

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

Thousands of dollars	March 31, 2009	December 31, 2008
<b>Assets</b>		
Gas Utility Plant	\$1,243,805	\$1,236,348
Accumulated Depreciation	(261,833)	(256,412)
Acquisition Adjustment	209,824	209,824
<b>Gas Utility Plant, Net</b>	<b>1,191,796</b>	<b>1,189,760</b>
<b>Nonutility Property and Investments, Net</b>	<b>27,748</b>	<b>27,713</b>
<b>Current Assets:</b>		
Cash and cash equivalents	95,550	7,352
Receivables, net of allowance for uncollectible accounts of \$985 and \$802	120,856	149,025
Receivables-affiliated companies	8,560	9,215
Inventories (at average cost):		
Stored gas	45,055	117,193
Materials and supplies	6,534	6,667
Derivative financial instruments	1,401	6,056
Other	824	1,303
<b>Total Current Assets</b>	<b>278,780</b>	<b>296,811</b>
<b>Deferred Debits and Other Assets:</b>		
Regulatory assets	35,116	35,435
Other	2,949	3,255
<b>Total Deferred Debits and Other Assets</b>	<b>38,065</b>	<b>38,690</b>
<b>Total</b>	<b>\$1,536,389</b>	<b>\$1,552,974</b>

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

Thousands of dollars	March 31, 2009	December 31, 2008
<b>Capitalization and Liabilities</b>		
Capitalization:		
Common Equity	\$637,714	\$613,508
Long-term Debt, net	416,584	416,548
<b>Total Capitalization</b>	<b>1,054,298</b>	<b>1,030,056</b>
Current Liabilities:		
Short-term borrowings	13,700	45,800
Current portion of long-term debt	3,200	3,200
Accounts payable	27,651	55,760
Accounts payable-affiliated companies	2,593	6,533
Customer deposits and customer prepayments	24,773	22,230
Taxes accrued	18,171	203
Interest accrued	3,526	5,912
Distributions/dividends declared	6,300	5,700
Derivative financial instruments	1,792	2,531
Deferred income taxes, net	204	360
Other	4,786	6,170
<b>Total Current Liabilities</b>	<b>106,696</b>	<b>154,399</b>
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	129,418	126,289
Deferred investment tax credits	299	321
Due to parent-postretirement and other benefits	28,771	27,965
Regulatory liabilities	190,415	187,142
Asset retirement obligations	19,471	19,244
Other	7,021	7,558
<b>Total Deferred Credits and Other Liabilities</b>	<b>375,395</b>	<b>368,519</b>
Commitments and Contingencies (Note 5)	-	-
<b>Total</b>	<b>\$1,536,389</b>	<b>\$1,552,974</b>

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,	
	2009	2008
Operating Revenues	\$263,084	\$277,367
Cost of Gas	177,628	194,240
Gross Margin	85,456	83,127
Operating Expenses:		
Operation and maintenance	20,080	22,516
Depreciation and amortization	9,471	9,258
Other taxes	2,417	2,490
Total Operating Expenses	31,968	34,264
Operating Income	53,488	48,863
Other Income (Expense):		
Other revenues	3,625	4,464
Other expenses	(2,985)	(2,769)
Allowance for equity funds used during construction	95	234
Interest charges, net of AFC of \$133 and \$103	(5,456)	(6,128)
Total Other Expense	(4,721)	(4,199)
Income Before Income Taxes and Earnings from Equity Method Investments	48,767	44,664
Income Tax Expense	(19,141)	(17,599)
Income Before Earnings from Equity Method Investments	29,626	27,065
Earnings from Equity Method Investments	847	886
Net Income	\$30,473	\$27,951

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,	
	2009	2008
<b>Cash Flows From Operating Activities:</b>		
Net income	\$30,473	\$27,951
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	9,620	8,976
Allowance for equity funds used during construction	(95)	(234)
Excess distributions, net of earnings from equity method investments	6	105
Cash provided (used) by changes in certain assets and liabilities:		
Receivables	21,945	(6,319)
Inventories	72,158	54,229
Other regulatory assets	368	393
Other regulatory liabilities	(359)	(338)
Accounts payable	(30,937)	(15,434)
Deferred income taxes, net	2,950	1,046
Taxes accrued	17,968	9,735
Changes in gas cost adjustment clauses	18,584	22,493
Changes in other assets	753	1,577
Changes in other liabilities	(8,227)	(8,657)
Net Cash Provided From Operating Activities	135,207	95,523
<b>Cash Flows From Investing Activities:</b>		
Construction expenditures, net of AFC	(9,209)	(27,946)
Proceeds from sale of assets	-	90
Net Cash Used For Investing Activities	(9,209)	(27,856)
<b>Cash Flows From Financing Activities:</b>		
Short-term borrowings, net	(32,100)	(62,600)
Contributions from parent	-	240
Distributions/dividends	(5,700)	(5,600)
Net Cash Used for Financing Activities	(37,800)	(67,960)
Net Increase (Decrease) in Cash and Cash Equivalents	88,198	(293)
Cash and Cash Equivalents, January 1	7,532	6,038
Cash and Temporary Investments, March 31	\$95,730	\$5,745
<b>Supplemental Cash Flow Information:</b>		
Cash paid for - Interest (net of capitalized interest of \$133 and \$103)	\$7,030	\$7,740
Income taxes	-	8,516
<b>Noncash Investing and Financing Activities:</b>		
Accrued construction expenditures	2,264	2,264

See Notes to Condensed Consolidated Financial Statements.

**PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 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 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 accounts for its regulated utility operations, assets and liabilities in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 requires cost-based rate-regulated utilities to recognize in their 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	March 31, 2009	December 31, 2008
<b>Regulatory Assets:</b>		
Environmental remediation costs	7,523	7,814
Asset retirement obligations	14,458	14,192
Deferred employee benefit plan costs	10,194	10,412
Other	2,941	3,017
<b>Total Regulatory Assets</b>	<b>\$ 35,116</b>	<b>\$ 35,435</b>
<b>Regulatory Liabilities:</b>		
Other asset removal costs	188,723	185,093
Other	1,691	2,049
<b>Total Regulatory Liabilities</b>	<b>\$ 190,414</b>	<b>\$ 187,142</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 \$3.5 million are being recovered over a three-year period beginning November 2008. In addition, management believes that estimated remaining costs of \$4.5 million will be recoverable through rates.

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

Deferred employee benefit plan costs represent amounts of pension and other postretirement benefit costs which were accrued as liabilities under provisions of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," which are expected to be recovered through utility rates.

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

The North Carolina Utilities Commission (NCUC) has reviewed and approved through specific orders the items shown as regulatory assets, though some of the items may include costs which are awaiting specific rate consideration. In recording these costs as regulatory assets, management believes the costs will be allowable under existing rate-making concepts that are embodied in current rate orders received by the Company. However, ultimate recovery is subject to NCUC approval. In the future, as a result of deregulation or other changes in the regulatory environment, the Company may no longer meet the criteria for continued application of SFAS 71 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. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss totaled \$0.7 million and \$0.8 million as of March 31, 2009 and December 31, 2008, respectively.

**C. 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 months ended March 31, 2009 and 2008, these costs totaled \$3.5 million and \$3.4 million, respectively. The Company owed these investees \$1.2 million at March 31, 2009 and December 31, 2008. The Company received cash distributions from equity investees of \$0.9 million and \$1.0 million for the three months ended March 31, 2009 and 2008, respectively.

During the three months ended March 31, 2009 and 2008, the Company made sales to an affiliate of natural gas and transportation services of \$9.9 million and \$12.0 million, respectively.

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

**D. New Accounting Matters**

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

**E. 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, 2009, such counterparties held 37% of the Company's natural gas inventory with a value of \$15.1 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.

On October 24, 2008, the NCUC granted the Company an annual increase in natural gas margin revenues of approximately \$9.1 million, offset by an \$8.4 million reduction in fixed gas costs, for a net annual increase in rates and charges to customers of approximately \$0.7 million. The Company was authorized to implement the Customer Usage Tracker (CUT). The CUT allows the Company to periodically adjust its base rates for residential and commercial customers based on average per customer consumption. The new rates were effective for services rendered on or after November 1, 2008.

On March 31, 2009, the NCUC approved the Company's first semi-annual rate adjustment under the CUT. Temporary rate decreases for residential and commercial customers will take effect for service rendered on and after April 1, 2009.

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

### **3. FINANCIAL INSTRUMENTS**

SFAS 133, "*Accounting for Derivative Instruments and Hedging Activities*" as amended, requires the Company to recognize all derivative instruments as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. SFAS 133 further provides that changes in the fair value of derivative instruments are either recognized in earnings or reported as a component of other comprehensive income (loss), depending upon the intended use of the derivative and the resulting designation. The fair value of derivative instruments is determined by reference to quoted market prices of listed contracts, published quotations or quotations from counterparties.

Policies and procedures and risk limits are established to control the level of market, credit, liquidity and operational and administrative risks assumed by the Company. SCANA Corporation's (SCANA) Board of Directors has delegated to a Risk Management Committee the authority to set risk limits, establish policies and procedures for risk management and measurement, and oversee and review the risk management process and infrastructure. The Risk Management Committee, which is comprised of certain officers, including the Company's Risk Management Officer and SCANA's senior officers, apprises the Board of Directors with regard to the management of risk and brings to the Board's attention any areas of concern. Written policies define the physical and financial transactions that are approved, as well as the authorization requirements and limits for transactions.

The Company hedges natural gas purchasing activities using over-the-counter options and swaps and 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 in accordance with SFAS 133.

## Quantitative Disclosures Related to Derivatives

At March 31, 2009, the Company was party to natural gas derivative contracts for 5,108,000 dekatherms. Also at March 31, 2009, the Company was a party to an interest rate swap designated as a fair value hedge on a fixed rate debt instrument that converts it synthetically to a variable rate. The swap has a notional amount of \$12.8 million.

### Fair Values of Derivative Instruments

As of March 31, 2009 Millions of dollars	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location <sup>(a)</sup>	Fair Value	Balance Sheet Location <sup>(a)</sup>	Fair Value
Derivatives designated as hedging instruments under SFAS 133				
Interest rate contracts	Other deferred debits	\$ 1	Other current liabilities Other deferred credits	\$ - -
Total		<u>\$ 1</u>		<u>\$ -</u>
Derivatives not designated as hedging instruments under SFAS 133				
Commodity contracts	Prepayments and other Other current liabilities	\$ 1 1	Accounts receivables Other current liabilities	\$ 1 3
Total		<u>\$ 2</u>		<u>\$ 4</u>

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

The Company's interest rate swap designated as a fair value hedge resulted in reductions to interest expense of \$0.1 million for the quarter ended March 31, 2009.

### Credit Risk Considerations

Certain of the Company's derivative instruments associated with financial and natural gas transactions contain provisions that require the Company's debt to maintain investment grade credit ratings from major credit rating agencies. If the Company's debt were downgraded below investment grade, the counterparties to those derivative instruments could require margin payment and/or the posting of other adequate assurance where net liability positions exist according to the applicable contract terms. The aggregate fair value of all derivative instruments with minimum investment grade debt ratings requirements that are in net liability positions on March 31, 2009, is approximately \$4.3 million, on which the Company had already posted margin and/or adequate assurance of \$1.0 million in the normal course of business. This \$1.0 million margin amount is reflected within prepayments and other current assets. If the Company's debt ratings had been below investment grade at March 31, 2009, the Company could have been required to post an additional \$3.3 million of margin and/or adequate assurance.

#### 4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS, INCLUDING DERIVATIVES

The Company uses unadjusted NYMEX prices to determine fair value for commodity derivative assets and liabilities, and considers such measures of fair value to be Level 1 for exchange traded instruments and Level 2 for over-the-counter instruments. The Company's interest rate swap agreement is valued using broker quotes. In accordance with SFAS 157, "Fair Value Measurements," the Company's 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	
	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)
<i>As of March 31, 2009</i>		
Assets - Derivative instruments	\$3	\$4
Liabilities - Derivative instruments	-	3
<i>As of December 31, 2008</i>		
Assets - Derivative instruments	4	7
Liabilities - Derivative instruments	-	6

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

#### 5. COMMITMENTS AND CONTINGENCIES

The Company is responsible for environmental cleanup at five sites in North Carolina on which manufactured gas plant (MGP) residuals are present or suspected. The Company's actual remediation costs for these sites will depend on a number of factors, such as actual site conditions, third-party claims, and recoveries from other potentially responsible parties. The Company has recorded a liability and associated regulatory asset of \$4.5 million, which reflects its estimated remaining liability at March 31, 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.