

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

Thousands of dollars	March 31, 2010	December 31, 2009
Assets		
Gas Utility Plant	\$1,277,096	\$1,268,289
Accumulated Depreciation	(280,480)	(274,989)
Goodwill, net of accumulated amortization and writedown of \$256	209,824	209,824
Gas Utility Plant, Net	1,206,440	1,203,124
Nonutility Property and Investments, Net	28,691	28,094
Current Assets:		
Cash and cash equivalents	965	3,035
Receivables, net of allowance for uncollectible accounts of \$1,111 and \$743	132,593	130,771
Receivables-affiliated companies	84,912	3,742
Inventories (at average cost):		
Stored gas	23,617	60,995
Materials and supplies	5,684	6,039
Derivative financial instruments	729	776
Deferred income taxes, net	354	353
Prepayments and other	718	2,575
Total Current Assets	249,572	208,286
Deferred Debits and Other Assets:		
Regulatory assets	33,252	33,631
Other	3,327	2,379
Total Deferred Debits and Other Assets	36,579	36,010
Total	\$1,521,282	\$1,475,514

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

Thousands of dollars	March 31, 2010	December 31, 2009
Capitalization and Liabilities		
Capitalization:		
Common equity	\$653,375	\$628,878
Long-term debt, net	207,024	256,943
Total Capitalization	860,399	885,821
Current Liabilities:		
Short-term borrowings	4,300	81,200
Current portion of long-term debt	153,200	3,200
Accounts payable	32,544	40,379
Accounts payable-affiliated companies	2,153	3,208
Customer deposits and customer prepayments	19,183	31,796
Taxes accrued	28,303	8,776
Interest accrued	3,440	5,742
Distributions/dividends declared	6,500	8,900
Other	5,130	5,478
Total Current Liabilities	254,753	188,679
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	145,797	144,716
Deferred investment tax credits	215	236
Due to parent-postretirement and other benefits	32,289	31,583
Regulatory liabilities	202,982	199,815
Asset retirement obligations	17,777	17,543
Other	7,070	7,121
Total Deferred Credits and Other Liabilities	406,130	401,014
Commitments and Contingencies (Note 6)	-	-
Total	\$1,521,282	\$1,475,514

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Three Months Ended	
	March 31,	
	2010	2009
Operating Revenues	\$247,694	\$263,084
Cost of Gas	160,581	177,628
Gross Margin	87,113	85,456
Operating Expenses:		
Operation and maintenance	21,714	20,080
Depreciation and amortization	9,685	9,471
Other taxes	2,466	2,417
Total Operating Expenses	33,865	31,968
Operating Income	53,248	53,488
Other Income (Expense):		
Other revenues	4,344	3,625
Other expenses	(3,198)	(2,985)
Allowance for equity funds used during construction	154	95
Interest charges, net of allowance for borrowed funds used during construction of \$48 and \$133	(4,968)	(5,456)
Total Other Expense	(3,668)	(4,721)
Income Before Income Taxes and Earnings from Equity Method Investments	49,580	48,767
Income Tax Expense	(19,549)	(19,141)
Income Before Earnings from Equity Method Investments	30,031	29,626
Earnings from Equity Method Investments	951	847
Net Income	\$30,982	\$30,473

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Three Months Ended March 31,	
	2010	2009
Cash Flows From Operating Activities:		
Net income	\$30,982	\$30,473
Adjustments to reconcile net income to net cash provided from operating activities:		
Earnings from equity method investments, net of distributions	(586)	6
Deferred income taxes, net	711	2,950
Depreciation and amortization	9,861	9,620
Allowance for equity funds used during construction	(154)	(95)
Cash provided (used) by changes in certain assets and liabilities:		
Receivables	(3,292)	28,085
Inventories	37,491	72,158
Regulatory assets	172	368
Regulatory liabilities	1	(359)
Accounts payable	(7,728)	(30,937)
Taxes accrued	19,527	17,968
Changes in other assets	715	753
Changes in other liabilities	(13,764)	4,217
Net Cash Provided From Operating Activities	73,936	135,207
Cash Flows From Investing Activities:		
Utility property additions and construction expenditures	(10,486)	(9,209)
Short-term investment - affiliate	(79,700)	-
Net Cash Used For Investing Activities	(90,186)	(9,209)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	99,980	-
Distributions/dividends	(8,900)	(5,700)
Short-term borrowings, net	(76,900)	(32,100)
Net Cash Provided From (Used for) Financing Activities	14,180	(37,800)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,070)	88,198
Cash and Cash Equivalents, January 1	3,035	7,532
Cash and Cash Equivalents, March 31	\$965	\$95,730
Supplemental Cash Flow Information:		
Cash paid for - Interest (net of capitalized interest of \$47 and \$133)	\$6,706	\$7,030
- Income taxes	-	-
Noncash Investing and Financing Activities:		
Accrued construction expenditures	756	2,264

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 March 31,	
	2010	2009
Net Income	\$30,982	\$30,473
Other Comprehensive Income:		
Unrealized gain on hedging activities	7	233
Reclassification to net income - amortization of deferred employee benefit plan costs, net of taxes	8	9
Total Comprehensive Income	\$30,997	\$30,715

Accumulated other comprehensive loss totaled \$0.6 million as of March 31, 2010 and \$0.7 million as of December 31, 2009.

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(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, 2009. 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 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.

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 in the following tables. Substantially all of its regulatory assets are either explicitly excluded from rate base or are effectively excluded from rate base due to their being offset by related liabilities.

Thousands of dollars	March 31, 2010	December 31, 2009
Regulatory Assets:		
Environmental remediation costs	6,352	6,643
Asset retirement obligations	13,700	13,435
Deferred employee benefit plan costs	10,409	10,615
Other	2,791	2,938
Total Regulatory Assets	\$ 33,252	\$ 33,631
Regulatory Liabilities:		
Other asset removal costs	201,814	198,309
Other	1,168	1,506
Total Regulatory Liabilities	\$ 202,982	\$ 199,815

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 \$1.8 million are being recovered through rates over a period ending October 2011.

Asset retirement obligations (ARO) represents 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 a North Carolina Utilities Commission (NCUC) order. These deferred costs are expected to be recovered over average service periods of participating employees, or up to approximately 14 years.

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 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 or changes in accounting requirements, the Company 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 owns 17% of Pine Needle LNG Company, L.L.C. (Pine Needle), an LNG storage facility in North Carolina, and 33.21% of Cardinal Pipeline Company, L.L.C. (Cardinal), an intrastate natural gas pipeline. The Company accounts for each of these investments using the equity method.

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 months ended March 31, 2010 and 2009, these costs totaled \$3.6 and \$3.5 million, respectively. The Company owed these investees \$1.2 million at March 31, 2010 and December 31, 2009. The Company received cash distributions from these investees of \$0.4 million and \$0.9 million for the three months ended March 31, 2010 and 2009, respectively.

Pine Needle 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, which is secured by Pine Needle's assets and by each member's equity investment in Pine Needle, totaled \$21.8 million at March 31, 2010 and \$23.0 million at December 31, 2009.

During the three months ended March 31, 2010 and 2009, the Company had sales to an affiliate for natural gas and transportation services of \$9.5 million and \$9.9 million, respectively.

The Company participates in the utility money pool of SCANA Corporation (SCANA, the Company's parent). Money pool borrowings and investments bear interest at short-term market rates. The Company's interest income and expense on money pool transactions for the three months ended March 31, 2010 and 2009 were not significant. At March 31, 2010, the Company had \$79.7 million in money pool investments.

C. New Accounting Matters

Effective January 1, 2010, the Company adopted accounting guidance that requires additional disclosures for assets and liabilities recorded at fair value. This guidance requires disclosure of fair values for each class of assets and liabilities. In addition, when the basis for measuring the fair value of a previously recorded asset or liability changes, this guidance requires disclosure of values transferred between Levels 1 and 2 of the fair value hierarchy, if significant. The initial adoption of this guidance did not impact the Company's results of operations, cash flows or financial position.

Effective January 1, 2010, the Company adopted accounting guidance that replaces the quantitative based calculation for determining which reporting entity has a controlling interest in a variable interest entity with a qualitative approach. The guidance also requires additional disclosures about a reporting entity's involvement with variable interest entities and any significant changes in risk exposure. The initial adoption of this guidance did not impact the Company's results of operations, cash flows or financial position.

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 March 31, 2010, such counterparties held 40% of the Company's natural gas inventory with a value of \$7.8 million, through either capacity release or agency relationships. Under the terms of the asset management agreements, the Company receives storage asset management fees. 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 addition, the Company utilizes a Customer Usage Tracker (CUT) which allows it to adjust its base rates for residential and commercial customers based on average per customer consumption.

In February 2010, the NCUC approved a 10 cent increase in the cost of gas component of the Company's rates. The rate adjustment was effective with the first billing cycle in March 2010.

3. LONG-TERM DEBT AND LIQUIDITY

In March 2010, the Company issued \$100 million of 6.54% unsecured notes due March 30, 2020. Proceeds from these notes were used to pay down short-term debt and for general corporate purposes.

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, 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 the Company. SCANA's 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

The Company was party to natural gas derivative contracts for 5,183,000 dekatherms at March 31, 2010 and 5,108,000 dekatherms at March 31, 2009. The Company was a party to an interest rate swap designated as fair value hedge with a notional amount of \$9.6 million at March 31, 2010 and \$12.8 million at March 31, 2009.

At March 31, 2010, the fair value of energy related derivatives and interest rate derivatives was reflected in the balance sheet as follows:

As of March 31, 2010 Millions of dollars	Fair Values of Derivative Instruments		Fair Value
	Asset Derivatives		
	Balance Sheet Location		
Derivatives designated as hedging instruments			
Interest rate contracts	Deferred debits and other assets - other	\$	\$0.6
Derivatives not designated as hedging instruments			
Commodity contracts	Derivative financial instruments	\$	\$0.7

As of March 31, 2010, 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 quarter ended March 31, 2010 of \$0.1 million.

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 March 31, 2010, 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 March 31, 2010, the Company would be required to post no collateral to its counterparties. The Company has no derivative instruments with contingent provisions that are in a net liability position as of March 31, 2010.

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 March 31, 2010</i>		
Assets – Derivative financial instruments	\$0.4	\$1
<i>As of December 31, 2009</i>		
Assets – Derivative financial instruments	\$0.4	\$0.8

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 or 2 during any period presented.

The financial instruments for which the carrying amount may not equal estimated fair value at March 31, 2010 and December 31, 2009 were as follows:

Millions of dollars	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$ 360.2	\$ 396.7	\$ 260.1	\$ 283.5

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 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 March 31, 2010. Any cost allocable to the Company arising from the remediation of these sites is expected to be recovered through rates.

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.