SCANA CORP
Form 10-Q/A
October 01, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Amendment No. 1

FORM 10-Q/A

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ____________ to ______________________

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| 1-8809 | SCANA Corporation<br>a South Carolina Corporation)<br>1426 Main Street,<br>Columbia, South Carolina 29201<br>(803) 217-9000 | 57-0784499 |
| 1-3375 | South Carolina Electric & Gas Company<br>(a South Carolina Corporation)<br>1426 Main Street,<br>Columbia, South Carolina 29201<br>(803) 217-9000 | 57-0248695 |
| 1-11429 | Public Service Company of<br>North Carolina, Incorporated<br>(a South Carolina Corporation)<br>1426 Main Street,<br>Columbia, South Carolina 29201<br>(803) 217-9000 | 56-2128483 |

Indicate by check mark whether the registrants: (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

| Registrant | Description of Common Stock | Shares Outstanding at July 31, 2001 |
|---|---|---|

| | | |
|---|---|---|
| SCANA Corporation | Without Par Value | 104,728,268 |
| South Carolina Electric & Gas Company | Par Value $4.50 Per Share | 40,296,147[1] |
| Public Service Company of North Carolina, Incorporated | Without Par Value | 1,000[1] |

[1]Held beneficially and of record by SCANA Corporation.

This combined Form 10-Q/A is separately filed by SCANA Corporation (SCANA), South Carolina Electric & Gas Company (SCE&G) and Public Service Company of North Carolina, Incorporated (PSNC). Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes no representation as to information relating to the other companies.

================================================================================

PSNC meets the conditions set forth in General Instruction H (1)(a) and (b) of Form 10-Q and therefore is filing this form with the reduced disclosure format allowed under General Instruction H(2).

SCANA, SCE&G and PSNC hereby amend the ratios of earnings to fixed charges (SEC method) contained in their Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001. These ratios were reported in SCANA and SCE&G's Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and in PSNC's Item 2 Management's Narrative Analysis of Results of Operations. The revised ratios are set forth below:

SCANA's ratio of earnings to fixed charges for the 12 months ended June 30, 2001 was 4.52. SCE&G's ratio of earnings to fixed charges for the 12 months ended June 30, 2001 was 4.07. PSNC's ratio of earnings to fixed charges for the 12 months ended June 30, 2001 was 3.26. The full text of Item 2, as amended, for each of SANA, SCE&G and PSNC follows.

## SCANA CORPORATION
## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in SCANA Corporation's (the Company) Annual Report on Form 10-K for the year ended December 31, 2000.

Statements included in this discussion and analysis (or elsewhere in this quarterly report) which are not statements of historical fact are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: (1) that the information is of a preliminary nature and may be subject to further and/or continuing review and adjustment, (2) changes in the utility regulatory environment, (3) changes in the economy, especially in areas served by the Company's subsidiaries, (4) the impact of competition from other energy suppliers, (5) growth opportunities for the Company's regulated and diversified subsidiaries, (6) the results of financing efforts, (7) changes in the Company's accounting policies, (8) weather conditions, especially in areas served by the Company's subsidiaries, (9) performance of and marketability of the Company's investments in telecommunications companies, (10) inflation, (11) changes in environmental regulations and (12) the other risks and uncertainties described from time to time in the Company's periodic reports filed with the Securities and Exchange Commission. The Company disclaims any obligation to update any forward-looking statements.

LIQUIDITY AND CAPITAL RESOURCES

SCANA Energy, the Company's non-regulated retail gas division in Georgia, has maintained its position as the second largest marketer in Georgia, with an approximate 27 percent market share. SCANA Energy lost approximately $2.5 million or $.03 per share in the quarter ended June 30, 2001 which approximated the loss for the corresponding period in 2000. See additional discussion at Results of Operations. Due to record high wholesale natural gas prices and cold winter temperatures, the Georgia Public Service Commission (GPSC) adopted emergency rules which prohibited gas marketers from disconnecting service to residential customers for non-payment from mid-January through March 2001. Customers also were permitted to switch marketers without first paying outstanding balances owed to their previous provider. As a result of the GPSC action, SCANA Energy increased its allowance for uncollectible accounts in the first quarter 2001 and has implemented more stringent credit policies.

On October 15, 1999 the Federal Energy Regulatory Commission (FERC) notified South Carolina Electric & Gas Company (SCE&G) of its agreement with SCE&G's plan to reinforce Lake Murray Dam in order to maintain the lake in case of an extreme earthquake. SCE&G and FERC have been discussing possible reinforcement alternatives for the dam over the past several years as part of SCE&G's ongoing hydroelectric operating license with FERC. The cost and completion date of this project will depend on the reinforcement alternative ultimately approved by FERC; however, it is possible that the costs could range up to $300 million with completion dates ranging from 2004 to 2006. Although any costs incurred by SCE&G are expected to be recoverable through electric rates, SCE&G also is exploring alternative sources of funding.

On February 9, 2000 FERC issued FERC Order 2000. The Order requires utilities which operate electric transmission systems to submit plans for the possible formation of a regional transmission organization (RTO). In October 2000 the Company and two other southeastern electric utilities filed a joint request with FERC to establish GridSouth Transco, LLC (GridSouth). FERC gave provisional approval to GridSouth in March 2001. When operational, GridSouth will function as an independent regional transmission company. In July 2001 FERC ordered mediation talks to take place between the utilities forming GridSouth and certain groups that have proposed other RTOs. These talks are being mediated by an administrative law judge, with a stated goal of FERC being the formation of a single RTO in the Southeast.

In March 2001 V. C. Summer Nuclear Station returned to service. It had been taken out of service on October 7, 2000 for a planned maintenance and refueling outage. During initial inspection activities, plant personnel discovered a small leak coming from a hole in a weld in a primary coolant system pipe. Repairs were completed and the integrity of the new welds was verified through extensive testing. The PSC has approved recovery of the cost of replacement power through SCE&G's electric fuel adjustment clause (see Note 4A of Notes to Condensed Consolidated Financial Statements). The Nuclear Regulatory

Commission was closely involved throughout this process and approved SCE&G's actions to repair the crack, as well as the restart schedule. SCE&G will continue to monitor primary coolant system pipes during the next outage, scheduled for Spring of 2002.

In March 2001 the Company completed the sale of its home security and alarm monitoring division (SCANA Security). The sale, valued at approximately $24.5 million, resulted in a one-time gain of approximately $.04 per share in the first quarter 2001 (see Results of Operations).

In April 2001 SCE&G announced plans to construct a 620 megawatt combined cycle natural gas-fueled power plant in Jasper County, South Carolina, to supply electricity to its South Carolina customers. The proposed generation facility is estimated to cost between $250 million and $300 million. Construction is expected to begin in the Summer of 2002 and is expected to be completed in the Summer of 2004.

In April 2001 SCE&G's 385 megawatt coal-fired Cope Generating Station returned to service. It had been taken out of service in January 2001 due to an electrical ground in the generator. The PSC has approved recovery of the cost of replacement power through SCE&G's electric fuel adjustment clause (see Note 4A of Notes to Condensed Consolidated Financial Statements).

In June 2001 SCANA Communications, Inc. (SCI) agreed to subcontract the operation and maintenance of its 800 megahertz radio service network to Motorola for the period July 1, 2001 through March 31, 2002. After March 31, 2002 SCI has the option to sell the network to Motorola.

In June 2001 South Carolina Pipeline Corporation (SCPC) announced that it will petition The Public Service Commission of South Carolina (PSC) to allow SCPC to convert from a closed system to an open-access transportation-only system. Under an open system customers would be required to secure their own gas supplies and transportation services. SCPC plans to file the petition in the fall of 2001 and seek implementation in 2002.

In July 2001 the Company announced the formation of SCG Pipeline, Inc., a wholly owned subsidiary that will engage in the transportation of natural gas in Georgia and South Carolina. SCG Pipeline will transport natural gas from interconnections with Southern Natural Gas and Southern LNG's Elba Island liquefied natural gas import terminal near Savannah, Georgia. The Company is currently evaluating potential pipeline routes for an end point in Jasper County, South Carolina. SCG Pipeline plans to file for FERC certification in the fall of 2001. The proposed service date for the pipeline is November 2003. In addition SCPC announced plans to extend its existing facilities to interconnect with the proposed pipeline to gain access to additional supplies of natural gas.

The following table summarizes how the Company generated and used funds for property additions and construction expenditures during the six months ended June 30, 2001 and 2000:

| | Six Months Ended June 30, | |
|---|---|---|
| Millions of dollars | 2001 | 2000 |
| Net cash provided from operating activities | $92 | $226 |

| | | |
|---|---|---|
| Net cash provided from financing activities | 144 | 98 |
| Cash provided from sale of subsidiary assets | 24 | - |
| Cash provided from sale of assets | 2 | 1 |
| Cash and temporary investments available at the beginning of the period | 159 | 116 |
| Net cash available for property additions and construction expenditures | $421 | $441 |
| Funds used for purchase of subsidiary | - | $212 |
| Funds used for utility property additions and construction expenditures, net of noncash allowance for funds used during construction | $183 | $132 |
| Funds used for nonutility property additions | $25 | $5 |

The Company's electric and natural gas businesses are seasonal in nature, with the primary demand for electricity being experienced during summer and winter and the primary demand for natural gas being experienced during winter. As a result of the significant increase during early 2001 and the latter half of 2000 in the cost to the Company of natural gas and the colder than normal weather experienced during winter 2000-2001, the Company experienced significant increases in its working capital requirements, contributing to the need for the financings by SCANA and PSNC in early 2001as described below.

On January 24, 2001 SCANA issued $202 million two-year floating rate notes maturing on January 24, 2003. The interest rate is reset quarterly based on three-month LIBOR plus 110 basis points. Also on January 24, 2001 SCE&G issued $150 million First Mortgage Bonds having an annual interest rate of 6.70 percent and maturing on February 1, 2011. On February 16, 2001 PSNC issued $150 million of medium-term notes having an annual interest rate of 6.625 percent and maturing on February 15, 2011. The proceeds from these borrowings were used to reduce short-term debt and for general corporate purposes.

In addition, on May 9, 2001 SCANA issued $300 million medium-term notes maturing May 15, 2011 and bearing a fixed interest rate of 6.875 percent. SCANA also entered into an interest rate swap agreement to pay variable rate and receive fixed rate interest payments. This swap is designated as a fair value hedge on the medium-term notes. The proceeds from the issuance of the medium-term notes were used to refinance $300 million of bank notes originally issued to consummate SCANA's acquisition of PSNC.

The Company anticipates that the remainder of its 2001 cash requirements will be met through internally generated funds and the incurrence of additional short-term and long-term indebtedness. Sales of additional equity securities may also occur. The Company expects that it has or can obtain adequate sources of financing to meet its projected cash requirements for the next 12 months and for the foreseeable future. The Company's ratio of earnings to fixed charges for the 12 months ended June 30, 2001 was 4.52.

Environmental Matters

For information on environmental matters see Note 9C "Contingencies - Environmental" of Notes To Condensed Consolidated Financial Statements appearing in this Quarterly Report on Form 10-Q.

Investments in Equity Securities

The Company and SCANA Communications Holdings, Inc. (SCH), a wholly owned, indirect subsidiary of SCANA, hold investments in several telecommunications companies (described in Note 8 "Investments in Equity Securities" of Notes to Condensed Consolidated Financial Statements appearing in this Quarterly Report on Form 10-Q). As a result of Deutsche Telekom AG's (DT) acquisition of Powertel, Inc. (Powertel) on May 31, 2001, SCH's investment in Powertel was exchanged for approximately 39.3 million ordinary shares of DT. SCH may not sell or transfer these ordinary shares until August 31, 2001, at which time 40% may be sold or transferred . After November 30, 2001 SCH may sell or transfer all of its DT shares. The Company intends to monetize SCH's investment in DT in an appropriate and timely manner and to use the proceeds to reduce outstanding debt and for potential future investments.

## RESULTS OF OPERATIONS
## FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001
## AS COMPARED TO THE CORRESPONDING PERIODS IN 2000

Earnings and Dividends

Earnings per share of common stock for the three and six months ended June 30, 2001 and 2000 were as follows:

| | Three Months Ended 2001 | Three Months Ended 2000 | Six Months Ended 2001 | Six Months Ended 2000 |
|---|---|---|---|---|
| Earnings derived from: | | | | |
| Operations | $.29 | $.27 | $1.00 | $.99 |
| Non-recurring events: | | | | |
| Sale of stock investment | 3.38 | - | 3.38 | - |
| Sale of subsidiary assets | - | - | .04 | - |
| Cumulative effect of change in accounting | - | - | - | $.28 |
| Earnings per weighted average share | $3.67 | $.27 | $4.42 | $1.27 |

Earnings per share from operations for the three months ended June 30, 2001 increased $.02 as compared to 2000. The Company experienced an increase in gas margin of $.02, improvements in the results of Energy Marketing of $.07 and other improvements of $.01. These improvements were partially offset by a decline in electric margin ($.02), and increases in operation and maintenance expense ($.02), interest expense ($.02) and depreciation expense ($.02).

Earnings per share from operations for the six months ended June 30, 2001 increased $.01 as compared to 2000. The Company experienced improved electric and gas margins of $.02 and $.11, respectively, improvements in the results of Energy Marketing of $.07, and other improvements of $.04. These improvements were partially offset by increased operation and maintenance expense ($.14), interest expense ($.07) and depreciation expense ($.02) .

For the last several years, the market value of the Company's retirement plan assets has exceeded the total actuarial present value of accumulated plan benefits. Pension income for the three and six months ended June 30, 2001 was $10.1 million and $20.2 million, respectively, compared to $9.8 million and $19.6 million for the corresponding periods in 2000. As a result of pension income, employee benefit expenses were reduced approximately $5.3 million and $10.6 million for the three and six months ended June 30, 2001, compared to $5.0 million and $10.1 million for the corresponding periods in 2000. In addition, other income increased $2.9 million and $5.9 million for the three and six months ended June 30, 2001, respectively, compared to $3.0 million and $6.0 million for the corresponding periods in 2000.

The Company recognized a non-recurring gain of $3.38 per share in connection with the sale of its investment in Powertel, Inc., which was acquired by Deutsche Telekom AG in May 2001 (see Note 8 of Notes to Condensed Consolidated Financial Statements). The Company also recognized a gain of $.04 per share in connection with the sale of the assets of SCANA Security in March 2001. In 2000, earnings from the cumulative effect of change in accounting resulted from the recording of unbilled revenues by SCANA's regulated retail utility subsidiaries (see Note 2 of Notes to Condensed Consolidated Financial Statements).

Allowance for funds used during construction (AFC) is a utility accounting practice whereby a portion of the cost of both equity and borrowed funds used to finance construction (which is shown on the balance sheet as construction work in progress) is capitalized. Both the equity and the debt portions of AFC are noncash items of nonoperating income which have the effect of increasing reported net income. AFC represented less than one percent and approximately three percent of income before taxes for the three months ended June 30, 2001 and 2000, respectively. AFC represented approximately one percent and two percent of income before income taxes for the six months ended June 30, 2001 and 2000, respectively.

The Company's Board of Directors declared the following quarterly dividends on common stock during 2001:

| Declaration Date | Dividend Per Share | Record Date | Payment Date |
|---|---|---|---|
| February 22, 2001 | $.30 | March 9, 2001 | April 1, 2001 |
| May 3, 2001 | $.30 | June 8, 2001 | July 1, 2001 |
| August 2, 2001 | $.30 | September 10, 2001 | October 1, 2001 |

Electric Operations

Electric Operations is comprised of the electric portion of SCE&G, South Carolina Generating Company (GENCO) and South Carolina Fuel Company (Fuel Company). Changes in the electric operations sales margins, including transactions with affiliates and excluding the cumulative effect of accounting change, for the three and six months ended June 30, 2001, when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six Months E | |
|---|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | | 2001 | 2000 |
| Electric operating revenue | $340.5 | $319.8 | $20.7 | 6.5% | $680.7 | $614.1 | $6 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Less: Fuel used in generation | 67.9 | 72.7 | (4.8) | (6.6%) | 135.1 | 142.8 | ( |
| Purchased power | 39.0 | 10.7 | 28.3 | * | 87.5 | 17.4 | 7 |
| Margin | $233.6 | $236.4 | $(2.8) | (1.2%) | $458.1 | $453.9 | $ |

*Greater than 100%

Changes in electric operations sales margins for the three months ended June 30, 2001 reflect milder weather and an economic slowdown. Changes in electric operations sales margins for the six months ended June 30, 2001 reflect steady customer growth partially offset by weather and an economic slowdown. Increases in purchased power costs for both periods, as compared to the corresponding periods in 2000, were primarily attributable to plant outages discussed at Liquidity and Capital Resources, which delayed scheduled maintenance outages at other plants until April and May 2001.

Gas Distribution

Gas Distribution is comprised of the local distribution operations of SCE&G and PSNC. Changes in the gas distribution sales margins, including transactions with affiliates and excluding the cumulative effect of accounting change, for the three and six months ended June 30, 2001, when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six Month | | |
|---|---|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | | 2001 | 2000 | |
| Gas distribution operating revenue | $125.0 | $106.3 | $18.7 | 17.6% | $510.5 | $361.9 | |
| Less: Gas purchased for resale | 88.1 | 66.2 | 21.9 | 33.1% | 367.7 | 218.9 | |
| Margin | $36.9 | $40.1 | $(3.2) | (8.0%) | $142.8 | $143.0 | |

Changes in gas distribution sales margins for the three and six months ended June 30, 2001 reflect milder weather and an economic slowdown. For the six months ended June 30, 2001, these factors were partially offset by customer growth. Revenues and purchases were impacted by large increases in natural gas prices in late 2000 and early 2001.

Gas Transmission

Gas Transmission is comprised of the operations of South Carolina Pipeline Corporation. Changes in the gas transmission sales margins, including transactions with affiliates, for the three and six months ended June 30, 2001, when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six | |
|---|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | | 2001 | 2000 |
| Gas transmission operating revenue | $97.1 | $98.7 | $(1.6) | (1.6%) | $298.4 | $215. |
| Less: Gas purchased for resale | 86.5 | 84.5 | 2.0 | 2.4% | 278.7 | 186. |
| Margin | $10.6 | $14.2 | $(3.6) | (25.4%) | $19.7 | $29. |

Gas transmission sales margins for the three and six months ended June 30, 2001 decreased primarily as a result of an economic slowdown and reduced industrial margins due to the unfavorable competitive position of natural gas relative to alternate fuels. Revenues and purchases were impacted by large increases in natural gas prices in late 2000 and early 2001.

Retail Gas Marketing

Retail Gas Marketing is comprised of SCANA Energy, a division of SCANA Energy Marketing, Inc., which operates in Georgia's deregulated natural gas market. Retail gas marketing revenues and net income for the three and six months ended June 30, 2001, when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six Mo | |
|---|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | | 2001 | 2000 |
| Operating revenues | $121.0 | $91.6 | $29.4 | 32.1% | $384.0 | $226.9 |
| Net income(loss) | $(2.5) | $(2.3) | $(0.2) | (8.7%) | $6.8 | $6.6 |

Operating revenues for the three and six months ended June 30, 2001 increased primarily as a result of record high natural gas prices. Although operating revenues increased, net loss for the three months ended June 30, 2001 increased as a result of higher operating expenses.

Energy Marketing

Energy Marketing is comprised of the Company's non-regulated marketing operations, excluding SCANA Energy. Changes in energy marketing operating revenues, including transactions with affiliates, and net income for the three and six months ended June 30, 2001, when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six Mont | |
|---|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | | 2001 | 2000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating revenues | $103.9 | $86.2 | $17.7 | 20.5% | $351.6 | $169.7 |
| Net income(loss) | $1.6 | $0.8 | $0.8 | 100% | $5.1 | $(1.5) |

*Greater than 100%

Operating revenues for the three and six months ended June 30, 2001 increased primarily as a result of record high natural gas prices. More favorable weather in early 2001 also contributed to the increase in operating revenues for the six months ended June 30, 2001. Net income improved primarily due to the favorable changes in market value of certain transportation contracts resulting from volatility in the natural gas market in early 2001.

Other Operating Expenses

Changes in other operating expenses for the three and six months ended June 30, 2001, when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six | |
|---|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | | 2001 | 2 |
| Other operation and maintenance | $122.0 | $119.6 | $2.4 | 2.0% | $251.3 | $22 |
| Depreciation and amortization | 56.2 | 52.8 | 3.4 | 6.4% | 111.8 | 10 |
| Other taxes | 28.8 | 28.9 | (0.1) | (0.3%) | 58.7 | 5 |
| Total | $207.0 | $201.3 | $5.7 | 2.8% | $421.8 | $39 |

Other operation and maintenance expenses increased primarily as a result of increased revenue-related expenses (e.g. provision for bad debts) for energy sales and increased employee benefit costs. Depreciation and amortization increased due to normal property additions. Other taxes for the six months ended June 30, 2001 increased primarily due to increased property taxes.

Other Income

Other income for the three and six months ended June 30, 2001 increased when compared to the corresponding periods in 2000, primarily due to the non-recurring gain recognized in May 2001in connection with the Company's investment in Powertel, Inc., which was acquired by Deutsche Telekom AG, and the March 2001 gain on the sale of the assets of SCANA Security (see Note 8 of Notes to Condensed Consolidated Financial Statements).

Interest Expense

Interest expense for the three and six months ended June 30, 2001 increased when compared to the corresponding periods in 2000, primarily due to the issuance of debt in mid-2000 and early 2001. The proceeds of such debt offerings were used to refinance debt related to the acquisition of PSNC in February 2000 and for general corporate purposes, including providing working capital for natural gas purchases.

Income Taxes

Income taxes for the three and six months ended June 30, 2001 increased approximately $190.0 million when compared to the corresponding periods in 2000. This change is primarily due to the non-recurring gain recorded in May 2001 in connection with the sale of the Company's investment in Powertel, Inc., which was acquired by Deutsche Telekom AG (see Note 8 of Notes to Condensed Consolidated Financial Statements).

SOUTH CAROLINA ELECTRIC & GAS COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in South Carolina Electric & Gas Company's (SCE&G) Annual Report on Form 10-K for the year ended December 31, 2000.

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LIQUIDITY AND CAPITAL RESOURCES

On October 15, 1999 the Federal Energy Regulatory Commission (FERC) notified SCE&G of its agreement with SCE&G's plan to reinforce Lake Murray Dam in order to maintain the lake in case of an extreme earthquake. SCE&G and FERC have been discussing possible reinforcement alternatives for the dam over the past several years as part of SCE&G's ongoing hydroelectric operating license with FERC. The cost and completion date of this project will depend on the reinforcement alternative ultimately approved by FERC; however, it is possible that the costs could range up to $300 million with completion dates ranging from 2004 to 2006. Although any costs incurred by SCE&G are expected to be recoverable through electric rates, SCE&G also is exploring alternative sources of funding.

On February 9, 2000 FERC issued FERC Order 2000. The Order requires utilities which operate electric transmission systems to submit plans for the possible formation of a regional transmission organization (RTO). On October 16, 2000 SCE&G and two other southeastern electric utilities filed a joint request with FERC to establish GridSouth Transco, LLC (GridSouth). FERC gave provisional approval to GridSouth in March 2001. When operational, GridSouth will function as an independent regional transmission company. In July 2001 FERC ordered mediation talks to take place between the utilities forming GridSouth and certain groups that have proposed other RTOs. These talks are being mediated by an administrative law judge, with a stated goal of FERC being the formation of a single RTO in the Southeast.

In March 2001 V. C. Summer Nuclear Station returned to service. It had been taken out of service on October 7, 2000 for a planned maintenance and refueling outage. During initial inspection activities, plant personnel discovered a small leak coming from a hole in a weld in a primary coolant system pipe. Repairs were completed and the integrity of the new welds was verified through extensive testing. The PSC has approved recovery of the cost of replacement power through SCE&G's electric fuel adjustment clause (see Note 3A of Notes to Condensed Consolidated Financial Statements). The Nuclear Regulatory Commission was closely involved throughout this process and approved SCE&G's actions to repair the crack, as well as the restart schedule. SCE&G will continue to monitor primary coolant system pipes during the next outage, scheduled for Spring of 2002.

In April 2001 SCE&G announced plans to construct a 620 megawatt combined cycle natural gas-fueled power plant in Jasper County, South Carolina, to supply electricity to its South Carolina customers. The proposed generation facility is estimated to cost between $250 million and $300 million. Construction is expected to begin in the Summer of 2002 and is expected to be completed in the Summer of 2004.

In April 2001 SCE&G's 385 megawatt coal-fired Cope Generating Station returned to service. It had been taken out of service in January 2001 due to an electrical ground in the generator. The PSC has approved recovery of the cost of replacement power through SCE&G's electric fuel adjustment clause (see Note 3A of Notes to Condensed Consolidated Financial Statements).

The following table summarizes how SCE&G generated and used funds for property additions and construction expenditures during the six months ended June 30, 2001 and 2000:

| | Six Months Ended June 30, | |
|---|---|---|
| Millions of dollars | 2001 | 2000 |
| Net cash provided from operating activities | $111 | $173 |
| Net cash provided from (used for) financing activities | 9 | (92) |

| | | |
|---|---|---|
| Cash and temporary cash investments available at the beginning of the period | 60 | 78 |
| Net cash available for utility property additions and construction expenditures | $180 | $159 |
| Funds used for utility property additions and construction expenditures, net of noncash allowance for funds used during construction | $150 | $113 |
| Funds used for investments | - | $4 |

On January 24, 2001 SCE&G issued $150 million First Mortgage Bonds having an annual interest rate of 6.70 percent and maturing on February 1, 2011. The proceeds were used to reduce short-term debt and for general corporate purposes.

SCE&G anticipates that the remainder of its 2001 cash requirements will be met through internally generated funds and the incurrence of additional short-term and long-term indebtedness. SCE&G expects that it has or can obtain adequate sources of financing to meet its projected cash requirements for the next 12 months and for the foreseeable future. SCE&G's ratio of earnings to fixed charges for the 12 months ended June 30, 2001 was 4.07.

Environmental Matters

For information on environmental matters see Note 6C "Contingencies - Environmental" of Notes To Condensed Consolidated Financial Statements appearing in this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001
AS COMPARED TO THE CORRESPONDING PERIODS IN 2000

Earnings and Dividends

Changes in net income for the three and six months ended June 30, 2001 and 2000 were as follows:

| | Three Months Ended | | Six Months E |
|---|---|---|---|
| Millions of dollars | 2001 | 2000 | 2001 |
| Net income derived from: | | | |
| Operations | $43.0 | $44.3 | $96.5 |
| Cumulative effect of change in accounting | - | - | - |
| Total net income | $43.0 | $44.3 | $96.5 |

Net income from operations for the three months ended June 30, 2001 decreased primarily due to milder weather and increases in interest expense and other operation and maintenance expense, which were partially offset by customer growth.

Net income from operations for the six months ended June 30, 2001 decreased primarily due to milder weather, increases in interest expense and other operation and maintenance expense and an economic slowdown, which were partially offset by customer growth.

For the last several years, the market value of the Company's retirement plan assets has exceeded the total actuarial present value of accumulated plan benefits. Pension income for the three and six months ended June 30, 2001 and 2000 was $7.8 million and $15.6 million, respectively. As a result of pension income, employee benefit expenses were reduced approximately $4.8 million and $9.6 million for the three and six months ended June 30, 2001. For the corresponding periods in 2000, employee benefit costs were reduced approximately $4.7 million and $9.5 million. Additionally, other income increased $3.0 million and $6.0 million for the three and six months ended June 30, 2001 and 2000.

Earnings from the cumulative effect of change in accounting resulted from recording of unbilled revenue (See Note 2 of Notes to Condensed Consolidated Financial Statements).

Allowance for funds used during construction (AFC) is a utility accounting practice whereby a portion of the cost of both equity and borrowed funds used to finance construction (which is shown on the balance sheet as construction work in progress) is capitalized. Both the equity and the debt portions of AFC are noncash items of nonoperating income which have the effect of increasing reported net income. AFC represented approximately six percent and five percent of income before income taxes for the three and six months ended June 30, 2001, respectively. For the three and six months ended June 30, 2000, AFC represented approximately two percent of income before income taxes.

SCE&G's Board of Directors declared the following quarterly dividends on common stock held by SCANA, during 2001:

| Declaration Date | Dividend Amount | Quarter Ended | Payment Date |
|---|---|---|---|
| February 22, 2001 | $35.0 million | March 31, 2001 | April 1, 2001 |
| May 3, 2001 | $41.75 million | June 30, 2001 | July 1, 2001 |
| August 2, 2001 | $38.5 million | September 30, 2001 | October 1, 2001 |

Electric Operations

Electric Operations is comprised of the electric portion of SCE&G and South Carolina Fuel Company. Changes in the electric operations sales margins, excluding the cumulative effect of accounting change, for the three and six months ended June 30, 2001, when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six Mo | |
|---|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | | 2001 | 20 |
| Electric operating revenue | $341.8 | $319.8 | $22.0 | 6.9% | $683.4 | $614 |
| Less: Fuel used in generation | 54.7 | 55.2 | (0.5) | (0.9%) | 104.7 | 112 |
| Purchased power | 61.3 | 37.6 | 23.7 | 63.0% | 135.9 | 6 |
| Margin | $225.8 | $227.0 | $(1.2) | (0.5%) | $442.8 | $435 |

*Greater than 100%

Changes in electric operations sales margins for the three months ended June 30, 2001 reflect milder weather and an economic slowdown. Changes in electric operations sales margin for the six months ended June 30, 2001 reflect steady customer growth partially offset by weather and an economic slowdown. Increases in purchased power costs for both periods, as compared to the corresponding periods in 2000, were primarily attributable to plant outages discussed at Liquidity and Capital Resources, which delayed scheduled maintenance outages at other plants until April and May 2001.

Gas Distribution

Gas Distribution is comprised of the local distribution operations of SCE&G. Changes in the gas distribution sales margins, excluding the cumulative effect of accounting change, for the three and six months ended June 30, 2001, when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six | |
|---|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | | 2001 | 2000 |
| Gas operating revenue | $57.8 | $51.0 | $6.8 | 13.3% | $214.9 | $15 |
| Less: Gas purchased for resale | 46.5 | 38.6 | 7.9 | 20.5% | 165.4 | 10 |
| Margin | $11.3 | $12.4 | $(1.1) | (8.9%) | $49.5 | $5 |

Gas distribution sales margins for the three and six months ended June 30, 2001 decreased as a result of milder weather and an economic slowdown. Revenues and purchases were impacted by large increases in natural gas prices in late 2000 and early 2001. The increased cost of gas was passed on to customers as discussed in Note 3B in Notes To Condensed Consolidated Financial Statements.

Other Operating Expenses

Changes in other operating expenses for the three and six months ended June 30, 2001 when compared to the corresponding periods in 2000, were as follows:

| | Three Months Ended | | | | Six |
|---|---|---|---|---|---|
| Millions of dollars | 2001 | 2000 | Change | 2001 | 2000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other operation and maintenance | $83.7 | $80.8 | $2.9 | 3.6% | $162.6 | $15 |
| Depreciation and amortization | 41.0 | 38.9 | 2.1 | 5.4% | 81.6 | 7 |
| Other taxes | 24.8 | 24.4 | 0.4 | 1.6% | 50.4 | 4 |
| Total | $149.5 | $144.1 | $5.4 | 3.7% | $294.6 | $28 |

Other operation expenses for the three and six months ended June 30, 2001 increased primarily as a result of increases in employee benefit costs. The increase in depreciation and amortization expenses for the three and six months ended June 30, 2001 resulted from normal property additions. Other taxes increased primarily due to increased property taxes.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Management's Narrative Analysis of Results of Operations appearing in Public Service Company of North Carolina, Incorporated's (PSNC) Annual Report on Form 10-K for the year ended December 31, 2000.

Statements included in this narrative analysis (or elsewhere in this quarterly report) which are not statements of historical fact are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers are cautioned that such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: (1) that the information is of a preliminary nature and may be subject to further and/or continuing review and adjustment, (2) changes in the utility regulatory environment, (3) changes in the economy, especially in PSNC's service territory, (4) the impact of competition from other energy suppliers, (5) growth opportunities, (6) the results of financing efforts, (7) changes in PSNC's accounting policies, (8) weather conditions, especially in areas served by PSNC, (9) inflation, (10) changes in environmental regulations and (11) the other risks and uncertainties described from time to time in PSNC's periodic reports filed with the Securities and Exchange Commission. PSNC disclaims any obligation to update any forward-looking statements.

Capital Expansion Program

PSNC's capital expansion program, through the construction of lines, services, systems and facilities, and the purchase of equipment, is designed to help PSNC meet the growing demand for natural gas in its franchised service areas. PSNC's 2001 construction budget is approximately $58.0 million, compared to actual construction expenditures for 2000 of $39.1 million. The construction program is reviewed regularly by management and is dependent upon PSNC's continuing ability to generate adequate funds internally and to sell new issues of debt on acceptable terms. Construction expenditures during the six months ended June 30, 2001 were $28.9 million compared to $15.0 million for the same period last year. PSNC's ratio of earnings to fixed charges for the 12 months ended June 30, 2001 was 3.26.

Earnings and Dividends

Net income for the six months ended June 30, 2001 and 2000 was as follows:

| Millions of dollars | Six Months Ended June 30, 2001 | 2000 |
|---|---|---|
| Net income derived from: | | |
| Operations | $15.6 | $14.2 |
| Cumulative effect of change in accounting | - | 6.6 |
| Total net income | $15.6 | $20.8 |

Net income from operations for the six months ended June 30, 2001 increased $1.4 million over the corresponding period in 2000 primarily due to customer growth and a decrease in operating and maintenance expenses. In 2000 net income reflects a change in accounting to record unbilled revenues (see Note 2 of Notes to Condensed Consolidated Financial Statements).

PSNC's Board of Directors declared the following quarterly dividends on common stock held by SCANA during 2001:

| Declaration Date | Dividend Amount | Quarter Ended | Payment Date |
|---|---|---|---|
| February 22, 2001 | $6.0 million | March 31, 2001 | April 1, 2001 |
| May 3, 2001 | $5.8 million | June 30, 2001 | July 1, 2001 |
| August 2, 2001 | $3.0 million | September 30, 2001 | October 1, 2001 |

Gas Distribution

Changes in gas distribution sales margins for the six months ended June 30, 2001, when compared to the corresponding period in 2000, were as follows:

| Millions of dollars | Six Months Ended June 30, 2001 | 2000 | Change | |
|---|---|---|---|---|
| Gas operating revenue | $295.6 | $249.8 | $45.8 | 18.3% |
| Less: Cost of gas | 202.3 | 155.9 | 46.4 | 29.8% |
| Gross margin | $93.3 | $93.9 | $(0.6) | (0.6%) |

The decrease in margin for six months ended June 30, 2001 is primarily due to lower natural gas usage per degree day and the sale of PSNC Production Corporation (see Note 4 of Notes to Condensed Consolidated Financial Statements). This decrease was partially offset by a 2.8 percent increase in customers. Customers as of June 30, 2001 and 2000 were approximately 362,000 and 352,000, respectively. Revenues and cost of gas were impacted by large increases in natural gas prices in late 2000 and early 2001.

Operating Expenses

Operating and maintenance expenses for the six months ended June 30, 2001 decreased $2.7 million when compared to the corresponding period in 2000. This decrease is primarily due to reduced costs related to employee benefits and advertising. The decrease also reflects the sale of PSNC Production Corporation.

SCANA CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCANA CORPORATION
(Registrant)

October 1, 2001 By: s/M. R. Cannon

M. R. Cannon
Controller
(Principal accounting officer)

SOUTH CAROLINA ELECTRIC & GAS COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
(Registrant)

October 1, 2001

By: s/Mark R. Cannon
Mark R. Cannon
Controller
(Principal accounting officer)

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
(Registrant)

October 1, 2001 By: s/Mark R. Cannon

Mark R. Cannon
Controller
(Principal accounting officer)