

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

Thousands of dollars	September 30, 2010	December 31, 2009
Assets		
Gas Utility Plant	\$1,304,800	\$1,268,289
Accumulated Depreciation	(290,970)	(274,989)
Goodwill, net of accumulated amortization and writedown of \$256,300	209,824	209,824
Gas Utility Plant, Net	1,223,654	1,203,124
Nonutility Property and Investments, Net	27,443	28,094
Current Assets:		
Cash and cash equivalents	2,144	3,035
Receivables, net of allowance for uncollectible accounts of \$547 and \$743	72,635	130,771
Receivables-affiliated companies	42,771	3,742
Inventories (at average cost):		
Stored gas	63,297	60,995
Materials and supplies	6,108	6,039
Prepayments and other	10,513	3,704
Total Current Assets	197,468	208,286
Deferred Debits and Other Assets:		
Regulatory assets	31,874	33,631
Other	1,900	2,379
Total Deferred Debits and Other Assets	33,774	36,010
Total	\$1,482,339	\$1,475,514

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

Thousands of dollars	September 30, 2010	December 31, 2009
Capitalization and Liabilities		
Capitalization:		
Common equity	\$638,962	\$628,878
Long-term debt, net	208,559	256,943
Total Capitalization	847,521	885,821
Current Liabilities:		
Short-term borrowings	-	81,200
Current portion of long-term debt	154,078	3,200
Accounts payable	19,697	40,379
Accounts payable-affiliated companies	4,313	3,208
Customer deposits and customer prepayments	18,907	31,796
Taxes accrued	5,018	8,776
Interest accrued	3,421	5,742
Distributions/dividends declared	7,400	8,900
Other	6,075	5,478
Total Current Liabilities	218,909	188,679
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	147,965	144,716
Deferred investment tax credits	173	236
Due to parent-postretirement and other benefits	32,504	31,583
Regulatory liabilities	209,615	199,815
Asset retirement obligations	18,246	17,543
Other	7,406	7,121
Total Deferred Credits and Other Liabilities	415,909	401,014
Commitments and Contingencies (Note 6)	-	-
Total	\$1,482,339	\$1,475,514

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		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Operating Revenues	\$48,395	\$48,200	\$355,777	\$373,351
Cost of Gas	20,037	20,267	203,411	223,395
Gross Margin	28,358	27,933	152,366	149,956
Operating Expenses:				
Operation and maintenance	21,275	21,140	65,512	62,813
Depreciation and amortization	9,665	9,469	29,036	28,408
Other taxes	2,476	2,083	7,439	6,825
Total Operating Expenses	33,416	32,692	101,987	98,046
Operating Income (Loss)	(5,058)	(4,759)	50,379	51,910
Other Income (Expense):				
Other revenues	4,648	3,541	12,911	10,402
Other expenses	(2,890)	(2,723)	(8,816)	(7,974)
Allowance for equity funds used during construction	116	100	470	298
Interest charges, net of allowance for borrowed funds used during construction of \$35, \$240, \$142 and \$556	(6,431)	(4,923)	(17,905)	(15,599)
Total Other Expense	(4,557)	(4,005)	(13,340)	(12,873)
Income (Loss) Before Income Taxes and Earnings from Equity Method Investments	(9,615)	(8,764)	37,039	39,037
Income Tax Benefit (Expense)	3,664	3,302	(14,804)	(15,571)
Income (Loss) Before Earnings from Equity Method Investments	(5,951)	(5,462)	22,235	23,466
Earnings from Equity Method Investments	944	978	2,826	2,761
Net Income (Loss)	(\$5,007)	(\$4,484)	\$25,061	\$26,227

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,	
	2010	2009
Cash Flows From Operating Activities:		
Net income	\$25,061	\$26,227
Adjustments to reconcile net income to net cash provided from operating activities:		
Distributions from equity method investments, net of earnings	938	(\$354)
Deferred income taxes, net	2,531	13,542
Depreciation and amortization	29,409	28,916
Allowance for equity funds used during construction	(470)	(298)
Cash provided (used) by changes in certain assets and liabilities:		
Receivables	60,306	104,150
Inventories	(3,225)	43,219
Regulatory assets	170	13
Regulatory liabilities	(91)	822
Accounts payable	(19,807)	(41,719)
Taxes accrued	(3,758)	4,491
Changes in other assets	(7,073)	(267)
Changes in other liabilities	(11,062)	(6,574)
Net Cash Provided From Operating Activities	72,929	172,168
Cash Flows From Investing Activities:		
Utility property additions and construction expenditures	(31,474)	(26,126)
Short-term investment - affiliate	(79,700)	-
Proceeds from short-term investment - affiliate	38,500	-
Net Cash Used For Investing Activities	(72,674)	(26,126)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	99,966	-
Debt issuance costs	-	(74)
Contributions from parent	5,188	3,319
Retirement of long-term debt	(3,200)	(159,200)
Dividends/distributions	(21,900)	(19,700)
Short-term borrowings, net	(81,200)	23,300
Net Cash Used for Financing Activities	(1,146)	(152,355)
Net Decrease in Cash and Cash Equivalents	(891)	(6,313)
Cash and Cash Equivalents, January 1	3,035	7,352
Cash and Cash Equivalents, September 30	\$2,144	\$1,039
Supplemental Cash Flow Information:		
Cash paid for - Interest (net of capitalized interest of \$142 and \$556)	\$18,635	\$15,907
- Income taxes	28,190	17,204
Noncash Investing and Financing Activities:		
Accrued construction expenditures	\$1,874	\$615
Capital lease of gas utility plant	6,000	-

See Notes to Condensed Consolidated Financial Statements.

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

<u>Thousands of dollars</u>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Income (Loss)	(\$5,007)	(\$4,484)	\$25,061	\$26,227
Other Comprehensive Income (Loss):				
Unrealized Gain on Hedging Activities	158	3	173	288
Reclassification to net income - amortization of deferred employee benefit plan costs, net of taxes	46	4	63	22
Total Comprehensive Income (Loss)	(\$4,803)	(\$4,477)	\$25,297	\$26,537

Accumulated other comprehensive loss totaled \$0.4 million and \$0.7 million as of September 30, 2010 and December 31, 2009, respectively.

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 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 November 16, 2010, which is the date these financials 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	September 30, 2010	December 31, 2009
Regulatory Assets:		
Environmental remediation costs	\$ 5,768	\$ 6,643
Asset retirement obligations	14,231	13,435
Deferred employee benefit plan costs	9,029	10,615
Other	2,846	2,938
Total Regulatory Assets	\$ 31,874	\$ 33,631
Regulatory Liabilities:		
Other asset removal costs	\$ 208,700	\$ 198,309
Other	915	1,506
Total Regulatory Liabilities	\$ 209,615	\$ 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 \$1.3 million are being recovered through rates over a period ending October 2011. Remaining costs of \$4.3 million have been deferred pending future approval of rate recovery.

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.

Other regulatory assets relate primarily to gas pipeline safety expenditures, most of which have been deferred pending future approval of rate recovery.

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 records as cost of gas the storage and transportation costs charged by its equity method investees. These costs totaled \$3.6 million and \$10.8 million for the three and nine months ended September 30, 2010 and totaled \$3.7 million and \$10.8 million for the corresponding periods in 2009, respectively. The Company owed these investees \$1.2 million at September 30, 2010 and December 31, 2009. The Company received cash distributions from these investees of \$3.8 million and \$2.4 million for the nine months ended September 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.

The Company made natural gas purchases from an affiliate totaling approximately \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2010, respectively. Purchases from an affiliate for the three and nine months ended September 30, 2009, were not significant. The Company made sales to an affiliate for natural gas and transportation services totaling approximately \$10.0 million for each of the nine months ended September 30, 2010 and 2009. Sales to an affiliate for each of the three months ended September 30, 2010 and 2009 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 nine months ended September 30, 2010 and 2009 were not significant. At September 30, 2010, the Company had \$41.2 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.

Effective December 31, 2010, the Company will adopt new accounting guidance that requires additional disclosures intended to assist financial statement users in assessing credit risk exposures and evaluating the adequacy of allowance for credit losses. The Company is continuing to evaluate this new guidance, but does not expect its initial adoption to 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 September 30, 2010, such counterparties held 49% of the Company's natural gas inventory with a value of \$28.9 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 semiannually for residential and commercial customers based on average per customer consumption.

In October 2010, the NCUC approved a 12.5 cent per therm decrease in the cost of gas component of the Company's rates. The rate adjustment was effective with the first billing cycle in November 2010. 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.

In October 2010, in connection with the Company's 2010 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, 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, the Company entered into a capital lease for gas transmission capacity. Under terms of the lease, the Company 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.

As of September 30, 2010, the Company had no amounts outstanding under its \$250 million credit facility. This credit agreement with a maturity of December 11, 2011 was terminated effective October 25, 2010.

On October 25, 2010, the Company entered into a \$100 million Five-Year Credit Agreement with a maturity date of October 23, 2015. The credit agreement will be used for general corporate purposes, including liquidity support for the Company's commercial paper program and working capital needs. The new committed long-term facility is a revolving line of credit under credit agreements with a syndicate of banks. The bank credit facility supports the issuance of commercial paper by the Company. 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 the Company.

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 for accounting purposes.

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 7,944,000 dekatherms at September 30, 2010 and 2,285,000 dekatherms at September 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 September 30, 2010 and \$9.6 million at September 30, 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	September 30, 2010	December 31, 2009
Derivative designated as hedging instruments			
Interest rate contracts	Deferred debits and other assets – other	\$0.5	\$0.5
Derivatives not designated as hedging instruments			
Commodity contracts	Current assets – prepayments and other	\$0.3	\$0.3

The Company's interest rate swap designated as a fair value hedge resulted in reductions to interest expense for the three and nine months ended September 30, 2010 of \$0.1 million and \$0.3million, 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, 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 September 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 September 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 September 30, 2010</i>		
Assets – Derivative financial instruments	\$0.2	\$0.6
<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 September 30, 2010 and December 31, 2009 were as follows:

Millions of dollars	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$ 362.6	\$ 416.5	\$ 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 September 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.