

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

| Thousands of dollars | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Assets | | |
| Gas Utility Plant | \$ 2,198,186 | \$ 1,966,829 |
| Accumulated Depreciation | (480,756) | (454,376) |
| Goodwill, net of writedown of \$229,590 | 209,824 | 209,824 |
| Gas Utility Plant, Net | 1,927,254 | 1,722,277 |
| Investments | 25,831 | 27,854 |
| Current Assets: | | |
| Cash and cash equivalents | 55 | 13,133 |
| Receivables, net of allowance for uncollectible accounts of \$321 and \$532 | 84,055 | 132,261 |
| Receivables-affiliated companies | 1,615 | 4,251 |
| Receivables-income taxes | 29,456 | 1,667 |
| Inventories (at average cost): | | |
| Stored gas | 34,096 | 28,542 |
| Materials and supplies | 10,537 | 10,732 |
| Prepayments and other | 1,959 | 4,075 |
| Total Current Assets | 161,773 | 194,661 |
| Deferred Debits and Other Assets: | | |
| Regulatory assets | 107,867 | 100,131 |
| Other | 905 | 598 |
| Total Deferred Debits and Other Assets | 108,772 | 100,729 |
| Total | \$ 2,223,630 | \$ 2,045,521 |
| Capitalization and Liabilities | | |
| Common Stock - no par value, 1,000 shares outstanding | \$634,681 | \$634,681 |
| Retained Earnings | 157,071 | 143,134 |
| Accumulated Other Comprehensive Loss | (1,344) | (1,489) |
| Total Common Equity | 790,408 | 776,326 |
| Long-Term Debt, net | 599,089 | 449,024 |
| Total Capitalization | 1,389,497 | 1,225,350 |
| Current Liabilities: | | |
| Short-term borrowings | 44,300 | 71,800 |
| Accounts payable | 38,723 | 45,439 |
| Accounts payable-affiliated companies | 5,290 | 10,225 |
| Customer deposits and customer prepayments | 27,819 | 27,537 |
| Taxes accrued | 7,266 | 3,488 |
| Interest accrued | 8,987 | 6,396 |
| Dividends declared | 10,240 | 6,550 |
| Other | 5,330 | 7,054 |
| Total Current Liabilities | 147,955 | 178,489 |
| Deferred Credits and Other Liabilities: | | |
| Deferred income taxes, net | 334,243 | 291,735 |
| Pension and other postretirement benefits | 77,412 | 77,384 |
| Regulatory liabilities | 234,418 | 233,295 |
| Asset retirement obligations | 36,699 | 35,607 |
| Other | 3,406 | 3,661 |
| Total Deferred Credits and Other Liabilities | 686,178 | 641,682 |
| Commitments and Contingencies (Note 9) | - | - |
| Total | \$ 2,223,630 | \$ 2,045,521 |

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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Operating Revenues | \$ 55,112 | \$ 47,876 | \$ 300,583 | \$ 286,110 |
| Cost of Gas | 19,300 | 14,746 | 107,566 | 112,255 |
| Margin | 35,812 | 33,130 | 193,017 | 173,855 |
| Operating Expenses: | | | | |
| Operation and maintenance | 23,668 | 25,391 | 75,657 | 77,983 |
| Depreciation and amortization | 13,312 | 13,167 | 39,546 | 38,355 |
| Other taxes | 3,277 | 3,336 | 10,702 | 10,884 |
| Total Operating Expenses | 40,257 | 41,894 | 125,905 | 127,222 |
| Operating Income (Loss) | (4,445) | (8,764) | 67,112 | 46,633 |
| Other Income (Expense): | | | | |
| Other revenues | 6,711 | 6,751 | 21,982 | 21,021 |
| Other expenses | (2,718) | (3,168) | (9,658) | (9,493) |
| Interest charges, net of allowance for borrowed funds used during construction of \$901, \$153, \$1,535 and \$903 | (7,488) | (6,820) | (20,849) | (18,290) |
| Allowance for equity funds used during construction | 2,894 | 501 | 4,925 | 2,944 |
| Total Other Expense | (601) | (2,736) | (3,600) | (3,818) |
| Income (Loss) Before Income Taxes and Earnings from Equity Method Investments | (5,046) | (11,500) | 63,512 | 42,815 |
| Income Tax Benefit (Expense) | 2,615 | 4,080 | (22,561) | (16,255) |
| Income (Loss) Before Earnings from Equity Method Investments | (2,431) | (7,420) | 40,951 | 26,560 |
| Earnings from Equity Method Investments | 572 | 925 | 2,176 | 2,820 |
| Net Income (Loss) | \$ (1,859) | \$ (6,495) | \$ 43,127 | \$ 29,380 |

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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Income (Loss) | \$ (1,859) | \$ (6,495) | \$ 43,127 | \$ 29,380 |
| Other Comprehensive Income (Loss), net of tax: | | | | |
| Unrealized Gains (Losses) on Cash Flow Hedging Activities of Equity Method Investees: | | | | |
| Gains (losses) arising during period, net of tax of \$(57) , \$24, \$(182) and \$(55) | (97) | 40 | (310) | (92) |
| Losses reclassified to earnings from equity method investments, net of tax of \$75, \$9, \$208 and \$31 | 128 | 16 | 356 | 52 |
| Net unrealized gains (losses) on cash flow hedging activities of equity method investees: | 31 | 56 | 46 | (40) |
| Deferred costs of employee benefit plans, net of tax of \$32, \$3, \$58 and \$29 | 55 | 5 | 99 | 49 |
| Other Comprehensive Income | 86 | 61 | 145 | 9 |
| Total Comprehensive Income (Loss) | \$ (1,773) | \$ (6,434) | \$ 43,272 | \$ 29,389 |

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 | Nine Months Ended September 30 | |
|---|-----------------------------------|------------------|
| | 2017 | 2016 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 43,127 | \$ 29,380 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Distributions from equity method investment, net of earnings | 193 | (41) |
| Deferred income taxes, net | 44,201 | 26,447 |
| Depreciation and amortization | 42,960 | 38,772 |
| Allowance for equity funds used during construction | (4,925) | (2,944) |
| Changes in certain assets and liabilities: | | |
| Receivables | 50,843 | 24,581 |
| Income taxes receivable | (27,789) | (16,011) |
| Inventories | (31,642) | (8,026) |
| Regulatory assets | (8,387) | (7,331) |
| Regulatory liabilities | (4,203) | 3,435 |
| Accounts payable | (23,476) | (1,382) |
| Customer deposits and customer prepayments | 282 | 4,428 |
| Taxes accrued | 3,778 | 6,713 |
| Other assets | (4,483) | (5,948) |
| Other liabilities | 3,503 | (2,558) |
| Net Cash Provided From Operating Activities | 83,982 | 89,515 |
| Cash Flows From Investing Activities: | | |
| Property additions and construction expenditures | (195,545) | (142,800) |
| Proceeds from investments | 1,902 | 1,370 |
| Short-term investment - affiliate | (64,600) | (11,670) |
| Proceeds from short-term investment - affiliate | 64,600 | 11,670 |
| Net Cash Used For Investing Activities | (193,643) | (141,430) |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuance of long-term debt | 149,583 | 99,568 |
| Repayment of long-term debt | - | (575) |
| Dividends | (25,500) | (24,550) |
| Short-term borrowings, net | (27,500) | (26,419) |
| Net Cash Provided From Financing Activities | 96,583 | 48,024 |
| Net Decrease in Cash and Cash Equivalents | (13,078) | (3,891) |
| Cash and Cash Equivalents, January 1 | 13,133 | 5,902 |
| Cash and Cash Equivalents, September 30 | \$ 55 | \$ 2,011 |
| Supplemental Cash Flow Information: | | |
| Cash for - Interest (net of capitalized interest of \$1,535 and \$903) | \$ 16,620 | \$ 18,349 |
| - Income taxes paid | 8,389 | 16,244 |
| - Income taxes received | 1,695 | 13,927 |
| Noncash Investing and Financing Activities: | | |
| Accrued construction expenditures | \$ 20,108 | \$ 6,760 |

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) for the year ended December 31, 2016. 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 Income 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, all of a normal recurring nature, which are necessary for the fair statement of the results for the interim periods reported. 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 November 14, 2017 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. All other activities, which primarily include appliance sales and service, are presented within Other Income (Expense).

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, 45% of PSNC Energy's natural gas inventory at September 30, 2017 and 40% at December 31, 2016, with a carrying value of \$14.1 million and \$9.8 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.

New Accounting Matters

In May 2014, the FASB issued accounting guidance for revenue arising from contracts with customers that supersedes most prior revenue recognition guidance, including industry-specific guidance. This new revenue recognition model calls for a five-step analysis in determining when and how revenue is recognized, and will require revenue recognition to depict the transfer of promised goods or services to customers, based on the transfer of control, in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. In addition, the new guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The analysis of contracts with customers to which the guidance might be applicable is continuing, and activities of the FASB's Transition Resource Group for Revenue Recognition are being monitored, particularly as they relate to the treatment of contributions in aid of construction, alternative revenue programs and the collectability of revenue of utilities subject to rate regulation. An evaluation of the enhanced disclosure requirements is also underway, including the preliminary drafting of the disclosures that are required under the new standard, identifying performance obligations, determining the appropriate disaggregation of revenue and assessing the availability of information necessary to comply with the requirements. PSNC Energy will adopt this guidance using the modified retrospective method and will recognize a cumulative effect adjustment, if any, to retained earnings on January 1, 2018 upon adoption. Comparative periods will not be restated. PSNC Energy does not anticipate that its adoption will have a material impact on recognition patterns in its financial statements, but its adoption is expected to result in additional disclosures and may result in income statement presentation changes, particularly with respect to alternate revenue programs of utility operations.

In July 2015, the FASB issued accounting guidance intended to simplify the measurement of inventory cost by requiring most inventory to be measured at the lower of cost and net realizable value. PSNC Energy adopted this guidance in the first quarter of 2017 and its adoption did not have any impact on its financial statements.

In January 2016, the FASB issued accounting guidance that will change how entities measure certain equity investments and financial liabilities, among other things. PSNC Energy expects to adopt this guidance when required in the first quarter of 2018 and does not anticipate that its adoption will have a significant impact on its financial statements.

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, and without consideration of any regulatory accounting requirements which may apply, 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. The guidance is effective for years beginning in 2019, and PSNC Energy does not anticipate that its adoption will impact its financial statements other than increasing amounts reported for assets and liabilities on the balance sheet and changing the place on its respective income statements on which 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 be applicable has begun. In addition, PSNC Energy has begun implementation of a third party software tool that will assist with initial adoption and ongoing compliance. Specifically, 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 is intended to 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 2016, the FASB issued accounting guidance to reduce diversity in cash flow classification related to certain transactions. PSNC Energy expects to adopt this guidance when required the first quarter of 2018 and does not anticipate that its adoption will impact its financial statements.

In October 2016, the FASB issued accounting guidance related to the tax effects of intra-entity transfer of assets other than inventory. An entity will be required to recognize the income tax consequences of such a transfer in the period it occurs. PSNC Energy adopted this guidance in the first quarter of 2017 and it had no impact on its financial statements.

In November 2016, the FASB issued accounting guidance related to the presentation of restricted cash on the statement of cash flows. The guidance is effective for years beginning 2018, and PSNC Energy does not anticipate that its adoption will impact its financial statements.

In January 2017, the FASB issued accounting guidance to simplify the accounting for goodwill impairment. The guidance removes 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 has not determined when this guidance will be adopted but does not anticipate that its adoption will have a material impact on its financial statements.

In March 2017, the FASB issued accounting guidance to change the required presentation of net periodic pension and postretirement benefit costs. Under the new guidance, the net periodic pension and postretirement benefit cost are to be separated into their service cost components and other components. The service cost components are to be presented in the same line item (or items) as other compensation costs arising from services rendered by employees during the period. The other components are to be reported in the income statement separately from the service cost component and outside

operating income. Only the service cost component is eligible for capitalization in assets. This guidance is required to be applied on a retrospective basis for the presentation of the service cost component and the other components, and on a prospective basis for the capitalization of only the service cost component. PSNC Energy will adopt the guidance when required in the first quarter of 2018, and due to regulatory overlay, does not anticipate that its adoption will have a material impact on its financial statements. Non-service cost components which otherwise would have been capitalizable in assets under current accounting guidance will instead be deferred within regulatory assets.

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, though early adoption is permitted, and has not determined what impact such adoption will have on its financial statements.

2. RATE AND OTHER REGULATORY MATTERS

Rate Matters

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 North Carolina Utilities Commission (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 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:

| <u>Application Filed</u> | <u>Rates Effective</u> | <u>Incremental Increase</u> |
|--------------------------|------------------------|-----------------------------|
| February 15, 2017 | March 1, 2017 | \$1.9 million |
| August 16, 2017 | September 1, 2017 | \$0.7 million |

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 | September 30, 2017 | December 31, 2016 |
|--------------------------------------|-----------------------|----------------------|
| Regulatory Assets: | | |
| Accumulated deferred income taxes | \$ 7,930 | \$ 8,275 |
| Asset retirement obligations | 23,450 | 22,046 |
| Deferred employee benefit plan costs | 31,165 | 33,376 |
| Pipeline integrity management costs | 39,430 | 29,459 |
| Environmental remediation costs | 5,512 | 6,524 |
| Other | 380 | 451 |
| Total Regulatory Assets | \$ 107,867 | \$ 100,131 |
| Regulatory Liabilities: | | |
| Asset removal costs | \$ 227,571 | \$ 224,178 |
| Other | 6,847 | 9,117 |
| Total Regulatory Liabilities | \$ 234,418 | \$ 233,295 |

Accumulated deferred income tax liabilities that arise from utility operations that have not been included in customer rates are recorded as a regulatory asset. A substantial portion of these regulatory assets 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 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, or up to approximately 11 years.

Pipeline integrity management costs represent operating and maintenance costs incurred to comply with federal regulatory requirements related to natural gas pipelines. In November 2016, PSNC Energy began recovering over a five-year period costs incurred as of June 30, 2016 totaling \$21.8 million. PSNC Energy is continuing to defer pipeline integrity costs, and as of September 30, 2017 costs of \$21.6 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 totaling \$6.9 million are being recovered over a five-year period that began November 2016.

Asset removal costs represent estimated net collections through depreciation rates of amounts to be incurred 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. EQUITY

Changes in common equity during the nine months ended September 30, 2017 and 2016 were as follows:

| Thousands | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | | | Total Common Equity |
|-----------------------------------|-----------------|----------------------|--|---|---------------|---------------------------|
| | | | Gains (Losses) on Cash Flow Hedges | Deferred Employee Benefit Plans Cost | Total AOCI | |
| Balance as of January 1, 2017 | \$ 634,681 | \$ 143,134 | \$ 3 | \$ (1,492) | \$ (1,489) | \$ 776,326 |
| Net Income | | 43,127 | | | | 43,127 |
| Other Comprehensive Income | | | 46 | 99 | 145 | 145 |
| Total Comprehensive Income | | 43,127 | 46 | 99 | 145 | 43,272 |
| Dividends Declared | | (29,190) | | | | (29,190) |
| Balance as of September 30, 2017 | \$ 634,681 | \$ 157,071 | \$ 49 | \$ (1,393) | (1,344) | \$ 790,408 |
| Balance as of January 1, 2016 | \$ 634,681 | \$ 119,165 | \$ (12) | \$ (1,321) | \$ (1,333) | \$ 752,513 |
| Net Income | | 29,380 | | | | 29,380 |
| Other Comprehensive Income (Loss) | | | (40) | 49 | 9 | 9 |
| Total Comprehensive Income (Loss) | | 29,380 | (40) | 49 | 9 | 29,389 |
| Dividends Declared | | (26,300) | | | | (26,300) |
| Balance as of September 30, 2016 | \$ 634,681 | \$ 122,245 | \$ (52) | \$ (1,272) | \$ (1,324) | \$ 755,602 |

PSNC Energy had one thousand shares of common stock authorized, issued and outstanding during all periods presented.

Reclassifications from Accumulated Other Comprehensive Income (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 income statement, and capitalized in gas utility plant on the balance sheet.

4. LONG-TERM DEBT AND LIQUIDITY

In June 2017, PSNC Energy issued \$150 million of 4.18% senior notes due June 30, 2047. Proceeds from this sale were used to repay short-term debt, to finance capital expenditures, and for general corporate purposes.

In June 2016, PSNC Energy issued \$100 million of 4.13% senior notes due June 22, 2046. Proceeds from this sale were used to repay short-term debt, to finance capital expenditures, and for general corporate purposes.

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 facility is a revolving line of credit under credit agreements with a syndicate of banks. At September 30, 2017 and December 31, 2016, PSNC Energy had \$155.7 million and \$128.2 million, respectively, of the line of credit available.

PSNC Energy participates in a utility money pool with certain SCANA subsidiaries. Money pool borrowings and investments bear interest at short-term market rates. PSNC had no money pool investments or borrowings at September 30, 2017 and December 31, 2016.

For a discussion of the impact future credit ratings downgrades could have on PSNC Energy's liquidity and long-term debt issuances, see condensed consolidated Note 9.

5. INCOME TAXES

No material changes in the status of PSNC Energy's tax positions have occurred through September 30, 2017.

Effective January 1, 2017, the State of North Carolina reduced its corporate income tax rate from 4% to 3%. During the second quarter of 2017, the State of North Carolina passed legislation that will lower the state corporate income tax rate from 3% to 2.5% effective January 1, 2019. In connection with these changes in tax rates, related state deferred taxes were remeasured, with the change in their balances being credited to a regulatory liability. These changes in income tax rates did not and are not expected to have a material impact on PSNC Energy'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 2017 or 2016.

6. 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, appraises the Audit Committee of 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 8,330,000 Million British Thermal Units (MMBTU) at September 30, 2017 and 4,510,000 MMBTU at December 31, 2016, respectively.

The fair value of commodity derivatives, none of which were designated as hedging instruments, totaled \$1.1 million at September 30, 2017 and \$2.6 million at December 31, 2016. 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 condensed consolidated Note 10.

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.

7. 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 September 30, 2017 and \$2.6 million at December 31, 2016. These measurements were considered Level 1 and were included within Prepayments and other in the 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 any period presented.

Financial instruments for which the carrying amount may not equal estimated fair value at September 30, 2017 and December 31, 2016 were as follows:

| Thousands of dollars | As of September 30, 2017 | | As of December 31, 2016 | |
|----------------------|--------------------------|----------------------|-------------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Long-term debt | \$599,089 | \$710,231 | \$449,024 | \$511,182 |

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.

8. 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:

| Thousands of dollars | Pension Benefits | | Other Postretirement Benefits | |
|--|------------------|---------------|-------------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Three months ended September 30 | | | | |
| Service cost | \$ 710 | \$ 530 | \$ 137 | \$ 108 |
| Interest cost | 982 | 1,031 | 366 | 395 |
| Expected return on assets | (1,433) | (1,458) | - | - |
| Prior service cost amortization | 44 | 104 | - | 10 |
| Amortization of actuarial losses | 466 | 395 | 5 | 20 |
| Net periodic benefit cost | \$ 769 | \$ 602 | \$ 508 | \$ 533 |

| Thousands of dollars | Pension Benefits | | Other Postretirement Benefits | |
|---------------------------------------|------------------|-----------------|-------------------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Nine months ended September 30 | | | | |
| Service cost | \$ 2,019 | \$ 1,851 | \$ 445 | \$ 435 |
| Interest cost | 3,000 | 3,118 | 1,145 | 1,182 |
| Expected return on assets | (4,390) | (4,425) | - | - |
| Prior service cost amortization | 131 | 313 | 2 | 31 |
| Amortization of actuarial losses | 1,309 | 1,172 | 101 | 47 |
| Net periodic benefit cost | \$ 2,069 | \$ 2,029 | \$ 1,693 | \$ 1,695 |

9. COMMITMENTS AND CONTINGENCIES

The credit ratings of PSNC Energy and its parent company, SCANA Corporation, have come under pressure during the third quarter of 2017, through credit ratings downgrades and continued negative outlooks, following SCANA's decision to terminate construction on the nuclear project of one of SCANA's other subsidiaries and the credit ratings agencies' assessment of a deterioration of the regulatory support environment following that decision. If these ratings agencies were to further lower any of these ratings, particularly any decreases resulting in below investment grade ratings for long-term debt instruments, borrowing costs on new issuances would increase, which could adversely impact financial results or limit or eliminate refinancing opportunities, and the potential pool of investors and funding sources could decrease. Any further lowering of these ratings could also trigger more stringent collateral requirements on commodity hedges and under pipeline capacity and gas storage and supply agreements, as well as higher interest costs. PSNC Energy cannot predict the timing or outcome of this matter.

In addition, 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.

10. 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 \$2.4 million and \$7.9 million for the three and nine months ended September 30, 2017, respectively.

For the three and nine months ended September 30, 2016, these costs totaled \$3.0 million and \$9.1 million, respectively. The Company owed these investees \$0.7 million at September 30, 2017 and \$1.0 million at December 31, 2016. The Company received cash distributions representing earnings on invested capital from these investees of \$0.6 million and \$2.4 for the three and nine months ended September 30, 2017, respectively, and \$0.9 million and \$2.8 million for the three and nine months ended September 30, 2016.

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 consolidated balance sheets.

PSNC Energy's purchases from and sales to an affiliate of natural gas and transportation services for the three months ended September 30, 2017 and 2016 were not significant. Such purchases were \$0.1 million for each of the nine month periods ended September 30, 2017 and 2016. Such sales were \$1.7 million for the nine months ended September 30, 2017, and \$0.2 million for the nine months ended September 30, 2016.

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 \$13.1 million and \$42.6 million for the three and nine months ended September 30, 2017, respectively, and \$15.3 million and \$50.0 million for the three and nine months ended September 30, 2016, 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 \$4.5 million at September 30, 2017 and \$9.2 million at December 31, 2016.

Money pool transactions with an affiliate are described in condensed consolidated Note 4.