

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

<b>Thousands of dollars</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Gas Utility Plant	\$1,292,937	\$1,268,289
Accumulated Depreciation	(285,838)	(274,989)
Goodwill, net of accumulated amortization and writedown of \$256	209,824	209,824
Gas Utility Plant, Net	1,216,923	1,203,124
 Nonutility Property and Investments, Net	 29,138	 28,094
 Current Assets:		
Cash and cash equivalents	5,630	3,035
Receivables, net of allowance for uncollectible accounts of \$710 and \$743	72,071	130,771
Receivables-affiliated companies	73,805	3,742
Inventories (at average cost):		
Stored gas	43,578	60,995
Materials and supplies	6,033	6,039
Derivative financial instruments	2,296	776
Deferred income taxes, net	354	353
Prepayments and other	4,183	2,575
Total Current Assets	207,950	208,286
 Deferred Debits and Other Assets:		
Regulatory assets	33,035	33,631
Other	1,966	2,379
Total Deferred Debits and Other Assets	35,001	36,010
Total	\$1,489,012	\$1,475,514

Thousands of dollars	2010	2009
<b>Capitalization and Liabilities</b>		
Capitalization:		
Common equity	\$651,165	\$628,878
Long-term debt, net	208,733	256,943
<b>Total Capitalization</b>	<b>859,898</b>	<b>885,821</b>
Current Liabilities:		
Short-term borrowings	-	81,200
Current portion of long-term debt	154,093	3,200
Accounts payable	22,547	40,379
Accounts payable-affiliated companies	4,958	3,208
Customer deposits and customer prepayments	14,061	31,796
Taxes accrued	3,376	8,776
Interest accrued	7,388	5,742
Distributions/dividends declared	6,500	8,900
Other	4,669	5,478
<b>Total Current Liabilities</b>	<b>217,592</b>	<b>188,679</b>
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	146,804	144,716
Deferred investment tax credits	194	236
Due to parent-postretirement and other benefits	33,045	31,583
Regulatory liabilities	206,287	199,815
Asset retirement obligations	18,012	17,543
Other	7,180	7,121
<b>Total Deferred Credits and Other Liabilities</b>	<b>411,522</b>	<b>401,014</b>
Commitments and Contingencies (Note 6)	-	-
<b>Total</b>	<b>\$1,489,012</b>	<b>\$1,475,514</b>

See Notes to Condensed Consolidated Financial Statements.

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

<b>Thousands of dollars</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Operating Revenues	\$59,688	\$62,067	\$307,382	\$325,151
Cost of Gas	22,794	25,500	183,375	203,127
<b>Gross Margin</b>	<b>36,894</b>	<b>36,567</b>	<b>124,007</b>	<b>122,024</b>
Operating Expenses:				
Operation and maintenance	22,524	21,591	44,237	41,673
Depreciation and amortization	9,684	9,468	19,371	18,939
Other taxes	2,497	2,326	4,963	4,743
<b>Total Operating Expenses</b>	<b>34,705</b>	<b>33,385</b>	<b>68,571</b>	<b>65,355</b>
Operating Income	2,189	3,182	55,436	56,669
Other Income (Expense):				
Other revenues	3,919	3,236	8,263	6,861
Other expenses	(2,727)	(2,266)	(5,925)	(5,251)
Allowance for equity funds used during construction	200	103	354	198
Interest charges, net of allowance for borrowed funds used during construction of \$60, \$183, \$107 and \$316	(6,506)	(5,220)	(11,474)	(10,676)
<b>Total Other Expense</b>	<b>(5,114)</b>	<b>(4,147)</b>	<b>(8,782)</b>	<b>(8,868)</b>
Income Before Income Taxes and Earnings from Equity Method Investments	(2,925)	(965)	46,654	47,801
Income Tax Benefit (Expense)	1,079	268	(18,469)	(18,873)
Income Before Earnings from Equity Method Investments	(1,846)	(697)	28,185	28,928
Earnings from Equity Method Investments	931	936	1,882	1,783
<b>Net Income (Loss)</b>	<b>(\$915)</b>	<b>\$239</b>	<b>\$30,067</b>	<b>\$30,711</b>

See Notes to Condensed Consolidated Financial Statements.

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

<b>Thousands of dollars</b>	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$30,067	\$30,711
Adjustments to reconcile net income to net cash provided from operating activities:		
Earnings from equity method investments, net of distributions	(\$1,019)	(\$208)
Deferred income taxes, net	1,587	5,430
Depreciation and amortization	19,719	19,236
Allowance for equity funds used during construction	(354)	(198)
Cash provided (used) by changes in certain assets and liabilities:		
Receivables	60,736	104,198
Inventories	16,922	58,257
Regulatory assets	184	307
Regulatory liabilities	(38)	7,006
Accounts payable	(15,033)	(36,518)
Taxes accrued	(5,401)	3,180
Changes in other assets	(3,358)	(7,153)
Changes in other liabilities	(14,416)	(2,984)
<b>Net Cash Provided From Operating Activities</b>	<b>89,596</b>	<b>181,264</b>
<b>Cash Flows From Investing Activities:</b>		
Utility property additions and construction expenditures	(20,256)	(17,535)
Short-term investment - affiliate	(79,700)	-
Proceeds from short-term investment – affiliate	7,600	-
<b>Net Cash Used For Investing Activities</b>	<b>(92,356)</b>	<b>(17,535)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from issuance of long-term debt	99,966	-
Contributions from parent	5,188	3,319
Retirement of long-term debt	(3,200)	(3,200)
Distributions/dividends	(15,400)	(12,000)
Short-term borrowings, net	(81,200)	(25,800)
<b>Net Cash Provided From (Used for) Financing Activities</b>	<b>5,354</b>	<b>(37,681)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,594</b>	<b>126,048</b>
<b>Cash and Cash Equivalents, January 1</b>	<b>3,035</b>	<b>7,532</b>
<b>Cash and Cash Equivalents, June 30</b>	<b>\$5,629</b>	<b>\$133,580</b>
<b>Supplemental Cash Flow Information:</b>		
Cash paid for - Interest (net of capitalized interest of \$107 and \$316)	\$8,684	\$9,280
- Income taxes	26,904	17,205
<b>Noncash Investing and Financing Activities:</b>		
Accrued construction expenditures	\$1,345	\$1,487
Capital lease of gas utility plant	6,000	-

See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 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 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 August 24, 2010, which is the date these financial statements were issued.

**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, which are 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	June 30, 2010	December 31, 2009
<b>Regulatory Assets:</b>		
Environmental remediation costs	\$ 6,060	\$ 6,643
Asset retirement obligations	13,966	13,435
Deferred employee benefit plan costs	10,203	10,615
Other	2,806	2,938
<b>Total Regulatory Assets</b>	<b>\$ 33,035</b>	<b>\$ 33,631</b>
<b>Regulatory Liabilities:</b>		
Other asset removal costs	\$ 205,256	\$ 198,309
Other	1,031	1,506
<b>Total Regulatory Liabilities</b>	<b>\$ 206,287</b>	<b>\$ 199,815</b>

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 \$1.6 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 and six months ended June 30, 2010, these costs totaled \$3.6 million and \$7.2 million, respectively. For the three and six months ended June 30, 2009, these costs totaled \$3.6 million and \$7.1 million, respectively. The Company owed these investees \$1.2 million at June 30, 2010 and December 31, 2009. The Company received cash distributions from these investees of \$0.9 million and \$1.6 million for the six months ended June 30, 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 \$20.6 million at June 30, 2010 and \$23.0 million at December 31, 2009.

During the three and six months ended June 30, 2010, the Company made natural gas purchases from an affiliate of \$0.1 million and \$0.6 million, respectively. For each of the three and six months ended June 30, 2009, the Company made natural gas purchases from an affiliate of \$0.2 million. During the six months ended June 30, 2010 and 2009, the Company made sales to an affiliate for natural gas and transportation services of \$10.0 million and \$9.9 million, respectively. For each of the three months ended June 30, 2010 and 2009, sales to an affiliate for natural gas and transportation services were not significant.

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 and six months ended June 30, 2010 and 2009 were not significant. At June 30, 2010, the Company had \$72.1 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 June 30, 2010, such counterparties held 46% of the Company's natural gas inventory with a value of \$18 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.

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%. The leased asset is recorded in gas utility plant, and the associated liability is recorded in long-term debt on the balance sheet.

### 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 8,198,000 dekatherms at June 30, 2010 and 7,830,000 dekatherms at June 30, 2009. The Company was a party to an interest rate swap designated as fair value hedge with a notional amount of \$6.4 million at March 31, 2010 and \$9.6 million at March 31, 2009.

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

Millions of dollars	Fair Values of Derivative Instruments	
	Balance Sheet Location	Fair Value
		Asset Derivatives
		June 30, 2010
		December 31, 2009
<b>Derivatives designated as hedging instruments</b>		
Interest rate contracts	Deferred debits and other assets - other	\$0.4
		\$0.5
<b>Derivatives not designated as hedging instruments</b>		
Commodity contracts	Derivative financial instruments	\$2.3
		\$0.7

As of June 30, 2010 and December 31, 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 and six months ended June 30, 2010 of \$0.1 and \$0.2, 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, 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 June 30, 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 June 30, 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 June 30, 2010</i>		
Assets – Derivative financial instruments	\$1.1	\$1.7
<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	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$ 356.8	\$ 406.1	\$ 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 \$4.3 million, which reflects its estimated remaining liability at June 30, 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.