

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

Thousands of dollars	September 30, 2009	December 31, 2008
Assets		
Gas Utility Plant	\$1,260,127	\$1,236,348
Accumulated Depreciation	(271,935)	(256,412)
Acquisition Adjustment	209,824	209,824
Gas Utility Plant, Net	1,198,016	1,189,760
Nonutility Property and Investments, Net	28,197	27,713
Current Assets:		
Cash and cash equivalents	1,040	7,352
Receivables, net of allowance for uncollectible accounts of \$426 and \$802	52,507	149,025
Receivables-affiliated companies	1,583	9,215
Inventories (at average cost):		
Stored gas	73,719	117,193
Materials and supplies	6,259	6,667
Derivative financial instruments	1,716	6,056
Prepayments and other	16,977	1,303
Total Current Assets	153,801	296,811
Deferred Debits and Other Assets:		
Regulatory assets	34,890	35,435
Other	2,747	3,255
Total Deferred Debits and Other Assets	37,637	38,690
Total	\$1,417,651	\$1,552,974

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

Thousands of dollars	September 30, 2009	December 31, 2008
Capitalization and Liabilities		
Common Equity	\$621,056	\$613,508
Long-term Debt, net	257,165	416,548
Total Capitalization	878,221	1,030,056
Current Liabilities:		
Short-term borrowings	69,100	45,800
Current portion of long-term debt	3,200	3,200
Accounts payable	15,186	55,760
Accounts payable-affiliated companies	4,568	6,533
Customer deposits and customer prepayments	30,197	22,230
Taxes accrued	4,694	203
Interest accrued	3,434	5,912
Distributions/dividends declared	8,100	5,700
Derivative financial instruments	-	2,531
Deferred income taxes, net	-	360
Other	5,349	6,170
Total Current Liabilities	143,828	154,399
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	140,994	126,289
Deferred investment tax credits	257	321
Due to parent-postretirement and other benefits	30,234	27,965
Regulatory liabilities	197,068	187,142
Asset retirement obligations	19,927	19,244
Other	7,122	7,558
Total Deferred Credits and Other Liabilities	395,602	368,519
Commitments and Contingencies (Note 6)	-	-
Total	\$1,417,651	\$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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Operating Revenues	\$48,200	\$75,679	\$373,351	\$442,377
Cost of Gas	20,267	48,897	223,395	297,871
Gross Margin	27,933	26,782	149,956	144,506
Operating Expenses:				
Operation and maintenance	21,140	20,550	62,813	65,020
Depreciation and amortization	9,469	9,249	28,408	27,742
Other taxes	2,083	1,988	6,825	6,867
Total Operating Expenses	32,692	31,787	98,046	99,629
Operating Income (Loss)	(4,759)	(5,005)	51,910	44,877
Other Income (Expense):				
Other revenues	3,541	3,991	10,402	12,647
Other expenses	(2,723)	(2,540)	(7,974)	(8,121)
Allowance for equity funds used during construction	100	236	298	572
Interest charges, net of AFC of \$240, \$110, \$298, and \$572	(4,923)	(5,864)	(15,599)	(17,388)
Total Other Expense	(4,005)	(4,177)	(12,873)	(12,290)
Income (Loss) Before Income Taxes and Earnings from Equity Method Investments	(8,764)	(9,182)	39,037	32,587
Income Tax Expense (Benefit)	(3,302)	(3,551)	15,571	13,005
Income (Loss) Before Earnings from Equity Method Investments	(5,462)	(5,631)	23,466	19,582
Earnings from Equity Method Investments	978	944	2,761	2,778
Net Income (Loss)	(\$4,484)	(\$4,687)	\$26,227	\$22,360

See Notes to Condensed Consolidated Financial Statements.

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

Nine Months Ended
September 30,
2009 2008

Thousands of dollars		
Cash Flows From Operating Activities:		
Net income	\$26,227	\$22,360
Adjustments to reconcile net income to net cash provided from operating activities:		
Excess earnings from equity method investments, net of distributions	(354)	(94)
Deferred income taxes, net	13,542	3,354
Depreciation and amortization	28,916	26,927
Allowance for equity funds used during construction	(298)	(572)
Changes in certain assets and liabilities:		
Receivables	104,150	93,373
Inventories	43,219	(41,181)
Prepayments and other	(11,163)	1,264
Regulatory assets	13	981
Regulatory liabilities	822	(498)
Accounts payable	(41,719)	(26,067)
Taxes accrued	4,491	(9,225)
Changes in other assets	(267)	1,975
Changes in other liabilities	4,589	(4,708)
Net Cash Provided From Operating Activities	172,168	67,889
Cash Flows From Investing Activities:		
Construction expenditures	(26,126)	(71,777)
Proceeds from sale of assets	-	90
Net Cash Used For Investing Activities	(26,126)	(71,687)
Cash Flows From Financing Activities:		
Short-term borrowings - affiliate	-	16,500
Short-term borrowings, net	23,300	(103,800)
Proceeds from issuance of debt	-	125,000
Debt issuance costs	(74)	-
Contributions from parent	3,319	1,768
Repayment of long-term debt	(159,200)	(3,200)
Distributions/dividends	(19,700)	(16,800)
Net Cash Used for (Provided From) Financing Activities	(152,355)	19,468
Net Increase (Decrease) in Cash and Cash Equivalents	(6,313)	15,670
Cash and Cash Equivalents, January 1	7,352	2,220
Cash and Temporary Investments, September 30	\$1,039	\$17,890
Supplemental Cash Flow Information:		
Cash paid for - Interest (net of capitalized interest of \$556 and \$264)	\$15,907	\$18,107
Income taxes, net of refunds	17,204	23,084
Noncash Investing and Financing Activities:		
Accrued construction expenditures	615	1,211

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,	
	2009	2008	2009	2008
Net Income (Loss)	(\$4,484)	(\$4,687)	\$26,227	\$22,360
Other Comprehensive Income (Loss):				
Unrealized Gain on Hedging Activities	3	551	288	34
Deferred Benefit (Cost) of Employee Benefit Plans	(5)	33	(5)	33
Reclassification to net income - amortization of deferred employee benefit plan costs, net of taxes	9	3	27	15
Total Comprehensive Income (Loss)	(\$4,477)	(\$4,100)	\$26,537	\$22,442

Accumulated other comprehensive loss totaled \$0.7 million as of September 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
September 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. The Company has evaluated subsequent events through November 16, 2009, which is the date these financial statements were issued.

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, references to previous GAAP have been replaced with references to the ASC.

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	September 30, 2009	December 31, 2008
Regulatory Assets:		
Environmental remediation costs	6,934	7,814
Asset retirement obligations	14,988	14,192
Deferred employee benefit plan costs	9,879	10,412
Other	3,089	3,017
Total Regulatory Assets	\$ 34,890	\$ 35,435
Regulatory Liabilities:		
Other asset removal costs	195,267	185,093
Other	1,801	2,049
Total Regulatory Liabilities	\$ 197,068	\$ 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 \$2.4 million are being recovered through rates over a period ending October 2011. 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.

Deferred employee benefit plan costs represent amounts of pension and other postretirement benefit costs which were accrued as liabilities 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 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 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 nine months ended September 30, 2009, these costs totaled \$3.7 million and \$10.8 million, respectively. For the three and nine months ended September 30, 2008, these costs totaled \$3.6 million and \$10.6 million, respectively. The Company owed these investees \$1.2 million at September 30, 2009 and December 31, 2008. The Company received cash distributions from equity investees of \$2.4 million and \$2.7 million for the nine months ended September 30, 2009 and 2008, respectively.

During the three and nine months ended September 30, 2009, the Company made sales to an affiliate of natural gas and transportation services of \$0.1 million and \$9.8 million, respectively. During the three and nine months ended September 30, 2008, the Company made sales to an affiliate of natural gas and transportation services of \$0.5 million and \$12.6 million, respectively.

The Company's equity investee Pine Needle LNG Company, L.L.C., which owns an interstate LNG storage facility in North Carolina, uses an interest rate swap designated as a cash flow hedge to manage interest risk on a variable rate debt instrument by converting it synthetically to a fixed rate. The Company'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 the Company's consolidated balance sheets. Pine Needle's long-term debt of \$24.2 million at September 30, 2009 is secured by Pine Needle's assets and by each member's equity investment in Pine Needle.

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 nine months ended September 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 2009.

C. New Accounting Matters

The Company adopted Statement of Financial Accounting Standards (SFAS) 165, codified as *ASC 855, Subsequent Events*, effective June 30, 2009. ASC 855 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.

The Company adopted FASB Staff Position FAS 107-1 and APB 28-1, codified as *ASC 825, Financial Instruments*, effective June 30, 2009. This Staff Position amended previous guidance to require certain disclosures related to fair value in interim financial statements. See Note 5 for the required disclosure.

The Company adopted SFAS 161, codified as *ASC 815, Derivatives and Hedging*, in the first quarter of 2009. ASC 815 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 entity'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 4 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 September 30, 2009, such counterparties held 48% of the Company's natural gas inventory with a value of \$32.0 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.

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 2009, in connection with PSNC Energy's 2009 Annual Prudence Review, the NCUC determined that PSNC Energy's gas costs, including all hedging transactions, were reasonable and prudently incurred during the 12 months ended March 31, 2009.

In September 2009, the NCUC approved the Company's semi-annual rate adjustment under the Customer Usage Tracker (CUT). The CUT allows the Company to adjust its base rates for residential and commercial customers based on average per customer consumption. As a result of this rate adjustment, increases for residential and commercial customers are in effect for service rendered on and after October 1, 2009. The previous semi-annual rate adjustment under the CUT, which was effective for service rendered from April 1 through September 30, 2009, resulted in rate decreases.

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 new rates were effective for services rendered on or after November 1, 2008.

3. LONG-TERM DEBT AND LIQUIDITY

In September 2009, the Company entered into an agreement to issue and sell \$100 million of ten-year unsecured notes. The Company has until March 31, 2010 to draw funds on the notes.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company recognizes all derivative instruments as either assets or liabilities in the statement of financial position and measures those instruments at fair value. The Company recognizes changes in the fair value of derivative instruments either in earnings or 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.

The Company 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

At September 30, 2009, the Company was party to natural gas derivative contracts for 2,285,000 dekatherms. Also at September 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 September 30, 2009 Millions of dollars	Asset Derivatives Balance Sheet Location	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	Prepayments and other	\$ 2
Total		<u>\$ 2</u>

As of September 30, 2009, all of the Company's hedging instruments were asset derivatives.

The Company's interest rate swap designated as a fair value hedge resulted in reductions to interest expense for the three months and nine months ended September 30, 2009 of \$0.1 million and \$0.4 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 September 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 September 30, 2009, the Company would be required to post \$0.9 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 September 30, 2009, is \$0.9 million.

5. FAIR VALUE MEASUREMENTS, 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 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 September 30, 2009</i>		
Assets – Derivative financial instruments	\$1	\$2
Liabilities – Derivative financial instruments	-	-
<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.

The financial instruments for which the carrying amount may not equal estimated fair value at September 30, 2009 and December 31, 2008 were as follows:

Millions of dollars	September 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$ 260.4	\$ 293.4	\$ 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.

6. 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 September 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.