

**— MANAGEMENT DISCUSSION SECTION**

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Piedmont Natural Gas Fourth Quarter Earnings Conference Call. For the conference today, all the participant lines will be in a listen-only mode. However, there will be an opportunity for your questions and instructions will be given at that time. [Operator Instructions] And as a reminder, today's call is being recorded.

At this point, I'd like to turn the conference now to the Manager of Finance and Investor Relations, Mr. John Sutphin. Please go ahead, sir.

**John Sutphin, Manager of Finance and Investor Relations**

Thank you, John. Good afternoon and thank you for joining our fiscal year 2007 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 the webcast of this call, please visit our website at [piedmontng.com](http://piedmontng.com) and choose the Investors link. On the right hand side of that page, you will find the link to the webcast.

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 to assist with questions. At the conclusion of the prepared remarks, we will open the discussion to 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-K, which is available on the SEC's website at [sec.gov](http://sec.gov).

With that, I will turn the call over to Tom.

**Thomas E. Skains, Chairman, President and Chief Executive Officer**

Thank you, John. Good afternoon and happy New Year everybody. Thank you for joining us on our fiscal year 2007 earnings conference call. We know that many of you are just getting back from your holiday break and we appreciate the time you're taking to join us today. As I'm sure you're aware by now, we filed our 2007 10-K and issued our year end earnings release last Friday.

2007 was another good year for Piedmont, a year in which we made substantial progress in many areas. We continue to invest in natural gas infrastructure to serve our growing markets, streamline and consolidate our business processes and operations, and enhance our customer service and satisfaction levels. Our non-utility joint venture investments, led by a strong performance from SouthStar Energy and with Hardy Storage going into service last April, also made significant positive contributions to our earnings growth in 2007.

Our net income in 2007 was \$104.4 million, a 7% increase over 97.2 million in 2006. Our diluted earnings per share was \$1.40 in 2007, up 9% from \$1.28 in 2006. Even with these new record levels of net income and earnings per share, our full potential was not realized in 2007 largely due to two events that impacted our fiscal fourth quarter.

A regulatory order that required us to discontinue a longstanding accounting practice had a \$0.04 per share adverse impact on margin in the fourth quarter. And weather in the quarter, particularly in October, was substantially warmer than normal and the prior year, and had a \$0.02 adverse impact on margin. As you may recall, our fiscal fourth quarter is not subject to weather normalization in our

Tennessee and South Carolina markets. Dave will address our margin and other income statement line items in more detail in just a few minutes.

We are now turning to 2008. In our press release last week, we also reaffirmed our fiscal year 2008 earnings guidance of \$1.45 to \$1.55 per share. In 2008, we are seeing signs of slower growth in our residential new construction markets, and we'll work harder on our conversion markets as we emphasize the energy efficiency and environmental benefits of the direct use of natural gas in homes and businesses in our market area. We still forecast a good customer growth in 2008, but not at the same level as 2007, and this is factored into our earnings guidance for the year.

Also in 2008, we intend to file a general rate case in North Carolina, our largest market area, in order to maintain our margin decoupling tariff, which would otherwise expire on October 31 of this year. This tariff has operated to the benefit of both Piedmont's customers and shareholders. We expect to make our filing on April 1 to be effective on November 1, 2008, the beginning of our 2009 fiscal year.

Finally, I'd like to comment on our joint venture strategy. We are quiet pleased with our portfolio of energy related joint ventures, including our latest Hardy Storage venture with NiSource and the value that they add for our shareholders. We believe that these businesses complement our core natural gas utility operations, and we will continue to pursue attractive joint venture investment opportunities in 2008 and beyond.

Although it would be premature to give you the details, we are already in the early stages of project development on our next joint venture investment and we'll be working hard in 2008 to turn this project into reality, so stay tuned for more on that at a later date during the year.

And with that, I'd like to turn the call over to our Senior Vice President and Chief Financial Officer, Dave Dzuricky, for a more detailed discussion of our 2007 financial results. Dave?

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**David J. Dzuricky, Senior Vice President and Chief Financial Officer**

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Thank you, Tom, and good afternoon everybody and let me also wish all of you and yours a happy New Year. Tom mentioned earnings per share on a diluted basis for the year was a record \$1.40, up 9% over the prior year.

Also, we were required by a regulatory order to discontinue an accounting practice that adversely affected our results for the fourth quarter and for the year by \$0.04 per share. The accounting practice was called demand capitalization and had been used by the company for over two decades. It capitalized upstream pipeline demand charges during storage injection periods and brought them back to the income statement during storage withdrawal periods. Obviously, this change at the end of the injection season caused us to recognize the adverse impact to income in the fourth quarter. Because of the change in accounting for demand charges coupled with the effects of weather mentioned by Tom, the growth in margin you would normally expect to see from our customer growth has been masked.

Operations and maintenance expenses were \$4.9 million lower in 2007 compared to 2006, reflecting the impact of our process improvement programs which are ongoing.

You also may have noted in our 10-K the depreciation expense was \$1 million lower than 2006, even though we had \$133 million of capital expenditures during 2007. At the end of 2006, we retired a significant amount of technology related plants; and as you know, that type of plant has a relatively short life and can have quite an impact on depreciation expense.

On the joint venture front, two items deserve attention. First, 2007 marked the initiation of service for Hardy Storage. Injections to Hardy were made during 2007 and now are available for withdrawal during this winter heating season. Second, SouthStar improved its performance in 2007 compared to 2006, and the remaining ventures were essentially flat during the year.

Interest expense was up nearly \$5 million compared to 2006. The increase reflects the issuance of long term debt that occurred late in 2006 and is fully reflected in our 2007 results along with interest associated with funding our 2007 capital budget.

And with that, I'll turn it back over to John Sutphin, John?

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**John Sutphin, Manager of Finance and Investor Relations**

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

**QUESTION AND ANSWER SECTION**

Operator: [Operator Instructions]. And first in line is Jim Lykins with Hilliard Lyons. Please go ahead.

<Q – James Lykins>: Good afternoon, gentlemen.

<A – Thomas Skains>: Hi, Jim. How are you?

<Q – James Lykins>: Good, thanks. Yourself?

<A – Thomas Skains>: Good. Thank you, sir.

<Q – James Lykins>: I just have a couple of questions, if I may. First of all, your North Carolina filing, in addition to the decoupling tariff and truing up the cost of revenues, what is the actual amount of the filing going to be? Can you give us that?

<A – Thomas Skains>: No, we haven't determined that yet. We're still in the early stages of gathering our costs and expenses for the base period of that rate filing, and won't have that information for a few months at this point. That filing is not due until April 1, as I mentioned. And we're at the early stages of putting together cost, revenues, billing determinants, and other factors that would influence the actual rate level.

<Q – James Lykins>: Okay. And what about South Carolina, could you just update us on what is next on the agenda in that state?

<A – Thomas Skains>: Yes, in South Carolina, as you know, we have the Rate Stabilization Act that we are operating under, which we've opted to participate in. And as a result of that, we've been making annual filings to true up our cost and revenues. They are consistent with the mechanism contained in that statute, which again puts a band of permissible earnings around your authorized return on equity. So we will, of course, make a filing later in the year. I believe that filing is typically made in the June timeframe, in the summer...

<Q – James Lykins>: Okay.

<A – Thomas Skains>: ...to be effective November 1, 2008. So we will go through that process again this year. It's a rather expedited process, and any results from truing up those costs and revenues would take effect in fiscal year 2009 beginning November 1, 2008.

<Q – James Lykins>: Okay. And then lastly, I believe you said that the housing market has started to slow somewhat in Charlotte. I'm just wondering if you could give us a feel for what's happening with housing starts in Charlotte and also if the conversions may be able to – or how much of the conversions you think may be able to offset any of the slowing.

<A – Thomas Skains>: Okay, I'm going to turn that question over to Frank Yoho, our Senior Officer over Commercial Operations. He can give you additional color around the growth that we still see in our markets, our three state markets, but again declining slightly from what we have seen historically.

<Q – James Lykins>: Okay.

<A – Franklin Yoho>: That's correct. We are still seeing growth in all our markets, and Charlotte being our largest city, but we are seeing some slowing. We are going to aggressively go after the conversion market and hopefully make up some of that lost new – lost market on the new starts.

But realistically, we would anticipate that our growth, which has been right at around 3% to slightly above 3%, probably fall in the 2.5 to 3% range this next year.

<Q – James Lykins>: Okay. That's helpful. All right, thank you very much.

<A – Thomas Skains>: Thank you, Jim, for those good questions.

<Q – James Lykins>: You're welcome.

Operator: And next we'll go to line of Joanne Fairechio with Janney Montgomery Scott. Please go ahead.

<Q – Joanne Fairechio>: I apologize. Jim already asked my questions. They were basically to do with the customer growth.

<A – Thomas Skains>: Okay, it's nice to hear from you anyway though, Joanne.

<Q – Joanne Fairechio>: Yes, thank you.

<A – Thomas Skains>: Thank you.

Operator: And we go to line of Yiktat Fung with Zimmer Lucas Partners. Please go ahead.

<Q>: Good afternoon; happy New Year.

<A – Thomas Skains>: Good afternoon. Same to you, sir.

<Q>: First of all, a question about the potential new joint venture. Is it most likely to be another gas infrastructure project or could it also move to non-regulated areas?

<A – Thomas Skains>: Let me say this, we are still in the very early stages of the project development of that venture. The nature of the project at this point is proprietary, and we are actually operating under a confidentiality agreement. I will just say generally though that the project will be consistent with our previously announced strategy of focusing on wholesale and resale – retail energy assets that complement our core business. So, it should be no surprise to investors. It will be consistent with our previously announced strategy.

<Q>: I see; another question on the rate case in North Carolina. Is this filing really just to comply with the previous order or should we also anticipate a substantial request for a rate increase?

<A – Thomas Skains>: As you recall, the order that was issued back in 2005 in connection with our last rate case approved our margin decoupling tariff on an experimental basis for a three-year period that expires at the end of this fiscal year. It expires on at the end of October 31, 2008. So, unless we make a general rate case filing as prescribed by that order that the North Carolina Utilities Commission issued, the margin decoupling tariff would go away. So we have to file a general rate case to do that consistent with the expressed terms of their order. Anytime you file a general rate case, you have to true up revenues, costs, billing determinants, and the like. So it will involve the truing up of our costs, revenues, and all the other things that go along with the general rate case. Again, it's too early at this point to tell what the impact of that rate case would be in terms of either what the rate adjustment would be.

<Q>: Can you at least give us an indication of whether the company is under-recovering or over-recovering in North Carolina?

<A – Thomas Skains>: No, we really can't address that. We believe that the amount that we are recovering is fair and appropriate.

<Q>: Okay, that's fine. With regards to one of the disclosures that I read in the 10-K, the company paid about \$3.6 million of termination benefits in conjunction with I guess some cost savings programs. Is that expected to not recur in the future? And how much savings does the company expect to generate from those payments?

<A – David Dzuricky>: Hi, Yikfat ; this is Dave Dzuricky. Thanks for your question. That \$3.6 million accrual reflects what we estimate to be the severance benefits associated with the ongoing process improvements within our operations area related to closing our business offices and centralizing those activities. Because we have a limited number of business opportunity process improvements, it will not be recurring because it addresses that entire business process improvement. And it relates to activities that we will undertake in 2008 and beyond. As to what that effect is on us financially, all I can tell you is that it's included in our guidance for 2008 and clearly will be for any forward years beyond that.

<Q>: Just one last question, how much of the decrease in D&A would be caused by the retirement of the technology assets?

<A – David Dzuricky>: Probably about \$4 million.

<Q>: Okay. Thank you very much for your time.

<A – David Dzuricky>: Yes, sir.

Operator: [Operator Instructions] And to the presenters, there are no further questions in queue.

#### John Sutphin, Manager of Finance and Investor Relations

Okay. Thank you, John. As always, we thank you for your interest in Piedmont Natural Gas for taking time to be with us today. We look forward to seeing many of you in March at our Annual Shareholders Meeting held here in Charlotte. And this concludes our fiscal year 2007 earnings call.

Operator: Ladies and gentlemen, that does conclude your conference. You may now disconnect.

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