Public Service Company of North Carolina, Incorporated

Consolidated Financial Statements

Quarter Ended June 30, 2020

Public Service Company of North Carolina, Incorporated

GLOSSARY OF TERMS

The following abbreviations or acronyms used in this document are defined below:

Abbreviation or Acronym	Definition
2017 Tax Reform Act	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (previously known as The Tax Cuts and Jobs Act) enacted on December 22, 2017
AOCI	Accumulated other comprehensive income (loss)
ARO	Asset retirement obligation
bcf	billion cubic feet
Cardinal	Cardinal Pipeline Company, LLC
CARES Act	Coronavirus Aid, Relief and Economic Security Act, enacted on March 27, 2020
CUT	Customer usage tracker (decoupling mechanism)
DES	Dominion Energy Services, Inc.
DESS	Dominion Energy Southeast Services, Inc.
Dominion Energy	The legal entity, Dominion Energy, Inc., one or more of its consolidated subsidiaries (other than SCANA and PSNC) or operating segments, or the entirety of Dominion Energy, Inc. and its consolidated subsidiaries
FASB	Financial Accounting Standards Board
GAAP	U.S. generally accepted accounting principles
LNG	Liquefied natural gas
North Carolina Commission	North Carolina Utilities Commission
Pine Needle	Pine Needle LNG Company, LLC
PSNC	The legal entity, Public Service Company of North Carolina, Incorporated, one or more of its consolidated subsidiaries, or the entirety of Public Service Company of North Carolina, Incorporated and its consolidated subsidiaries, doing business as Dominion Energy North Carolina
Rider D	Rate mechanism which allows PSNC to recover from customers all prudently incurred gas costs and certain uncollectible expenses as well as losses on negotiated gas and transportation sales
SCANA	The legal entity, SCANA Corporation, one or more of its consolidated subsidiaries (other than PSNC) or the entirety of SCANA Corporation and its consolidated subsidiaries
SCANA Combination	Dominion Energy's acquisition of SCANA completed on January 1, 2019 pursuant to the terms of the agreement and plan of merger entered on January 2, 2018 between Dominion Energy and SCANA
SCANA Merger Approval Order	Final order issued by the South Carolina Commission on December 21, 2018 setting forth its approval of the SCANA Combination
SEMI	SCANA Energy Marketing, Inc.
VIE	Variable interest entity
Wrangler	Wrangler Retail Gas Holdings, LLC, a partnership between Dominion Energy and Interstate Gas Supply, Inc.

FINANCIAL STATEMENTS

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(millions)	June 30, 2020	December 31, 2019[1]
ASSETS		
Gas utility plant	**$ 2,882.1**	$ 2,791.7
Accumulated depreciation	**(597.7)**	(571.1)
Goodwill, net of writedown of $229.6	**209.8**	209.8
Gas Utility Plant, Net	**2,494.2**	2,430.4
Investments	**20.7**	21.3
Current Assets:		
Cash and cash equivalents	**1.2**	1.5
Receivables, net of allowance for uncollectible accounts of $1.6 and $0.6	**64.0**	111.3
Receivables-affiliated companies	**3.0**	8.2
Receivables-income taxes	**1.4**	1.7
Inventories (at average cost):		
Stored gas	**25.0**	33.9
Materials and supplies	**24.5**	11.6
Regulatory assets	**42.1**	40.6
Prepayments and other	**4.7**	1.6
Total Current Assets	**165.9**	210.4
Deferred Debits and Other Assets:		
Regulatory assets	**131.8**	122.0
Other	**2.4**	2.3
Total Deferred Debits and Other Assets	**134.2**	124.3
Total Assets	**$ 2,815.0**	$ 2,786.4

(1) *PSNC's Consolidated Balance Sheet at December 31, 2019 has been derived from the audited Consolidated Balance Sheet at that date.*

The accompanying notes are an integral part of PSNC's Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Unaudited)

(millions, except shares)	June 30, 2020	December 31, 2019[1]
CAPITALIZATION AND LIABILITIES		
Common Stock - no par value, 1,000 shares outstanding	**$ 708.8**	$ 708.8
Retained earnings	**360.2**	300.6
Accumulated other comprehensive loss	**(1.4)**	(1.2)
Total Common Equity	**1,067.6**	1,008.2
Long-term debt, net	**648.1**	598.6
Total Capitalization	**1,715.7**	1,606.8
Current Liabilities:		
Current portion of long-term debt	**150.0**	100.0
Accounts payable	**32.2**	55.4
Accounts payable-affiliated companies	**88.7**	196.8
Customer deposits and customer prepayments	**13.5**	17.9
Taxes accrued	**8.3**	11.9
Interest accrued	**7.0**	6.6
Regulatory liabilities	**7.3**	5.8
Other	**7.9**	12.3
Total Current Liabilities	**314.9**	406.7
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	**200.5**	196.0
Pension and other postretirement benefits	**77.5**	77.6
Asset retirement obligations	**82.3**	80.3
Regulatory liabilities	**418.1**	413.5
Other	**6.0**	5.5
Total Deferred Credits and Other Liabilities	**784.4**	772.9
Commitments and Contingencies (see Note 14)		
Total Capitalization and Liabilities	**$ 2,815.0**	$ 2,786.4

(1) PSNC's Consolidated Balance Sheet at December 31, 2019 has been derived from the audited Consolidated Balance Sheet at that date.

The accompanying notes are an integral part of PSNC's Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(millions)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Operating Revenues[1]	**$ 78.6**	$ 79.8	**$ 288.1**	$ 312.0
Cost of gas[1]	**22.3**	24.8	**102.0**	139.8
Margin	**56.3**	55.0	**186.1**	172.2
Operating Expenses:				
Other operations and maintenance[1]	**26.0**	28.0	**55.3**	55.9
Depreciation and amortization	**17.9**	16.7	**35.7**	32.3
Other taxes	**4.6**	4.3	**9.2**	8.5
Total operating expenses	**48.5**	49.0	**100.2**	96.7
Income from operations	**7.8**	6.0	**85.9**	75.5
Other income (expense), net	**3.0**	(7.9)	**6.2**	(3.5)
Interest charges, net of allowance for borrowed funds used during construction of $0.4, $0.5, $0.8 and $1.4[1]	**9.9**	9.6	**19.8**	19.6
Income (loss) before income tax expense (benefit) and earnings from equity method investees	**0.9**	(11.5)	**72.3**	52.4
Income tax expense (benefit)	**(1.2)**	(4.0)	**13.9**	9.6
Income (loss) before earnings from equity method investees	**2.1**	(7.5)	**58.4**	42.8
Earnings from equity method investees	**0.6**	0.6	**1.2**	0.9
Net Income (Loss)	**$ 2.7**	$ (6.9)	**$ 59.6**	$ 43.7

(1) See Note 17 for amounts attributable to related parties.

The accompanying notes are an integral part of PSNC's Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(millions)	**2020**	2019	**2020**	2019
Net income (loss)	**$ 2.7**	$ (6.9)	**$ 59.6**	$ 43.7
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on cash flow hedging activities of equity method investees:				
Arising during period, net of $(0.1), $(0.1), $(0.1) and $(0.2) tax	**(0.3)**	(0.3)	**(0.4)**	(0.6)
Reclassified to earnings from equity method investees, net of $0.1, $---, $0.1 and $0.1 tax	**0.1**	0.2	**0.2**	0.3
Net unrealized losses on cash flow hedging activities of equity method investees	**(0.2)**	(0.1)	**(0.2)**	(0.3)
Deferred costs of employee benefit plans, net of $---, $---, $--- and $0.1 tax	**—**	0.1	**—**	0.1
Other comprehensive loss	**(0.2)**	—	**(0.2)**	(0.2)
Total comprehensive income (loss)	**$ 2.5**	$ (6.9)	**$ 59.4**	$ 43.5

The accompanying notes are an integral part of PSNC's Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Six Months Ended June 30,	2020	2019
(millions)		
Operating Activities		
Net Income	$ 59.6	$ 43.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from equity method investees, net of distributions	(0.7)	(0.9)
Deferred income taxes, net	0.7	(0.9)
Depreciation and amortization	35.7	34.8
Allowance for equity funds used during construction	(2.1)	(3.7)
Changes in certain assets and liabilities:		
Receivables	52.4	73.0
Inventories	(4.0)	(2.7)
Regulatory assets	(9.5)	(5.7)
Regulatory liabilities	3.9	4.9
Accounts payable	(6.5)	(7.7)
Customer deposits and customer prepayments	(4.4)	(3.4)
Taxes accrued	(3.5)	4.5
Other assets	(4.2)	(4.2)
Other liabilities	(4.0)	15.1
Net cash provided by operating activities	113.4	146.8
Investing Activities		
Property additions and construction expenditures	(96.3)	(74.9)
Proceeds from investments	0.9	1.6
Investment in affiliate	—	(6.0)
Net cash used in investing activities	(95.4)	(79.3)
Financing Activities		
Dividends	—	(12.7)
Issuance of long-term debt	200.0	—
Repayment of long-term debt	(100.0)	—
Contributions from parent	—	70.0
Borrowings from affiliate, net	(117.7)	(27.3)
Short-term borrowings, net	—	(97.8)
Other	(0.6)	—
Net cash used in financing activities	(18.3)	(67.8)
Decrease in cash and cash equivalents	(0.3)	(0.3)
Cash, restricted cash and equivalents at beginning of year(1)	1.5	1.3
Cash, restricted cash and equivalents at end of year(1)	$ 1.2	$ 1.0
Supplemental Cash Flow Information:		
Significant noncash investing activities:		
Accrued capital expenditures	$ 15.1	$ 4.8

(1) No amounts were held in restricted cash and equivalents in any of the periods presented.

The accompanying notes are an integral part of PSNC's Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
CONSOLIDATED STATEMENTS OF COMMON EQUITY
(Unaudited)

			Accumulated Other Comprehensive Income (Loss)			
(millions)	Common Stock	Retained Earnings	Gains (Losses) on Cash Flow Hedges	Deferred Employee Benefit Plan Costs	Total AOCI	Total Common Equity
December 31, 2018	$ 636.1	$ 225.5	$ 0.4	$ (1.3)	$ (0.9)	$ 860.7
Cumulative effect of change in accounting principle		0.3		(0.3)	(0.3)	—
Contribution from parent	70.0					70.0
Net income		43.7				43.7
Other comprehensive income (loss):						
Losses arising during the period			(0.6)		(0.6)	(0.6)
Losses/amortization reclassified from AOCI[(1)]			0.3	0.1	0.4	0.4
Total comprehensive income		43.7	(0.3)	0.1	(0.2)	43.5
June 30, 2019	$ 706.1	$ 269.5	$ 0.1	$ (1.5)	$ (1.4)	$ 974.2
December 31, 2019	$ 708.8	$ 300.6	$ (0.1)	$ (1.1)	$ (1.2)	$ 1,008.2
Net income		**59.6**				**59.6**
Other comprehensive income (loss):						
Losses arising during the period			**(0.4)**		**(0.4)**	**(0.4)**
Losses/amortization reclassified from AOCI[(1)]			**0.2**		**0.2**	**0.2**
Total comprehensive income		**59.6**	**(0.2)**	**—**	**(0.2)**	**59.4**
June 30, 2020	**$ 708.8**	**$ 360.2**	**$ (0.3)**	**$ (1.1)**	**$ (1.4)**	**$ 1,067.6**

(1) Reclassifications of gains or losses on interest rate contracts are recorded in earnings from equity method investees in the Consolidated Statements of Income. Reclassifications for the amortization of deferred employee benefit costs are recorded in other income, net in the Consolidated Statements of Income and capitalized in gas utility plant in the Consolidated Balance Sheets.

The accompanying notes are an integral part of PSNC's Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations

PSNC, a public utility, was organized as a North Carolina corporation in 1938. Effective January 1, 2000, SCANA, a South Carolina holding company, acquired PSNC. As a result, PSNC 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.

PSNC primarily engages in the purchase, sale, transportation and distribution of natural gas to residential, commercial and industrial customers in North Carolina. Revenue generated by PSNC is based primarily on rates established by the North Carolina Commission.

Note 2. Significant Accounting Policies

Interim Financial Information and Estimates

PSNC's accompanying unaudited Consolidated Financial Statements contain certain condensed financial information and exclude certain footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with GAAP. These unaudited Consolidated Financial Statements should be read in conjunction with PSNC's Consolidated Financial Statements and Notes for the year ended December 31, 2019.

In the opinion of management, the accompanying unaudited Consolidated Financial Statements contain all adjustments necessary to present fairly PSNC's financial position at June 30, 2020, its results of operations for the three and six months ended June 30, 2020 and 2019 and its changes in equity and cash flows for the six months ended June 30, 2020 and 2019. Such adjustments are normal and recurring in nature unless otherwise noted.

PSNC makes certain estimates and assumptions in preparing its Consolidated Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and cash flows for the periods presented. Actual results may differ from those estimates.

The results of operations for interim periods are not necessarily indicative of the results expected for the full year. Information for quarterly periods is affected by seasonal variations in sales, rate changes, purchased gas and other expenses and other factors.

PSNC reports certain contracts, instruments and investments at fair value. The carrying values of PSNC's financial instruments classified within current assets, current liabilities and long-term debt are estimated to be substantially the same as their fair values at June 30, 2020 and December 31, 2019. See Note 9 for further information on fair value measurements.

Certain amounts in PSNC's 2019 Consolidated Financial Statements and Notes have been reclassified to conform to the 2020 presentation for comparative purposes. The reclassifications did not affect PSNC's net income, total assets, liabilities, equity or cash flows.

Asset Management and Supply Service Agreements

PSNC 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's natural gas storage inventory at December 31, 2019, with a carrying value of $12.9 million. This agreement expires October 31, 2020. In January 2020, PSNC executed an asset management and supply service agreement with another counterparty for a natural gas storage facility that expires March 31, 2021. The counterparties held, through agency relationships, 42% of PSNC's natural gas storage inventory at June 30, 2020, with a carrying value of $8.6 million. Under the terms of these agreements, PSNC receives storage asset management fees, of which 75% are credited to customers.

New Accounting Standards

Credit Losses

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 elected to adopt this revised accounting guidance effective January 1, 2020 using a modified retrospective approach, which required PSNC to recognize and measure credit losses under the new standard at the date of adoption. Impacts are recognized in retained earnings at adoption and through other operations and maintenance expense thereafter. There were no material changes to PSNC's retained earnings at adoption and no material impacts are expected to future results of operations.

Note 3. Regulatory Assets and Liabilities

PSNC 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 has recorded regulatory assets and regulatory liabilities which are summarized in the following table. 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.

(millions)		**June 30, 2020**		December 31, 2019
Regulatory assets:				
Rider D[1]	**$**	**4.8**	$	18.5
CUT[2]		**28.2**		13.7
Pipeline integrity management costs[3]		**4.4**		4.4
Deferred employee benefit plan costs[4]		**1.8**		1.8
Environmental remediation costs[5]		**1.4**		1.4
Other		**1.5**		0.8
Regulatory assets - current		**42.1**		40.6
Pipeline integrity management costs[3]		**90.4**		81.7
Deferred employee benefit plan costs[4]		**21.1**		21.6
Environmental remediation costs[5]		**0.4**		1.1
AROs[6]		**19.7**		17.4
Other		**0.2**		0.2
Regulatory assets - noncurrent		**131.8**		122.0
Total regulatory assets	**$**	**173.9**	$	162.6
Regulatory liabilities:				
Rider D[1]	**$**	**6.0**	$	4.5
Revenues subject to refund[7]		**1.3**		1.3
Regulatory liabilities - current		**7.3**		5.8
Income taxes refundable through future rates[8]		**149.2**		150.6
Asset removal costs[9]		**251.3**		245.2
Revenues subject to refund[7]		**17.6**		17.7
Regulatory liabilities - noncurrent		**418.1**		413.5
Total regulatory liabilities	**$**	**425.4**	$	419.3

(1) Represents undercollected or overcollected amounts from customers pursuant to Rider D, which is approved by the North Carolina Commission. Rider D allows PSNC to recover from customers all prudently incurred gas costs and certain uncollectible expenses as well as losses on negotiated gas and transportation sales.
(2) Represents undercollected amounts from customers pursuant to the CUT, which is approved by the North Carolina Commission. The CUT is a decoupling mechanism, which allows PSNC to adjust its base rates semi-annually for residential and commercial customers based on average per customer consumption.
(3) Pipeline integrity management costs represent operating costs incurred to comply with federal regulatory requirements related to natural gas pipelines. PSNC is recovering costs totaling $4.4 million annually through 2021. PSNC is continuing to defer pipeline integrity costs, and as of June 30, 2020, costs of $89.0 million have been deferred pending future approval of rate recovery.
(4) Employee benefit plan costs have historically been recovered as they have been recorded under GAAP. Deferred employee benefit plan costs represent pension and other postretirement benefit costs which were accrued as liabilities and treated as regulatory assets pursuant to a North Carolina Commission order. These deferred benefit costs are expected to be recovered through utility rates, primarily over average service periods of participating employees.
(5) Environmental remediation costs represent costs associated with the assessment and clean-up of sites currently or formerly owned by PSNC. Such remediation costs are being recovered over a period that will end in 2021.
(6) AROs 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.
(7) Revenues subject to refund represent the revenues deferred by PSNC resulting from the North Carolina Commission order addressing the reduction in the federal income tax rate from 35% to 21% effective January 1, 2018 and amounts to be refunded as a condition of the SCANA Merger Approval Order.
(8) Accumulated deferred income taxes represent excess deferred income taxes arising from the remeasurement of deferred income taxes in connection with the enactment of the 2017 Tax Reform 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).
(9) Asset removal costs represent estimated net collections through depreciation rates of amounts to be expended for the removal of assets in the future.

Note 4. Regulatory Matters

Other than the following matters, there have been no significant developments regarding the regulatory matters disclosed in Note 4 to PSNC's Consolidated Financial Statements for the year ended December 31, 2019.

Integrity Management Tracker

The North Carolina Commission has authorized PSNC 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.

In February 2020, the North Carolina Commission approved PSNC's request to increase the annual integrity management revenue requirement to $27.8 million, an increase of $6.6 million over its previous filing, effective March 2020.

Rider D

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

In February 2020, PSNC submitted a filing with the North Carolina Commission for a $12.5 million gas cost decrease related to lower commodity market prices. The North Carolina Commission approved the filing in February 2020 with rates effective March 2020.

Customer Usage Tracker

PSNC utilizes the 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.

In March 2020, PSNC submitted a filing with the North Carolina Commission for a $4.8 million increase relating to the CUT. The North Carolina Commission approved the filing in March 2020 with rates effective April 2020.

Note 5. Operating Revenue

PSNC's operating revenue consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
(millions)				
Customer class:				
Residential	**$ 42.5**	$ 35.8	**$ 166.7**	$ 188.6
Commercial	**16.5**	20.6	**58.4**	74.3
Industrial	**2.9**	4.1	**8.6**	10.6
Transportation	**15.7**	15.3	**32.5**	27.5
Other regulated revenues	**0.2**	0.8	**0.9**	1.7
Revenues from contracts with customers	**77.8**	76.6	**267.1**	302.7
Other revenues	**0.8**	3.2	**21.0**	9.3
Total Operating Revenue	**$ 78.6**	$ 79.8	**$ 288.1**	$ 312.0

Note 6. Common Equity

Authorized and outstanding shares of common stock were 1,000 as of June 30, 2020 and December 31, 2019.

In June 2019, PSNC received from SCANA a $70.0 million capital contribution, used to repay intercompany borrowings.

PSNC's note purchase and debenture purchase agreements contain provisions that could limit the payment of cash distributions, including dividends, on PSNC'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 of equity or convertible debt securities (as therein defined). As of June 30, 2020, this limitation would permit PSNC to pay cash distributions in excess of $627.5 million.

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

Note 7. Significant Financing Transactions

Long-Term Debt

In March 2020, PSNC issued, through private placement, $200.0 million of 4.05% senior notes that mature in 2030.

Lines of Credit and Short-Term Borrowings

PSNC participated in a utility money pool with certain other SCANA subsidiaries. Money pool borrowings and investments bore interest at short-term market rates. Interest expense from money pool transactions was $0.3 million for the six months ended June 30, 2019. There was no interest expense from money pool transactions for the three months ended June 30, 2019.

In March 2019, PSNC entered into an intercompany credit agreement with Dominion Energy under which PSNC may have short-term borrowings up to $400.0 million. At June 30, 2020 and December 31, 2019, PSNC had borrowings outstanding under this credit agreement totaling $45.2 million and $162.9 million, respectively, presented in accounts payable-affiliated companies in the Consolidated Balance Sheets. Interest expense related to PSNC's borrowings was $0.2 million and $0.8

million for the three months ended June 30, 2020 and 2019, respectively, and $0.9 million and $1.5 million for the six months ended June 30, 2020 and 2019, respectively.

Note 8. Income Taxes

PSNC's effective tax rate for the six months ended June 30, 2020 is 18.9% compared to 18.0% for the six months ended June 30, 2019. For the six months ended June 30, 2020, PSNC recorded an estimate of excess deferred income tax amortization expected to occur in 2020. The reversal of these excess deferred income taxes will impact the effective tax rate and may ultimately impact rates charged to customers. Therefore, PSNC decreased revenue and increased regulatory liabilities to offset these deferred tax impacts in accordance with applicable regulatory guidance.

In March 2020, the CARES Act was enacted which includes several significant business tax provisions that modify or temporarily suspend certain provisions of the 2017 Tax Reform Act. The CARES Act provisions are intended to improve cash flow and liquidity by, among other things, providing a temporary five-year carryback for certain net operating losses, accelerating the refund of previously generated corporate alternative minimum tax credits, and temporarily loosening the business interest limitation to 50% of adjusted taxable income for certain businesses. While PSNC intends to utilize the income tax provisions of the CARES Act to accelerate the recognition of certain tax attributes, where applicable, they are not expected to provide a material benefit.

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

As of June 30, 2020, there have been no changes in PSNC's unrecognized tax benefits.

Note 9. Fair Value Measurements

PSNC's fair value measurements are made in accordance with the policies discussed in Note 9 to PSNC's Consolidated Financial Statements for the year ended December 31, 2019. See Note 10 in this report for further information about PSNC's derivatives and hedge accounting activities.

Recurring Fair Value Measurements

The following table presents PSNC's assets that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions:

(millions)	Level 1	Level 2	Level 3	Total
At June 30, 2020				
Assets				
Derivatives:				
Commodity	**$ —**	**$ 2.9**	$ —	**$ 2.9**
Total assets	**$ —**	**$ 2.9**	$ —	**$ 2.9**
At December 31, 2019				
Assets				
Derivatives:				
Commodity	$ —	$ 1.0	$ —	$ 1.0
Total assets	$ —	$ 1.0	$ —	$ 1.0

Note 10. Derivative Financial Instruments

PSNC’s accounting policies, objectives and strategies for using derivative instruments are discussed in Note 2 to PSNC’s Consolidated Financial Statements for the year ended December 31, 2019. See Note 9 in this report for further information about fair value measurements and associated valuation methods for derivatives. For a discussion of interest rate swaps used by PSNC’s equity method investees, see Note 11.

Derivative assets and liabilities are presented gross on PSNC’s Consolidated Balance Sheets. PSNC’s derivative contracts include over-the-counter transactions and those executed on an exchange and centrally cleared. Over-the-counter contracts are bilateral contracts that are transacted directly with a third party. Exchange contracts utilize a financial intermediary, exchange, or clearinghouse to enter, execute, or clear the transactions. Certain over-the-counter and exchange contracts contain contractual rights of setoff through master netting arrangements and contract default provisions. In addition, the contracts are subject to conditional rights of setoff through counterparty nonperformance, insolvency, or other conditions.

In general, most over-the-counter transactions and exchange contracts are subject to collateral requirements. Types of collateral for over-the-counter and exchange contracts include cash or letters of credit, none of which are subject to restrictions. See Note 16 for further information regarding credit-related contingent features for PSNC’s derivative instruments.

All of PSNC’s derivative instruments were in an asset position at both June 30, 2020 and December 31, 2019.

Volumes

The following table presents the volume of PSNC’s derivative activity as of June 30, 2020. These volumes are based on open derivative positions and represent the combined absolute value of their long and short positions, except in the case of offsetting transactions, for which they represent the absolute value of the net volume of their long and short positions.

	Current	Noncurrent
Natural Gas (bcf):		
Fixed price(1)	**10.5**	**—**

(1) Includes options.

Fair Value of Derivative Instruments

The following tables present the fair values of PSNC’s derivatives and where they are presented in its Consolidated Balance Sheets:

(millions)	Fair Value - Derivatives not under Hedge Accounting	Total Fair Value
At June 30, 2020		
Current Assets		
Commodity	**$ 2.9**	**$ 2.9**
Total current derivative assets(1)	**$ 2.9**	**$ 2.9**
At December 31, 2019		
Current Assets		
Commodity	$ 1.0	$ 1.0
Total current derivative assets(1)	$ 1.0	$ 1.0

(1) Current derivative assets are presented in prepayments and other current assets in the Consolidated Balance Sheets.

Note 11. Equity Method Investments

PSNC uses the equity method to account for its 17% noncontrolling partnership interest in Pine Needle, an LNG storage facility in North Carolina, and its 33.2% noncontrolling partnership interest in Cardinal, an intrastate natural gas pipeline.

The table below summarizes income earned and distributions received for the three and six months ended June 30, 2020 and 2019:

	Pine Needle		Cardinal	
	2020	2019	**2020**	2019
(millions)				
Three Months Ended June 30,				
Income from equity method investees	**$ 0.2**	$ 0.3	**$ 0.4**	$ 0.3
Distributions received	**0.3**	0.2	**0.4**	0.6
Six Months Ended June 30,				
Income from equity method investees	**$ 0.4**	$ 0.3	**$ 0.8**	$ 0.6
Distributions received	**0.6**	0.4	**0.9**	1.2

In April 2019, PSNC made a $6.0 million capital contribution to Pine Needle, which was PSNC's portion of Pine Needle's outstanding long-term debt payoff.

Cardinal uses an interest rate swap designated as cash flow hedges to manage interest rate risk on variable rate debt instruments by converting it synthetically to a fixed rate. PSNC recorded a loss of $0.4 million and a loss of $0.1 million for the three months ended June 30, 2020 and 2019, respectively, a loss of $0.3 million and a loss of $0.4 million for the six months ended June 30, 2020 and 2019, respectively, for PSNC's share of the effective portion of changes in the fair value of this interest rate swap, recorded in AOCI in the Consolidated Balance Sheets.

Through the second quarter of 2019, Pine Needle used an interest rate swap designated as cash flow hedges to manage interest rate risk on variable rate debt instruments by converting it synthetically to a fixed rate. For both the three and six months ended June 30, 2019, PSNC recorded a loss of less than $0.1 million for PSNC's share of the effective portion of changes in the fair value of this interest rate swap, recorded in AOCI in the Consolidated Balance Sheet.

At June 30, 2020 and December 31, 2019, the carrying amount of PSNC's investments of $20.7 million and $21.3 million, respectively, equaled its share of underlying equity in net assets.

PSNC records as cost of gas the storage and transportation costs charged by its equity method investees. These costs totaled $2.2 million and $2.3 million for the three months ended June 30, 2020 and 2019, respectively, and $4.4 million and $4.5 million for the six months ended June 30, 2020 and 2019, respectively. PSNC owed these investees $0.7 million and $0.8 million at June 30, 2020 and December 31, 2019, respectively, recorded in accounts payable-affiliated companies in the Consolidated Balance Sheets.

Note 12. Variable Interest Entities

Other than the matter described below, there here have been no significant changes regarding the entity PSNC considers a VIE as described in Note 13 to PSNC's Consolidated Financial Statements for the year ended December 31, 2019.

PSNC entered into service agreements with DES, an affiliated VIE, to provide accounting, legal, finance and certain administrative and technical services to certain Dominion Energy subsidiaries, including PSNC beginning in 2020. PSNC purchased shared services from DES of $1.1 million and $2.5 million for the three and six months ended June 30, 2020, respectively. There were no amounts due to DES at June 30, 2020.

DESS, an affiliated VIE, provides accounting, legal, finance and certain administrative and technical services to all SCANA subsidiaries, including PSNC. PSNC purchased shared services from DESS of $12.0 million and $21.9 million for the three months ended June 30, 2020 and 2019, respectively, and $26.0 million and $36.7 million for the six months ended June 30, 2020 and 2019, respectively. PSNC's Consolidated Balance Sheets included amounts due to DESS of $6.8 million and $7.5 million, respectively, at June 30, 2020 and December 31, 2019, recorded in accounts payable-affiliated companies.

PSNC determined that it is not the primary beneficiary of DES or DESS as it does not have both the power to direct the activities that most significantly impact their economic performance as well as the obligation to absorb losses and benefits which could be significant to it. PSNC has no obligation to absorb more than its allocated share of DES and DESS costs.

Note 13. Employee Benefit Plans

PSNC participates in certain SCANA benefit plans as described in Note 14 to the Consolidated Financial Statements in PSNC's Consolidated Financial Statements for the year ended December 31, 2019.

The components of PSNC's provision for net periodic benefit cost were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	**2020**	2019
(millions)				
Three Months Ended June 30,				
Service cost	**$ 0.6**	$ 0.6	**$ 0.1**	$ 0.2
Interest cost	**0.8**	0.9	**0.4**	0.4
Expected return on assets	**(1.5)**	(1.3)	**—**	—
Amortization of net actuarial loss	**0.2**	0.4	**0.1**	—
Loss due to curtailment	**—**	0.9	**—**	0.5
Net periodic benefit cost	**$ 0.1**	$ 1.5	**$ 0.6**	$ 1.1
Six Months Ended June 30,				
Service cost	**$ 1.3**	$ 1.2	**$ 0.3**	$ 0.3
Interest cost	**1.6**	1.9	**0.8**	0.8
Expected return on assets	**(3.0)**	(2.7)	**—**	—
Amortization of actuarial losses	**0.4**	0.9	**0.1**	—
Loss due to curtailment	**—**	0.9	**—**	0.5
Net periodic benefit cost	**$ 0.3**	$ 2.2	**$ 1.2**	$ 1.6

PSNC recovers pension costs through cost of service rates.

Voluntary Retirement Program

In March 2019, Dominion Energy announced a voluntary retirement program to employees, including employees of PSNC, who met certain age and service requirements. In the second quarter of 2019, upon the determination made concerning the number of employees that elected to participate in the program, PSNC incurred a charge of $11.5 million ($8.8 million after-tax) for the voluntary retirement program. This charge is recorded within other income (expenses), net, in the Consolidated Statements of Income.

Note 14. Commitments and Contingencies

As a result of issues generated in the ordinary course of business, PSNC is involved in legal proceedings before various courts and are periodically subject to governmental examinations (including by regulatory authorities), inquiries and investigations. Certain legal proceedings and governmental examinations involve demands for unspecified amounts of damages, are in an initial procedural phase, involve uncertainty as to the outcome of pending appeals or motions, or involve significant factual issues that need to be resolved, such that it is not possible for PSNC to estimate a range of possible loss.

For such matters that PSNC cannot estimate, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the litigation or investigative processes such that PSNC is able to estimate a range of possible loss. For legal proceedings and governmental examinations that PSNC is able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. Any accrued liability is recorded on a gross basis with a receivable also recorded for any probable insurance recoveries. Estimated ranges of loss are inclusive of legal fees and net of any anticipated insurance recoveries. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent PSNC's maximum possible loss exposure. The circumstances of such legal proceedings and governmental examinations will change from time to time and actual results may vary significantly from the current estimate. For current proceedings not specifically reported, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on PSNC's financial position, liquidity or results of operations.

PSNC is a defendant in a number of lawsuits and claims involving unrelated incidents of property damage and personal injury. Due to the uncertainty surrounding these matters, PSNC is unable to make an estimate of the potential financial statement impacts; however, they could have a material impact on results of operations, financial condition and/or cash flows.

Note 15. Other Income (Expense), Net

Components of other income (expense), net are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2020	2019	**2020**	2019
(millions)				
Revenues from contracts with customers[1]	**$ 3.2**	$ 5.0	**$ 7.1**	$ 10.7
Other revenues	**1.0**	0.5	**1.7**	1.2
Other expenses[2]	**(2.3)**	(14.7)	**(4.7)**	(19.1)
Allowance for equity used during construction	**1.1**	1.3	**2.1**	3.7
Other income (expense), net	**$ 3.0**	$ (7.9)	**$ 6.2**	$ (3.5)

(1) Primarily reflects sales of appliances, water heaters and related jobbing contracts.
(2) Includes non-service cost components of pension and other postretirement benefit plans. See Note 13 for discussion of a voluntary retirement program.

Note 16. Credit Risk

Credit risk is the risk of financial loss if counterparties fail to perform their contractual obligations. In order to minimize overall credit risk, credit policies are maintained, including requiring customer deposits and the evaluation of counterparty financial condition. In addition, counterparties may make available collateral, including letters of credit or cash held as margin deposits, as a result of exceeding agreed-upon credit limits, or may be required to prepay the transaction.

PSNC maintains a provision for credit losses based on factors surrounding the credit risk of its customers, historical trends and other information. Management believes, based on credit policies and the June 30, 2020 provision for credit losses, that it is unlikely that a material adverse effect on financial position, results of operations or cash flows would occur as a result of counterparty nonperformance.

Credit-related Contingent Provisions

The majority of PSNC's derivative instruments contain credit-related contingent provisions. These provisions require PSNC to provide collateral upon the occurrence of specific events, primarily a credit rating downgrade. PSNC did not have any derivative instruments in a liability position as of June 30, 2020 and December 31, 2019. See Note 10 for further information about derivative instruments.

Note 17. Related-Party Transactions

PSNC engages in related-party transactions with other Dominion Energy subsidiaries (affiliates). PSNC's receivable and payable balances with affiliates are settled based on contractual terms or on a monthly basis, depending on the nature of the underlying transactions. PSNC is included in Dominion Energy's consolidated federal income tax return and, where applicable, combined income tax returns for Dominion Energy are filed in various states. See Note 7 for a discussion on borrowings from an affiliate. PSNC's transactions with equity method investments are described in Note 11. A discussion of significant related-party transactions follows.

PSNC transacts with affiliates for certain quantities of natural gas and other commodities at market prices in the ordinary course of business. As discussed in Note 12, DESS provides accounting, legal, finance and certain administrative and technical services to all SCANA subsidiaries, including PSNC, and, effective 2020, DES provides accounting, legal, finance and certain administrative and technical services to certain Dominion Energy subsidiaries, including PSNC. Where costs incurred cannot be determined by specific identification, the costs are generally allocated based on each affiliated company's proportional share of revenues less product costs and property, plant and equipment for DESS; and based on the proportional level of effort devoted by resources that is attributable to PSNC, determined by reference to number of employees, salaries and wages and other similar measures for the relevant DESS and DES service. Management believes that the allocation methods are reasonable.

In connection with the SCANA Combination, purchases from certain entities owned by Dominion Energy became affiliated transactions in 2019. PSNC records as cost of gas the storage and transportation costs charged by two such affiliates, Dominion Energy Cove Point LNG, LP and Dominion Energy Transmission, Inc. These costs totaled $1.4 million for both the three months ended June 30, 2020 and 2019, and $3.1 million for both the six months ended June 30, 2020 and 2019. PSNC owed these entities $0.5 million and $0.6 million at June 30, 2020 and December 31, 2019, respectively, which is included in accounts payable-affiliated companies in the Consolidated Balance Sheets.

In September 2019, Dominion Energy entered into an agreement to form Wrangler, which Dominion Energy owns a 20% noncontrolling partnership interest. In December 2019, Dominion Energy contributed SEMI to Wrangler and accordingly, gas transportation services will be reflected as related-party transactions. Sales and purchases of natural gas with SEMI were immaterial for both the three and six months ended June 30, 2020. PSNC had sales to SEMI for natural gas and transportation services of $0.5 million for the six months ended June 30, 2019. Sales to SEMI for natural gas and transportation services were immaterial for the three months ended June 30, 2019. Purchases of natural gas from SEMI were immaterial for the three and six months ended June 30, 2019.

Note 18. Subsequent Events

PSNC has evaluated subsequent events through the date that these financial statements were available to be issued on August 25, 2020.