

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

| Thousands of dollars | September 30, 2007 | December 31, 2006 |
|--|-------------------------------|------------------------------|
| Assets | | |
| Gas Utility Plant | \$1,150,352 | \$1,084,170 |
| Accumulated Depreciation | (256,517) | (241,277) |
| Acquisition Adjustment | 209,824 | 209,824 |
| Gas Utility Plant, Net | 1,103,659 | 1,052,717 |
| | | |
| Nonutility Property and Investments, Net | 27,916 | 27,912 |
| | | |
| Current Assets: | | |
| Cash and cash equivalents | 1,000 | 6,038 |
| Receivables, net of allowance for uncollectible accounts of \$402 and \$1,492 | 35,925 | 111,911 |
| Receivables-affiliated companies | 2,098 | 12,445 |
| Inventories (at average cost): | | |
| Stored gas | 96,856 | 92,395 |
| Materials and supplies | 7,823 | 7,550 |
| Deferred income taxes, net | - | 2,537 |
| Other | 5,760 | 1,498 |
| Total Current Assets | 149,462 | 234,374 |
| | | |
| Deferred Debits and Other Assets: | | |
| Due from affiliate-pension asset | 5,518 | 5,453 |
| Regulatory assets | 92,245 | 79,939 |
| Other | 2,485 | 3,155 |
| Total Deferred Debits and Other Assets | 100,248 | 88,547 |
| Total | \$1,381,285 | \$1,403,550 |

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

| Thousands of dollars | September 30, 2007 | December 31, 2006 |
|---|-----------------------|----------------------|
| Capitalization and Liabilities | | |
| Capitalization: | | |
| Common Equity | \$543,551 | \$537,624 |
| Long-term Debt, net | 263,109 | 266,200 |
| Total Capitalization | 806,660 | 803,824 |
| Current Liabilities: | | |
| Short-term borrowings | 142,900 | 124,700 |
| Current portion of long-term debt | 3,200 | 3,200 |
| Accounts payable | 26,201 | 72,263 |
| Accounts payable-affiliated companies | 17,036 | 6,053 |
| Customer deposits & customer prepayments | 19,541 | 19,700 |
| Taxes accrued | - | 5,720 |
| Interest accrued | 3,968 | 5,722 |
| Distributions/dividends declared | 5,600 | 3,500 |
| Derivative financial instruments | 11,608 | 23,673 |
| Deferred income taxes | 2,834 | - |
| Other | 5,234 | 4,885 |
| Total Current Liabilities | 238,122 | 269,416 |
| Deferred Credits and Other Liabilities: | | |
| Deferred income taxes, net | 110,260 | 106,369 |
| Deferred investment tax credits | 565 | 743 |
| Due to affiliate-postretirement benefits | 26,226 | 26,425 |
| Regulatory liabilities | 176,156 | 172,455 |
| Asset retirement obligations | 12,975 | 12,438 |
| Other | 10,321 | 11,880 |
| Total Deferred Credits and Other Liabilities | 336,503 | 330,310 |
| Commitments and Contingencies (Note 4) | - | - |
| Total | \$1,381,285 | \$1,403,550 |

See Notes to Condensed Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated
Condensed Consolidated Statements of Operations
(Unaudited)

| Thousands of dollars | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Operating Revenues | \$61,841 | \$59,416 | \$392,065 | \$389,106 |
| Cost of Gas | 35,202 | 35,324 | 251,850 | 266,910 |
| Gross Margin | 26,639 | 24,092 | 140,215 | 122,196 |
| Operating Expenses: | | | | |
| Operation and maintenance | 20,341 | 19,158 | 63,174 | 57,827 |
| Depreciation and amortization | 9,457 | 9,142 | 28,319 | 27,308 |
| Other taxes | 2,146 | 2,119 | 6,699 | 5,988 |
| Total Operating Expenses | 31,944 | 30,419 | 98,192 | 91,123 |
| Operating Income (Loss) | (5,305) | (6,327) | 42,023 | 31,073 |
| Other Income (Expense): | | | | |
| Other revenues | 3,822 | 2,617 | 11,641 | 8,347 |
| Other expenses | (2,525) | (1,985) | (6,709) | (5,960) |
| Gain on sale of assets | - | - | - | 71 |
| Allowance for equity funds used during construction | 175 | 61 | 464 | 246 |
| Interest charges, net of allowance for borrowed funds used during construction | (6,874) | (6,028) | (19,677) | (17,785) |
| Total Other Expense | (5,402) | (5,335) | (14,281) | (15,081) |
| Income (Loss) Before Income Taxes, Earnings from Equity Method Investments and Cumulative Effect of Accounting Change | (10,707) | (11,662) | 27,742 | 15,992 |
| Income Tax Expense (Benefit) | (4,065) | (4,213) | 11,045 | 7,614 |
| Income (Loss) Before Earnings from Equity Method Investments and Cumulative Effect of Accounting Change | (6,642) | (7,449) | 16,697 | 8,378 |
| Cumulative Effect of Accounting Change, net of taxes | - | - | - | 686 |
| Earnings from Equity Method Investments | 1,075 | 1,209 | 3,159 | 3,492 |
| Net Income (Loss) | (\$5,567) | (\$6,240) | \$19,856 | \$12,556 |

See Notes to Condensed Consolidated Financial Statements.

Public Service Company of North Carolina, Incorporated
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| Thousands of dollars | Nine Months Ended | |
|---|--------------------------|-----------------|
| | September 30, | |
| | 2007 | 2006 |
| Cash Flows From Operating Activities: | | |
| Net income | \$19,856 | \$12,556 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Cumulative effect of accounting change, net of taxes | - | (686) |
| Depreciation and amortization | 27,404 | 27,844 |
| Gain on sale of assets | - | (71) |
| Allowance for equity funds used during construction | (464) | (246) |
| Excess distributions (earnings), net from equity method investments | (17) | (68) |
| Cash provided (used) by changes in certain assets and liabilities: | | |
| Receivables, net | 73,533 | 153,589 |
| Inventories | (6,216) | (8,004) |
| Other regulatory assets | 936 | (1,152) |
| Other regulatory liabilities | (504) | 673 |
| Accounts payable | (35,152) | (74,392) |
| Deferred income taxes, net | 8,837 | (4,017) |
| Taxes accrued | (5,720) | 636 |
| Changes in gas cost adjustment clauses | (30,169) | (19,216) |
| Changes in other assets | (2,318) | (551) |
| Changes in other liabilities | (2,252) | (349) |
| Net Cash Provided From Operating Activities | 47,754 | 86,546 |
| Cash Flows From Investing Activities: | | |
| Construction expenditures, net of AFC | (67,360) | (55,192) |
| Restricted supplier refunds | - | 497 |
| Nonutility and other | (767) | (354) |
| Net Cash Used For Investing Activities | (68,127) | (55,049) |
| Cash Flows From Financing Activities: | | |
| Short-term borrowings - affiliate | 12,800 | - |
| Short-term borrowings, net | 18,200 | (20,000) |
| Contributions from parent | 1,289 | 1,638 |
| Retirement of long-term debt | (3,200) | (3,200) |
| Distributions/dividends | (13,754) | (11,874) |
| Net Cash Provided From (Used for) Financing Activities | 15,335 | (33,436) |
| Net Decrease in Cash and Cash Equivalents | (5,038) | (1,939) |
| Cash and Cash Equivalents, January 1 | 6,038 | 3,253 |
| Cash and Temporary Investments, September 30 | \$1,000 | \$1,314 |
| Supplemental Cash Flow Information: | | |
| Cash paid for - Interest (net of capitalized interest of \$297 and \$460) | \$19,469 | \$17,490 |
| Income taxes | 24,122 | 15,790 |
| Noncash Investing and Financing Activities: | | |
| Accrued construction expenditures | 2,974 | 2,074 |

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(Unaudited)

The following notes should be read in conjunction with the Notes to Consolidated Financial Statements appearing in Public Service Company of North Carolina, Incorporated's (PSNC Energy, and together with its consolidated subsidiaries, the Company) financial statements for the year ended December 31, 2006. These are interim financial statements and, due to the seasonality of the Company's business and matters that may occur during the rest of the year, the amounts reported in the Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the full year. In the opinion of management, the information furnished herein reflects all adjustments, all of a normal recurring nature, which are necessary for the fair statement of the results for the interim periods reported.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Company accounts for its regulated utility operations, assets and liabilities in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 requires cost-based rate-regulated utilities to recognize in their financial statements certain revenues and expenses in different time periods than do enterprises that are not rate-regulated. As a result, the Company has recorded regulatory assets and regulatory liabilities summarized as follows.

| Thousands of dollars | September 30, 2007 | December 31, 2006 |
|--|-----------------------|----------------------|
| Regulatory Assets: | | |
| Under-collections - gas cost adjustment clause | \$ 60,850 | \$ 46,661 |
| Environmental remediation costs | 10,229 | 11,139 |
| Asset retirement obligations | 10,094 | 9,492 |
| Deferred employee benefit plan costs | 8,424 | 9,973 |
| Other | 2,648 | 2,674 |
| Total Regulatory Assets | \$ 92,245 | \$ 79,939 |
| Regulatory Liabilities: | | |
| Over-collections - gas cost adjustment clause | \$ 4,235 | \$ 8,149 |
| Other asset removal costs | 168,893 | 160,774 |
| Other | 3,028 | 3,532 |
| Total Regulatory Liabilities | \$ 176,156 | \$ 172,455 |

Under- and over-collections—gas cost adjustment clause represents amounts under- or over-collected from customers pursuant to the Company's Rider D mechanism approved by the North Carolina Utilities Commission (NCUC). This mechanism allows the Company to recover all prudently incurred gas costs and certain uncollectible expenses related to gas cost. Included in these amounts are regulatory assets or liabilities arising from the Company's natural gas hedging program.

Environmental remediation costs represent costs associated with the assessment and cleanup of manufactured gas plant (MGP) sites currently or formerly owned by the Company. Costs incurred through June 30, 2006 of \$3.6 million, net of insurance settlements, are being recovered through rates over a three-year period. In addition, management believes that costs incurred subsequent to June 30, 2006, totaling \$3.1 million at September 30, 2007, and the estimated remaining costs to be incurred of \$4.6 million, will be recoverable through rates.

Asset retirement obligations (ARO) represents the regulatory asset associated with conditional AROs recorded as required by SFAS 143, "Accounting for Asset Retirement Obligations," and Financial Accounting Standards Board Interpretation (FIN) 47, "Accounting for Conditional Asset Retirement Obligations."

Deferred employee benefit plan costs represent amounts of pension and other postretirement benefit costs which were accrued as liabilities under provisions of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," but which are expected to be recovered through rates.

Other asset removal costs represent net collections through depreciation rates of estimated costs to be incurred for the future retirement of assets.

The NCUC has reviewed and approved through specific orders the items shown as regulatory assets, though some of the items may include costs which are awaiting specific rate consideration. In recording these costs as regulatory assets, management believes the costs will be allowable under existing rate-making concepts that are embodied in current rate orders received by the Company. However, ultimate recovery is subject to NCUC approval. In the future, as a result of deregulation or other changes in the regulatory environment, the Company may no longer meet the criteria for continued application of SFAS 71 and could be required to write off its regulatory assets and liabilities. Such an event could have a material adverse effect on the Company's results of operations, liquidity or financial position in the period the write-off would be recorded.

B. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, comprised primarily of the deferred cost of employee benefit plans, totaled \$0.6 million as of September 30, 2007 and \$1.2 million as of December 31, 2006.

C. Affiliated Transactions

The Company has related party transactions with its equity-method investees. The Company records as cost of gas the storage and transportation costs charged by these investees. For the nine months ended September 30, 2007 and 2006, these costs totaled \$11.6 million and \$11.8 million, respectively. The Company owed these investees \$1.1 million at September 30, 2007 and \$1.4 million at December 31, 2006. The Company received cash distributions from equity investees of \$3.1 million and \$3.4 million for the nine months ended September 30, 2007 and 2006, respectively.

During the nine months ended September 30, 2007 and 2006, the Company made sales to an affiliate of natural gas and transportation services of \$14.6 million and \$6.4 million, respectively.

At September 30, 2007, the Company owed an affiliate \$12.8 million arising from advances from a consolidated cash management utility.

D. New Accounting Matters

SFAS 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*," was issued in February 2007. SFAS 159 allows entities to measure many financial instruments and certain other assets and liabilities at fair value that are not otherwise required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has not determined what impact, if any, that adoption will have on the Company's results of operations, cash flows or financial position.

SFAS 157, "*Fair Value Measurements*," was issued in September 2006. SFAS 157 establishes a framework for measuring fair value to increase the consistency and comparability in fair value measurements. The Company will adopt SFAS 157 in the first quarter of 2008, and has not determined what impact, if any, the adoption will have on the Company's results of operations, cash flows or financial position.

FIN 48, "*Accounting for Uncertainty in Income Taxes*," clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, "*Accounting for Income Taxes*." FIN 48 prescribes financial statement recognition threshold and measurement attributes for tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company's adoption of FIN 48 in the first quarter of 2007 did not have a material impact on the Company's results of operations, cash flows or financial position. See also Note 1E.

E. Income Taxes

The Company is included in the consolidated federal income tax return of SCANA Corporation (SCANA) and files in various state jurisdictions. The Internal Revenue Service (IRS) has completed examinations of SCANA's federal income tax returns through 2004, and SCANA's federal tax returns through 2003 are closed for additional assessment. With few exceptions, the Company is no longer subject to state income tax examinations by tax authorities for years before 2003.

In connection with the initial adoption of FIN 48 effective January 1, 2007, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. No material changes have occurred subsequent to adoption. The Company recognizes interest accrued related to unrecognized tax benefits within interest expense and recognizes tax penalties within other expenses; moreover, as of September 30, 2007, the Company has not accrued any significant amount of interest expense or tax penalties.

2. RATE AND OTHER REGULATORY MATTERS

The Company's rates are established using a benchmark cost of gas approved by the NCUC, which may be modified periodically to reflect changes in the market price of natural gas. The Company revises its tariffs with the NCUC as necessary to track these changes and accounts for any over- or under-collections of the delivered cost of gas in its deferred accounts for subsequent rate consideration. The NCUC reviews the Company's gas purchasing practices annually.

In October 2007, in connection with the Company's 2007 Annual Prudence Review, the NCUC determined that the Company's gas costs, including all hedging transactions, were reasonable and prudently incurred during the 12-month review ended March 31, 2007.

In May 2007, the NCUC approved the Company's request to eliminate the use of its current dual residential customer rate structure and replace it with a single residential rate. The NCUC also ordered that the Company establish a new residential rate structure by November 1, 2007. In October 2007, the NCUC approved the Company's petition to implement a residential service rate which has a winter/summer differential of 6 cents per therm. The higher winter rate will help recover costs associated with operating the system during high customer demand. All residential customers will be charged this rate effective November 1, 2007. These changes in the rate structure will have no impact on 2007 earnings.

In October 2006, the NCUC granted the Company an annual increase in retail natural gas margin revenues of approximately \$15.2 million, or 2.6 percent, which was offset by a \$9.2 million decrease in fixed-gas cost revenues, for an overall increase of \$6.0 million, or 1.0 percent. The new rates are based on an allowed overall rate of return on rate base of 8.9 percent, and became effective for services rendered on or after November 1, 2006. In connection with the rate increase, the NCUC approved the Company's recovery through rates, over a three-year period, of certain costs for environmental remediation and pipeline integrity management.

3. FINANCIAL INSTRUMENTS

The Company's hedging program for natural gas purchases is designed to reduce price volatility to firm customers. Premiums, transaction fees, margin requirements and any realized and unrealized gains or losses are recorded in deferred accounts as a regulatory asset or liability for the over- or under-recovery of gas costs. As of September 30, 2007, the Company had net deferred realized losses of \$40.4 million and net deferred unrealized losses of \$15.3 million.

The Company uses interest rate swap agreements to manage interest rate risk. These swap agreements provide for the Company to pay variable and receive fixed interest payments and are designated as fair value hedges of certain debt instruments. The fair value of interest rate swaps is recorded within other deferred debits on the balance sheet. The resulting credits serve to reflect the hedged long-term debt at its fair value. Periodic receipts or payments related to interest rate swaps are credited or charged to interest expense as incurred. At September 30, 2007, the estimated fair value of the Company's swap was \$0.3 million (gain) related to a notional amount of \$16.0 million.

The Company utilizes asset management and supply service agreements with counterparties that involve certain of its natural gas storage facilities. At September 30, 2007, such counterparties held 46% of the Company's total natural gas inventory with a carrying value of \$44.6 million, through either capacity release or agency relationships. Under the terms of the asset management agreements, the Company receives storage asset management fees and, in certain instances, a share of profits. The agreements expire at various times through March 31, 2009.

4. COMMITMENTS AND CONTINGENCIES

The Company is responsible for environmental cleanup at five sites in North Carolina on which manufactured gas plant (MGP) residuals are present or suspected. The Company's actual remediation costs for these sites will depend on a number of factors, such as actual site conditions, third-party claims, and recoveries from other potentially responsible parties. The Company has recorded a liability and associated regulatory asset of \$4.6 million, which reflects its estimated remaining liability at September 30, 2007. Any cost allocable to the Company arising from the remediation of these sites is expected to be recoverable through rates.

5. SEGMENT OF BUSINESS INFORMATION

Gas Distribution is the Company's only reportable segment. Gas Distribution uses operating income to measure its profitability. Intersegment revenues were not significant. The All Other segment primarily includes equity method investments.

| Thousands of dollars | 2007 | | | | 2006 | | | |
|---------------------------|------------------|------------------|-------------------|--------------------|------------------|-------------------------|-------------------|--------------------|
| | External Revenue | Operating Income | Net Income (Loss) | Segment Assets | External Revenue | Operating Income (Loss) | Net Income (Loss) | Segment Assets |
| <i>Three Months Ended</i> | | | | | | | | |
| <i>September 30,</i> | | | | | | | | |
| Gas Distribution | \$61,841 | \$(5,305) | \$(5,567) | | \$59,416 | \$(6,327) | \$(6,240) | |
| All Other | - | n/a | - | | - | n/a | - | |
| Adjustments/Eliminations | - | - | - | | - | - | - | |
| Consolidated Total | \$61,841 | \$(5,305) | \$(5,567) | | \$59,416 | \$(6,327) | \$(6,240) | |
| <i>Nine Months Ended</i> | | | | | | | | |
| <i>September 30,</i> | | | | | | | | |
| Gas Distribution | \$392,065 | \$42,023 | \$19,856 | \$1,376,469 | \$389,106 | \$31,073 | \$12,556 | \$1,290,921 |
| All Other | - | n/a | - | 28,338 | - | n/a | - | 28,203 |
| Adjustments/Eliminations | - | - | - | (23,522) | - | - | - | (23,294) |
| Consolidated Total | \$392,065 | \$42,023 | \$19,856 | \$1,381,285 | \$389,106 | \$31,073 | \$12,556 | \$1,295,830 |