# FINAL TRANSCRIPT

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## PNY - Q1 2009 Piedmont Natural Gas Earnings Conference Call

**Event Date/Time: Mar. 13. 2009 / 2:30PM ET**

## CORPORATE PARTICIPANTS

**John Sutphin**
*Piedmont Natural Gas - Manager IR*

**Tom Skains**
*Piedmont Natural Gas - Chairman, President, CEO*

**Dave Dzuricky**
*Piedmont Natural Gas - SVP, CFO*

**Michael Yount**
*Piedmont Natural Gas - SVP - Utility Operations*

**Frank Yoho**
*Piedmont Natural Gas - SVP - Commercial Operations*

## CONFERENCE CALL PARTICIPANTS

**Jim Lykins**
*Hilliard Lyons - Analyst*

**Greg McGowan**
*Citigroup - Analyst*

**Dan Fidell**
*Brean Murray - Analyst*

**Matthew Lieberson**
*- Private Investor*

## PRESENTATION

**Operator**

Welcome to the Piedmont Natural Gas first quarter 2009 earnings conference call. At that time, all participants are in a listen-only mode. Later, we will conduct a question and answer session, instructions will be given at that time. (Operator Instructions). As a reminder, today's call is being recorded. Your hosting speaker is John Sutphin. Go ahead, sir.

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**John Sutphin** - *Piedmont Natural Gas - Manager IR*

Thank you, Kevin. Good afternoon, everyone, and thank you for joining our 2009 earnings conference call. This call is open to the general public and is being webcast live over the internet. If you would like to access to the webcast of this call, please visit our website at Piedmontng.com and choose the investors' link. On the right hand side of that page, you will find a link to the web cast. On the call today, presenting prepared remarks, we have Tom Skains, President, Chairman and Chief Executive Officer, and Dave Dzuricky, Senior Vice President and Chief Financial Officer. Other members of our Executive Management Team are also in attendance. At the conclusion of the prepared remarks, we will open the discussion for your questions.

Finally, this call may include forward-looking statements within the meaning of the securities laws. Actual results may materially differ from those discussed in the forward-looking statements. More information about the risks and uncertainties relating to these forward-looking statements may be found in Piedmont 's latest form 10-Q, which is available on the SEC's website, at SEC.gov. With that, I will turn the call over to Tom.

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Thanks, John, and good afternoon, everybody, and thank you for joining us for our first quarter 2009 conference call. I enjoyed seeing some of you at our annual shareholders' meeting last week in Charlotte. As you know, we filed our first quarter 10-Q and issued our earnings release Monday. I'm going to give a brief overview of our first quarter results and then provide an update on our customer growth, our Robeson LNG project and our revised 2009 earnings guidance. Then I will hand the call over to Dave for a more detailed discussion of our financial performance.

Net income for the first quarter of 2009 was $80.9 million, or $1.10 per diluted share. This was 2% lower than the first quarter of 2008 net income of $82.3 million or $1.12 per share. Margin was $6.3 million lower this quarter, but recall that in 2008 we had $5.8 million in adjustments to regulatory gas cost accounts. With those amounts removed, we were essentially flat year to year. While we saw an increase in in margin from our growing residential customer base in 2009, this was offset by a decrease in margin from our commercial and industrial customers from the deepening economic recession, especially noticeable in the month of January.

O&M for the quarter was $1.9 million lower than last year, due to expense reductions across the entire company from our process improvement and cost management initiatives and lower incentive plan accruals. As always, we will continue to look for ways to operate more efficiently and keep expenses down, without sacrificing quality customer service, safety or reliability. We believe our competency in this area is increasingly valuable during this period of economic recession. Pretax income from our joint ventures improved $1.1 million over last year's quarter, led by strong first quarter operating performance from our investment in South Star Energy.

In our last conference call, I mentioned that we would be closely monitoring our customer growth over the winter period. During the first quarter, we added 3900 new customers to our distribution systems, which translates to an annualized gross customer growth rate of about 1.5%. While the weak economy has impacted our regional growth, Piedmont continues to grow at levels better than the national average.

Based upon our first quarter experience and our projections for the rest of the year, we are now forecasting growth customer addition growth of 1 to 1.5% for fiscal year 2009, with net growth in the range of 0.5% to 1%. As you know, based upon our lower customer growth projections and an uncertain economic outlook, we decided to defer construction of the Robeson LNG storage facility. We still see the need for the project over the long-term and our revised growth projections are such that we may need to resume development of the project in 2011 to prepare for construction in 2012 and service in 2015. We will continue to monitor our customer growth trends and will resume the project when needed to meet the service requirements of our customers.

In light of the economic recession, we also revised our 2009 guidance to the range of $1.45 to $1.60 per share. I will let Dave get to the details of how we get to that range, but lower customer growth, continued energy conservation, lower industrial and power generation demand, and the Robeson project deferral all drove the decision. Given the level of uncertainty in the economy, you also noticed that we decided to widen the range of our guidance from $0.10 to $0.15. Despite these economic pressures and the uncertainty in the marketplace, Piedmont remains committed to delivering shareholder value through this down economic cycle. To that end, last week our Board voted to increase our quarterly dividend to $0.27, a 3.8% increase and the 31st consecutive year we raised the dividend.

With that, let me turn the call over to our Senior Vice President and Chief Financial Officer, Dave Dzuricky. Dave?

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**Dave Dzuricky** - *Piedmont Natural Gas - SVP, CFO*

Thank you, Tom. Good afternoon everyone.

As Tom mentioned, earnings per share were $1.10 for the quarter compared to $1.12 in last year's quarter. Margin for the quarter decreased $6.3 million, primarily due to the fact that we had $5.8 million GAAP cost accounting adjustments in the first quarter of 2008. We had no such adjustments in the current quarter. We also experienced decline in margin of $4.9 million in our commercial and industrial markets due to the downturn in the economy. We did see about $3.5 million of increase year on year in residential margin due to growth of our customer base. Our operation and maintenance expenses in the quarter declined by $1.9 million compared to last year. Contributing to the underrun, we're lowering incentive accruals under our various plans and the lower employee head count.

Income from our equity investments increased $1.1 million compared to last year's first quarter. SouthStar's earnings were up $1.6 million due to improved retail margins and lower operating costs. SouthStar also had a lower of cost market write down in the quarter that adversely affected earnings by approximately $1 million. Hardy storage had an unfavorable variance to last year of $0.5 million due primarily to higher operating expenses and property taxes. Our interest expense for the quarter was down nearly 15% compared the last year. The bulk of the decline was due to the fact we were borrowing under our short term credit facility at a rate approximately 350 basis points lower than last year.

We did have larger balances outstanding under our facility, which partially offset the decline in interest rates. All other expense categories tracked along their normal trends. Relative to capital expenditures in the first quarter of 2009, our utility CapEx totaled $29.9 million, or $4.7 million less than in last year's first quarter. The decline in capital expenditures reflect a lower level of system infrastructure investments in the quarter and lower growth. As you will recall, we reported last year that we had a significant system strengthening program under way and it is continuing this year, but at a slightly reduced level.

With that, I will turn it back to John Sutphin.

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**John Sutphin** - *Piedmont Natural Gas - Manager IR*

Thank you, Dave. This concludes our prepared remarks and we now welcome your questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). One moment please as questions come in. Our first question will come from the line of Jim Lykins of Hilliard Lyons. Please go ahead.

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**Jim Lykins** - *Hilliard Lyons - Analyst*

Good afternoon everybody.

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Hi, Jim, how are you?

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**Jim Lykins** - *Hilliard Lyons - Analyst*

Well, how are you guys?

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Well, thank you.

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**Jim Lykins** - *Hilliard Lyons - Analyst*

I want to ask a couple of questions about the Robeson facility. Wondering for you could talk about your assumptions for moving it back a couple of years instead of maybe next year, and if there is a chance that that project might happen sooner than what you have laid out so far.

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

I'm going to ask Michael Yount to answer that question. The decision to defer Robeson, as you know, is driven by our customer growth. Specifically our met customer growth in the eastern part of North Carolina. Michael will give you color around that decision and what we see.

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**Michael Yount** - *Piedmont Natural Gas - SVP - Utility Operations*

Thank you, Tom. Tom touched on this in his comments I think. We were forecasting residential net growth for 2009 in the 0.5% to 1% range. And that translates to about a 50 to 75% reduction in the number of customers compared to 2008 that we think we will add during the downturn. I think Tom and Dave touched on the softening we have seen in the industrial and commercial sectors impacting some of the recession. Based on that kind of reduction, if it continues, that seems to signal a fairly slow and gradual recovery from the recession, and it's a combination of all three of those sectors being softer that pushes the need out as we see it now for at least three years.

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**Jim Lykins** - *Hilliard Lyons - Analyst*

Okay. What about the conversion market. Have you guys seen that pick up any?

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**Frank Yoho** - *Piedmont Natural Gas - SVP - Commercial Operations*

Jim, this is Frank Yoho. In the conversion market, we've seen -- last year we were very pleased with the increase we saw in the conversion market. This year our numbers are very similar to last year. We haven't seen another bump up, but we are maintaining the levels we were last year and part of that with the recession is individual homeowners are hesitant to spend a lot of dollars right now. But we are holding fairly close to where we were last year.

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**Jim Lykins** - *Hilliard Lyons - Analyst*

Are your assumptions for the conversion market baked in to your forecast for customer growth, or could there potentially be a little bit of upside there.

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**Frank Yoho** - *Piedmont Natural Gas - SVP - Commercial Operations*

They are baked in to the new forecast.

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**Jim Lykins** - *Hilliard Lyons - Analyst*

Okay. There has been a lot of talk about cap and trade lately, I'm wondering if we are at a point where you could talk about what the impact could be on you?

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Are you talking about carbon cap and trade?

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**Jim Lykins** - *Hilliard Lyons - Analyst*

Yes.

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

We are addressing that primarily through activities in the American Gas Association, obviously trying to influence how the cap and trade legislation would be crafted that would govern our industry. Our industry's position is that residential small commercial customers that consume natural gas have already led the way, with respect to energy efficiency and conservation trends across the nation, and they only account for about 6% or so the total carbon emissions across the nation. So our position has been because of the significant efficiency improvements that those customer classes have already shown and because of the small proportion amount that they do contribute to carbon emissions that we feel they should certainly be covered under legislation but they don't necessarily need to be captured under the cap and trade provisions directly.

What we are advocating as an industry is that we recognize our customers' carbon footprint, the positive trends they've shown to date that our industry be held accountable to continue those trends in to the future and if they are unable to show continued efficiency improvements and reductions and consumption per customer across the industry then we could understand covering those sectors down the road should that be considered necessary at the time. I think it's too early to tell, frankly, as to whether small residential and and commercial customers and local distribution companies are directly covered under a cap and trade model or not. I think we have to pay very close attention to what's developing in Washington in terms of how the legislation is drafted. We were very optimistic and pleased with the [Dingel] Voucher discussion draft that was submitted last year before the elections, and we were also encouraged by California's approach to cap and trade which would exclude as I understand it, small residential and commercial natural gas customers from cap and trade in the early years and because of the strong California influence in Washington these days, on energy and environmental issues, we are hopeful that that sentiment may carry over on to Capitol Hill.

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**Jim Lykins** - *Hilliard Lyons - Analyst*

Okay. All right. Thank you gentlemen.

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Thanks, Jim.

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**Operator**

Next question is from the line of Greg McGowan. Please state your company name, sir.

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**Greg McGowan** - *Citigroup - Analyst*

Greg McGowan, Citi. How is everyone doing today?

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Hi, Greg, how are you?

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**Greg McGowan** - *Citigroup - Analyst*

Good. First question, Dave what was the dollar impact from the North Carolina rate case in the January quarter? I don't think it was in the Q.

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Dave, I'm going to let Frank handle that, he handles our regulatory affairs and was the orchestra leader of the North Carolina rate case last year, so I'm going to ask Frank Yoho to answer that.

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**Frank Yoho** - *Piedmont Natural Gas - SVP - Commercial Operations*

Very good, Greg. With the North Carolina rate case we did not distribute in the final negotiations, the incremental margins from the rate case were not distributed like our typical margins are experienced. In the first six months, and the second six months, basically an equal distribution of the margins from that rate case and in fact, the lightest quarter is the first quarter relative to experiencing increased margins from the rate case.

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**Greg McGowan** - *Citigroup - Analyst*

Okay. And I guess another question would be, with Robeson delayed, are you actively exploring anything that might be significant in terms of nonutility businesses, nonregulated, and so what kind of earnings mix for utility versus nonutility do you feel comfortable with?

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**Dave Dzuricky** - *Piedmont Natural Gas - SVP, CFO*

Greg this is Dave Dzuricky, thanks for your question. The fact of the matter is even if we were doing Robeson right now, we would always be looking for nonutility ventures that are complimentary to our southeast strategy. That effort goes on regardless of what happens with Robeson. And I think that's the exhibition of the financial strength that the company has, that we can under take a project like Robeson and still keep our ear to the ground in regard to nonutility ventures, but we continue to look for opportunities in that area that are harmonious with the strategy that we have outlined to all of you in the past.

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**Greg McGowan** - *Citigroup - Analyst*

Okay. You've done share repurchase in the past I think I read in the press release that for the most part it's going to be related to repurchasing stuff, from the DRIP and other stock and other stock plans. I'm not necessarily urging you to do a share buy back what would be the catalyst to make you do something more aggressive on that road? In your guidance, as you properly note, we did say that we would be purchasing shares sufficient to cover the incremental shares issued under our DRIP and other plans.

**Dave Dzuricky** - *Piedmont Natural Gas - SVP, CFO*

With the deferral of Robeson, we do not feel it necessary to allow those additional shares to accrete in to our balance sheet. We are comfortable right now with where we are as we issue guidance saying that would be the limit of our share repurchase activity for the time being.

**Greg McGowan** - *Citigroup - Analyst*

Thank you.

**Dave Dzuricky** - *Piedmont Natural Gas - SVP, CFO*

Thanks.

**Operator**

Our next question is from the line of Dan Fidell. Please state your full company name, sir.

**Dan Fidell** - *Brean Murray - Analyst*

It's Dan Fidell with Brean Murray. Good afternoon. Just a couple of quick questions. First, could you characterize how you say how the decoupling plan is working specifically in North Carolina and sort of talk a little bit about whether that is properly stewed up a as part of your case and regulatory plan going forward over the next year or two, do you see a possibility and how soon do you think potentially you could look at a North Carolina filing?

**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Okay. Thank you for your question. Obviously we think the margin decoupling tariff is working with very well in North Carolina. And so does the commission and most of the other interveners in the case, and we did propose a permanent extension in the tariff in the last case we settled that issue with all parties, and the commission did in fact permanently extend the margin decoupling tariff. We are pleased with that result. It is it operating as intended and does pave the way for North Carolina to position itself as a leader in taking an advantage hopefully of broader policy initiatives that allow them to receive their share of the stimulus dollars that were contingent as you know in the stimulus bill at least in part, proportion on progressive regulatory policies being sought by state commissions.

We do feel very good about where we stand in North Carolina under the margin decoupling tariff. As you know, we just refreshed the rates last year, we received a $15.7 million revenue increase, as a result of that case, which puts us in good stead for now and any consideration of future rate cases we will monitor over time and look at your performance relative to allow regulatory rates of return. In Tennessee, and South Carolina, there are discussions on going with policy leaders, there are discussions with regulators and other parties who are interested too in a more progressive type of utility regulation that would put those states in the position also of seeking some of these stimulus dollars around energy efficiency and conservation.

As you know we have a RSA, rate stabilization adjustment feature in South Carolina, we are interested in talking with the Commission and parties in that state on what enhancements we can make to that provision, which will put us in a position of more proactively seeking energy efficiency and conservation plans with our customers there and in Tennessee, we are in discussions in that state as well about what can be done to enact innovative tariffs, such as decoupling, that would allow us to be more active and proactive with energy conservation and efficiency program. The focus of our activities for this year will be in Tennessee and South Carolina. Because of the accomplishments that we already achieved in North Carolina.

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**Dan Fidell** - *Brean Murray - Analyst*

Sure. Does the decoupling or enhanced margin stability is a better way of phrasing it, in South Carolina, and Tennessee, necessitate a full general rate filing or is that something you could do as a one off.

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**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Well, it depends on what the legislation is that's the overlay. There currently is a legislation that's been introduced in Tennessee, that would create an umbrella of statutory authority that would allow utilities to adopt decoupling or seek the recovery of RSA-type features and we are very supportive and involved in that effort. So that we think would allow decoupling without a filing general rate case. In South Carolina we make annual adjustments already under the RSA provision what we would be interested in talking more about there with the parties is what can we do in terms of the decoupling at or coupled with the adoption of energy efficiency and conservation programs outside the terms of the rate case. We are already trueing up our rates on an annual basis.

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**Dan Fidell** - *Brean Murray - Analyst*

Terrific, thanks for your comments. One just final comment. In terms of interest expense, what's a good run rate we should be using for interest expense going forward?

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**Dave Dzuricky** - *Piedmont Natural Gas - SVP, CFO*

A good run rate?

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**Dan Fidell** - *Brean Murray - Analyst*

Right, on a quarterly basis, the interest expense came in quite a bit lower this quarter. Wondering should we expect to, should we expect normal numbers for the next several quarters, or should it stay at lower level for the remainder of the year?

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**Dave Dzuricky** - *Piedmont Natural Gas - SVP, CFO*

Dan, I only saw you yesterday. Well, you know the curve on cash borrowings and temporary investments in utilities. Assuming that we get past this situation where the high cost storage that we stored in last summer gets flushed through to receivables and then to cash, we should have a lower requirement for inventory financing this summer. The other big piece is what are the interest rates are going to do. If you want to tell me what your interest rate forecast is, we can help you there. Clearly it looks like interest rates this year will be lower substantially than they were last year. As I mentioned across the first quarter, we saw 350 basis point favorable variance to us in interest rates from last year's first quarter. So if that persists we should continue to have favorable results. However, keep in mind as last year moved along, interest rates started to decline. Advantages can come and go based on the relative position of the interest rates later in 2008 and as we move in to the that period of time in 2009.

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**Dan Fidell** - *Brean Murray - Analyst*

Okay. In terms of your '09 earnings guidance, you are expecting a normalized interest rate level from where we are at to the remainder of the year?

**Dave Dzuricky** - *Piedmont Natural Gas - SVP, CFO*

Everything is in the guidance, there is no question about it, but our crystal ball is no better than yours, Jim, I mean Dan. You know what it is, Dan? I got to fess up to you. My son's name is Jim, and he is home this week on spring break and I got the old boy on my mind today.

**Dan Fidell** - *Brean Murray - Analyst*

That's as good of an excuse as any. Thanks a lot, Dave.

**Dave Dzuricky** - *Piedmont Natural Gas - SVP, CFO*

Sorry about that, Dan.

**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Thanks Dan.

**Operator**

Next question is from the line of Matthew Lieberson, private investor. Please go ahead.

**Matthew Lieberson** - *- Private Investor*

Thank you very much. My questions have been answered.

**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Thank you for calling in.

**Operator**

At this time we have no further questions in queue.

**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

Great. Thank you Kevin.

**Operator**

Thank you.

**Tom Skains** - *Piedmont Natural Gas - Chairman, President, CEO*

As always we thank you for your interest in Piedmont Natural Gas and taking time to be us today. If you have further questions pertaining to our first quarter results, please contact our investor relations department. This concludes our first quarter 2009 earnings call.

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**Operator**

Ladies and gentlemen, once again that will conclude your conference. Thank you for joining us while using AT&T teleconference, you may now disconnect, have a good day.

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