Deloitte & Touche LLP

550 South Tryon Street
Suite 2500
Charlotte, NC 28202
USA

Tel: +1 704 887 1500
Fax: +1 704 887 1631
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Public Service Company of North Carolina, Incorporated
Cayce, South Carolina

We have audited the accompanying consolidated financial statements of Public Service Company of North Carolina, Incorporated and subsidiaries (the "Company") which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, cash flows, and changes in common equity for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 20, 2019

Public Service Company of North Carolina, Incorporated and Subsidiaries
Consolidated Balance Sheets

Thousands of dollars	December 31, 2018	December 31, 2017
Assets		
Gas Utility Plant	$ 2,544,876	$ 2,304,759
Accumulated Depreciation	(527,702)	(487,433)
Goodwill, net of write-down of $229,590	209,824	209,824
Gas Utility Plant, Net	2,226,998	2,027,150
Investments	17,363	18,257
Current Assets:		
Cash and cash equivalents	1,290	6,851
Receivables, net of allowance for uncollectible accounts of $712 and $710	142,120	150,783
Receivables-affiliated companies	7,813	4,496
Inventories (at average cost):		
Stored gas	36,226	31,976
Materials and supplies	11,296	11,414
Prepayments and other	2,867	2,357
Total Current Assets	201,612	207,877
Deferred Debits and Other Assets:		
Regulatory assets	124,076	104,134
Other	266	434
Total Deferred Debits and Other Assets	124,342	104,568
Total	$ 2,570,315	$ 2,357,852
Capitalization and Liabilities		
Common Stock - no par value, 1,000 shares outstanding	$636,080	$635,239
Retained Earnings	225,474	174,592
Accumulated Other Comprehensive Loss	(865)	(1,318)
Total Common Equity	860,689	808,513
Long-Term Debt, net	698,476	598,700
Total Capitalization	1,559,165	1,407,213
Current Liabilities:		
Short-term borrowings	97,748	98,661
Accounts payable	61,261	77,277
Accounts payable-affiliated companies	93,598	30,460
Customer deposits and customer prepayments	18,613	28,513
Taxes accrued	1,782	2,235
Interest accrued	6,593	9,524
Dividends declared	12,700	11,800
Other	2,923	5,306
Total Current Liabilities	295,218	263,776
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	190,405	175,746
Pension and other postretirement benefits	79,265	78,103
Regulatory liabilities	406,766	390,471
Asset retirement obligations	35,488	38,681
Other	4,008	3,862
Total Deferred Credits and Other Liabilities	715,932	686,863
Commitments and Contingencies (Note 11)	-	-
Total	$ 2,570,315	$ 2,357,852

See Notes to Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated and Subsidiaries
Consolidated Statements of Income

Thousands of dollars	December 31, 2018	2017
Operating Revenues	$ 499,978	$ 470,248
Cost of Gas	210,373	187,023
Margin	289,605	283,225
Operating Expenses:		
Operation and maintenance	106,154	100,113
Depreciation and amortization	59,923	53,024
Other taxes	15,278	13,688
Total Operating Expenses	181,355	166,825
Operating Income	108,250	116,400
Other Income, net	49,947	30,067
Interest Charges, net of allowance for borrowed funds used during construction of $3,014 and $2,624	(36,871)	(28,469)
Income Before Income Taxes and Earnings (Loss) from Equity Method Investments	121,326	117,998
Income Tax Expense	(26,566)	(41,287)
Income Before Earnings (Loss) from Equity Method Investments	94,760	76,711
Earnings (Loss) from Equity Method Investments	952	(4,263)
Net Income	$ 95,712	$ 72,448

See Notes to Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated and Subsidiaries
Consolidated Statements of Comprehensive Income

Thousands of dollars	December 31, 2018	2017
Net Income	$ 95,712	$ 72,448
Other Comprehensive Income (Loss), net of tax:		
Unrealized Losses on Cash Flow Hedging Activities of Equity Method Investees:		
Arising during period, net of tax of $(36) and $(212)	(116)	(341)
Reclassified to earnings from equity method investments, net of tax of $133 and $282	436	482
Net unrealized losses on cash flow hedging activities of equity method investees	320	141
Deferred Costs of Employee Benefit Plans:		
Arising during period, net of tax of $(77) and $(34)	(251)	(58)
Reclassified to net income (see Note 9), net of tax of $21 and $52	69	88
Net deferred costs of employee benefit plans	(182)	30
Federal tax rate change	315	-
Other Comprehensive Income	453	171
Total Comprehensive Income	$ 96,165	$ 72,619

See Notes to Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

Thousands of dollars	December 31, 2018	2017
Cash Flows From Operating Activities:		
Net income	$ 95,712	$ 72,448
Adjustments to reconcile net income to net cash provided from operating activities:		
Earnings from equity method investment, net of distributions	(952)	98
Gain on sale of investment	(30,000)	-
Deferred income taxes, net	8,567	51,174
Depreciation and amortization	64,862	57,668
Allowance for equity funds used during construction	(7,936)	(8,426)
Changes in certain assets and liabilities:		
Receivables	5,344	(18,766)
Income taxes receivable	-	1,667
Inventories	(27,081)	(36,575)
Regulatory assets	(18,976)	(4,121)
Regulatory liabilities	15,352	(8,279)
Accounts payable	11,290	648
Customer deposits and customer prepayments	(9,900)	977
Taxes accrued	(454)	(1,253)
Other assets	(8,135)	(6,520)
Other liabilities	(2,767)	4,878
Net Cash Provided From Operating Activities	94,926	105,618
Cash Flows From Investing Activities:		
Property additions and construction expenditures	(246,706)	(278,341)
Proceeds from investments	32,262	2,779
Net Cash Used For Investing Activities	(214,444)	(275,562)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	99,659	149,583
Dividends	(43,930)	(35,740)
Contributions from parent	841	558
Short-term borrowings - affiliate, net	58,300	22,400
Short-term borrowings, net	(913)	26,861
Net Cash Provided From Financing Activities	113,957	163,662
Net Decrease in Cash and Cash Equivalents	(5,561)	(6,282)
Cash and Cash Equivalents, January 1	6,851	13,133
Cash and Cash Equivalents, December 31	$ 1,290	$ 6,851
Supplemental Cash Flow Information:		
Cash for - Interest (net of capitalized interest of $3,014 and $2,624)	$ 36,225	$ 23,185
- Income taxes paid	11,912	8,389
- Income taxes received	-	24,990
Noncash Investing and Financing Activities:		
Accrued construction expenditures	15,546	38,468

See Notes to Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated and Subsidiaries
Consolidated Statements of Changes in Common Equity

	Common Stock				Accumulated Other Comprehensive Income (Loss)			
Thousands of dollars	Share	Amount	Additional Paid-In Capital	Retained Earnings	Gains (Losses) on Cash Flow Hedges	Deferred Employee Benefit Plans Cost	Total AOCI	Total
Balance as of January 1, 2017	1	$ 1	$ 634,680	$ 143,134	$ 3	$ (1,492)	$ (1,489)	$ 776,326
Net Income				72,448				72,448
Other Comprehensive Income (Loss):								
Losses arising during the period					(341)		(341)	(341)
Losses/amortization reclassified from AOCI					482	30	512	512
Total Comprehensive Income				72,448	141	30	171	72,619
Capital contributions from parent, net			558					558
Dividends Declared				(40,990)				(40,990)
Balance as of December 31, 2017	1	1	635,238	174,592	144	(1,462)	(1,318)	808,513
Net Income				95,712				95,712
Other Comprehensive Income (Loss):								
Losses arising during the period					(116)	(251)	(367)	(367)
Losses/amortization reclassified from AOCI					436	69	505	505
Federal tax rate change						315	315	315
Total Comprehensive Income				95,712	320	133	453	96,165
Capital contributions from parent, net			841					841
Dividends Declared				(44,830)				(44,830)
Balance as of December 31, 2018	1	$ 1	$ 636,079	$ 225,474	$ 464	$ (1,329)	$ (865)	$ 860,689

See Notes to Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated and Subsidiaries
Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

Public Service Company of North Carolina, Incorporated (PSNC Energy, and together with its consolidated subsidiaries, the Company), a public utility, was organized as a North Carolina corporation in 1938. Effective January 1, 2000, SCANA Corporation (SCANA), a South Carolina holding company, acquired the Company. As a result, the Company became a wholly-owned subsidiary of SCANA, incorporated under the laws of South Carolina. Effective January 1, 2019, SCANA became a wholly-owned subsidiary of Dominion Energy, Inc. (Dominion Energy).

The Company primarily engages in the purchase, sale, transportation and distribution of natural gas to residential, commercial and industrial customers in North Carolina.

The accompanying consolidated financial statements include the accounts of PSNC Energy and its subsidiary companies, Clean Energy Enterprises, Inc., PSNC Blue Ridge Corporation, PSNC Southgate, LLC, and PSNC Cardinal Pipeline Company. The Company reports certain investments using the equity method of accounting. Significant intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events through March 20, 2019, which is the date these financial statements were issued.

Use of Estimates

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.

Utility Plant

Utility plant is stated at original cost. The costs of additions, replacements and betterments to utility plant, including direct labor, material and indirect charges for engineering, supervision and an allowance for funds used during construction (AFC), are added to utility plant accounts. The original cost of utility property retired or otherwise disposed of is removed from utility plant accounts and generally charged to accumulated depreciation. The costs of repairs and replacements of items of property determined to be less than a unit of property or that do not increase the asset's life or functionality are charged to expense.

AFC is a noncash item that reflects the period cost of capital devoted to plant under construction. This accounting practice results in the inclusion of, as a component of construction cost, the costs of debt and equity capital dedicated to construction investment. AFC is included in rate base investment and depreciated as a component of plant cost in establishing rates for utility services. PSNC Energy calculated AFC using average composite rates, developed on a pre-tax basis, of 9.1% and 10.5% for the years ended December 31, 2018 and 2017, respectively.

The Company records provisions for depreciation and amortization using the straight-line method based on the estimated service lives of the various classes of property, and in most cases, includes provisions for future cost of removal. Depreciation rates for utility plant are approved by the North Carolina Utilities Commission (NCUC). PSNC Energy is required to conduct a depreciation study every five years and propose new depreciation rates for approval. The last depreciation study was conducted as of December 31, 2015 and resulted in changes being made to depreciation rates effective January 1, 2017. The 2018 composite weighted average depreciation rates for utility plant by function was as follows:

Transmission	1.88%
Distribution	2.70%
Storage	1.88%
General and Other	12.21%

Goodwill

The Company considers certain amounts categorized by the Federal Energy Regulatory Commission (FERC) as acquisition adjustments to be goodwill. The Company has tested goodwill for impairment annually as of January 1, unless indicators, events or circumstances required interim testing to be performed. The Company performed its most recent test on January 1, 2019 and intends to test goodwill annually on April 1, effective April 1, 2019. Under current accounting guidance, the Company may perform a qualitative assessment of impairment. Based on this assessment, if the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company is not required to make a quantitative estimate of the fair value of the reporting unit and to compare that amount to its carrying value. If the Company is required to make a quantitative assessment or if it chooses to do so without first performing a qualitative one, and if the quantitative assessment indicates a carrying value in excess of fair value, an impairment charge would be required. Any such charge would be treated as an operating expense.

For each period presented, assets with a carrying value of $210 million, net of a write-down of $230 million taken in 2002, were classified as goodwill. The Company performed a quantitative assessment of goodwill in its evaluation as of January 1, 2019 and performed a qualitative assessment of goodwill in its evaluation as of January 1, 2018. No impairment of goodwill was required based on these evaluations.

Cash and Cash Equivalents

Temporary cash investments having original maturities of three months or less at time of purchase are considered to be cash equivalents. These cash equivalents are generally in the form of commercial paper, certificates of deposit, repurchase agreements, treasury bills, and money market funds.

Receivables

Customer receivables reflect amounts due from customers arising from the delivery of energy or related services and include both billed and unbilled amounts earned pursuant to revenue recognition practices described in Note 3. Customer receivables are generally due within one month of receipt of invoices which are presented on a monthly cycle basis. Unbilled revenues totaled $42.7 million at December 31, 2018 and $48.1 million at December 31, 2017.

Inventories

Materials and supplies include the average costs of pipe, fittings, meters, appliances and appliance parts. Stored gas includes the average cost of natural gas. Natural gas is charged to inventory when purchased and is expensed at weighted average cost, as used, and recovered through the purchased gas adjustment (PGA) mechanism approved by the NCUC.

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, 46% and 39% of PSNC Energy's natural gas inventory at December 31, 2018 and December 31, 2017, respectively, with a carrying value of $13.9 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 October 31, 2020.

Income Taxes

The Company is included in the consolidated federal income tax return of SCANA. Under a joint consolidated income tax allocation agreement, each SCANA subsidiary's current and deferred tax expense is computed on a stand-alone basis. Deferred tax assets and liabilities are recorded for the tax effects of all significant temporary differences between the

book basis and tax basis of assets and liabilities at currently enacted tax rates. Deferred tax assets and liabilities are adjusted for changes in such tax rates through charges or credits to regulatory assets or liabilities if they are expected to be recovered from, or passed through to, customers; otherwise, such adjustments are charged or credited to income tax expense. See Note 6 for a discussion of the impact of adjustments recorded upon enactment of the Tax Cuts and Jobs Act (Tax Act). Also, under provisions of the income tax allocation agreement, certain tax benefits of the parent holding company are distributed in cash to taxpaying affiliates, including the Company, in the form of capital contributions. The Company received capital contributions of $0.8 million and $0.6 million under such provisions in 2018 and 2017, respectively.

Regulatory Assets and Regulatory Liabilities

PSNC Energy records costs that have been or are expected to be allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense or records revenue in a period different from the period in which the revenue would be recorded by a nonregulated enterprise. These expenses deferred for future recovery from customers or obligations to be refunded to customers are primarily classified in the balance sheet as regulatory assets and regulatory liabilities (see Note 2) and are amortized consistent with the treatment of the related costs or revenues in the ratemaking process. Certain deferred amounts expected to be recovered or repaid within 12 months are classified on the balance sheet as Receivables or Customer deposits and customer prepayments, respectively.

Debt Issuance Premiums, Discounts and Other Costs

Premiums, discounts and debt issuance costs are presented within long-term debt and are amortized as components of interest charges over the terms of the respective debt issues.

Environmental

PSNC Energy maintains an environmental assessment program to identify and evaluate current and former operations sites that could require environmental clean-up. As site assessments are initiated, estimates are made of the amount of expenditures, if any, deemed necessary to investigate and remediate each site. Environmental remediation liabilities are accrued when the criteria for loss contingencies are met. These estimates are refined as additional information becomes available; therefore, actual expenditures could differ significantly from the original estimates. Probable and estimable costs are accrued related to environmental sites on an undiscounted basis. Amounts estimated and accrued to date for site assessments and clean-up relate solely to regulated operations. Amounts expected to be recovered through rates are recorded in regulatory assets and, if applicable, amortized over approved amortization periods. Other environmental costs are expensed as incurred.

Income Statement Presentation

The Company presents the revenues and expenses of its regulated business within operating income. All other activities are presented within Other Income, net.

Revenue Recognition

PSNC Energy records revenues during the accounting period in which it provides services to customers and includes estimated amounts for natural gas delivered and facility charges not billed.

PSNC Energy's purchased gas adjustment (Rider D) mechanism authorized by the NCUC allows the recovery of all prudently incurred gas costs, including the results of its hedging program, from customers. Any difference between actual gas costs and amounts contained in rates is deferred for subsequent refund to or collection from customers, with interest, through cost of gas. The Rider D mechanism includes commodity and fixed gas costs; premiums, transaction fees, margin requirements and any realized gains or losses from PSNC Energy's hedging activities; margin losses on negotiated gas sales to certain large commercial/industrial customers; and gas costs that were uncollectible from certain customers.

PSNC Energy is authorized by the NCUC to utilize a customer usage tracker (CUT) which allows it to adjust base rates semi-annually for residential and commercial customers based on average per customer consumption, whether impacted by weather or other factors. Any difference between actual margin and normalized margin under the CUT

mechanism is deferred for subsequent refund to or collection from customers, with interest, through cost of gas. PSNC Energy establishes its commodity cost of gas for large commercial and industrial customers on the basis of market prices for natural gas as approved by the NCUC.

Sales taxes that are billed to and collected from customers are recorded as liabilities until they are remitted to the respective taxing authority. Such taxes are not included in revenues or expenses in the statements of income.

New Accounting Matters

Recently Adopted

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.

- Goodwill impairment guidance, issued in January 2017, removed Step 2 of the goodwill impairment test.

- Guidance for revenue arising from contracts with customers 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 were 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.

- The required presentation of net periodic pension and postretirement benefit costs has been changed to distinguish between 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. Non-service cost components are now excluded from operating income. This guidance has been applied retrospectively for the presentation of the service cost components and other components, and resulted in the following changes to amounts reported in 2017.

Increase (Decrease) Thousands of dollars		December 31, 2017
Operation and maintenance	$	(1,342)
Total Operating Expenses		(1,342)
Operating Income		1,342
Other Income (Expense), net		(1,342)

  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. Effective January 1, 2018, 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 revised accounting guidance for the recognition, measurement, presentation and disclosure of leasing arrangements. The update requires that a liability and corresponding right-of-use asset are recorded on the balance sheet for all leases, including those leases currently classified as operating leases, while also refining the definition of a lease. In addition lessees will be required to disclose key information about the amount, timing, and uncertainty of cash flows arising from leasing arrangements. Lessor accounting remains largely unchanged.

The guidance is effective for PSNC Energy's interim and annual reporting periods beginning January 1, 2019. This revised accounting guidance will be adopted using a modified-retrospective approach, which requires lessees and lessors to recognize and measure leases at the date of adoption. Under this approach, PSNC Energy is permitted to utilize the transition practical expedient to maintain historical presentation for periods before January 1, 2019. PSNC Energy will apply the other practical expedients, which would require no reassessment of whether existing contracts are or contain leases, no reassessment of lease classification for existing leases and no reassessment of existing or expired land easements that were not previously accounted for as leases. The adoption of this guidance will not have a material impact on the financial statements of PSNC Energy.

In August 2017, the FASB issued accounting guidance intended 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 (OCI) 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 will adopt this guidance when required in the first quarter of 2019 and does not expect it to have a 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 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 will adopt this guidance when required in the first quarter of 2019 on a prospective basis. Upon adoption, PSNC Energy expects to record cumulative effect adjustments to retained earnings and AOCI in its statement of changes in common equity of approximately $0.3 million and does not expect any other impact on its financial statements. The amount to be reclassified reflects the impact of the reduction in the federal income tax rate arising from the Tax Act, and the related federal benefit of state income taxes, on the components of the Company's AOCI.

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. A modified-retrospective approach is required upon adoption, whereby a cumulative-effect adjustment to retained earnings is made as of the beginning of the first reporting period in which the guidance is effective. PSNC Energy has not determined when this guidance will be adopted or what impact it will have on its financial statements.

2. RATE AND OTHER REGULATORY MATTERS

Rate Matters

Tax Act Regulatory Proceedings

The Tax Act lowered the federal corporate tax rate from 35% to 21% effective January 1, 2018. In response, the NCUC requested information from utilities under their jurisdiction showing the impact of the Tax Act on their individual company's operations and proposed procedures for changing customer rates to reflect those impacts. In addition, the NCUC issued an order requiring PSNC Energy and other utilities to track and defer such impacts arising from customer rates in 2018 as subject to refund. On December 17, 2018 the NCUC issued an Order approving PSNC Energy's proposed adjustments to customer rates to reflect the reduction in the federal corporate tax rate effective for service rendered on and after January 1, 2019. Additionally, PSNC Energy is required to; (1) continue to defer as a regulatory liability such amounts arising from customer rates in 2018; and (2) continue to defer as a regulatory liability amounts arising from excess deferred income taxes, as further described below. The NCUC order requires the regulatory liabilities related to items (1) and (2) to be considered in PSNC Energy's next general rate case proceeding or in three years, whichever is sooner (i.e., no later than October 25, 2021).

An estimate of income tax amounts charged through customer rates that relates to the effects of the Tax Act has been deferred. As of December 31, 2018, PSNC Energy has recorded approximately $15.4 million of such deferrals within Regulatory liabilities on the consolidated balance sheet for the Company. These amounts include the accrual of estimated carrying costs. 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 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 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.

On October 28, 2016, the NCUC granted PSNC Energy a net annual increase of approximately $19.1 million, or 4.39%, in rates and charges to customers, and set PSNC Energy's authorized ROE at 9.7%. In addition, 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 files biannual applications to adjust its rates for this purpose. The NCUC has approved those applications for the incremental increase to annual revenue requirements, as follows:

Rates Effective	2018	2017
March 1	$14.7 million	$1.9 million
September 1	$1.1 million	$0.7 million

On February 15, 2019, PSNC Energy submitted its biannual application to adjust rates associated with its pipeline integrity tracker. As approved by the NCUC, the filing increased PSNC Energy's allowed recovery by approximately $1.7 million effective March 1, 2019.

On November 19, 2018, the NCUC issued an order approving the acquisition of SCANA by Dominion Energy subject to a stipulation agreement with the following provisions: (1) customer bill credits of $1.25 million in each of January 2019, 2020 and 2021; (2) a rate moratorium until November 1, 2021 other than for rate adjustments pursuant to the CUT, the Integrity Management Tracker (IMT) and the PGA; and (3) an agreement that direct merger-related expenses will be excluded from PSNC Energy regulated expenses for ratemaking purposes.

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	December 31, 2018	December 31, 2017
Regulatory Assets:		
Asset retirement obligations	$ 25,846	$ 23,924
Deferred employee benefit plan costs	30,293	31,381
Pipeline integrity management costs	63,681	43,291
Environmental remediation costs	3,823	5,174
Other	433	364
Total Regulatory Assets	$ 124,076	$ 104,134
Regulatory Liabilities:		
Accumulated deferred income taxes, net	$ 155,182	$ 161,137
Asset removal costs	236,211	229,314
Revenues subject to refund	15,355	-
Other	18	20
Total Regulatory Liabilities	$ 406,766	$ 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 December 31, 2018, costs of $51.3 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. Such remediation costs 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 in connection with the enactment of the Tax Act (certain of which are protected under normalization rules and will be amortized over the remaining lives of related property, and certain of which will be amortized to the benefit of customers over prescribed periods 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.

Revenues subject to refund represent the revenues deferred by PSNC Energy resulting from the NCUC order addressing the reduction in the federal income tax rate from 35% to 21% effective January 1, 2018. (See Tax Act Regulatory Proceedings above.)

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, 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 12. 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. This includes estimated amounts unbilled at a balance sheet date, but which are to be invoiced in the normal cycle.

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 for 2018 as follows:

(Thousands of dollars)	
Customer class:	
Residential	$ 324,855
Commercial	125,484
Industrial	14,951
Transportation	31,558
Revenues from contracts with customers	496,848
Other revenues	3,130
Total Operating Revenues	$ 499,978

4. COMMON EQUITY

Authorized and outstanding shares of common stock were 1,000 as of December 31, 2018 and 2017.

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 December 31, 2018, this limitation would permit PSNC Energy to pay cash distributions in excess of $100 million.

The NCUC, in its order approving the SCANA Combination, limited cumulative dividends payable to Dominion Energy by PSNC Energy to (i) the amount of retained earnings at closing of the SCANA Combination plus (ii) any future earnings recorded by PSNC Energy after such date. In addition, notice to the NCUC is required if payment of dividends causes the equity component of PSNC Energy's capital structure to fall below 45%.

5. LONG-TERM DEBT AND SHORT-TERM DEBT

Long-Term Debt

Long-term debt by type with related weighted average interest rates and maturities at December 31 is as follows:

		2018		2017	
Thousands of dollars	Maturity	Balance	Rate	Balance	Rate
Medium-Term Notes (unsecured)	2021-2047	$ 500,000	4.32%	$ 400,000	4.32%
Senior Debentures	2020-2026	200,000	6.88%	200,000	6.88%
Total debt		700,000		600,000	
Unamortized debt issuance costs		$ (1,524)		$ (1,300)	
Total long-term debt, net		$ 698,476		$ 598,700	

There are no long-term debt maturities in 2019, 2022, or 2023. Maturities are expected to be $100 million in 2020 and $150 million in 2021.

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 each of these sales were used to repay short-term debt, to finance capital expenditures, and for general corporate purposes.

Lines of Credit and Short-Term Borrowings

At December 31, 2018 and 2017, PSNC Energy had available the following committed lines of credit and commercial paper borrowings outstanding:

Thousands of dollars	2018	2017
Committed long-term lines of credit	$ 200,000	$ 200,000
Commercial paper (270 or fewer days)	97,748	98,661
Weighted average interest rate	3.49%	1.93%
Available	$ 102,252	$ 101,339

At December 31, 2018, PSNC Energy was 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. Wells Fargo Bank, National Association, Bank of America, N.A. and Morgan Stanley Bank, N.A. each provide 9.5% of the credit facility, JP Morgan Chase Bank, N.A., Mizuho Corporate Bank, Ltd., TD Bank N.A., Credit Suisse AG, Cayman Islands Branch, UBS Loan Finance LLC, MUFG Union Bank, N.A., and Branch Banking and Trust Company each provide 7.9%, and Royal Bank of Canada and U.S. Bank National Association each provide 5.5%. Two other banks provide the remaining support. The Company pays fees to the banks as compensation for maintaining the committed lines of credit. Such fees were not material in any period presented.

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 from money pool transactions were not significant during any period presented. Interest expense from money pool transactions were $0.6 million in 2018 and were not significant in 2017. PSNC had money pool borrowings due to an affiliate at December 31, 2018 of $80.7 million and $22.4 million at December 31, 2017. Amounts due to an affiliate are included within Accounts payable-affiliated companies on PSNC Energy's consolidated balance sheets.

6. INCOME TAXES

Components of income tax expense (benefit) are as follows:

Thousands of dollars	2018	2017
Current taxes:		
Federal	$ 9,773	$ (18,337)
State	1,469	428
Total current taxes	11,242	(17,909)
Deferred taxes, net:		
Federal	13,463	56,615
State	1,861	2,581
Total deferred taxes	15,324	59,196
Total income tax expense	$ 26,566	$ 41,287

In December 2017, the Tax Act was enacted resulting in the remeasurement of all federal deferred income tax assets and liabilities to reflect a 21% federal statutory tax rate. Due to the regulated nature of the Company's operations, the effect of this remeasurement is primarily reflected in excess deferred income tax balances within regulatory liabilities (see Note 2).

Included in the Company's 2018 federal deferred income tax expense was $10.5 million for the utilization of operating loss carryforwards.

The difference between actual income tax expense and the amount calculated from the application of the statutory 35% federal income tax rate to pre-tax income is reconciled as follows:

Thousands of dollars	2018	2017
U.S. statutory rate	*21%*	*35%*
Net income	$ 95,712	$ 72,448
Income tax expense	26,566	41,287
Total pre-tax income	$ 122,278	$ 113,735
Income taxes on above at statutory federal income tax rate	$ 25,679	$ 39,807
Increases (decreases) attributed to:		
State income taxes (less federal income tax effect)	2,630	1,956
Allowance for equity funds	(1,336)	(2,949)
Remeasurement of deferred taxes upon enactment of Tax Act	—	2,212
Other differences, net	(407)	2,473
Total income tax expense	$ 26,566	$ 43,499

The Company has completed its accounting for the effects of the Tax Act. In connection with the remeasurement of federal deferred income tax assets and liabilities, the Company recorded additional deferred income tax expense of approximately $2.2 million in its statements of operations for the year ended December 31, 2017.

The State of North Carolina lowered its corporate income tax rate to 4% in 2016, 3% in 2017 and 2.5% effective January 1, 2019. In connection with these changes in tax rates, related state deferred tax amounts were re-measured, 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.

The tax effects of significant temporary differences comprising the Company's net deferred tax liability are as follows:

Thousands of dollars	2018	2017
Deferred tax assets:		
Nondeductible accruals	$ 19,720	$ 19,515
Asset retirement obligation	8,293	9,040
Net operating loss	—	984
Deferred compensation	730	790
Other	1,712	1,219
Total deferred tax assets	30,455	31,548
Deferred tax liabilities:		
Property, plant and equipment	182,928	174,104
Deferred employee benefit plan costs	7,079	7,334
Prepayments	329	286
Regulatory asset - asset retirement obligation	6,040	5,591
Regulatory asset - pipeline integrity management cost	11,424	8,418
Distribution integrity management program cost	3,458	1,699
Other	9,602	9,862
Total deferred tax liabilities	220,860	207,294
Net deferred tax liability	$ 190,405	$ 175,746

A valuation allowance is needed when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In determining whether a valuation allowance is required, the Company considers such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset. Based on this evaluation, management has concluded that a valuation allowance is not needed.

The Company is included in the consolidated federal income tax return of SCANA and files various applicable state and local income tax returns.

The Internal Revenue Service (IRS) has completed examinations of SCANA's federal returns through 2004, and SCANA's federal returns through 2009 are closed for additional assessment. The IRS is currently examining SCANA's open federal returns through 2017 as a result of research and experimentation and other claims attributable to another SCANA subsidiary. With few exceptions, the Company is no longer subject to state and local income tax examinations by tax authorities for years before 2010.

As of December 31, 2018, the Company has not recorded an unrecognized tax benefit. No other material changes in the status of the Company's tax positions have occurred through December 31, 2018.

The Company had no uncertain tax positions, and recorded no associated interest income, interest expense or penalties, for any period presented.

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 OCI (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. Historically, SCANA's Board of Directors, PSNC Energy's parent, 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 was comprised of certain officers, apprised the Board of Directors with regard to the management of risk and brought 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 6.4 billion cubic feet (bcf) at each of December 31, 2018 and December 31, 2017.

The fair value of commodity derivatives, none of which were designated as hedging instruments, totaled $1.2 million at December 31, 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 13.

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.

There were no Level 3 fair value measurements during either period presented.

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

	As of December 31, 2018		As of December 31, 2017	
Thousands of dollars	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	$698,476	$788,371	$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. SCANA's policy has been to fund the plan as permitted by applicable federal income tax regulations, as determined by an independent actuary.

The pension plan provides benefits under a cash balance formula for employees hired before January 1, 2000 who elected that option and all eligible employees hired subsequently. Under the cash balance formula, benefits accumulate as a result of compensation credits and interest credits. Employees hired before January 1, 2000 who elected to remain under the final average pay formula earn benefits based on years of credited service and the employee's average annual base earnings received during the last three years of employment. Benefits under the cash balance formula will continue to accrue through December 31, 2020, after which date no benefits will be accrued except that participants under the cash balance formula will continue to earn interest credits. Benefits under the final average pay formula will continue to accrue through December 31, 2023, after which date no benefits will be accrued. Once the benefits under SCANA's pension plan no longer accrue, eligible participants will accrue benefits under a cash balance plan sponsored by Dominion Energy.

In addition to pension benefits, PSNC Energy participates in SCANA's unfunded postretirement health care and life insurance programs which provide benefits to certain active and retired employees. Retirees hired before January 1, 2011 share in a portion of their medical care cost, while employees hired subsequently are responsible for the full costs of retiree medical benefits elected by them. The costs of postretirement benefits other than pensions are accrued during the years the employees render the services necessary to be eligible for these benefits.

The same benefit formula applies to all SCANA subsidiaries participating in the parent sponsored plans and, with regard to the pension plan, there are no legally separate asset pools. The postretirement benefit plans are accounted for as multiple employer plans. The information presented below reflects PSNC Energy's portion of the obligations, assets, funded status, net periodic benefit costs, and other information reported for the parent sponsored plans as a whole. The tabular data presented reflects the use of various cost assignment methodologies and participation assumptions based on PSNC Energy's past and current employees and its share of plan assets.

Changes in Benefit Obligation

The measurement date used to determine pension and other postretirement benefit obligations is December 31. Data related to the changes in the projected benefit obligation for pension benefits and the accumulated benefit obligation for other postretirement benefits are presented below.

	Pension Benefits		Other Postretirement Benefits	
Thousands of dollars	**2018**	**2017**	**2018**	**2017**
Benefit obligation, January 1	$ 104,047	$ 96,838	$ 33,492	$ 30,848
Service cost	2,851	2,692	715	588
Interest cost	3,803	4,000	1,578	1,510
Plan participants' contributions	—	—	221	174
Actuarial (gain) loss	(7,398)	7,605	(5,772)	2,284
Benefits paid	(7,029)	(7,088)	(2,059)	(1,643)
Amounts funded to parent	—	—	(205)	(269)
Benefit obligation, December 31	$ 96,274	$ 104,047	$ 27,970	$ 33,492

The accumulated benefit obligation for pension benefits was $93.9 million at the end of 2018 and $101.0 million at the end of 2017. The accumulated pension benefit obligation differs from the projected pension benefit obligation above in that it reflects no assumptions about future compensation levels.

Significant assumptions used to determine the above benefit obligations are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
Annual discount rate used to determine benefit obligation	4.35%	3.71%	4.38%	3.74%
Assumed annual rate of future salary increases for projected benefit obligation	3.00%	3.00%	3.00%	3.00%

A 6.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018. The rate was assumed to decrease gradually to 5.0% for 2023 and to remain at that level thereafter.

A one percent increase in the assumed health care cost trend rate would increase the postretirement benefit obligation approximately $0.1 million at December 31, 2018 and $0.2 million at December 31, 2017. A one percent decrease in the assumed health care cost trend rate would decrease the postretirement benefit obligation approximately $0.1 million at December 31, 2018 and $0.2 million at December 31, 2017.

Funded Status

Thousands of Dollars	Pension Benefits		Other Postretirement Benefits	
December 31,	2018	2017	2018	2017
Fair value of plan assets	$ 42,906	$ 57,382	—	—
Benefit obligation	96,274	104,047	$ 27,970	$ 33,492
Funded status	$ (53,368)	$ (46,665)	$ (27,970)	$ (33,492)

Amounts recognized on the consolidated balance sheets consist of:

Thousands of Dollars	Pension Benefits		Other Postretirement Benefits	
December 31,	2018	2017	2018	2017
Current liability	—	—	$ (2,073)	$ (2,054)
Noncurrent liability	$ (53,368)	$ (46,665)	(25,897)	(31,438)

Amounts recognized in accumulated other comprehensive loss (a component of common equity) were as follows:

Thousands of Dollars	Pension Benefits		Other Postretirement Benefits	
December 31,	2018	2017	2018	2017
Net actuarial loss	$ 1,523	$ 1,090	$ 104	$ 344
Prior service cost	5	6	—	—
Total	$ 1,528	$ 1,096	$ 104	$ 344

Amounts recognized in regulatory assets were as follows:

Thousands of Dollars	Pension Benefits		Other Postretirement Benefits	
December 31,	2018	2017	2018	2017
Net actuarial loss	$ 28,084	$ 23,400	$ 1,915	$ 7,389
Prior service cost	83	136	—	—
Total	$ 28,167	$ 23,536	$ 1,915	$ 7,389

Changes in Fair Value of Plan Assets

	Pension Benefits	
Thousands of dollars	2018	2017
Fair value of plan assets, January 1	$ 57,382	$ 48,623
Actual return on plan assets	(7,447)	15,847
Benefits paid	(7,029)	(7,088)
Fair value of plan assets, December 31	$ 42,906	$ 57,382

Investment Policies and Strategies

The assets of the pension plan are invested in accordance with the objectives of (1) fully funding the obligations of the pension plan, (2) overseeing the plan's investments in an asset-liability framework that considers the funding surplus (or deficit) between assets and liabilities, and overall risk associated with assets as compared to liabilities, and (3) maintaining sufficient liquidity to meet benefit payment obligations on a timely basis. SCANA uses a dynamic investment strategy for the management of the pension plan assets. This strategy will lead to a reduction in equities and an increase in long duration fixed income allocations over time with the intention of reducing volatility of funded status and pension costs.

The pension plan operates with several risk and control procedures, including ongoing reviews of liabilities, investment objectives, levels of diversification, investment managers and performance expectations. The total portfolio is constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations, or industries.

Transactions involving certain types of investments are prohibited. These include, except where utilized by a hedge fund manager, any form of private equity; commodities or commodity contracts (except for unleveraged stock or bond index futures and currency futures and options); ownership of real estate in any form other than publicly traded securities; short sales, warrants or margin transactions, or any leveraged investments; and natural resource properties. Investments made for the purpose of engaging in speculative trading are also prohibited.

The pension plan asset allocation at December 31, 2018 and 2017 and the target allocation for 2019 are as follows:

	Percentage of Plan Assets		
	Target Allocation	At December 31,	
Asset Category	**2019**	**2018**	**2017**
Equity Securities	58%	55%	58%
Fixed Income	33%	34%	31%
Hedge Funds	9%	11%	11%

For 2019, the expected long-term rate of return on assets will be 7.0%. In developing the expected long-term rate of return assumptions, management evaluates the pension plan's historical cumulative actual returns over several periods, considers the expected active returns across various asset classes and assumes an asset allocation is achieved. Management regularly reviews such allocations and periodically rebalances the portfolio when considered appropriate. Additional rebalancing may occur subject to funded status improvements as part of the dynamic investment policy described previously.

Fair Value Measurements

Assets held by the pension plan are measured at fair value as described below. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. At December 31, 2018 and 2017, fair value measurements, and the level within the fair value hierarchy in which the measurements fall, were as follows:

Thousands of dollars	2018	2017
Investments with fair value measure at Level 2:		
Mutual funds	$ 6,292	$ 8,091
Short-term investment vehicles	1,166	1,170
US Treasury securities	428	1,032
Corporate debt instruments	5,453	6,166
Government and other debt instruments	1,033	1,128
Total assets in the fair value hierarchy	14,372	17,587
Investments at net asset value:		
Common collective trust	23,623	33,603
Joint venture interests	4,911	6,192
Total investments	$ 42,906	$ 57,382

For all periods presented, assets with fair value measurements classified as Level 1 were insignificant, and there were no assets with fair value measurements classified as Level 3. There were no transfers of fair value amounts into or out of Levels 1, 2 or 3 during 2018 or 2017.

Mutual funds held by the plan are open-end mutual funds registered with the SEC. The price of the mutual funds' shares is based on its NAV, which is determined by dividing the total value of portfolio investments, less any liabilities, by the total number of shares outstanding. For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. Short-term investment vehicles are funds that invest in short-term fixed income instruments and are valued using observable prices of the underlying fund assets based on trade data for identical or similar securities. US Treasury securities are valued using quoted market prices or based on models using observable inputs from market sources such as external prices or spreads or benchmarked thereto. Corporate debt instruments and government and other debt instruments are valued based on recently executed transactions, using quoted market prices, or based on models using observable inputs from market sources such as external prices or spreads or benchmarked thereto. Common collective trust assets and limited partnerships are valued at NAV, which has been determined based on the unit values of the trust funds. Unit values are determined by the organization sponsoring such trust funds by dividing the trust funds' net assets at fair value by the units outstanding at each valuation date. Joint venture interests are invested in a hedge fund of funds partnership that invests directly in multiple hedge fund strategies that are not traded on exchanges and not traded on a daily basis. The valuation of such multi-strategy hedge fund of funds is estimated based on the NAV of the underlying hedge fund strategies using consistent valuation guidelines that account for variations that may influence their fair value.

Expected Cash Flows

The total benefits expected to be paid from the pension plan or from the Company's assets for the other postretirement benefits plan (net of participant contributions), respectively, are as follows:

Expected Benefit Payments

Thousands of dollars	Pension Benefits	Other Postretirement Benefits
2019	$ 71,524	$ 2,118
2020	62,365	2,233
2021	65,626	2,328
2022	69,644	2,399
2023	66,624	2,475
2024-2028	284,882	12,857

Pension Plan Contributions

The pension trust is adequately funded under current regulations. No contributions have been required since 1997, and as a result of closing the plan to new entrants and freezing benefit accruals at the end of 2023, no significant contributions to the pension trust are expected for the foreseeable future based on current market conditions and assumptions, nor is a limitation on benefit payments expected to apply.

Net Periodic Benefit Cost

PSNC Energy records net periodic benefit cost utilizing beginning of the year assumptions. Disclosures required for these plans are set forth in the following tables.

Components of Net Periodic Benefit Cost

	Pension Benefits		Other Postretirement Benefits	
Thousands of dollars	**2018**	**2017**	**2018**	**2017**
Service cost	$ 2,851	$ 2,692	$ 715	$ 588
Interest cost	3,803	4,000	1,578	1,510
Expected return on assets	(6,324)	(5,853)	n/a	n/a
Prior service cost amortization	57	175	—	3
Amortization of actuarial losses	1,430	1,745	113	133
Net periodic benefit cost	$ 1,817	$ 2,759	$ 2,406	$ 2,234

Other changes in plan assets and benefit obligations recognized in OCI (net of tax) were as follows:

	Pension Benefits		Other Postretirement Benefits	
Thousands of dollars	**2018**	**2017**	**2018**	**2017**
Current year actuarial (gain) loss	$ 495	$ (59)	$ (235)	$ 109
Amortization of actuarial losses	(62)	(73)	(5)	(6)
Amortization of prior service cost	(1)	(7)	—	—
Total recognized in OCI	$ 432	$ (139)	$ (240)	$ 103

Other changes in plan assets and benefit obligations recognized in regulatory assets were as follows:

	Pension Benefits		Other Postretirement Benefits	
Thousands of dollars	**2018**	**2017**	**2018**	**2017**
Current year actuarial (gain) loss	$ 6,016	$ (2,298)	$ (5,372)	$ 2,114
Amortization of actuarial losses	(1,332)	(1,634)	(102)	(126)
Amortization of prior service cost	(53)	(158)	—	(3)
Total recognized in regulatory assets	$ 4,631	$ (4,090)	$ (5,474)	$ 1,985

Significant Assumptions Used in Determining Net Periodic Benefit Cost

	Pension Benefits		Other Postretirement Benefits	
	2018	**2017**	**2018**	**2017**
Discount rate	3.71%	4.22%	3.74%	4.30%
Expected return on plan assets	7.00%	7.25%	n/a	n/a
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%
Health care cost trend rate	n/a	n/a	7.00%	6.60%
Ultimate health care cost trend rate	n/a	n/a	5.00%	5.00%
Year achieved	n/a	n/a	2023	2021

The estimated amounts to be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2019 are not significant. The estimated amounts to be amortized from regulatory assets into net periodic benefit cost in 2019 are as follows:

Thousands of Dollars	Pension Benefits		Other Postretirement Benefits
Actuarial loss	$	1,788	—
Prior service cost		41	—
Total	$	1,829	—

Other postretirement benefit costs are subject to annual per capita limits pursuant to the plan's design. As a result, the effect of a one-percent increase or decrease in the assumed health care cost trend rate on total service and interest cost is not significant.

401(k) Retirement Savings Plan

PSNC Energy participates in a SCANA-sponsored defined contribution plan in which eligible employees may defer up to 75% of eligible earnings subject to certain limits and may diversify their investments. Employee deferrals are fully vested and nonforfeitable at all times. PSNC Energy provides 100% matching contributions up to 6% of an employee's eligible earnings. Total matching contributions made to the plan were $3.6 million in 2018 and $3.4 million in 2017.

10. UTILITY PLANT

Major classes of utility plant and other property and their respective balances at December 31, 2018 were as follows:

Thousands of dollars		
Gross Utility Plant:		
Transmission	$	658,129
Distribution		1,587,946
Storage		25,373
General and other		84,572
Intangible		12,334
Construction work in progress		176,522
Total Gross Utility Plant	$	2,544,876

11. 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.

Operating Lease Commitments

PSNC Energy is obligated under various operating leases for office space, furniture and equipment. Leases expire at various dates through 2022. Rent expense totaled approximately $0.5 million for each of the years 2018 and 2017. Future minimum rental payments under such leases are as follows:

	Thousands of dollars
2019	$ 412
2020	267
2021	125
2022	43
2023	—
Thereafter	—
Total	$ 847

Asset Retirement Obligations

The Company recognizes a liability for the present value of an ARO when incurred if the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional ARO is factored into the measurement of the liability when sufficient information exists, but such uncertainty is not a basis upon which to avoid liability recognition.

The legal obligations associated with the retirement of long-lived tangible assets that result from their acquisition, construction, development and normal operation relate primarily to the Company's transmission and distribution properties held by its regulated utility. All of the amounts recorded are based upon estimates which are subject to varying degrees of precision, particularly since such payments will be made many years in the future.

A reconciliation of the beginning and ending aggregate carrying amount of AROs is as follows:

Thousands of dollars	**2018**	**2017**
Beginning balance	$ 38,681	$ 35,607
Liabilities incurred	—	—
Liabilities settled	—	—
Accretion expense	1,516	1,464
Revisions in estimated cash flows	(4,709)	1,610
Ending balance	$ 35,488	$ 38,681

In 2018, the revision in estimated cash flows relates primarily to a change in the discount factor and the risk premium; in 2017, the revision relates primarily to increased gas utility plant.

12. OTHER INCOME, NET

Components of other income, net are as follows:

Thousands of dollars	2018	2017
Revenues from contracts with customers	$ 24,221	$ —
Other revenues	31,751	29,643
Other expenses	(13,961)	(8,002)
Allowance for equity used during construction	7,936	8,426
Other income, net	$ 49,947	$ 30,067

Other revenues includes a gain related to the sale of PSNC Energy's membership interest in a project for the construction of a natural gas pipeline spur. Non-service cost components of pension and other postretirement benefits are also included in Other expenses.

13. 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 $9.3 million and $10.1 million in 2018 and 2017, respectively. The Company owed these investees $0.8 million at December 31, 2018 and December 31, 2017. The Company received no cash distributions representing earnings on invested capital from these investees during 2018 and received cash distributions of $2.8 million during 2017.

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 had sales to an affiliate for natural gas and transportation services of $0.5 million during 2018 and $1.8 million during 2017. Purchases of natural gas from an affiliate were $0.1 million during 2018 and $0.2 million during 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 $55.7 million in 2018 and $56.4 million in 2017. In addition, SCANA Services, Inc., processes and pays invoices for PSNC Energy and is reimbursed. PSNC Energy's payables to SCANA Services, Inc., were $6.1 million at December 31, 2018 and $7.3 million at December 31, 2017.

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