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

Thousands of dollars	June 30, 2018	December 31, 2017
Assets		
Gas Utility Plant	$ 2,423,895	$ 2,304,759
Accumulated Depreciation	(507,312)	(487,433)
Goodwill, net of writedown of $229,590	209,824	209,824
Gas Utility Plant, Net	2,126,407	2,027,150
Investments	18,078	18,257
Current Assets:		
Cash and cash equivalents	1,600	6,851
Receivables, net of allowance for uncollectible accounts of $360 and $710	60,736	150,783
Receivables-affiliated companies	2,079	4,496
Receivables-income taxes	825	-
Inventories (at average cost):		
Stored gas	27,045	31,976
Materials and supplies	12,192	11,414
Prepayments and other	2,507	2,357
Total Current Assets	106,984	207,877
Deferred Debits and Other Assets:		
Regulatory assets	113,030	104,134
Other	683	434
Other affiliate	10,847	-
Total Deferred Debits and Other Assets	124,560	104,568
Total	$ 2,376,029	$ 2,357,852
Capitalization and Liabilities		
Common Stock - no par value, 1,000 shares outstanding	$ 635,239	$ 635,239
Retained Earnings	212,098	174,592
Accumulated Other Comprehensive Loss	(985)	(1,318)
Total Common Equity	846,352	808,513
Long-Term Debt, net	698,750	598,700
Total Capitalization	1,545,102	1,407,213
Current Liabilities:		
Short-term borrowings	30,900	98,661
Accounts payable	41,875	77,277
Accounts payable-affiliated companies	7,988	30,460
Customer deposits and customer prepayments	27,974	28,513
Taxes accrued	15,169	2,235
Interest accrued	9,736	9,524
Dividends declared	-	11,800
Other	4,743	5,306
Total Current Liabilities	138,385	263,776
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	179,891	175,746
Pension and other postretirement benefits	78,287	78,103
Regulatory liabilities	391,045	390,471
Asset retirement obligations	39,432	38,681
Other	3,887	3,862
Total Deferred Credits and Other Liabilities	692,542	686,863
Commitments and Contingencies (Note 10)	-	-
Total	$ 2,376,029	$ 2,357,852

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Operating Revenues	$ 69,172	$ 64,300	$ 275,561	$ 245,471
Cost of Gas	22,082	19,335	117,270	88,266
Margin	47,090	44,965	158,291	157,205
Operating Expenses:				
Operation and maintenance	26,018	26,170	51,828	51,997
Depreciation and amortization	14,819	13,197	29,359	26,233
Other taxes	4,065	3,779	7,999	7,425
Total Operating Expenses	44,902	43,146	89,186	85,655
Operating Income	2,188	1,819	69,105	71,550
Other Income, net	4,561	5,400	9,231	10,371
Interest charges, net of allowance for borrowed funds used during construction of $643, $477, $1,132 and $634	(8,794)	(6,584)	(17,523)	(13,361)
Income (Loss) Before Income Taxes and Earnings from Equity Method Investments	(2,045)	635	60,813	68,560
Income Tax Benefit (Expense)	967	44	(13,538)	(25,177)
Income (Loss) Before Earnings from Equity Method Investments	(1,078)	679	47,275	43,383
Earnings (Loss) from Equity Method Investments	(400)	929	81	1,603
Net Income (Loss)	$ (1,478)	$ 1,608	$ 47,356	$ 44,986

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net Income (Loss)	$ (1,478)	$ 1,608	$ 47,356	$ 44,986
Other Comprehensive Income, net of tax:				
Unrealized Gains (Losses) on Cash Flow Hedging Activities of Equity Method Investees:				
Arising during period, net of tax of $(24), $(67), $(3) and $(125)	(77)	(115)	(7)	(213)
Reclassified to earnings from equity method investments, net of tax of $44, $69, $89 and $134	144	118	293	228
Net unrealized gains on cash flow hedging activities of equity method investees	67	3	286	15
Deferred costs of employee benefit plans, net of tax of $7, $13, $14 and $26	23	22	47	44
Other Comprehensive Income	90	25	333	59
Total Comprehensive Income (Loss)	$ (1,388)	$ 1,633	$ 47,689	$ 45,045

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Six Months Ended June 30, 2018	2017
Cash Flows From Operating Activities:		
Net income	$ 47,356	$ 44,986
Adjustments to reconcile net income to net cash provided from operating activities:		
Earnings from equity method investment, net of distributions	(80)	204
Deferred income taxes, net	1,504	28,651
Depreciation and amortization	31,725	28,526
Allowance for equity funds used during construction	(2,977)	(2,031)
Changes in certain assets and liabilities:		
Receivables	92,463	50,785
Income taxes receivable	(825)	(10,044)
Inventories	(7,945)	(19,675)
Regulatory assets	(8,690)	(4,754)
Regulatory liabilities	25	(3,526)
Accounts payable	(19,304)	(16,502)
Customer deposits and customer prepayments	(540)	(4,526)
Taxes accrued	12,934	2,880
Other assets	(4,187)	(2,948)
Other liabilities	887	745
Net Cash Provided From Operating Activities	142,346	92,771
Cash Flows From Investing Activities:		
Property additions and construction expenditures	(126,240)	(118,315)
Proceeds from investments	632	1,441
Short-term investments - affiliate, net	—	(50,400)
Investment in affiliate	(10,847)	—
Net Cash Used For Investing Activities	(136,455)	(167,274)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	99,669	149,593
Dividends	(21,650)	(15,700)
Short-term borrowings - affiliate, net	(21,400)	—
Short-term borrowings, net	(67,761)	(71,800)
Net Cash Provided From (Used For) Financing Activities	(11,142)	62,093
Net Decrease in Cash and Cash Equivalents	(5,251)	(12,410)
Cash and Cash Equivalents, January 1	6,851	13,133
Cash and Cash Equivalents, June 30	$ 1,600	$ 723
Supplemental Cash Flow Information:		
Cash for - Interest (net of capitalized interest of $1,132 and $634)	$ 15,690	$ 12,196
- Income taxes paid	2,575	8,389
- Income taxes received	—	1,695
Noncash Investing and Financing Activities:		
Accrued construction expenditures	21,110	15,772

See Notes to Condensed Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The following unaudited condensed notes should be read in conjunction with the Notes to Consolidated Financial Statements of Public Service Company of North Carolina, Incorporated and Subsidiaries (PSNC Energy, or the Company), for the year ended December 31, 2017. These are interim financial statements and, due to the seasonality of PSNC Energy'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 of the Company, the information furnished herein reflects all adjustments which are necessary for the fair statement of the results for the interim periods reported, and such adjustments are of a normal recurring nature. In addition, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company has evaluated subsequent events through August 20, 2018 which is the date these financial statements were issued.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Statement Presentation

The Company presents the revenues and expenses of its regulated business within Operating Income. Other activities, which primarily include appliance sales and service, are presented within Other Income, net.

Asset Management and Supply Service Agreement

PSNC Energy utilizes an asset management and supply service agreement with a counterparty for certain natural gas storage facilities. Such counterparty held, through an agency relationship, 41% of PSNC Energy's natural gas inventory at June 30, 2018 and 39% at December 31, 2017, with a carrying value of $9.8 million and $11.5 million, respectively. Under the terms of this agreement, PSNC Energy receives storage asset management fees, of which 75% are credited to customers. This agreement expires on March 31, 2019.

Reclassifications

In the statements of operations, amounts reported for 2017 under the captions "Other revenues", "Other expenses" and "Allowance for equity funds used during construction" have been combined into a single caption titled "Other Income, net". Details of the composition of this caption are described in Note 11. Also, the subtotal captioned "Total Other Expense" that previously appeared on the statements of operations has been eliminated.

New Accounting Matters

<u>Recently Adopted</u>

In the first quarter of 2018, PSNC Energy adopted the following accounting guidance, as applicable, issued by the Financial Accounting Standards Board (FASB). The adoption of this guidance had no impact or no significant impact on its financial statements except as indicated.

- In January 2017, the FASB issued accounting guidance to simplify the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. The guidance is effective for years beginning in 2020, though early adoption after January 1, 2017 is allowed. PSNC Energy adopted this guidance on January 1, 2018.

- Effective January 1, 2018, PSNC Energy adopted new accounting guidance for revenue arising from contracts with customers. This guidance uses a five-step analysis in determining when and how revenue is recognized, and requires that revenue recognition depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. As permitted, this guidance was adopted using the modified retrospective method whereby amounts and disclosures for prior periods are not restated. Revenue recognition patterns did not change as a result of adopting this guidance, and no cumulative effect adjustment to Retained Earnings was required. For additional required disclosures, see Note 3.

- Effective January 1, 2018, PSNC Energy adopted accounting guidance that changed the required presentation of net periodic pension and postretirement benefit costs. As a result, net periodic pension and postretirement benefit costs have been separated into their service cost components and non-service cost components. Service cost components continue to be included within operating income and are presented in the same line item as other compensation costs arising from services rendered by employees during the period. Non-service cost components are now excluded from operating income. This guidance has been applied on a retrospective basis for the presentation of the service cost components and other components, and resulted in the following changes to the amounts reported in 2017.

Increase (Decrease) Thousands of dollars	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Operation and maintenance	$ 4	$ 8
Total Operating Expenses	4	8
Operating Income	(4)	(8)
Other Income (Expense), net	4	8

In addition, this guidance limits eligibility for capitalization of net periodic pension and postretirement benefit costs to only the service cost component, and requires this change to be applied prospectively. Accordingly, no reclassifications were made related to the capitalization of service costs, and the adoption of this guidance did not result in a material impact on PSNC Energy's financial statements. Amounts which otherwise would have been capitalized to plant accounts under prior guidance are now being deferred within regulatory assets.

- Guidance issued in January 2016 changed how entities measure certain equity investments and financial liabilities, among other things.

- Guidance issued in August 2016 is intended to reduce diversity in cash flow statement classification related to certain transactions, and entities must apply the guidance retrospectively to all periods presented.

- Guidance issued in November 2016 clarified how restricted cash should be presented on the statement of cash flows, and entities must apply the guidance retrospectively to all periods presented.

Pending Adoption

PSNC Energy will adopt the following accounting guidance issued by the FASB when indicated below.

In February 2016, the FASB issued accounting guidance related to the recognition, measurement and presentation of leases. The guidance applies a right-of-use model and, for lessees, requires all leases with a duration over 12 months to be recorded on the balance sheet, with the rights of use treated as assets and the payment obligations treated as liabilities. Further, depending primarily on the nature of the assets and the relative consumption of them, lease costs will be recognized either through the separate amortization of the right-of-use asset and the recognition of the interest cost related to the payment obligation, or through the recording of a combined straight-line rental expense. For lessors, the guidance calls for the recognition of income either through the derecognition of assets and subsequent recording of interest income on lease amounts receivable, or through the recognition of rental income on a straight-line basis, also depending on the nature of the assets and relative consumption. In the first quarter of 2018, FASB amended this accounting guidance to clarify that land easements are within the scope of the new guidance and to provide an optional transition practical expedient, which PSNC Energy intends to adopt, that allows adopters to not evaluate under the new guidance existing or expired land easements that were not previously accounted for as leases. FASB also approved a new transition option in the first quarter of 2018, which PSNC Energy intends to adopt that will allow the new standard to be adopted without revising comparative period reporting or disclosures. The new guidance is effective for years beginning in 2019, and PSNC Energy does not anticipate that its adoption will have a material impact on its financial statements other than increasing amounts reported for assets and liabilities on the balance sheet and changing the location on its statements of operations where certain expenses are recorded. No impact on net income is expected. The identification and analysis of leasing and related contracts to which the guidance might apply continues. In addition, PSNC Energy has begun implementation of a third party software tool that will assist with initial adoption and ongoing compliance. Preliminary system configuration has been completed and data from certain leases are being entered.

In June 2016, the FASB issued accounting guidance requiring the use of a current expected credit loss impairment model for certain financial instruments. The new model is applicable to trade receivables and most debt instruments, among other financial instruments, and in certain instances may result in impairment losses being recognized earlier than under current guidance. PSNC Energy must adopt this guidance beginning in 2020, including interim periods, though the guidance may be adopted in 2019. PSNC Energy has not determined when this guidance will be adopted or what impact it will have on its financial statements.

In August 2017, the FASB issued accounting guidance to simplify the application of hedge accounting. Among other things, the new guidance will enable more hedging strategies to qualify for hedge accounting, will allow entities more time to perform an initial assessment of hedge effectiveness, and will permit an entity to perform a qualitative assessment of effectiveness for certain hedges instead of a quantitative one. For cash flow hedges that are highly effective, all changes in the fair value of the derivative hedging instrument will be recorded in other comprehensive income and will be reclassified to earnings in the same period that the hedged item impacts earnings. Fair value hedges will continue to be recorded in current earnings, and any ineffectiveness will impact the income statement. In addition, changes in the fair value of a derivative will be recorded in the same income statement line as the earnings effect of the hedged item, and additional disclosures will be required related to the effect of hedging on individual income statement line items. The guidance must be applied to all outstanding instruments using a modified retrospective method, with any cumulative effect adjustment recorded to opening retained earnings as of the beginning of the first period in which the guidance becomes effective. PSNC Energy expects to adopt this guidance when required in the first quarter of 2019, and does not expect it to have significant impact on its financial statements.

In February 2018, the FASB issued accounting guidance allowing entities to reclassify from Accumulated Other Comprehensive Income (AOCI) to retained earnings any amounts for stranded tax effects resulting from the Tax Cuts and Jobs Act (Tax Act). The guidance must be applied either in the period of adoption or retrospectively to each period in which the effect of the change was recognized. PSNC Energy must adopt this guidance beginning in 2019, including interim periods, though the guidance may be adopted earlier. PSNC Energy has not determined when this guidance will be adopted or what impact it will have on its statements of financial position. No impact is expected on statements of operations or cash flows.

2. RATE AND OTHER REGULATORY MATTERS

Rate Matters

Tax Act Regulatory Proceeding

The Tax Act contained provisions that lowered the federal corporate tax rate from 35% to 21% effective January 1, 2018. On January 3, 2018, the North Carolina Utilities Commission (NCUC) sought reports from its jurisdictional utilities as to how they planned to respond to the Tax Act. In its response on February 1, 2018, PSNC Energy proposed certain adjustments to its rates that, if enacted, would serve to reduce amounts that are currently being collected from customers based on pre-Tax Act rates.

PSNC Energy expects the NCUC will take final action on this matter in 2018 but cannot determine what form that action will take. As of June 30, 2018, an estimate of income tax amounts charged through customer rates that relates to the effects of the Tax Act is being deferred as Revenue subject to refund on the condensed consolidated balance sheet. Such deferral includes the accrual of estimated carrying costs. Such estimate totaled $8.8 million. In addition, as further discussed under Regulatory Assets and Regulatory Liabilities below, certain accumulated deferred income taxes contained within regulatory liabilities represent excess deferred income taxes arising from the remeasurement of deferred income taxes upon the enactment of the Tax Act. Certain of these amounts are protected under normalization regulations and will be amortized over the remaining lives of related property, and certain of these amounts will be amortized to the benefit of customers over a prescribed period as instructed by regulators.

Other

PSNC Energy's Rider D rate mechanism allows it to recover from customers all prudently incurred gas costs and certain related uncollectible expenses as well as losses on negotiated gas and transportation sales.

PSNC Energy establishes rates using a benchmark cost of gas approved by the NCUC, which may be periodically adjusted to reflect changes in the market price of natural gas. PSNC Energy revises its tariffs as necessary to track these changes and accounts for any over- or under-collection of the delivered cost of gas in its deferred accounts for subsequent rate consideration. The NCUC reviews PSNC Energy's gas purchasing practices annually. In addition, PSNC Energy utilizes a customer usage tracker (CUT), a decoupling mechanism, which allows it to adjust its base rates semi-annually for residential and commercial customers based on average per customer consumption.

The NCUC has authorized PSNC Energy to use a tracker mechanism to recover the incurred capital investment and associated costs of complying with federal standards for pipeline integrity and safety requirements that are not in current base rates. PSNC Energy has filed biannual applications to adjust its rates for this purpose, and the NCUC has approved those applications for the incremental annual revenue requirements, as follows:

Rates Effective	Incremental Increase
March 1, 2017	$1.9 million
September 1, 2017	$0.7 million
March 1, 2018	$14.7 million

In December 2017, in connection with PSNC Energy's 2017 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, 2017.

Regulatory Assets and Regulatory Liabilities

PSNC Energy has significant cost-based, rate-regulated operations and recognizes in its financial statements certain revenues and expenses in different periods than do other enterprises. As a result, PSNC Energy 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, 2018	December 31, 2017
Regulatory Assets:		
Asset retirement obligations	$ 24,878	$ 23,924
Deferred employee benefit plan costs	30,549	31,381
Pipeline integrity management costs	52,688	43,291
Environmental remediation costs	4,499	5,174
Other	416	364
Total Regulatory Assets	$ 113,030	$ 104,134

Regulatory Liabilities:				
Accumulated deferred income taxes, net	$	158,596		161,137
Asset removal costs		232,404	$	229,314
Other		45		20
Total Regulatory Liabilities	$	391,045	$	390,471

Asset retirement obligations (ARO) represents the regulatory asset associated with conditional AROs related to transmission and distribution properties. These regulatory assets are expected to be recovered over the related property lives which may range up to approximately 90 years.

Employee benefit plan costs have historically been recovered as they have been recorded under generally accepted accounting principles. Deferred employee benefit plan costs represent pension and other postretirement benefit costs which were accrued as liabilities and treated as regulatory assets pursuant to an NCUC order. These deferred benefit costs are expected to be recovered through utility rates, primarily over average service periods of participating employees, up to approximately 11 years.

Pipeline integrity management costs represent operating costs incurred to comply with federal regulatory requirements related to natural gas pipelines. PSNC Energy is recovering costs totaling $4.4 million annually through 2021. PSNC Energy is continuing to defer pipeline integrity costs, and as of June 30, 2018 costs of $38.1 million have been deferred pending future approval of rate recovery.

Environmental remediation costs represent costs associated with the assessment and clean-up of sites currently or formerly owned by PSNC Energy. Remediation costs of $4.5 million are being recovered over a period that will end in 2021.

Accumulated deferred income taxes contained within regulatory liabilities represent excess deferred income taxes arising from the remeasurement of deferred income taxes upon the enactment of the Tax Act (certain of which are protected under normalization regulations and will be amortized over the remaining lives of related property, and certain of which will be amortized to the benefit of customers over a prescribed period as instructed by regulators) as well as changes in state rates, offset by deferred income taxes that arise from utility operations that have not been included in customer rates (a portion of which relate to depreciation and are expected to be recovered over the remaining lives of the related property which may range up to approximately 90 years).

Asset removal costs represent estimated net collections through depreciation rates of amounts to be expended for the removal of assets in the future.

The NCUC has reviewed and approved through specific orders most of the items shown as regulatory assets. Other regulatory assets include, but are not limited to, certain costs which have not been specifically approved for recovery by the NCUC. In recording such costs as regulatory assets, management believes the costs will be allowable under existing rate-making concepts that are embodied in rate orders received by PSNC Energy. The costs are currently not being recovered, but are expected to be recovered through rates in future periods. In the future, as a result of deregulation or other changes in the regulatory environment or changes in accounting requirements, PSNC Energy could be required to write off its regulatory assets and liabilities. Such an event could have a material effect on the Company's results of operations, liquidity or financial position in the period the write-off would be recorded.

3. REVENUE RECOGNITION

Identifying Revenue Streams and Related Performance Obligations

Operating Revenues

Operating revenues arise primarily from the sale and transportation of natural gas, consisting primarily of retail sales to residential, commercial and industrial customers under various tariff rates approved by the NCUC. These tariff rates generally include charges for the energy consumed and a standard basic facilities charge designed to recover certain fixed costs incurred to provide service to the customer. Tariff rates also include NCUC-approved regulatory mechanisms in the form of adjustments or riders, such as CUT, Integrity Management Tracker (IMT), and fuel, among others.

Contracts governing the transactions above do not have a significant financing component. Also, due to the nature of the commodities underlying these transactions, no performance obligations arise for returns, refunds or warranties. In addition, taxes billed to customers are excluded from the transaction price. Such amounts are recorded as liabilities until they are remitted to the respective taxing authority and are not included in revenues or expenses in the statements of operations.

Non-Operating Revenues

Non-operating revenues are derived from the sale of appliances, water heaters and related jobbing contracts, as well as from contracts covering the repair of certain appliances, wiring, plumbing and similar systems and fees received for such repairs from customers not under a repair contract. In addition, the portion of fees received under asset management agreements and other secondary market activities that regulators have recognized to be incentives for PSNC Energy are recorded as non-operating revenues.

Revenues from sales are recorded when the appliance or water heater is delivered to the customer. Repair contract coverage fees are recorded when invoiced, generally on a monthly basis in advance of the period of coverage. Additional charges for service calls and non-covered repairs are billed and collected at the time service is rendered. Revenues from asset management agreements are recorded when the related fixed monthly amounts are due, which corresponds to the timing of the value received by the customer.

The point at which the customer controls the use of a purchased product or has obtained substantially all of the benefits from repair services corresponds to when revenues are recorded and performance obligations are fulfilled. Contract assets arising from invoicing repair contract fees in advance of the coverage period are not material. Income earned from financing sales of appliances and other products are recorded within interest income. Any performance obligations arising from returns, refunds or warranties are not material.

Non-operating revenues also arise from sources unrelated to contracts with customers, such as carrying costs recorded on certain regulatory assets, gains from property sales and income from rentals and from equity method investments, among others. Such revenues are outside the scope of revenues from contracts with customers.

Non-operating revenues are further disclosed in Note 11. Such revenues arising from contracts with customers were not material for any period presented, and accordingly, detailed revenue disclosures are not provided.

Significant Judgments and Estimates

Natural gas is sold and delivered to the customer for immediate consumption and the customer controls the use of, and obtains substantially all of the benefits from, the energy and related services as they are delivered. As such, the related performance obligations are satisfied over time and revenue is recognized over the same period. PSNC Energy has determined that its right to consideration from a customer directly corresponds to the value of the performance completed at the date each customer invoice is rendered. As a result, PSNC Energy recognizes revenue in the amounts for which it has a right to invoice.

Regulatory mechanisms exist within gas tariffs or orders from regulators that result in adjustments to customer bills. These regulatory mechanisms are designed:

- To recover costs related to fuel and pipeline integrity, among others;
- To decouple gas revenues from weather and other factors through the CUT.

PSNC Energy's CUT is a decoupling mechanism that adjusts bills for residential and commercial customers based on per customer average consumption. When average consumption exceeds actual usage, PSNC Energy records increased revenue associated with this undercollection and defers it within regulatory assets. Likewise, when actual usage exceeds average consumption, a decrement to revenue associated with this overcollection is recorded and deferred within regulatory liabilities. PSNC Energy's tariff based rates are adjusted semiannually, with the approval of the NCUC, to collect or refund these deferred amounts over the subsequent 12-month period.

Amounts deferred for the CUT arise under specific arrangements with regulators rather than customers. As a result, the Company has concluded that these arrangements represent alternative revenue programs. Revenue from alternative revenue programs is included within Operating Revenues on the statements of operations in the month such adjustments are deferred within regulatory accounts, and is shown as Other revenues when disaggregated in the table below. As permitted, PSNC Energy has elected to reduce the regulatory accounts in the period when such amounts are reflected on customer bills without affecting operating revenues.

Disaggregation of Revenue

The impact of several factors on the amount, timing and uncertainty of operating revenues and cash flows can vary significantly by customer class. PSNC Energy's revenue requirements result in increases or decreases in tariff rates approved by regulatory bodies and often vary by customer class. Also, certain cost recovery and other mechanisms may have an uneven impact on a particular customer class depending on the underlying tariffs affected. PSNC Energy has disaggregated operating revenues by customer class as follows:

(Thousands of dollars)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Customer class:		
Residential	$ 37,681	$ 183,228
Commercial	17,722	65,924
Industrial	4,209	10,154
Other	7,397	15,278
Revenues from contracts with customers	67,009	274,584
Other revenues	2,163	977
Total Operating Revenues	$ 69,172	$ 275,561

4. EQUITY

Changes in common equity during the six months ended June 30, 2018 and 2017 were as follows:

			Accumulated Other Comprehensive Income (Loss)			
Thousands	Common Stock	Retained Earnings	Gains (Losses) on Cash Flow Hedges	Deferred Employee Benefit Plans Cost	Total AOCI	Total Common Equity
Balance as of January 1, 2018	$ 635,239	$ 174,592	$ 144	$ (1,462)	$ (1,318)	$ 808,513
Net Income		47,356				47,356
Other Comprehensive Income			286	47	333	333
Total Comprehensive Income		47,356	286	47	333	47,689
Dividends Declared		(9,850)				(9,850)
Balance as of June 30, 2018	$ 635,239	$ 212,098	$ 430	$ (1,415)	$ (985)	$ 846,352
Balance as of January 1, 2017	$ 634,681	$ 143,134	$ 3	$ (1,492)	$ (1,489)	$ 776,326
Net Income		44,986				44,986
Other Comprehensive Income			15	44	59	59
Total Comprehensive Income		44,986	15	44	59	45,045
Dividends Declared		(18,950)				(18,950)
Balance as of June 30, 2017	$ 634,681	$ 169,170	$ 18	$ (1,448)	$ (1,430)	$ 802,421

PSNC Energy had one thousand shares of common stock authorized, without par value, issued and outstanding during both periods presented.

Reclassifications from AOCI into earnings of gains or losses on interest rate contracts are reflected within earnings from equity method investments on the income statement. Reclassifications for the amortization of deferred employee benefit costs are recorded within operation and maintenance and other expenses on the statement of operations, and capitalized in gas utility plant on the balance sheet.

5. LONG-TERM DEBT AND LIQUIDITY

In June 2018, PSNC Energy issued $100 million of 4.33% senior notes due June 15, 2028. In June 2017, PSNC Energy issued $150 million of 4.18% senior notes due June 30, 2047. Proceeds from these each of these sales were used to repay short-term debt, to finance capital expenditures, and for general corporate purposes.

PSNC Energy’s note purchase and debenture purchase agreements contain provisions that could limit the payment of cash distributions, including dividends, on PSNC Energy's common stock. These agreements generally limit the sum of distributions to an amount that does not exceed $30 million plus 85% of Consolidated Net Income (as therein defined) accumulated after December 31, 2008 plus the net proceeds of issuances by PSNC Energy of equity or convertible debt securities (as therein defined). As of June 30, 2018, this limitation would permit PSNC Energy to pay cash distributions in excess of $100 million.

PSNC Energy is party to a five-year credit agreement of $200 million that expires in December 2020. The credit agreement is used for general corporate purposes, including liquidity support for PSNC Energy's commercial paper program and working capital needs. The committed long-term facilities is a revolving line of credit under credit agreements with a syndicate of banks. At June 30, 2018 and December 31, 2017, PSNC Energy had $169.1 million and $101.3 million, respectively, of the line of credit available.

PSNC Energy participates in a utility money pool with certain other SCANA subsidiaries. Money pool borrowings and investments bear interest at short-term market rates. PSNC Energy’s interest income and interest expense from money pool transactions were not significant during any period presented. PSNC had money pool borrowings due to an affiliate of $1.0 million and $22.4 million at June 30, 2018 and December 31, 2017, respectively.

6. INCOME TAXES

No material changes in the status of PSNC Energy’s tax positions have occurred through June 30, 2018.

In December 2017, the Tax Act was enacted to lower the federal statutory tax rate from 35% to 21%. The rate change resulted in the remeasurement of all federal deferred income tax assets and liabilities to reflect a 21% federal statutory tax rate as of December 31, 2017. Due to the regulated nature of the PSNC Energy’s operations, the effect of this remeasurement is primarily reflected in deferred income tax balances within regulatory liabilities. As of June 30, 2018, the amortization of amounts arising from remeasurement have not affected the PSNC Energy’s effective tax rate due to such amortizations being deferred until such time as regulators prescribe how the benefits of such excess deferred tax amounts will be realized by customers. Upon the filing of the PSNC Energy’s superseding 2017 consolidated income tax return later this year, adjustments to deferred income taxes may be recorded; however, these adjustments are not expected to have a material impact on the PSNC Energy’s financial position, results of operations or cash flows.

The State of North Carolina lowered its corporate income tax rate to 3.0% in 2017 and 2.5% effective January 1, 2019. In connection with these changes in tax rates, related state deferred tax amounts were remeasured, with the change in their balances being credited to a regulatory liability. The changes in income tax rates did not and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

PSNC Energy recognizes interest accrued related to unrecognized tax benefits within interest expense and recognizes tax penalties within other expenses. PSNC Energy has not recorded interest expense related to unrecognized tax benefits or tax penalties in 2018 or 2017.

7. DERIVATIVE FINANCIAL INSTRUMENTS

PSNC Energy recognizes all derivative instruments as either assets or liabilities in the statement of financial position and measures those instruments at fair value. PSNC Energy 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.

Policies and procedures and risk limits are established to control the level of market, credit, liquidity and operational and administrative risks assumed by PSNC Energy. The Board of Directors of SCANA, PSNC Energy's parent, 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 PSNC Energy's Risk Management Officer and SCANA's senior officers, apprises the Board of Directors with regard to the management of risk and brings to their attention significant areas of concern. Written policies define the physical and financial transactions that are approved, as well as the authorization requirements and limits for transactions.

PSNC Energy hedges natural gas purchasing activities using over-the-counter options and swaps and New York Mercantile Exchange (NYMEX) futures and options. PSNC Energy's tariffs also include a provision for the recovery of actual gas costs incurred, including any costs for hedging. PSNC Energy 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.

Quantitative Disclosures Related to Derivatives

PSNC Energy was party to natural gas derivative contracts for 6,090,000 Million British Thermal Units (MMBTU) at June 30, 2018 and 6,430,000 MMBTU at December 31, 2017, respectively.

The fair value of commodity derivatives, none of which were designated as hedging instruments, totaled $1.1 million at June 30, 2018 and $0.8 million at December 31, 2017. Such amounts are reflected on the balance sheet within Prepayments and other and offset to Customer deposits and customer prepayments. PSNC Energy did not have any other derivatives or other financial instruments in the statement of financial position during any period presented.

For a discussion of interest rate swaps used by PSNC Energy's equity method investees, see Note 12.

Credit Risk Considerations

PSNC Energy limits credit risk in its commodity and interest rate derivatives activities by assessing the creditworthiness of potential counterparties before entering into transactions with them and continuing to evaluate their creditworthiness on an ongoing basis. In this regard, PSNC Energy uses credit ratings provided by credit rating agencies and current market-based qualitative and quantitative data, as well as financial statements, to assess the financial health of counterparties on an ongoing basis. PSNC Energy uses standardized master agreements which generally include collateral requirements. These master agreements permit the netting of cash flows associated with a single counterparty. Cash, letters of credit and parental/affiliate guarantees may be obtained as security from counterparties in order to mitigate credit risk. The collateral agreements require a counterparty to post cash or letters of credit in the event an exposure exceeds the established threshold. The threshold represents an unsecured credit limit which may be supported by a parental/affiliate guaranty, as determined in accordance with PSNC Energy's credit policies and due diligence. In addition, collateral agreements allow for the termination and liquidation of all positions in the event of a failure or inability to post collateral.

PSNC Energy had no derivative instruments in a liability position for any period presented. In addition, PSNC Energy did not have derivative instruments with underlying contingent features which, if triggered, would have permitted PSNC Energy to request collateral from its counterparties for any period presented.

8. FAIR VALUE MEASUREMENTS, INCLUDING DERIVATIVES

A fair value measurement using unadjusted quoted prices in active markets for identical assets or liabilities is considered to be Level 1. A fair value measurement using observable inputs other than those for Level 1, including quoted prices for similar (not identical) assets or liabilities or inputs that are derived from observable market data by correlation or other means is considered to be Level 2. A Level 3 fair value measurement is one using unobservable inputs, including situations where there is little, if any, market activity for the asset or liability.

PSNC Energy 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.

Fair value asset measurements were $1.1 million at June 30, 2018 and $0.8 million at December 31, 2017. These measurements were considered Level 1 and were included within Prepayments and other in the condensed consolidated balance sheet. There were no fair value liability measurements.

There were no Level 3 fair value measurements for either period presented, and there were no transfers of fair value amounts into or out of Levels 1, 2, or 3 during either period presented.

Financial instruments for which the carrying amount may not equal estimated fair value at June 30, 2018 and December 31, 2017 were as follows:

	As of June 30, 2018		As of December 31, 2017	
Thousands of dollars	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	$698,750	$783,152	$598,700	$705,135

Fair values of long-term debt instruments are based on net present value calculations using independently sourced market data that incorporate a developed discount rate using similarly rated long-term debt, along with benchmark interest rates. As such, the aggregate fair values presented above are considered to be Level 2. Early settlement of long-term debt may not be possible or may not be considered prudent.

Carrying values of short-term borrowings approximate their fair values, which are based on quoted prices from dealers in the commercial paper market. These fair values are considered to be Level 2.

9. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Benefit Plans

PSNC Energy participates in SCANA's noncontributory defined benefit pension plan, which covers substantially all regular, full-time employees hired before January 1, 2014, and also participates in SCANA's unfunded postretirement health care and life insurance programs, which provide benefits to retired employees. Components of net periodic benefit cost recorded by PSNC Energy were as follows:

	Pension Benefits		Other Postretirement Benefits	
Thousands of dollars	2018	2017	2018	2017
Three months ended June 30				
Service cost	$ 671	$ 654	$ 175	$ 154
Interest cost	951	1,009	408	390
Expected return on assets	(1,593)	(1,478)	-	-
Prior service cost amortization	14	44	-	1
Amortization of actuarial losses	330	421	82	48
Net periodic benefit cost	$ 373	$ 650	$ 665	$ 593

Thousands of dollars	Pension Benefits 2018	2017	Other Postretirement Benefits 2018	2017
Six months ended June 30				
Service cost	$ 1,342	$ 1,308	$ 351	$ 308
Interest cost	1,902	2,018	815	779
Expected return on assets	(3,186)	(2,957)	-	-
Prior service cost amortization	29	88	-	2
Amortization of actuarial losses	660	843	164	96
Net periodic benefit cost	$ 747	$ 1,300	$ 1,330	$ 1,185

PSNC Energy recovers pension costs through cost of service rates.

10. COMMITMENTS AND CONTINGENCIES

The Company is subject to various claims and litigation incidental to its business operations which management anticipates will be resolved without material adverse impact on the Company's results of operations, cash flows or financial condition.

11. OTHER INCOME, NET

Components of other income, net are as follows:

Thousands of dollars	Three Months Ended June 30 2018	2017	Six Months Ended June 30 2018	2017
Other revenues	$ 6,334	$ 7,153	$ 13,175	$ 15,272
Other expenses	(3,469)	(3,284)	(6,921)	(6,932)
Allowance for equity used during construction	1,696	1,531	2,977	2,031
Other income, net	$ 4,561	$ 5,400	$ 9,231	$ 10,371

Non-service cost components of pension and other postretirement benefits are included in Other revenues.

12. AFFILIATED TRANSACTIONS

PSNC Energy owns, through its wholly owned subsidiaries, 17% of Pine Needle LNG Company, L.L.C. (Pine Needle), an LNG storage facility in North Carolina, and 33.2% of Cardinal Pipeline Company, L.L.C. (Cardinal), an intrastate natural gas pipeline. PSNC Energy 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 $2.3 million and $4.6 million, for the three and six months ended June 30, 2018, respectively. For the three and six months ended June 30, 2017, these costs totaled $2.7 million and $5.4 million, respectively. The Company owed these investees $0.8 million at each of June 30, 2018 and December 31, 2017. The Company received no cash distributions representing earnings on invested capital from these investees for the three and six months ended June 30, 2018, and received $0.9 million and $1.8 million for the three and six months ended June 30, 2017, respectively.

Pine Needle and Cardinal use interest rate swaps designated as cash flow hedges to manage interest rate risk on variable rate debt instruments by converting them synthetically to a fixed rate. The Company's share of the effective portion of changes in the fair value of these interest rate swaps are recorded in AOCI in the Company's condensed consolidated balance sheets.

PSNC Energy had sales to an affiliate for natural gas and transportation services of \$0.1 million and \$0.2 million for the three and six months ended June 30, 2018, respectively, and \$1.7 million for the six months ended June 30, 2017. PSNC Energy had no sales to an affiliate for the three months ended June 30, 2017. Purchases of natural gas from an affiliate were \$0.1 million for each of the three and six months ended June 30, 2018 and were insignificant for each of the three and six months ended June 30, 2017.

SCANA Services, Inc., on behalf of itself and its parent company, provides the following services to PSNC Energy at direct or allocated cost: gas services, information systems services, telecommunications services, customer services, marketing and sales, human resources, corporate compliance, purchasing, financial services, risk management, public affairs, legal services, investor relations, gas supply and capacity management, strategic planning, general administrative services, and retirement benefits. Costs for these services totaled \$14.9 million and \$27.7 million for the three and six months ended June 30, 2018, respectively, and \$16.6 million and \$29.4 million for the three and six months ended June 30, 2017, respectively. In addition, SCANA Services, Inc., processes and pays invoices for PSNC Energy and is reimbursed. PSNC Energy's payables to SCANA Services, Inc., were \$6.2 million at June 30, 2018 and \$7.3 million at December 31, 2017.

PSNC Energy has provided \$10.8 million in funding to a rabbi trust in connection with the potential change in control arising from an Agreement and Plan of Merger, dated as of January 2, 2018, by and among SCANA Corporation, Dominion Energy, Inc., and Sedona Corp. This funding is recorded as Deferred Debits and Other Assets - Other affiliate assets on the condensed consolidated balance sheet of PSNC Energy.

Money pool transactions with an affiliate are described in Note 5.