Public Service Company of North Carolina, Incorporated

Consolidated Financial Statements

Fiscal Years Ended December 31, 2020 and 2019

with Independent Auditors' Report

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
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income (loss)
ARO	Asset retirement obligation
bcf	billion cubic feet
Cardinal	Cardinal Pipeline Company, LLC
Cove Point	Cove Point LNG, LP (formerly known as Dominion Energy Cove Point LNG, LP)
CUT	Customer usage tracker (decoupling mechanism)
DES	Dominion Energy Services, Inc.
DESS	Dominion Energy Southeast Services, Inc.
DETI	Eastern Gas Transmission and Storage, Inc. (formerly known as Dominion Energy Transmission, Inc.), a subsidiary of Berkshire Hathaway Energy Company effective November 2020 (previously a subsidiary of Dominion Energy)
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
IMT	Integrity management tracker
IRS	Internal Revenue Service
LNG	Liquefied natural gas
NAV	Net asset value
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, LLC (formerly known as SCANA Energy Marketing, Inc.), a subsidiary of SCANA through December 2019, and effective December 2019, a subsidiary of Wrangler Retail Gas Holdings, LLC, a partnership between Dominion Energy and Interstate Gas Supply Inc.

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INDEPENDENT AUDITORS' REPORT

To the Sole Director of Public Service Company of North Carolina, Incorporated
Richmond, Virginia

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, 2020 and 2019, and the related consolidated statements of income, comprehensive income, cash flows, and 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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 29, 2021

Public Service Company of North Carolina, Incorporated

Consolidated Balance Sheets

At December 31,	2020	2019
(millions)		
ASSETS		
Gas utility plant	$ **3,044.4**	$ 2,791.7
Accumulated depreciation	**(624.4)**	(571.1)
Goodwill, net of writedown of $229.6	**209.8**	209.8
Gas Utility Plant, Net	**2,629.8**	2,430.4
Investments	**19.9**	21.3
Current Assets:		
Cash and cash equivalents	**0.5**	1.5
Receivables, net of allowance for uncollectible accounts of $1.0 and $0.6	**119.7**	111.3
Receivables-affiliated companies	**7.6**	8.2
Receivables-income taxes	**0.9**	1.7
Inventories (at average cost):		
Stored gas	**27.3**	33.9
Materials and supplies	**17.9**	11.6
Regulatory assets	**52.5**	40.6
Prepayments and other	**2.8**	1.6
Total Current Assets	**229.2**	210.4
Deferred Debits and Other Assets:		
Regulatory assets	**137.6**	122.0
Other	**1.8**	2.3
Total Deferred Debits and Other Assets	**139.4**	124.3
Total Assets	$ **3,018.3**	$ 2,786.4

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

Public Service Company of North Carolina, Incorporated

Consolidated Balance Sheets (continued)

At December 31,	2020	2019
(millions)		
CAPITALIZATION AND LIABILITIES		
Common Stock - no par value, 1,000 shares outstanding	**$ 798.8**	$ 708.8
Retained earnings	**394.5**	300.6
Accumulated other comprehensive loss	**(1.2)**	(1.2)
Total Common Equity	**1,192.1**	1,008.2
Long-term debt, net	**798.2**	598.6
Total Capitalization	**1,990.3**	1,606.8
Current Liabilities:		
Current portion of long-term debt	**—**	100.0
Accounts payable	**55.0**	55.4
Accounts payable-affiliated companies	**137.3**	196.8
Customer deposits and customer prepayments	**19.4**	17.9
Taxes accrued	**0.2**	11.9
Interest accrued	**6.9**	6.6
Regulatory liabilities	**5.0**	5.8
Other	**7.8**	12.3
Total Current Liabilities	**231.6**	406.7
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	**209.6**	196.0
Pension and other postretirement benefits	**71.5**	77.6
Asset retirement obligations	**84.4**	80.3
Regulatory liabilities	**424.4**	413.5
Other	**6.5**	5.5
Total Deferred Credits and Other Liabilities	**796.4**	772.9
Commitments and Contingencies (see Note 16)		
Total Capitalization and Liabilities	**$ 3,018.3**	$ 2,786.4

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

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

Year Ended December 31, (millions)		2020		2019
Operating Revenues[1]	**$**	**525.4**	$	545.1
Cost of gas[1]		**181.0**		225.4
Margin		**344.4**		319.7
Operating Expenses:				
Other operations and maintenance[1]		**114.1**		119.9
Depreciation and amortization		**72.5**		67.3
Other taxes		**17.6**		17.2
Total operating expenses		**204.2**		204.4
Income from operations		**140.2**		115.3
Other income, net		**14.3**		12.3
Interest charges, net of allowance for borrowed funds used during construction of $2.4 and $2.3[1]		**38.6**		39.9
Income before income tax expense and earnings from equity method investees		**115.9**		87.7
Income tax expense		**24.3**		14.7
Income before earnings from equity method investees		**91.6**		73.0
Earnings from equity method investees		**2.2**		1.9
Net Income	**$**	**93.8**	$	74.9

(1) See Note 20 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

Year Ended December 31,	2020	2019
(millions)		
Net Income	**$ 93.8**	$ 74.9
Other Comprehensive Income, net of tax:		
Unrealized Gains (Losses) on Cash Flow Hedging Activities of Equity Method Investees:		
Arising during period, net of $(0.2) and $(0.3) tax	**(0.6)**	(1.0)
Reclassified to earnings from equity method investees, net of $0.1 tax at both periods	**0.3**	0.5
Net unrealized losses on cash flow hedging activities of equity method investees	**(0.3)**	(0.5)
Deferred costs of employee benefit plans:		
Arising during period, net of $0.1 tax at both periods	**0.4**	0.3
Reclassified to net income, net of $— tax at both periods	**—**	0.1
Net deferred costs of employee benefit plans	**0.4**	0.4
Other comprehensive income (loss)	**0.1**	(0.1)
Total Comprehensive Income	**$ 93.9**	$ 74.8

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

Year Ended December 31, (millions)	2020	2019
Operating Activities		
Net Income	**$ 93.8**	$ 74.9
Adjustments to reconcile net income to net cash provided from operating activities:		
Earnings from equity method investees, net of distributions	**(0.6)**	(1.9)
Gains on sales of assets and investment	**—**	(1.3)
Deferred income taxes, net	**11.1**	(9.2)
Depreciation and amortization	**72.5**	72.4
Allowance for equity funds used during construction	**(6.2)**	(5.9)
Changes in certain assets and liabilities:		
Receivables	**(7.8)**	5.9
Receivables-income taxes	**0.8**	(1.7)
Inventories	**0.3**	(20.4)
Regulatory assets	**(29.2)**	(29.6)
Regulatory liabilities	**0.7**	9.8
Accounts payable	**(20.8)**	14.3
Customer deposits and customer prepayments	**1.5**	2.7
Taxes accrued	**(11.7)**	10.1
Other assets	**0.7**	(6.9)
Other liabilities	**(2.3)**	14.3
Net cash provided by operating activities	**102.8**	127.5
Investing Activities		
Property additions and construction expenditures	**(259.3)**	(170.3)
Proceeds from investments and sales of assets	**1.7**	4.5
Investment in affiliate	**—**	(6.0)
Net cash used in investing activities	**(257.6)**	(171.8)
Financing Activities		
Dividends	**—**	(12.7)
Contributions from parent	**90.0**	72.7
Issuance of long-term debt	**200.0**	—
Repayment of long-term debt	**(100.0)**	—
Borrowings from affiliate, net	**(35.6)**	82.2
Short-term borrowings, net	**—**	(97.7)
Other	**(0.6)**	—
Net cash provided by financing activities	**153.8**	44.5
Increase (decrease) in cash and cash equivalents	**(1.0)**	0.2
Cash, restricted cash and equivalents at beginning of year[(1)]	**1.5**	1.3
Cash, restricted cash and equivalents at end of year[(1)]	**$ 0.5**	$ 1.5
Supplemental Cash Flow Information:		
Cash paid during the year for:		
Interest and related charges, excluding capitalized amounts	**$ 37.7**	$ 37.3
Income taxes	**54.8**	0.8
Significant noncash investing and financing activities:[(2)]		
Accrued capital expenditures	**18.6**	22.3
Leases[(3)]	**0.4**	—

(1) No amounts were held in restricted cash and equivalents in any of the periods presented.
(2) See Note 17 for information regarding leases.
(3) Includes $0.4 million of operating leases for the year ended December 31, 2020.

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

(millions)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Gains (Losses) on Cash Flow Hedges	Deferred Employee Benefit Plan Costs	Accumulated Other Comprehensive Loss	Total Common Equity
December 31, 2018	$ 636.1	$ 225.5	$ 0.5	$ (1.4)	$ (0.9)	$ 860.7
Net income		74.9				74.9
Other Comprehensive Income (Loss):						
Gains (losses) arising during the period			(1.0)	0.3	(0.7)	(0.7)
Losses/amortization reclassified from AOCI(1)			0.5	0.1	0.6	0.6
Total Comprehensive Income (Loss)		74.9	(0.5)	0.4	(0.1)	74.8
Cumulative effect of change in accounting principle		0.3		(0.3)	(0.3)	—
Contributions from parent, net	72.7					72.7
December 31, 2019	708.8	300.7	—	(1.3)	(1.3)	1,008.2
Net income		**93.8**				**93.8**
Other Comprehensive Income (Loss):						
Gains (losses) arising during the period			**(0.6)**	**0.4**	**(0.2)**	**(0.2)**
Losses/amortization reclassified from AOCI(1)			**0.3**		**0.3**	**0.3**
Total Comprehensive Income (Loss)		**93.8**	**(0.3)**	**0.4**	**0.1**	**93.9**
Contributions from parent, net	**90.0**					**90.0**
December 31, 2020	**$ 798.8**	**$ 394.5**	**$ (0.3)**	**$ (0.9)**	**$ (1.2)**	**$ 1,192.1**

(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, 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 conducts business under the name “Dominion Energy North Carolina.”

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

General

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.

PSNC’s Consolidated Financial Statements include, after eliminating intercompany transactions and balances, its accounts and those of its wholly-owned subsidiaries. PSNC reports certain investments using the equity method of accounting.

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 December 31, 2020 and 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; however, such reclassifications did not affect PSNC’s total assets, liabilities, net income, cash flows or equity.

Operating Revenue

Operating revenue is recorded on the basis of services rendered, commodities delivered or contracts settled and includes amounts yet to be billed to customers. PSNC’s customer receivables at December 31, 2020 and 2019 included $55.1 million and $40.2 million, respectively, of accrued unbilled revenue based on estimated amounts of natural gas delivered but not yet billed to its customers. 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 Consolidated Statements of Income.

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 North Carolina Commission. 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 North Carolina Commission-approved regulatory mechanisms in the form of adjustments or riders, such as CUT, IMT, and Rider D, 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. Payment for most sales varies by contract type, but is typically due within one month of billing.

Rider D, authorized by the North Carolina Commission, 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. Rider D includes commodity and fixed gas costs; premiums, transaction fees, margin requirements and any realized gains or losses from PSNC'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 is authorized by the North Carolina Commission to utilize 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 CUT is deferred for subsequent refund to or collection from customers, with interest. PSNC 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 North Carolina Commission.

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 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. Contracts governing the transactions above do not have a significant financing component. 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 and income from rentals and from equity method investments, among others. Non-operating revenues are further disclosed in Note 18. Such revenues arising from contracts with customers were not material for any period presented.

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 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 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 has a revenue decoupling mechanism called the CUT, which allows it to collect its allowed revenue per customer and promote energy conservation. Under the CUT, PSNC’s non-gas revenues are decoupled from the temperature-adjusted usage per customer. The tariff specifies an allowed monthly revenue per customer, with differences to be deferred and recovered from or refunded to customers through periodic rate adjustments. PSNC’s tariff-based rates are adjusted semiannually, with the approval of the North Carolina Commission, 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, PSNC has concluded that these arrangements represent alternative revenue programs. Revenue from alternative revenue programs is included within operating revenues in the Consolidated Statements of Income in the month such adjustments are deferred within regulatory accounts, and is shown as other revenues when disaggregated, as shown in Note 5. As permitted, PSNC has elected to reduce the regulatory accounts in the period when such amounts are reflected on customer bills without affecting operating revenues.

Purchased Gas – Deferred Costs

Where permitted by the North Carolina Commission, the difference between PSNC’s purchased gas expenses and the related levels of recovery for these expenses in current rates are deferred and matched against recoveries in future periods. The deferral of costs in excess of current period fuel rate recovery is recognized as a regulatory asset, while rate recovery in excess of current period fuel expenses is recognized as a regulatory liability. Virtually all of PSNC’s natural gas purchases are either subject to deferral accounting or are recovered from the customer in the same accounting period as the sale.

Income Taxes

SCANA and PSNC are part of Dominion Energy’s consolidated federal income tax return. In addition, where applicable, combined income tax returns for Dominion Energy and its subsidiaries, including PSNC, are filed in various states; otherwise, separate state income tax returns are filed.

PSNC participates in intercompany tax sharing agreements with Dominion Energy and its subsidiaries. Under Dominion Energy’s tax sharing agreements, current income taxes are based on taxable income or loss and credits determined on a separate company basis.

Under the agreements, if a subsidiary incurs a tax loss or earns a credit, recognition of current income tax benefits is limited to refunds of prior year taxes obtained by the carryback of the net operating loss or credit or to the extent the tax loss or credit is absorbed by the taxable income of other Dominion Energy consolidated group members. Otherwise, the net operating loss or credit is carried forward and is recognized as a deferred tax asset until realized.

Under provisions of the SCANA income tax allocation agreement, certain tax benefits of the parent holding company were distributed in cash to taxpaying affiliates, including PSNC, in the form of capital contributions. PSNC received capital contributions of $2.7 million under such provisions in 2019.

Accounting for income taxes involves an asset and liability approach. Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the bases of assets and liabilities for financial reporting and tax purposes. Accordingly, deferred taxes are recognized for the future consequences of different treatments used for the reporting of transactions in financial accounting and income tax returns. PSNC establishes a valuation allowance when it is more-likely-than-not that all, or a portion, of a deferred tax asset will not be realized. PSNC did not have any valuation allowances recorded for the periods presented. Where the treatment of temporary differences is different for rate-regulated operations, a regulatory asset is recognized if it is probable that future revenues will be provided for the payment of deferred tax liabilities.

PSNC recognizes positions taken, or expected to be taken, in income tax returns that are more-likely-than-not to be realized, assuming that the position will be examined by tax authorities with full knowledge of all relevant information.

If it is not more-likely-than-not that a tax position, or some portion thereof, will be sustained, the related tax benefits are not recognized in the financial statements. Unrecognized tax benefits may result in an increase in income taxes payable, a reduction of income tax refunds receivable or changes in deferred taxes. Also, when uncertainty about the deductibility of an amount is limited to the timing of such deductibility, the increase in income taxes payable (or reduction in tax refunds receivable) is accompanied by a decrease in deferred tax liabilities. Except when such amounts are presented net with amounts receivable from or amounts prepaid to tax authorities, noncurrent income taxes payable related to unrecognized tax benefits are classified in other deferred credits and other liabilities on the Consolidated Balance Sheets and current payables are included in taxes accrued on the Consolidated Balance Sheets. At December 31, 2020, PSNC had no unrecognized tax benefits.

PSNC recognizes interest on underpayments and overpayments of income taxes in interest expense and interest income, respectively. Penalties are also recognized in other expenses.

At December 31, 2020, PSNC's Consolidated Balance Sheet included $3.5 million of tax-related receivables from affiliates, representing current federal income taxes receivable. The balance is expected to be received from Dominion Energy.

At December 31, 2019, PSNC's Consolidated Balance Sheet included $24.6 million of tax-related payables to affiliates, representing current federal income taxes payable. The net affiliated payables were paid to Dominion Energy.

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.

Derivative Instruments

PSNC is exposed to the impact of market fluctuations in the price of natural gas it purchases. PSNC uses derivative instruments such as physical forwards, swaps, and options to manage the commodity risks of its business operations.

All derivatives, except those for which an exception applies, are required to be reported in the Consolidated Balance Sheets at fair value. Derivative contracts representing unrealized gain positions and purchased options are reported as derivative assets. Derivative contracts representing unrealized losses and options sold are reported as derivative liabilities. One of the exceptions to fair value accounting, normal purchases and normal sales, may be elected when the contract satisfies certain criteria, including a requirement that physical delivery of the underlying commodity is probable. Expenses and revenues resulting from deliveries under normal purchase contracts and normal sales contracts, respectively, are included in earnings at the time of contract performance.

Unrealized and realized gains and losses on derivative instruments result in the recognition of regulatory assets or regulatory liabilities.

PSNC does not offset amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. PSNC had no margin assets and liabilities associated with cash collateral at December 31, 2020 and 2019. See Note 10 for further information about derivatives.

To manage price risk, PSNC holds derivative instruments that are not designated as hedges for accounting purposes. However, to the extent PSNC does not hold offsetting positions for such derivatives, it believes these instruments represent economic hedges that mitigate its exposure to fluctuations in commodity prices. Changes in the fair value of derivative instruments result in the recognition of regulatory assets or regulatory liabilities.

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 AFUDC, 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.

AFUDC 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. AFUDC is included in rate base investment and depreciated as a component of plant cost in establishing rates for utility services. PSNC calculated AFUDC using average composite rates, developed on a pre-tax basis, of 9.0% for both the years ended December 31, 2020 and 2019.

PSNC 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. Cost of removal collections from utility customers not representing AROs are recorded as regulatory liabilities. Depreciation rates for utility plant are approved by the North Carolina Commission. PSNC 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 composite weighted average depreciation rates for utility plant by function was as follows:

Year Ended December 31,	**2020**	2019
(percent)		
Transmission	**2.24**	2.19
Distribution	**2.68**	2.71
Storage	**1.88**	2.04
General and other	**12.31**	12.12

Long-Lived Assets

PSNC performs an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets with finite lives may not be recoverable. A long-lived asset is written down to fair value if the sum of its expected future undiscounted cash flows is less than its carrying amount.

Regulatory Assets and Liabilities

The accounting for PSNC's regulated gas operations differs from the accounting for nonregulated operations in that PSNC is required to reflect the effect of rate regulation in its Consolidated Financial Statements. For regulated businesses subject to state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, these costs that otherwise would be expensed by nonregulated companies are deferred as regulatory assets. Likewise, regulatory liabilities are recognized when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have yet to be incurred.

PSNC evaluates whether or not recovery of its regulatory assets through future rates is probable as well as whether a regulatory liability due to customers is probable and makes various assumptions in its analyses. These analyses are generally based on:

- Orders issued by regulatory commissions, legislation and judicial actions;
- Past experience;
- Discussions with applicable regulatory authorities and legal counsel;
- Forecasted earnings; and
- Considerations around the likelihood of impacts from events such as unusual weather conditions, extreme weather events and other natural disasters.

Generally, regulatory assets and liabilities are amortized into income over the period authorized by the regulator. If recovery of a regulatory asset is determined to be less than probable, it will be written off in the period such assessment is made. A regulatory liability, if considered probable, will be recorded in the period such assessment is made or reversed into earnings if no longer probable. See Notes 3 and 4 for additional information.

Asset Retirement Obligations

PSNC recognizes AROs at fair value as incurred or when sufficient information becomes available to determine a reasonable estimate of the fair value of future retirement activities to be performed, for which a legal obligation exists. These amounts are generally capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, fair value is estimated using discounted cash flow analyses. Periodically, PSNC assesses its AROs to determine if circumstances indicate that estimates of the amounts or timing of future cash flows associated with retirement activities have changed. AROs are adjusted when significant changes in the amounts or timing of future cash flows are identified. PSNC reports accretion of AROs and depreciation on asset retirement costs as an adjustment to regulatory assets.

Debt Issuance Costs

PSNC defers and amortizes debt issuance costs and debt premiums or discounts over the expected lives of the respective debt issues, considering maturity dates and, if applicable, redemption rights held by others. Deferred debt issuance costs are recorded as a reduction in long-term debt in the Consolidated Balance Sheets. Amortization of the issuance costs is reported as interest expense. Unamortized costs associated with redemptions of debt securities prior to stated maturity dates are generally recognized and recorded in interest expense immediately. As permitted by regulatory authorities, gains or losses resulting from the refinancing of debt allocable to utility operations are deferred and amortized.

Equity Method Investments

Equity method investments are those which PSNC has the ability to exercise influence, but not control, over the investee. PSNC's investments are included in investments in the Consolidated Balance Sheets. PSNC records equity method adjustments in earnings from equity method investees in the Consolidated Statements of Income, including its proportionate share of investee income or loss, gains or losses resulting from investee capital transactions and other adjustments required by the equity method.

PSNC periodically evaluates its equity method investments to determine whether a decline in fair value should be considered other-than-temporary. If a decline in fair value of an investment is determined to be other-than-temporary, the investment is written down to its fair value at the end of the reporting period.

PSNC classifies distributions from equity method investments using the cumulative earnings approach. Under this approach, distributions are determined to be either a return on investment (classified as cash flows from operating activities) or return of investment (classified as cash flows from investing activities) whereby any distributions received in excess of earnings are considered to be a return of investment.

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 Rider D approved by the North Carolina Commission.

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, 2021. 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, 46% of PSNC's natural gas storage inventory at December 31, 2020, with a carrying value of $10.3 million. Under the terms of these agreements, PSNC receives storage asset management fees, of which 75% are credited to customers.

Goodwill

Effective April 1, 2020, PSNC evaluates goodwill for impairment annually as of April 1 and whenever an event occurs or circumstances change in the interim that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount.

For each period presented, assets with a carrying value of $209.8 million, net of a write-down of $229.6 million taken in 2002, were classified as goodwill.

Income Statement Presentation
PSNC presents the revenues and expenses of its regulated business within operating income. All other activities are presented within other income, net.

Leases
PSNC leases certain assets including real estate, office equipment and other assets under operating leases. Rent expense is recognized on a straight-line basis over the term of the lease agreement, subject to regulatory framework. Rent expense associated with operating leases, short-term leases and variable leases is primarily recorded in operations and maintenance expense in the Consolidated Statements of Income.

Certain leases include one or more options to renew, with renewal terms that can extend the lease from one to five years. The exercise of renewal options is solely at PSNC's discretion and is included in the lease term if the option is reasonably certain to be exercised. A right-of-use asset and corresponding lease liability for leases with original lease terms of one year or less are not included in the Consolidated Balance Sheets, unless such leases contain renewal options that PSNC is reasonably certain will be exercised.

The determination of the discount rate utilized has a significant impact on the calculation of the present value of the lease liability included in the Consolidated Balance Sheets. For PSNC's leased assets, the discount rate implicit in the lease is generally unable to be determined from a lessee perspective. As such, PSNC uses internally-developed incremental borrowing rates as a discount rate in the calculation of the present value of the lease liability. The incremental borrowing rates are determined based on an analysis of PSNC's publicly available secured borrowing rates over various lengths of time that most closely correspond to PSNC's lease maturities.

New Accounting Standards
Leases
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 in the Consolidated Balance Sheets 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.

PSNC elected to adopt the revised accounting guidance for PSNC's interim and annual reporting periods beginning January 1, 2019. PSNC adopted this revised accounting guidance using a modified retrospective approach, which requires lessees and lessors to recognize and measure leases at the date of adoption. Under this approach, PSNC utilized the transition practical expedient to maintain historical presentation for periods before January 1, 2019. PSNC also applied the other practical expedients, which required no reassessment of whether existing contracts are or contain leases, no reassessment of lease classification for existing leases, and no evaluation of existing or expired land easements that were not previously accounted for as leases. In connection with the adoption of this revised accounting guidance, PSNC recorded $1.3 million of offsetting right-of-use assets and liabilities for operating leases in effect at the adoption date. See Note 17 for additional information.

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.

At December 31, (millions)	2020	2019
Regulatory Assets:		
Rider D[1]	**$ 16.4**	$ 18.5
CUT[2]	**28.7**	13.7
Pipeline integrity management costs[3]	**3.6**	4.4
Environmental remediation costs[4]	**1.1**	1.4
Other	**2.7**	2.6
Regulatory assets - current	**52.5**	40.6
Pipeline integrity management costs[3]	**99.3**	81.7
Deferred employee benefit plan costs[5]	**16.1**	21.6
Environmental remediation costs[4]	**—**	1.1
AROs[6]	**22.1**	17.4
Other	**0.1**	0.2
Regulatory assets - noncurrent	**137.6**	122.0
Total Regulatory Assets	**$ 190.1**	$ 162.6
Regulatory Liabilities:		
Rider D[1]	**$ 3.7**	$ 4.5
Revenues subject to refund[7]	**1.3**	1.3
Regulatory liabilities - current	**5.0**	5.8
Income taxes refundable through future rates[8]	**148.8**	150.6
Asset removal costs[9]	**257.4**	245.2
Revenues subject to refund[7]	**18.2**	17.7
Regulatory liabilities - noncurrent	**424.4**	413.5
Total Regulatory Liabilities	**$ 429.4**	$ 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 or overcollected 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 October 2021. PSNC is continuing to defer pipeline integrity costs, and as of December 31, 2020, costs of $99.3 million have been deferred pending future approval of rate recovery.

(4) 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 October 2021.

(5) 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.

(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) Includes 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

Rate Matters

2017 Tax Reform Act Regulatory Proceedings

The 2017 Tax Reform Act lowered the federal corporate tax rate from 35% to 21% effective January 1, 2018. In response, the North Carolina Commission requested information from utilities under their jurisdiction showing the impact of the 2017 Tax Reform Act on their individual company's operations and proposed procedures for changing customer rates to reflect those impacts. In addition, the North Carolina Commission issued an order requiring PSNC and other utilities to track and defer such impacts arising from customer rates in 2018 as subject to refund. On December 17, 2018 the North Carolina Commission issued an order approving PSNC'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 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 shown in Note 3. The North Carolina Commission order requires the regulatory liabilities related to items (1) and (2) to be considered in PSNC's next general rate case proceeding or in three years, whichever is sooner (no later than October 25, 2021).

In December 2018, the North Carolina Commission issued an order approving PSNC's proposed adjustments to customer rates, representing a $12.7 million decreased revenue requirement, to reflect the reduction in the federal corporate tax rate arising from the 2017 Tax Reform Act. These lower rates became effective for service rendered on and after January 1, 2019. Amounts collected in customer rates during 2018 and amounts arising from excess deferred income taxes have been recorded in regulatory liabilities and must be considered in PSNC's next general rate case proceeding or in three years, whichever is sooner. The reduction in the federal corporate tax rate and its impact on PSNC's various rate riders will be addressed in future proceedings related to those riders.

An estimate of income tax amounts charged through customer rates that relates to the effects of the 2017 Tax Reform Act has been deferred. At December 31, 2020 and 2019, PSNC has recorded $17.6 million and $16.5 million, respectively, of such deferrals within regulatory liabilities in the Consolidated Balance Sheet. These amounts include the accrual of estimated carrying costs. In addition, as discussed in Note 3 and above, 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 2017 Tax Reform 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 the North Carolina Commission.

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.

In September 2020, the North Carolina Commission approved PSNC's request to increase the annual integrity management revenue requirement to $30.7 million, an increase of $2.9 million over its previous filing, effective September 2020.

In February 2021, the North Carolina Commission approved PSNC's request to increase the annual integrity management revenue requirement to $32.5 million, an increase of $1.8 million over its previous filing, effective March 2021.

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.

In October 2020, PSNC submitted a filing with the North Carolina Commission for a $10.0 million gas cost increase. The North Carolina Commission approved the filing in October 2020 with rates effective November 2020.

Customer Usage Tracker

PSNC 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.

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.

In September 2020, PSNC submitted a filing with the North Carolina Commission for a $12.2 million increase relating to the CUT. The North Carolina Commission approved the filing in September 2020 with rates effective October 2020.

Other

PSNC establishes rates using a benchmark cost of gas approved by the North Carolina Commission, which may be periodically adjusted to reflect changes in the market price of natural gas. PSNC 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 North Carolina Commission reviews PSNC’s gas purchasing practices annually.

As a condition of the SCANA Merger Approval Order, PSNC agreed to provide customer bill credits of $1.3 million in each of January 2019, 2020 and 2021. As a result, in the first quarter of 2019, PSNC recorded a reduction in operating revenue and a corresponding regulatory liability of $3.8 million, included in current revenues subject to refund and noncurrent revenues subject to refund in the table shown in Note 3. In addition, the SCANA Merger Approval Order included a rate moratorium until November 1, 2021 other than for rate adjustments pursuant to the CUT, the IMT and Rider D and an agreement that direct merger-related expenses will be excluded from PSNC’s regulated expenses for ratemaking purposes.

NOTE 5. OPERATING REVENUE

PSNC’s operating revenue consists of the following:

Year Ended December 31,	**2020**	2019
(millions)		
Customer class:		
Residential	**$ 301.2**	$ 321.3
Commercial	**110.6**	128.6
Industrial	**15.5**	17.6
Transportation	**65.5**	59.4
Other regulated revenues	**1.1**	2.8
Revenues from contracts with customers	**493.9**	529.7
Other revenues	**31.5**	15.4
Total Operating Revenue	**$ 525.4**	$ 545.1

NOTE 6. COMMON EQUITY

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

In December 2020, PSNC received from SCANA a $90.0 million capital contribution, used to repay intercompany borrowings.

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 December 31, 2020, this limitation would permit PSNC to pay cash distributions in excess of $656.7 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. LONG-TERM DEBT AND SHORT-TERM DEBT

Long-Term Debt

At December 31, (millions)	**2020 Weighed-average Coupon**	**2020**	2019
Senior Notes, due 2021 to 2047	**4.25%**	**$ 700.0**	$ 500.0
Senior Debentures, due 2020 to 2026	**7.22%**	**100.0**	200.0
Total principal		**800.0**	700.0
Unamortized debt issuance costs		**(1.8)**	(1.4)
Securities due within one year(1)		**—**	(100.0)
Total long-term debt		**$ 798.2**	$ 598.6

(1) 2020 excludes $150 million of senior notes that matured in February 2021 and were refinanced using proceeds from the March 2021 issuance, through private placement, of $150 million senior notes that mature in 2051.

The scheduled principal payments of long-term debt at December 31, 2020 were as follows:

(millions, except percentages)	2021	2022	2023	2024	2025	Thereafter	Total
	$ 150	**$ —**	**$ —**	**$ —**	**$ —**	**$ 650**	**$ 800**
Weighted-average Coupon	**4.59%**					**4.62%**	**4.62%**

Senior Note Issuances
In March 2020, PSNC issued, through private placement, $200 million of 4.05% senior notes that mature in 2030. These proceeds were used for general corporate purposes.

In March 2021, PSNC issued, through private placement, $150 million of 3.10% senior notes that mature in 2051. These proceeds were used for the repayment of existing indebtedness.

Lines of Credit and Short-Term Borrowings
PSNC participated in a utility money pool with certain other SCANA subsidiaries through March 2019. Money pool borrowings and investments bore interest at short-term market rates. Interest expense from money pool transactions was $0.3 million for the year ended December 31, 2019.

In the first quarter of 2019, PSNC canceled its previous committed long-term facility which was a revolving line of credit under a credit agreement with a syndicate of banks. This committed line of credit totaled $200.0 million and was used for general corporate purposes, including liquidity support for PSNC's commercial paper program and working capital needs, and was set to expire in December 2020. In addition, the commercial paper program of PSNC was canceled in the first quarter of 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 December 31, 2020 and 2019, PSNC had borrowings outstanding under this credit agreement totaling $127.3 million and $162.9 million, respectively, with a weighted-average interest rate of 0.29% and 2.01%, respectively. The borrowings are presented in accounts payable-affiliated companies in the Consolidated Balance Sheet. Interest expense related to PSNC's borrowings was $1.3 million and $2.8 million for the years ended December 31, 2020 and 2019, respectively.

NOTE 8. INCOME TAXES
Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. The interpretation of tax laws involves uncertainty, since tax authorities may interpret the laws differently. PSNC is routinely audited by federal and state tax authorities. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

As discussed in Note 2, PSNC's operations, including accounting for income taxes, are subject to regulatory accounting treatment. For regulated operations, many of the changes in deferred taxes represent amounts probable of collection from or refund to customers and were recorded as either an increase to a regulatory asset or liability. The 2017 Tax Reform Act included provisions that stipulate how these excess deferred taxes may be passed back to customers for certain accelerated tax depreciation benefits. Potential sharing of other deferred taxes will be determined by the North Carolina Commission. See Note 4 for more information.

Components of income tax expense are as follows:

At December 31,	2020	2019
(millions)		
Current taxes:		
Federal	**$ 13.1**	$ 25.2
State	**0.1**	(0.9)
Total current taxes	**13.2**	24.3
Deferred taxes, net:		
Federal:		
Taxes before operating loss carryforwards	**7.1**	(12.2)
Tax utilization expense (benefit) of operating loss carryforwards	**2.0**	—
State	**2.0**	2.6
Total deferred taxes	**11.1**	(9.6)
Total income tax expense	**$ 24.3**	$ 14.7

Subsequent to the SCANA Combination, PSNC's annual utilization of its net operating losses are restricted by the tax law.

For continuing operations, the statutory U.S. federal income tax rate reconciles to PSNC's effective income tax rate as follows:

Year Ended December 31,	2020	2019
U.S. statutory rate	**21.0%**	21.0%
Increases (reductions) resulting from:		
State taxes, net of federal benefit	**2.0**	1.5
AFUDC - equity	**(0.9)**	(1.4)
Reversal of excess deferred income taxes	**(2.0)**	(3.8)
Other, net	**0.5**	(0.9)
Effective tax rate	**20.6%**	16.4%

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

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

At December 31,	2020	2019
(millions)		
Deferred income taxes		
Total deferred income tax assets	**$ 51.6**	$ 52.6
Total deferred income tax liabilities	**261.2**	248.6
Total net deferred income tax liabilities	**209.6**	196.0
Total deferred income taxes:		
Depreciation method and plant basis differences	**228.1**	215.3
Excess deferred income taxes	**(33.1)**	(30.6)
Deferred state income taxes	**26.0**	23.4
Federal benefit of deferred state income taxes	**(5.5)**	(4.9)
Deferred fuel, purchased energy and gas costs	**5.0**	6.9
Employee benefits	**(11.9)**	(10.6)
Loss and credit carryforwards	**(5.6)**	(7.1)
Partnership basis differences	**5.9**	6.1
Other	**0.7**	(2.5)
Total net deferred income tax liabilities	**$ 209.6**	$ 196.0

PSNC has a federal net operating loss carryforward of $22.3 million that expires in 2037, and a state net operating loss carryforward of $22.9 million that expires in 2033.

The statute is closed for IRS examination of years prior to 2013. The IRS is currently examining PSNC's federal returns from 2013 through 2017. PSNC is no longer subject to state and local income tax examinations by tax authorities for years prior to 2013.

NOTE 9. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair values are based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. This includes not only the credit standing of counterparties involved and the impact of credit enhancements but also the impact of PSNC's own nonperformance risk on their liabilities. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). PSNC applies fair value measurements to commodity assets and liabilities and other investments including those held in pension and other postretirement benefit plan trusts, in accordance with the requirements described above.

Inputs and Assumptions

Fair value is based on actively-quoted market prices. The inputs and assumptions used in measuring fair value for commodity derivative contracts include forward commodity price and volumes.

Levels

PSNC utilizes the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1-Quoted prices (unadjusted) in active markets for identical assets and liabilities that they have the ability to access at the measurement date.
- Level 2-Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include certain exchange-traded options.
- Level 3-Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In these cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

Recurring Fair Value Measurements

Fair value measurements are separately disclosed by level within the fair value hierarchy. Fair value disclosures for assets held in PSNC's pension and other postretirement benefit plans are presented in Note 14. 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 December 31, 2020				
Assets				
Derivatives:				
Commodity	**$ —**	**$ 0.5**	$ —	**$ 0.5**
Total assets	**$ —**	**$ 0.5**	$ —	**$ 0.5**
At December 31, 2019				
Assets				
Derivatives:				
Commodity	$ —	$ 1.0	$ —	$ 1.0
Total assets	$ —	$ 1.0	$ —	$ 1.0

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS

See Note 2 for the PSNC's accounting policies, objectives, and strategies for using derivative instruments. See Note 9 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 19 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 December 31, 2020 and 2019.

Volumes

The following table presents the volume of PSNC's derivative activity as of December 31, 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)]	**4.8**	**—**

(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	
At December 31, 2020		
Current Assets		
Commodity	**$**	**0.5**
Total current derivative assets[(1)]	**$**	**0.5**
At December 31, 2019		
Current Assets		
Commodity	$	1.0
Total current derivative assets[(1)]	$	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, distributions received and the carrying amount of PSNC's equity method investments for 2020 and 2019:

	Pine Needle				Cardinal			
Year Ended December 31,	**2020**		2019		**2020**		2019	
(millions)								
Income from equity method investees	**$**	**0.7**	$	0.6	**$**	**1.6**	$	1.2
Distributions received		**1.2**		0.8		**2.2**		2.3
Carrying amount of investments		**10.0**		10.4		**9.9**		10.8

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 a cash flow hedge to manage interest rate risk on a variable rate debt instrument by converting it synthetically to a fixed rate. For the years ended December 31, 2020 and 2019, PSNC recorded a loss of $0.3 million and a loss of $0.7 million, 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 a cash flow hedge to manage interest rate risk on a variable rate debt instrument by converting it synthetically to a fixed rate. For the year ended December 31, 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 Sheets.

PSNC records as cost of gas the storage and transportation costs charged by its equity method investees. These costs totaled $8.7 million and $9.0 million for the years ended December 31, 2020 and 2019, respectively. PSNC owed these investees $0.7 million and $0.8 million at December 31, 2020 and 2019, respectively, recorded in accounts payable-affiliated companies in the Consolidated Balance Sheets.

NOTE 12. ASSET RETIREMENT OBLIGATIONS

AROs represent obligations that result from laws, statutes, contracts and regulations related to the eventual retirement of certain of PSNC's long-lived assets. PSNC's AROs primarily include interim retirement of natural gas distribution pipelines. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs. Concurrent with the acquisition of PSNC, amounts and timing of cash flows related to the AROs were revised to reflect changes in estimates consistent with Dominion Energy. The changes to AROs during 2019 and 2020 were as follows:

(millions)		Amount
AROs at December 31, 2018	$	35.5
Revisions in estimated cash flows(1)		42.5
Accretion		3.9
AROs at December 31, 2019(2)	$	81.9
Liabilities settled		**(0.5)**
Accretion		**4.0**
AROs at December 31, 2020(2)	**$**	**85.4**

(1) Primarily relates to a change in the discount factor and the risk premium.

(2) Includes $1.5 million and $1.0 million at December 31, 2019 and 2020, respectively, reported in other current liabilities in the Consolidated Balance Sheet.

NOTE 13. VARIABLE INTEREST ENTITIES

The primary beneficiary of a VIE is required to consolidate the VIE and to disclose certain information about its significant variable interests in the VIE. The primary beneficiary of a VIE is the entity that has both 1) the power to direct the activities that most significantly impact the entity's economic performance and 2) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE.

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 $6.0 million for the year ended December 31, 2020. PSNC's Consolidated Balance Sheets included amounts due to DES of $0.8 million at December 31, 2020.

DESS, an affiliated VIE, provided accounting, legal, finance and certain administrative and technical services to all SCANA subsidiaries, including PSNC through December 2020. PSNC purchased shared services from DESS of $55.8 million and $64.8 million for the years ended December 31, 2020 and 2019, respectively. PSNC's Consolidated Balance Sheets included amounts due to DESS of $8.5 million and $7.5 million, respectively, at December 31, 2020 and 2019, recorded in accounts payable-affiliated companies.

PSNC has determined that it is not the primary beneficiary of DES as it does not have both the power to direct the activities that most significantly impact its 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 costs.

NOTE 14. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Benefit Plans

PSNC 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.

SCANA's 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 SCANA's cash balance formula continued to accrue through December 31, 2020, after which date benefits will be accrued under a cash balance formula used by the Dominion Energy Pension Plan. Benefits under SCANA's final average pay formula will continue to accrue through December 31, 2023, after which date, eligible participants will accrue benefits under the cash balance formula used by the Dominion Energy Pension Plan.

In addition to pension benefits, PSNC 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.

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**	
	2020	2019	**2020**	2019
(millions)				
Benefit obligation, January 1	**$ 97.3**	$ 96.3	**$ 33.2**	$ 28.0
Service cost	**2.2**	2.5	**0.6**	0.6
Interest cost	**3.2**	3.6	**1.5**	1.8
Plan participants' contributions	**—**	—	**0.4**	0.3
Actuarial (gain) loss	**4.9**	7.7	**(6.1)**	5.0
Curtailment	**—**	0.9	**—**	0.5
Settlements	**(5.3)**	(10.8)	**—**	—
Benefits paid	**(3.1)**	(2.9)	**(2.6)**	(2.6)
Amounts funded to parent	**—**	—	**0.2**	(0.4)
Benefit obligation, December 31	**$ 99.2**	$ 97.3	**$ 27.2**	$ 33.2

Actuarial losses recognized during 2020 and 2019 in PSNC's pension benefit obligations include a $5.3 million and a $8.6 million loss, respectively, resulting from decreases in discount rates. Actuarial gains recognized during 2020 in PSNC's other postretirement benefit obligations include a $10.3 million gain as a result of a completed experience study and other healthcare-related assumption changes and were partially offset by a $3.9 million loss resulting from a decrease in the discount rate. Actuarial losses recognized during 2019 in PSNC's other postretirement benefit obligations include a $5.5 million loss resulting from a decrease in the discount rate.

The accumulated benefit obligation for pension benefits was $97.9 million and $95.2 million at December 31, 2020 and 2019, respectively. 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	
	2020	2019	**2020**	2019
Annual discount rate used to determine benefit obligation	**2.73%**	3.47%	**2.80%**	3.52%
Assumed annual rate of future salary increases for projected benefit obligation	**4.52%**	3.00%	**n/a**	n/a
Crediting interest rate for cash balance plans	**1.93%**	2.67%	**n/a**	n/a

A 6.25% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020. The rate was assumed to decrease gradually to 5.0% for 2025-2026 and to remain at that level thereafter.

Funded Status

	Pension Benefits		Other Postretirement Benefits	
(millions)	**2020**	2019	**2020**	2019
Fair value of plan assets	**$ 52.7**	$ 50.4	**$ —**	$ —
Benefit obligation	**99.2**	97.3	**27.2**	33.2
Funded status	**$ (46.5)**	$ (46.9)	**$ (27.2)**	$ (33.2)

Amounts recognized on the Consolidated Balance Sheets consist of:

	Pension Benefits		Other Postretirement Benefits	
(millions)	**2020**	2019	**2020**	2019
Current liability	**$ —**	$ —	**$ (2.2)**	$ (2.5)
Noncurrent liability	**(46.5)**	(46.9)	**(25.0)**	(30.7)

Amounts recognized in AOCI were as follows:

	Pension Benefits		Other Postretirement Benefits	
(millions)	**2020**	2019	**2020**	2019
Net actuarial loss	**$ 1.0**	$ 0.9	**$ —**	$ 0.3

Amounts recognized in regulatory assets were as follows:

	Pension Benefits		Other Postretirement Benefits	
(millions)	**2020**	2019	**2020**	2019
Net actuarial loss	**$ 15.7**	$ 17.2	**$ 0.4**	$ 6.1

Changes in Fair Value of Plan Assets

	Pension Benefits	
(millions)	**2020**	2019
Fair value of plan assets, January 1	**$ 50.4**	$ 42.9
Actual return on plan assets	**10.8**	21.1
Benefits paid	**(3.2)**	(2.9)
Settlements	**(5.3)**	(10.7)
Fair value of plan assets, December 31	**$ 52.7**	$ 50.4

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. PSNC 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, 2020 and 2019 and the target allocation for 2021 are as follows:

	Percentage of Plan Assets		
	Target Allocation	At December 31,	
Asset Category	**2021**	**2020**	2019
U.S. Equities	**25-40%**	**34%**	40%
Non-U.S. Equities	**10-20%**	**18%**	19%
Fixed Income	**45-65%**	**47%**	32%
Cash and cash equivalents	**2-10%**	**1%**	1%
Company Stock	**—%**	**—%**	5%
Real Estate	**—%**	**—%**	3%

For 2021, 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 and are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. At December 31, 2020 and 2019, fair value measurements, and the level within the fair value hierarchy in which the measurements fall, were as follows:

(millions)	2020	2019
Investments with fair value measure at Level 1:		
Cash and cash equivalents	**$ 0.8**	$ 0.3
Investments with fair value measure at Level 2:		
Mutual funds	**—**	10.6
Corporate debt instruments	**21.0**	16.1
Government and other debt instruments	**2.5**	1.8
Total assets in the fair value hierarchy	**24.3**	28.8
Investments at net asset value:		
Common collective trust	**28.4**	21.6
Total investments	**$ 52.7**	$ 50.4

For all periods presented 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 2020 or 2019.

Mutual funds held by the plan are open-end mutual funds registered with the U.S Securities and Exchange Commission. 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. U.S. 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. In addition, corporate debt instruments include investments in open-end mutual funds registered with the SEC that invest in corporate debt instruments. 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. 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 PSNC's assets for the other postretirement benefits plan (net of participant contributions), respectively, are as follows:

(millions)	Pension Benefits	Other Postretirement Benefits
2021	**$ 5.4**	**$ 2.2**
2022	**6.3**	**2.2**
2023	**6.1**	**2.2**
2024	**6.3**	**2.2**
2025	**6.2**	**2.2**
2026-2030	**28.1**	**10.9**

Pension Plan Contributions
Under its funding policies, PSNC evaluates plan funding requirements annually, usually in the fourth quarter after receiving updated plan information from its actuary. Based on the funded status of each plan and other factors, PSNC determines the amount of contributions for the current year, if any, at that time. PSNC made no contributions to the pension trust in 2020. PSNC expects to make $1.8 million of the minimum required contributions for its qualified pension plan in 2021.

Net Periodic Benefit Cost
PSNC 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	
	2020	2019	**2020**	2019
(millions)				
Service cost	**$ 2.2**	$ 2.5	**$ 0.6**	$ 0.6
Interest cost	**3.2**	3.6	**1.5**	1.8
Expected return on assets	**(5.9)**	(5.4)	**n/a**	n/a
Amortization of actuarial losses	**0.9**	1.4	**—**	—
Loss due to curtailment	**—**	0.9	**—**	0.5
Loss due to settlement	**0.9**	2.3	**—**	—
Net periodic benefit cost	**$ 1.3**	$ 5.3	**$ 2.1**	$ 2.9

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

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	**2020**	2019
(millions)				
Current year actuarial (gain) loss	**$ —**	$ (0.5)	**$ (0.4)**	$ 0.2
Settlement loss	**—**	(0.1)	**—**	—
Total recognized in AOCI	**$ —**	$ (0.6)	**$ (0.4)**	$ 0.2

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

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	**2020**	2019
(millions)				
Current year actuarial (gain) loss	**$ —**	$ (7.4)	**$ (5.5)**	$ 4.2
Amortization of actuarial losses	**(0.8)**	(1.4)	**(0.2)**	—
Settlement loss	**(0.8)**	(2.1)	**—**	—
Total recognized in regulatory assets	**$ (1.6)**	$ (10.9)	**$ (5.7)**	$ 4.2

Significant Assumptions Used in Determining Net Periodic Benefit Cost

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	**2020**	2019
Discount rate	**3.47%**	3.57/4.38%	**2.80%**	4.08/4.41%
Expected return on plan assets	**7.00%**	7.00%	**n/a**	n/a
Rate of compensation increase	**3.00%**	3.00%	**n/a**	n/a
Crediting interest rate for cash balance plans	**2.67%**	2.77/3.58%	**n/a**	n/a
Health care cost trend rate	**n/a**	n/a	**6.25%**	6.60%
Ultimate health care cost trend rate	**n/a**	n/a	**5.00%**	5.00%
Year achieved	**n/a**	n/a	**2025-2026**	2023

401(k) Retirement Savings Plan

PSNC 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 provides 100% matching contributions up to 6% of an employee's eligible earnings. Total matching contributions made to the plan were $2.6 million for both the years ended December 31, 2020 and 2019.

Voluntary Retirement Program

In March 2019, Dominion Energy announced a voluntary retirement program to employees, including employees of PSNC, who meet certain age and service requirements. For the year ended December 31, 2019, upon the determination made concerning the number of employees that elected to participate in the program, PSNC recorded a charge of $11.8 million ($9.1 million after-tax) included within other operations and maintenance expense ($10.0 million), other taxes ($0.4 million) and other income, net ($1.4 million) in the Consolidated Statement of Income. In addition, as a result of the voluntary retirement program, PSNC recorded pension plan settlement losses of $2.3 million within other income, net for the year ended December 31, 2019.

In the third quarter of 2019, SCANA remeasured its pension plan as a result of a settlement from the voluntary retirement program. The settlement and related remeasurement resulted in an increase in the pension benefit obligation of $2.7 million and an increase in the fair value of the pension plan assets of $3.7 million for PSNC. The impact of the remeasurement on net periodic benefit cost (credit) was recognized prospectively from the remeasurement date. The discount rate used for the remeasurement was 3.57%. All other assumptions used for the remeasurement were consistent with the measurement as of December 31, 2018.

NOTE 15. UTILITY PLANT AND NONUTILITY PROPERTY

Utility Plant

Major classes of utility plant and other property and their respective balances at December 31, 2020 and 2019 were as follows:

At December 31, (millions)	2020	2019
Transmission	**$ 834.4**	$ 825.9
Distribution	**1,889.2**	1,776.3
Storage	**29.4**	28.9
General and other	**86.7**	83.1
Intangible	**11.8**	17.1
Construction work in progress	**192.9**	60.4
Total utility plant	**$ 3,044.4**	$ 2,791.7

Nonutility Property

In May 2019, PSNC entered into an agreement to sell certain warranty service contract assets for total consideration of $1.4 million. The transaction closed in August 2019, resulting in a $1.3 million ($1.0 million after-tax) gain recorded in other income, net in PSNC's Consolidated Statement of Income. Pursuant to the agreement, upon closing PSNC entered into a commission agreement with the buyer under which the buyer will compensate PSNC in connection with the right to use PSNC's brand in marketing materials and other services over a ten-year term.

NOTE 16. 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 is 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.

The operations of PSNC are subject to a variety of state and federal laws and regulations governing the management and disposal of solid and hazardous waste, and release of hazardous substances associated with current and/or historical operations. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and similar state laws, may impose joint, several and strict liability for cleanup on potentially responsible parties who owned, operated or arranged for disposal at facilities affected by a release of hazardous substances. In addition, many states have created programs to incentivize voluntary remediation of sites where historical releases of hazardous substances are identified and property owners or responsible parties decide to initiate cleanups.

From time to time, PSNC may be identified as a potentially responsible party in connection with the alleged release of hazardous substances or wastes at a site. Under applicable federal and state laws, PSNC could be responsible for costs associated with the investigation or remediation of impacted sites, or subject to contribution claims by other responsible parties for their costs incurred at such sites. PSNC also may identify, evaluate and remediate other potentially impacted sites under voluntary state programs. Remediation costs may be subject to reimbursement under PSNC' insurance policies, rate recovery mechanisms, or both.

PSNC has determined that it is associated with five former manufactured gas plant sites. At these sites, remediation work has been substantially completed under federal or state oversight. PSNC does not expect a material impact to results of operations, financial condition and/or cash flows.

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 17. LEASES

At December 31, 2020 and 2019, PSNC had the following operating lease assets and liabilities recorded in the Consolidated Balance Sheets:

(millions)	**December 31, 2020**	December 31, 2019
Lease assets:		
Operating lease assets[1]	**$ 0.6**	$ 0.8
Total lease assets	**$ 0.6**	$ 0.8
Lease liabilities:		
Operating lease - current[2]	**$ 0.3**	$ 0.3
Operating lease - noncurrent[3]	**0.4**	0.6
Total lease liabilities	**$ 0.7**	$ 0.9

(1) Included primarily in other deferred debits and other assets in the Consolidated Balance Sheet.
(2) Included in other current liabilities in the Consolidated Balance Sheet.
(3) Included in other deferred credits and other liabilities in the Consolidated Balance Sheet.

Costs associated with operating leases are primarily recorded in operations and maintenance expenses in the Consolidated Statements of Income. For the years ended December 31, 2020 and 2019, total lease costs were $0.6 million and $0.5 million, respectively.

For both the years ended December 31, 2020 and 2019, cash paid for amounts included in the measurement of operating lease liabilities in the Consolidated Statements of Cash Flow was $0.3 million.

At December 31, 2020 and 2019, the weighted average remaining lease term and weighted average discount rate for operating leases were as follows:

	December 31, 2020	December 31, 2019
Weighted average remaining lease term	**5 years**	4 years
Weighted average discount rate	**3.80%**	4.07%

Operating lease liabilities have the following scheduled maturities:

(millions)		
2021	$	0.2
2022		0.2
2023		0.1
2024		0.1
2025		0.1
After 2025		0.1
Total undiscounted lease payments		0.8
Present value adjustment		0.1
Present value of lease liabilities	$	0.7

NOTE 18. OTHER INCOME, NET

Components of other income, net are as follows:

Year Ended December 31,		**2020**		2019
(millions)				
Revenues from contracts with customers[(1)]	**$**	**14.7**	$	19.3
Other revenues		**4.1**		4.0
Other expenses[(2)]		**(10.7)**		(16.9)
Allowance for equity used during construction		**6.2**		5.9
Other income, net	**$**	**14.3**	$	12.3

(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 14 for discussion of a voluntary retirement program.

NOTE 19. 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 December 31, 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 December 31, 2020 and 2019. See Note 10 for further information about derivative instruments.

NOTE 20. 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 2 for further information. 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. In addition, DESS provided accounting, legal, finance and certain administrative and technical services to all SCANA subsidiaries, including PSNC, through December 2020 as discussed in Note 13. Effective January 2021, DES provides to PSNC the services previously provided by DESS. Where costs incurred could not be determined by specific identification, the costs were generally allocated based on each affiliated company's proportional share of revenues less product costs; property, plant and equipment; and based on the proportional level of effort devoted by resources that was attributable to PSNC, determined by reference to number of employees, salaries and wages and other similar measures for the relevant DESS service. Management believes that the allocation methods are reasonable.

PSNC recorded as cost of gas the storage and transportation costs charged by Cove Point and DETI during the period they were affiliates. These costs totaled $5.0 million and $6.1 million for the years ended December 31, 2020 and 2019, respectively. PSNC owed these entities $0.6 million at December 31, 2019, which is included in accounts payable-affiliated companies in the Consolidated Balance Sheet.

PSNC had sales to SEMI for natural gas and transportation services of $1.0 million for the year ended December 31, 2019. Purchases of natural gas with SEMI were immaterial for the year ended December 31, 2019.

NOTE 21. SUBSEQUENT EVENTS

PSNC has evaluated subsequent events through the date that these financial statements were available to be issued on March 29, 2021.