

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

Thousands of dollars	June 30, 2007	December 31, 2006
Assets		
Gas Utility Plant	\$1,127,541	\$1,084,170
Accumulated Depreciation	(251,348)	(241,277)
Acquisition Adjustment	209,824	209,824
Gas Utility Plant, Net	1,086,017	1,052,717
Nonutility Property and Investments, Net	28,653	27,912
Current Assets:		
Cash and cash equivalents	739	6,038
Receivables, net of allowance for uncollectible accounts of \$853 and \$1,492	42,377	111,911
Receivables-affiliated companies	3,303	12,445
Inventories (at average cost):		
Stored gas	72,102	92,395
Materials and supplies	7,291	7,550
Deferred income taxes, net	1,528	2,537
Other	1,023	1,498
Total Current Assets	128,363	234,374
Deferred Debits and Other Assets:		
Due from affiliate-pension asset	5,817	5,453
Regulatory assets	82,259	79,939
Other	2,231	3,155
Total Deferred Debits and Other Assets	90,307	88,547
Total	\$1,333,340	\$1,403,550

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

Thousands of dollars	June 30, 2007	December 31, 2006
Capitalization and Liabilities		
Capitalization:		
Common Equity	\$556,328	\$537,624
Long-term Debt, net	262,815	266,200
Total Capitalization	819,143	803,824
Current Liabilities:		
Short-term borrowings	93,400	124,700
Current portion of long-term debt	3,200	3,200
Accounts payable	38,475	72,263
Accounts payable-affiliated companies	4,345	6,053
Customer deposits & customer prepayments	14,207	19,700
Taxes accrued	304	5,720
Interest accrued	5,715	5,722
Distributions/dividends declared	5,600	3,500
Derivative financial instruments	8,811	23,673
Other	4,648	4,885
Total Current Liabilities	178,705	269,416
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	108,164	106,369
Deferred investment tax credits	625	743
Due to affiliate-postretirement benefits	26,648	26,425
Regulatory liabilities	175,822	172,455
Asset retirement obligations	12,796	12,438
Other	11,437	11,880
Total Deferred Credits and Other Liabilities	335,492	330,310
Commitments and Contingencies (Note 4)	-	-
Total	\$1,333,340	\$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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Operating Revenues	\$86,309	\$76,658	\$330,225	\$329,691
Cost of Gas	52,498	49,352	216,647	231,585
Gross Margin	33,811	27,306	113,578	98,106
Operating Expenses:				
Operation and maintenance	21,424	19,258	42,834	39,085
Depreciation and amortization	9,432	9,024	18,863	18,166
Other taxes	2,234	1,862	4,553	3,869
Total Operating Expenses	33,090	30,144	66,250	61,120
Operating Income (Loss)	721	(2,838)	47,328	36,986
Other Income (Expense):				
Other revenues	3,576	2,488	7,818	5,730
Other expenses	(1,855)	(1,836)	(4,184)	(4,007)
Gain on sale of assets	-	-	-	72
Allowance for equity funds used during construction	154	74	288	185
Interest charges, net of allowance for borrowed funds used during construction	(6,141)	(5,721)	(12,803)	(11,758)
Total Other Expense	(4,266)	(4,995)	(8,881)	(9,778)
Income (Loss) Before Income Taxes, Earnings from Equity Method				
Investments and Cumulative Effect of Accounting Change	(3,545)	(7,833)	38,447	27,208
Income Tax Expense (Benefit)	(1,331)	(2,764)	15,109	11,380
Income (Loss) Before Earnings from Equity Method Investments and Cumulative Effect of Accounting Change	(2,214)	(5,069)	23,338	15,828
Cumulative Effect of Accounting Change, net of taxes	-	-	-	686
Earnings from Equity Method Investments	1,039	1,162	2,085	2,282
Net Income (Loss)	\$(1,175)	\$(3,907)	\$25,423	\$18,796

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Six Months Ended	
	2007	June 30, 2006
Cash Flows From Operating Activities:		
Net income	\$25,423	\$18,796
Adjustments to reconcile net income to net cash provided from operating activities:		
Cumulative effect of accounting change, net of taxes	-	(686)
Depreciation and amortization	18,243	18,447
Gain on sale of assets	-	(72)
Allowance for equity funds used during construction	(288)	(185)
Excess distributions (earnings), net from equity method investments	(648)	2
Cash provided (used) by changes in certain assets and liabilities:		
Receivables, net	78,676	145,070
Inventories	19,625	11,734
Other regulatory assets	(2,262)	(828)
Other regulatory liabilities	(436)	707
Accounts payable	(36,277)	(67,756)
Deferred income taxes, net	2,408	(2,347)
Taxes accrued	(5,415)	(3,778)
Changes in gas cost adjustment clauses	(16,769)	(15,628)
Changes in other assets	1,902	3,304
Changes in other liabilities	(5,744)	687
Net Cash Provided From Operating Activities	78,438	107,467
Cash Flows From Investing Activities:		
Construction expenditures, net of AFC	(43,389)	(34,595)
Restricted supplier refunds	-	497
Nonutility and other	(529)	(569)
Net Cash Used For Investing Activities	(43,918)	(34,667)
Cash Flows From Financing Activities:		
Short-term borrowings, net	(31,300)	(64,700)
Contributions from parent	2,835	2,818
Retirement of long-term debt	(3,200)	(3,200)
Distributions/dividends	(8,154)	(7,937)
Net Cash Used for Financing Activities	(39,819)	(73,019)
Net Decrease in Cash and Cash Equivalents	(5,299)	(219)
Cash and Cash Equivalents, January 1	6,038	3,252
Cash and Temporary Investments, June 30	\$739	\$3,033
Supplemental Cash Flow Information:		
Cash paid for - Interest (net of capitalized interest of \$178 and \$147)	\$11,512	\$10,234
Income taxes	20,533	18,394
Noncash Investing and Financing Activities:		
Accrued construction expenditures	3,828	4,132

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 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 Income 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	June 30, 2007	December 31, 2006
Regulatory Assets:		
Under-collections - gas cost adjustment clause	\$49,837	\$46,661
Environmental remediation costs	10,533	11,139
Asset retirement obligations	9,893	9,492
Deferred employee benefit plan costs	9,452	9,973
Other	2,544	2,674
Total Regulatory Assets	\$82,259	\$79,939
Regulatory Liabilities:		
Over-collections - gas cost adjustment clause	\$6,419	\$8,149
Other asset removal costs	166,307	160,774
Other	3,096	3,532
Total Regulatory Liabilities	\$175,822	\$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 \$2.3 million at June 30, 2007, and the estimated remaining costs to be incurred of \$5.4 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 \$0.5 million as of June 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. These costs totaled \$7.8 million for the six months ended June 30, 2007 and 2006. The Company owed these investees \$1.2 million at June 30, 2007 and \$1.4 million at December 31, 2006. The Company received cash distributions from equity investees of \$1.4 million and \$2.3 million for the six months ended June 30, 2007 and 2006, respectively.

During the six months ended June 30, 2007 and 2006, the Company made sales to an affiliate of natural gas and transportation services of \$14.4 million and \$5.7 million, respectively.

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 had no 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 2001 are closed for additional assessment. On July 30, the statute of limitations for the 2002 federal return expired. 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. As of June 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 June 2007, the Company filed testimony in the 2007 Annual Prudence Review related to the 12 months ended March 31, 2007. The NCUC will hold a hearing in August 2007 to consider the filing.

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. Accordingly, in July 2007, the Company filed a petition requesting NCUC approval to implement a residential service rate which has a winter/summer differential of 6 cents per therm. The higher winter rate would help recover costs associated with operating the system during high customer demand. If approved, all residential customers will be charged this rate effective November 1, 2007. These changes in our rate structure will have no impact on our 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 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 June 30, 2007, the Company had net deferred realized losses of \$35.3 million and net deferred unrealized losses of \$10.5 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 June 30, 2007, the estimated fair value of the Company's swap was \$15,000 (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 June 30, 2007, such counterparties held 45% of the Company's total natural gas inventory with a carrying value of \$30.7 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 \$5.4 million, which reflects its estimated remaining liability at June 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 June 30,</i>								
Gas Distribution	\$86,309	\$721	\$(1,175)		\$76,658	\$(2,838)	\$(3,907)	
All Other	-	n/a	-		-	n/a	-	
Adjustments/Eliminations	-	-	-		-	-	-	
Consolidated Total	\$86,309	\$721	\$(1,175)		\$76,658	\$(2,838)	\$(3,907)	
<i>Six Months Ended June 30,</i>								
Gas Distribution	\$330,225	\$47,328	\$25,423	\$1,331,634	\$329,691	\$36,986	\$18,796	\$1,233,259
All Other	-	n/a	-	29,074	-	n/a	-	28,251
Adjustments/Eliminations	-	-	-	(27,368)	-	-	-	(19,377)
Consolidated Total	\$330,225	\$47,328	\$25,423	\$1,333,340	\$329,691	\$36,986	\$18,796	1,242,133