

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

Thousands of dollars	March 31, 2007	December 31, 2006
<u>Assets</u>		
Gas Utility Plant	\$1,103,778	\$1,084,170
Accumulated Depreciation	(246,468)	(241,277)
Acquisition Adjustment	209,824	209,824
<u>Gas Utility Plant, Net</u>	<u>1,067,134</u>	<u>1,052,717</u>
<u>Nonutility Property and Investments, Net</u>	<u>27,856</u>	<u>27,912</u>
Current Assets:		
Cash and cash equivalents	720	6,038
Receivables, net of allowance for uncollectible accounts of \$2,049 and \$1,492	101,758	111,911
Receivables-affiliated companies	11,256	12,445
Inventories (at average cost):		
Stored gas	45,386	92,395
Materials and supplies	6,822	7,550
Deferred income taxes, net	2,033	2,537
Other	1,173	1,498
<u>Total Current Assets</u>	<u>169,148</u>	<u>234,374</u>
Deferred Debits and Other Assets:		
Due from affiliate-pension asset	5,090	5,453
Regulatory assets	71,729	79,939
Other	2,578	3,155
<u>Total Deferred Debits and Other Assets</u>	<u>79,397</u>	<u>88,547</u>
<u>Total</u>	<u>\$1,343,535</u>	<u>\$1,403,550</u>

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

Thousands of dollars	March 31, 2007	December 31, 2006
Capitalization and Liabilities		
Capitalization:		
Common Equity	\$559,533	\$537,624
Long-term Debt, net	266,253	266,200
Total Capitalization	825,786	803,824
Current Liabilities:		
Short-term borrowings	69,800	124,700
Current portion of long-term debt	3,200	3,200
Accounts payable	50,380	72,263
Accounts payable-affiliated companies	4,985	6,053
Customer deposits & customer prepayments	12,819	19,700
Taxes accrued	17,425	5,720
Interest accrued	3,696	5,722
Distributions/dividends declared	4,654	3,500
Derivative financial instruments	5,603	23,673
Other	5,003	4,885
Total Current Liabilities	177,565	269,416
Deferred Credits and Other Liabilities:		
Deferred income taxes, net	107,079	106,369
Deferred investment tax credits	684	743
Due to affiliate-postretirement benefits	26,513	26,425
Regulatory liabilities	181,549	172,455
Asset retirement obligations	12,617	12,438
Other	11,742	11,880
Total Deferred Credits and Other Liabilities	340,184	330,310
Commitments and Contingencies (Note 4)	-	-
Total	\$1,343,535	\$1,403,550

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Three Months Ended March 31,	
	2007	2006
Operating Revenues	\$243,915	\$253,033
Cost of Gas	164,149	182,233
<u>Gross Margin</u>	<u>79,766</u>	<u>70,800</u>
Operating Expenses:		
Operation and maintenance	21,410	19,828
Depreciation and amortization	9,431	9,142
Other taxes	2,319	2,007
<u>Total Operating Expenses</u>	<u>33,160</u>	<u>30,977</u>
<u>Operating Income</u>	<u>46,606</u>	<u>39,823</u>
Other Income (Expense):		
Other revenues	4,242	4,362
Other expenses	(2,328)	(3,291)
Gain on sale of assets	-	72
Allowance for equity funds used during construction	134	111
Interest charges, net of AFC of \$81 and \$81	(6,662)	(6,036)
<u>Total Other Expense</u>	<u>(4,614)</u>	<u>(4,782)</u>
Income Before Income Taxes, Earnings from Equity Method Investments and Cumulative Effect of Accounting Change	41,992	35,041
<u>Income Tax Expense</u>	<u>(16,440)</u>	<u>(14,145)</u>
Income Before Earnings from Equity Method Investments and Cumulative Effect of Accounting Change	25,552	20,896
Cumulative Effect of Accounting Change, net of taxes	-	686
<u>Earnings from Equity Method Investments</u>	<u>1,046</u>	<u>1,121</u>
<u>Net Income</u>	<u>\$26,598</u>	<u>\$22,703</u>

See Notes to Condensed Consolidated Financial Statements.

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

Thousands of dollars	Three Months Ended March 31,	
	2007	2006
Cash Flows From Operating Activities:		
Net income	\$26,598	\$22,703
Adjustments to reconcile net income to net cash provided from operating activities:		
Cumulative effect of accounting change, net of taxes	-	(686)
Depreciation and amortization	9,558	9,855
Gain on sale of assets	-	(72)
Allowance for equity funds used during construction	(134)	(111)
Excess distributions, net of earnings from equity method investments	47	187
Cash provided (used) by changes in certain assets and liabilities:		
Receivables, net	11,342	68,135
Inventories	47,259	25,446
Other regulatory assets	433	96
Other regulatory liabilities	(338)	744
Accounts payable	(22,981)	(48,970)
Deferred income taxes, net	1,204	(1,300)
Taxes accrued	11,705	12,066
Changes in gas cost adjustment clauses	(3,935)	(6,403)
Changes in other assets	1,300	2,372
Changes in other liabilities	(8,625)	(5,038)
Net Cash Provided From Operating Activities	73,433	79,024
Cash Flows From Investing Activities:		
Construction expenditures, net of AFC	(19,709)	(16,704)
Nonutility and other	(599)	(123)
Net Cash Used For Investing Activities	(20,308)	(16,827)
Cash Flows From Financing Activities:		
Short-term borrowings, net	(54,900)	(57,900)
Contributions from (to) parent	(43)	1,087
Distributions/dividends	(3,500)	(4,000)
Net Cash Used for Financing Activities	(58,443)	(60,813)
Net Increase (decrease) in Cash and Cash Equivalents	(5,318)	1,384
Cash and Cash Equivalents, January 1	6,038	3,253
Cash and Temporary Investments, March 31	\$720	\$4,637
Supplemental Cash Flow Information:		
Cash paid for - Interest (net of capitalized interest of \$81 and \$81)	\$7,912	\$7,160
- Income taxes	5,600	3,951
Noncash Investing and Financing Activities:		
Accrued construction expenditures	3,077	1,865

See Notes to Condensed Consolidated Financial Statements.

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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	March 31, 2007	December 31, 2006
Regulatory Assets:		
Under-collections - gas cost adjustment clause	\$ 38,873	\$ 46,661
Environmental remediation costs	10,836	11,139
Asset retirement obligations	9,693	9,492
Deferred employee benefit plan costs	9,783	9,973
Other	2,544	2,674
Total Regulatory Assets	\$ 71,729	\$ 79,939
Regulatory Liabilities:		
Over-collections - gas cost adjustment clause	\$ 14,498	\$ 8,149
Other asset removal costs	163,858	160,774
Other	3,193	3,532
Total Regulatory Liabilities	\$ 181,549	\$ 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 \$0.9 million at March 31, 2007, and the estimated remaining costs of \$6.8 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 \$1.2 million as of March 31, 2007 and 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 \$3.9 million for the three months ended March 31, 2007 and 2006. The Company owed these investees \$1.3 million at March 31, 2007 and \$1.4 million at December 31, 2006. The Company received cash distributions from equity investees of \$1.1 million and \$1.3 million for the three months ended March 31, 2007 and 2006, respectively.

During the three months ended March 31, 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.

At March 31, 2007, an affiliate owed the Company \$4.7 million for natural gas and transportation services. Additionally, the Company owed an affiliate \$0.1 million related to billing and collection services for the sale of energy-related products and service contracts.

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 does not expect that initial adoption will have a material impact 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 initial 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. With few exceptions, the Company is no longer subject to state income tax examinations by tax authorities for years before 2003.

As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. The Company recognizes interest accrued related to unrecognized tax benefits within interest expense and recognizes tax penalties within other expenses. As of March 31, 2007, the Company has not accrued any 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.

The Company’s benchmark cost of gas was as follows:

Rate Per Therm	Effective Date
1.075	January 2006
0.875	February 2006
0.825	March-December 2006
0.750	January-March 2007

In October 2006, the NCUC granted PSNC Energy 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 PSNC Energy’s recovery through rates, over a three-year period, of certain costs for environmental remediation and pipeline integrity management.

In April 2007, PSNC Energy filed a request with the NCUC to eliminate the use of its current dual residential customer rate structure and replace it with a single residential rate. The dual residential rate structure, while commonly used and widely accepted in the industry as a means to fairly assign costs, had created the unintended perception among some customers that PSNC Energy was discouraging the wise use of energy by requiring a specified minimum amount of gas usage during the summer months in order to qualify for the lower of the two rate offerings. If approved, this change in our rate structure will have no impact on our 2007 earnings, as any revenue differences will be deferred for subsequent rate consideration.

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 March 31, 2007, the Company had net deferred realized losses of \$32.0 million and net deferred unrealized losses of \$5.3 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 March 31, 2007, the estimated fair value of the Company's swap was \$0.3 million (gain) related to a notional amount of \$19.2 million.

The Company utilizes asset management and supply service agreements with counterparties that involve certain of its natural gas storage facilities. At March 31, 2007, such counterparties held 35 % of the Company's total natural gas inventory with a carrying value of \$13.4 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 October 31, 2007.

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 \$6.8 million, which reflects its estimated remaining liability at March 31, 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	Segment Assets	External Revenue	Operating Income	Net Income	Segment Assets
<i>Three Months Ended March 31,</i>								
Gas Distribution	\$243,915	\$46,606	\$26,598	\$1,338,184	\$253,032	\$39,823	\$22,703	\$1,272,509
All Other	-	n/a	-	28,276	-	n/a	-	27,968
Adjustments/Eliminations	-	-	-	(22,925)	-	-	-	(19,049)
Consolidated Total	\$243,915	\$46,606	\$26,598	\$1,343,535	\$253,032	\$39,823	\$22,703	\$1,281,428