Debits and Other Assets:		
Regulatory assets	35,128	35,435
Other	2,582	3,255
Total Deferred Debits and Other Assets	37,710	38,690
Total	\$1,520,341	\$1,552,974

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

Thousands of dollars	June 30, 2009	December 31, 2008
Capitalization and Liabilities		
Common Equity	\$633,632	\$613,508
Long-term Debt, net	413,057	416,548
Total Capitalization	1,046,689	1,030,056
Current Liabilities:		
Short-term borrowings	20,000	45,800
Current portion of long-term debt	3,200	3,200
Accounts payable	19,501	55,760
Accounts payable-affiliated companies	4,787	6,533
Customer deposits and customer prepayments	21,820	22,230
Taxes accrued	3,383	203
Interest accrued	5,780	5,912
Distributions/dividends declared	7,700	5,700
Derivative financial instruments	819	2,531
Deferred income taxes, net	48	360
Other	4,027	6,170
Total Current Liabilities	91,065	154,399
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	132,531	126,289
Deferred investment tax credits	279	321
Due to parent-postretirement and other benefits	29,404	27,965
Regulatory liabilities	193,710	187,142
Asset retirement obligations	19,699	19,244
Other	6,964	7,558
Total Deferred Credits and Other Liabilities	382,587	368,519
Commitments and Contingencies (Note 5)	-	-
Total	\$1,520,341	\$1,552,974

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating Revenues	\$62,067	\$89,332	\$325,151	\$366,699
Cost of Gas	25,500	54,734	203,127	248,974
Gross Margin	36,567	34,598	122,024	117,725
Operating Expenses:				
Operation and maintenance	21,591	21,954	41,673	44,470
Depreciation and amortization	9,468	9,234	18,939	18,492
Other taxes	2,326	2,389	4,743	4,880
Total Operating Expenses	33,385	33,577	65,355	67,842
Operating Income	3,182	1,021	56,669	49,883
Other Income (Expense):				
Other revenues	3,236	4,191	6,861	8,655
Other expenses	(2,266)	(2,811)	(5,251)	(5,580)
Allowance for equity funds used during construction	103	101	198	335
Interest charges, net of AFC of \$118 and \$52	(5,220)	(5,398)	(10,676)	(11,524)
Total Other Expense	(4,147)	(3,917)	(8,868)	(8,114)
Income (Loss) Before Income Taxes and Earnings from Equity Method Investments	(965)	(2,896)	47,801	41,769
Income Tax Expense (Benefit)	(268)	(1,044)	18,873	16,556
Income (Loss) Before Earnings from Equity Method Investments	(697)	(1,852)	28,928	25,213
Earnings from Equity Method Investments	936	948	1,783	1,834
Net Income (Loss)	\$239	\$(904)	\$30,711	\$27,047

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Six Months Ended June 30,	
	2009	2008
Cash Flows From Operating Activities:		
Net income	\$30,711	\$27,047
Adjustments to reconcile net income to net cash provided from operating activities:		
Excess earnings from equity method investments, net of distributions	(208)	(54)
Deferred income taxes, net	5,430	1,906
Depreciation and amortization	19,236	17,952
Allowance for equity funds used during construction	(198)	(335)
Cash provided (used) by changes in certain assets and liabilities:		
Receivables	104,198	81,833
Inventories	58,257	11,253
Regulatory assets	307	646
Regulatory liabilities	7,006	(436)
Accounts payable	(36,518)	(7,020)
Taxes accrued	3,180	(7,736)
Changes in other assets	(7,153)	2,083
Changes in other liabilities	(2,984)	(4,982)
Net Cash Provided From Operating Activities	181,264	122,157
Cash Flows From Investing Activities:		
Construction expenditures	(17,535)	(50,328)
Proceeds from sale of assets	-	90
Net Cash Used For Investing Activities	(17,535)	(50,238)
Cash Flows From Financing Activities:		
Short-term borrowings, net	(25,800)	(58,300)
Contributions from parent	3,319	2,711
Retirement of long-term debt	(3,200)	(3,200)
Distributions/dividends	(12,000)	(11,200)
Net Cash Used for Financing Activities	(37,681)	(69,989)
Net Increase (Decrease) in Cash and Cash Equivalents	126,048	1,930
Cash and Cash Equivalents, January 1	7,352	2,220
Cash and Temporary Investments, June 30	\$133,400	\$4,150
Supplemental Cash Flow Information:		
Cash paid for - Interest (net of capitalized interest of \$316 and \$155)	\$9,280	\$10,722
Income taxes	17,205	25,145
Noncash Investing and Financing Activities:		
Accrued construction expenditures	1,487	2,475

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		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net Income	\$ 239	\$ (904)	\$ 30,711	\$ 27,047
Other Comprehensive Income (Loss):				
Unrealized Gain (Loss) on Hedging Activities	52	(361)	285	(517)
Deferred Benefit of Employee Benefit Plans	(5)	(1)	(10)	(3)
Total Comprehensive Income	\$ 286	\$ (1,266)	\$ 30,986	\$ 26,527

⁽¹⁾ Accumulated other comprehensive loss totaled \$0.5 million as of June 30, 2009 and \$0.8 million as of December 31, 2008.

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009
(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, and together with its consolidated subsidiaries, the Company) financial statements for the year ended December 31, 2008. These are interim financial statements and, due to the seasonality of the Company's business and matters that may occur during the rest of the year, the amounts reported in the Condensed Consolidated Statements of Operations 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.

On July 1, 2009, the Financial Accounting Standards Board Accounting Standards Codification (the Codification or ASC) became the single source of authoritative accounting principles generally accepted in the United States (GAAP). Throughout these notes, new references to ASC are presented parenthetically along with references to pre-Codification GAAP.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Company 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, the Company has recorded regulatory assets and regulatory liabilities, summarized as follows.

Thousands of dollars	June 30, 2009	December 31, 2008
Regulatory Assets:		
Environmental remediation costs	7,225	7,814
Asset retirement obligations	14,723	14,192
Deferred employee benefit plan costs	9,977	10,412
Other	3,203	3,017
Total Regulatory Assets	\$ 35,128	\$ 35,435
Regulatory Liabilities:		
Other asset removal costs	191,853	185,093
Other	1,857	2,049
Total Regulatory Liabilities	\$ 193,710	\$ 187,142

Environmental remediation costs represent costs associated with the assessment and cleanup of manufactured gas plant (MGP) sites currently or formerly owned by the Company. Remediation costs totaling \$3.5 million are being recovered over a three-year period beginning November 2008. In addition, management believes that estimated remaining costs of \$4.4 million will be recoverable through rates.

Asset retirement obligations (ARO) represents the regulatory asset associated with conditional AROs recorded as required by Statement of Financial Accounting Standards (SFAS) 143, "Accounting for Asset Retirement Obligations" (ASC 410, Asset Retirement and Environmental Obligations), and Financial Accounting Standards Board Interpretation (FIN) 47, "Accounting for Conditional Asset Retirement Obligations" (ASC 410-20, Asset Retirement Obligations).

Deferred employee benefit plan costs represent amounts of pension and other postretirement benefit costs which were accrued as liabilities under provisions of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (ASC 715, Compensation-Retirement Benefits), and costs deferred pursuant to specific regulatory orders, but which are expected to be recovered through utility rates.

Other asset removal costs represent net collections through depreciation rates of estimated costs to be incurred for the removal of assets in the future.

The North Carolina Utilities Commission (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 the Company. However, ultimate recovery is subject to NCUC approval. In the future, as a result of deregulation or other changes in the regulatory environment, the Company may no longer meet the criteria for continued application of SFAS 71, *“Accounting for the Effects of Certain Types of Regulation” (ASC 980, Regulated Operations)*, and could be required to write off its regulatory assets and liabilities. Such an event could have a material adverse effect on the Company’s results of operations, liquidity or financial position in the period the write-off would be recorded.

B. Related Party Transactions

The Company has related party transactions with its equity-method investees. The Company records as cost of gas the storage and transportation costs charged by these investees. For the three and six months ended June 30, 2009, these costs totaled \$3.6 million and \$7.1 million, respectively. For the three and six months ended June 30, 2008, these costs totaled \$3.5 million and \$7.0 million, respectively. The Company owed these investees \$1.2 million at June 30, 2009 and December 31, 2008. The Company received cash distributions from equity investees of \$1.6 million and \$1.8 million for the six months ended June 30, 2009 and 2008, respectively.

The Company made natural gas purchases from an affiliate of \$0.2 million during the three months ended June 30, 2009. During the six months ended June 30, 2009, the Company made sales to an affiliate of natural gas and transportation services of \$9.9 million. During the three and six months ended June 30, 2008, the Company made sales to an affiliate of natural gas and transportation services of \$0.1 million and \$12.1 million, respectively.

The Company participates in a utility money pool. Money pool borrowings and investments bear interest at short-term market rates. The interest expense incurred on money pool borrowings for the three and six months ended June 30, 2009 and 2008 was not significant. At December 31, 2008, the Company owed an affiliate \$1.0 million, which was repaid during the second quarter of 2009.

C. New Accounting Matters

The Company adopted SFAS 165, *“Subsequent Events” (ASC 855, Subsequent Events)*, effective June 30, 2009. SFAS 165 makes the Company’s management responsible for subsequent-events accounting and disclosure. The adoption of SFAS 165 did not impact the Company’s results of operations, cash flows or financial position. See Note 1E for the required disclosure.

The Company adopted FASB Staff Position FAS 107-b and APB 28-a, *“Interim Disclosures about Fair Value of Financial Instruments (ASC 820, Fair Value Measurements and Disclosures)*, effective June 30, 2009. This FASB Staff Position amended SFAS 107, *“Fair Value of Financial Instruments,”* to require certain disclosures related to fair value in interim financial statements. See Note 4 for the required disclosure.

The Company adopted SFAS 161, *“Disclosure about Derivative Instruments and Hedging Activities” (ASC 815, Derivative and Hedging)*, in the first quarter of 2009. SFAS 161 requires enhanced disclosures about an entity’s derivative and hedging activities to include how derivative instruments are accounted for and the effect of such activities on the Company’s financial statements. The initial adoption of SFAS 161 did not impact the Company’s results of operations, cash flows or financial position. See Note 3 for the required disclosure.

D. Asset Management and Supply Service Agreements

The Company utilizes asset management and supply service agreements with counterparties for certain of its natural gas storage facilities. At June 30, 2009, such counterparties held 46% of the Company’s natural gas inventory with a value of \$23.8 million, through either capacity release or agency relationships. Under the terms of the asset management agreements, the Company receives storage asset management fees and, in certain instances, a share of profits. No fees are received under the supply service agreements. The agreements expire at various times through March 31, 2011.

E. Subsequent Events

The Company has evaluated subsequent events through August 26, 2009, which is the date these financial statements were issued.

2. RATE AND OTHER REGULATORY MATTERS

The Company'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. The Company 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 the Company's gas purchasing practices annually.

In October 2008, the NCUC granted the Company an annual increase in natural gas margin revenues of approximately \$9.1 million, offset by an \$8.4 million reduction in fixed gas costs, for a net annual increase in rates and charges to customers of approximately \$0.7 million. The Company was also authorized to implement the Customer Usage Tracker (CUT). The CUT allows the Company to periodically adjust its base rates for residential and commercial customers based on average per customer consumption. The new rates were effective for services rendered on or after November 1, 2008.

In December 2008, in connection with the Company's 2008 Annual Prudence Review, the NCUC determined that the Company's gas costs, including all hedging transactions, were reasonable and prudently incurred during the 12-months ended March 31, 2008.

In March 2009, the NCUC approved the Company's first semi-annual rate adjustment under the CUT. Temporary rate decreases for residential and commercial customers were implemented for service rendered on and after April 1, 2009.

3. DERIVATIVE FINANCIAL INSTRUMENTS

SFAS 133, "*Accounting for Derivative Instruments and Hedging Activities*" (ASC 815, *Derivatives and Hedging*) as amended, requires the Company to recognize all derivative instruments as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. SFAS 133 further provides that changes in the fair value of derivative instruments are either recognized in earnings or reported as a component of other comprehensive income (loss), 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 the Company. 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 the Company'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.

The Company hedges natural gas purchasing activities using over-the-counter options and swaps and New York Mercantile Exchange (NYMEX) futures and options. The Company's tariffs include a provision for the recovery of actual gas costs incurred. The Company 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 under the provisions of SFAS 133.

The Company uses an interest rate swap to manage interest 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

At June 30, 2009, the Company was party to natural gas derivative contracts for 7,830,000 dekatherms. Also at June 30, 2009, the Company was a party to an interest rate swap designated as a fair value hedge with a notional amount of \$9.6 million.

Fair Values of Derivative Instruments

As of June 30, 2009 Millions of dollars	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location ^(a)	Fair Value	Balance Sheet Location ^(a)	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other deferred debits	\$ 1		
Total		<u>\$ 1</u>		
Derivatives not designated as hedging instruments				
Commodity contracts	Other current assets	\$ 2	Accounts receivables	\$ 1
			Other current liabilities	1
Total		<u>\$ 2</u>		<u>\$ 2</u>

^(a) In the Company's condensed consolidated balance sheet, some derivative instruments have asset positions which are netted with liabilities and some have liability positions which are netted with assets.

The Company's interest rate swap designated as a fair value hedge resulted in reductions to interest expense for the three months and six months ended June 30, 2009 of \$0.1 million and \$0.3 million, respectively.

Credit Risk Considerations

Certain of the Company's derivative instruments contain contingent provisions that require the Company to provide collateral upon the occurrence of specific events, primarily credit downgrades. As of June 30, 2009, the Company 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 June 30, 2009, the Company would be required to post \$2.2 million of collateral to its counterparties. The aggregate fair value of all derivative instruments with contingent provisions that are in a net liability position as of June 30, 2009, is \$2.2 million.

4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS, INCLUDING DERIVATIVES

The Company 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. The Company's interest rate swap agreement is valued using broker quotes. Fair value measurements, and the level within the fair value hierarchy of SFAS 157 (ASC 820) in which the measurements fall, were as follows:

Millions 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 June 30, 2009</i>	
Assets – Derivative financial instruments	\$1	\$2
Liabilities – Derivative financial instruments	-	2
<i>As of December 31, 2008</i>		
Assets – Derivative financial instruments	4	7
Liabilities – Derivative financial instruments	-	6

There were no fair value measurements based on significant unobservable inputs (Level 3) for either period presented.

As required by SFAS 107 (ASC 820), as amended, financial instruments for which the carrying amount may not equal estimated fair value at June 30, 2009 and December 31, 2008 were as follows:

Millions of dollars	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$ 416.3	\$ 442.4	\$ 419.7	\$ 421.3

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. Potential taxes and other expenses that would be incurred in an actual sale or settlement have not been considered.

5. COMMITMENTS AND CONTINGENCIES

The Company is responsible for environmental cleanup at five sites in North Carolina on which manufactured gas plant (MGP) residuals are present or suspected. The Company'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. The Company has recorded a liability and associated regulatory asset of \$4.4 million, which reflects its estimated remaining liability at June 30, 2009. The Company expects to recover through rates any costs, net of insurance recoveries, allocable to the Company arising from the remediation of these sites.

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