

FINAL TRANSCRIPT

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PNY - Q2 2008 Piedmont Natural Gas Earnings Conference Call

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CORPORATE PARTICIPANTS

John Sutphin

Piedmont Natural Gas - Manager, Finance, IR

Tom Skains

Piedmont Natural Gas - Chairman, President, CEO

Dave Dzuricky

Piedmont Natural Gas - SVP, CFO

CONFERENCE CALL PARTICIPANTS

Michael Gresens

Robert W. Baird - Analyst

Jim Lykins

Hilliard, Lyons - Analyst

Gabe Moreen

Merrill Lynch - Analyst

Yiktat Fung

Zimmer and Lucas Partners - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Piedmont Natural Gas second quarter earnings call. At this time, all participants are in a listen only mode and later we will conduct a question and answer session with instructions being given at that time. (OPERATOR INSTRUCTIONS) As a reminder today's conference is being recorded.

And I would now like to turn the conference over to your host, Mr. John Sutphin. Go ahead, sir.

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

Thank you. Good afternoon and thank you for joining our second quarter 2008 earnings conference call. This call is open to the general public and is being webcast live over the Internet. If you'd like to access the webcast of this call please visit our website at www.Piedmontng.Com and choose the investors link. On the right hand side of that page you'll find a 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, Chief Financial Officer. Other members of our Executive Management team are also in attendance. At the conclusion of the prepared remarks we'll open the discussion for your questions.

Finally, this call may include forward-looking statements within the meaning of the securities law. 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.

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

Thanks, John. Good afternoon everyone and thank you for joining us for our second quarter 2008 earnings call. As you already know, we filed our second quarter Q and issued an earnings release on Monday of this week. In addition we issued a press

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release announcing our new LNG storage project. I'll get to that project in just a minute but let me first walk through our financial performance for the quarter.

Our net income for the quarter was \$48.6 million, down 5% compared to the second quarter of 2007 and earnings per share of \$0.66 was down \$0.03 or 4%; however our year-to-date net income of \$130.9 million was up 7% from the same period in 2007 and earnings per share of \$1.78 was up \$0.15 or 9%.

Turning specifically to the second quarter we were very pleased by the utility operations of the Company. Margin was up 1% despite a quarter that was 4% warmer than last year and 5% warmer than normal. On the O&M side we saw yet another quarter where expenses were lower than a year ago and that continues to be due to our process improvement initiatives. Income from our joint ventures was down this quarter as a result of lower earnings from SouthStar compared to a very strong quarter last year earnings were down due to rising commodity prices and reduced opportunities for the management of storage and transportation assets.

Changing subjects as you know we filed a general rate case in North Carolina on March 31. In that filing we requested a permanent extension of our margin decoupling mechanism and sought \$41 million in rate relief due to our growing customer base and related capital expenditures. New rates were supposed to be effective November 1, 2008, the beginning of our 2009 fiscal year and the hearing has been scheduled for September 9. Finally, on Monday, we held a press conference and issued a press release announcing our plans to own and operate a new LNG storage facility in Robeson County, North Carolina. The facility will be able to store approximately 1.25 bcf of natural gas and is expected to be in service for the 2012 - 2013 heating season. This core utility project will help us serve the peak demands of our rapidly growing customer base in the Carolinas and while we're still very early in the process we expect our capital investment to be in the range of \$300 million to \$350 million. We're very excited to be working with the Robeson County officials and developers and look forward to being a positive catalyst in their community.

Now let me turn the call over to our Senior Vice President and CFO, Dave Dzuricky, for a more detailed discussion of our second quarter results. Dave?

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

Thank you, Tom, and good afternoon, everyone. As you know, earnings per share for the quarter were \$0.66 compared to \$0.69 last year. SouthStar was nearly \$6 million lower in pre-tax earnings in the current quarter compared to last year's second quarter. There were a number of factors affecting their performance, most notably rising commodity prices and reduced opportunities from the management of storage and transportation assets and price slides. SouthStar also accrued their liability relating to their consent order with the Georgia Commission.

In April of 2007, taking you back to last year, we had much cooler weather than this year and that adversely affected margin, and we continue to see conservation in our South Carolina and Tennessee markets while the effects of conservation are protected in the North Carolina market.

We continue to see positive benefits from our process improvement work, as seen in the quarter on quarter decline of \$1.6 million in O&M expense. Interest expense also declined slightly due to lower short-term interest rates and good cash flow from our operations. All other expense categories followed their normal trends. On the capital side, while we have had a slowdown in capital spending relating to customer growth, we continue to move forward with a variety of system strengthening programs to be able to serve our future customer base. Most notably we're expanding our deliverability in the Eastern part of North Carolina where growth continues. That's all I have at this point and we'll turn the call back now to John Sutphin.

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

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

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QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS) We'll go to the line of Michael Gresens at Robert W. Baird. Please go ahead.

Michael Gresens - Robert W. Baird - Analyst

Good afternoon. First question in terms of the project that's going on, is that in place of what you were considering to be a joint venture project?

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

Yes. This is Tom Skains. That is the project that I made reference to in earlier calls that was under development.

Michael Gresens - Robert W. Baird - Analyst

Okay.

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

And in this case, when we evaluated our growth requirements in the Carolinas, we evaluated our infrastructure needs in those states and looked at our core competencies around LNG storage facilities that we've been operating since the early 70's. We felt in this case that we would go to project alone rather than joint venture it.

Michael Gresens - Robert W. Baird - Analyst

Okay, and second question just in terms of the nature of customer growth, how is that changing and if you can, even if there's any difference in North Carolina and South Carolina between development or just backfilling the existing customer service areas.

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

Well, we continue to see good growth in our markets of about 2 to 2.5% in terms of gross customer addition. Largely driven by continued residential new construction, residential conversions, and commercial and industrial growth. If you look at our customer additions year-to-date, of course, with the slowing of the economy, our residential new construction numbers are down, but we're very pleased that our conversion numbers are up six months to six months and our commercial and industrial numbers are about flat, so we feel good about the growth. We forecast that to continue, and this LNG facility will be needed to meet the growth in our markets particularly during peak periods and seasonal winter days.

Michael Gresens - Robert W. Baird - Analyst

Okay, thank you.

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Operator

Thank you. And next we'll go to the line of Jim Lykins of Hilliard, Lyons. Please go ahead.

Jim Lykins - Hilliard, Lyons - Analyst

Good afternoon, everyone.

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

Good afternoon.

Jim Lykins - Hilliard, Lyons - Analyst

A couple more questions about the new project. I know you're supposed to or you expect to be in construction in '09 and be operational maybe by 2012 - 2013 winter heating season, but is there anything else you can tell us right now about the timeline and maybe when you plan to make any of the filings?

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

Well, obviously, there are filings to be made with this project, but notably there's no certificate needed from the North Carolina Utilities Commission. This is an expansion of our utility infrastructure and will be a part of our utility rate structure and cost structure when it goes into service.

Jim Lykins - Hilliard, Lyons - Analyst

Okay.

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

And there are permits, environmental processes to go through but there's no major regulatory filings that's required in this case to demonstrate a need or any of those other features that you may think of at the federal level in advance.

Jim Lykins - Hilliard, Lyons - Analyst

Okay.

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

But the project will be a part of our normal process of expanding and growing our utility infrastructure in the Carolinas.

Jim Lykins - Hilliard, Lyons - Analyst

All right and will you guys be doing an open season for this project?

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

No. This will be dedicated for our own growth requirements.

Jim Lykins - *Hilliard, Lyons - Analyst*

Okay. What about the financing? Can you talk about that?

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

I'm going to turn that over to Dave Dzuricky, who will address it.

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

Hi, Jim, how are you doing today?

Jim Lykins - *Hilliard, Lyons - Analyst*

Good, Dave, how about yourself?

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

Pardon me?

Jim Lykins - *Hilliard, Lyons - Analyst*

I said how about yourself?

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

Good, good, good. We'll finance this in the traditional way, using cash flow from Operations and a mixture of debt and equity. Keep in mind that it's beginning now and will continue through the 2012 fiscal year, so the chunks will not be at a single point in time, it will be kind of a smooth spend through the process, and we will be able to manage this within our normal financing programs and continue to maintain our target debt equity ratio as we report in the Q.

Jim Lykins - *Hilliard, Lyons - Analyst*

Okay, so can you say anything more about the debt to equity mix or how much you--?

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

Well we state in our Q, Jim, that our target is to be roughly 45 to 50% debt and 50 to 55% equity and so we take that very seriously. We know the credit rating agencies like to see us in that range and we will mix equity and debt in order to hit those targets.

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Jim Lykins - *Hilliard, Lyons - Analyst*

Okay. All right, and one last question and I'll let someone else ask one. Last quarter, you all had the benefit of the discontinuation of the storage accounting. I was wondering if we had that benefit again this quarter?

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

Well, we didn't report anything in our MD&A about it, so it was not material to us this quarter.

Jim Lykins - *Hilliard, Lyons - Analyst*

Okay. And I know there's supposed to be a reversal in the second half. I was wondering if you could maybe talk about the timing or if you can give us any indication on what that amount would be?

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

Yes, well, keep in mind that last October, we had to unwind the demand capitalization amounts that were already in storage, so there is, as I recall that was about \$5.4 million, so that adversely affected our fourth quarter last year as we reported in our K, and so clearly, that issue will not be there this year in the fourth quarter.

Jim Lykins - *Hilliard, Lyons - Analyst*

Okay, great. Thank you, gentlemen.

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

Thank you.

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

Thank you.

Operator

Thank you. Our next we'll go to the line of Gabe Moreen of Merrill Lynch.

Gabe Moreen - *Merrill Lynch - Analyst*

Hi, good afternoon, everyone. Actually my questions were all asked and answered.

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

Outstanding, thank you.

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

All right

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

Great minds think alike.

Operator

Thank you, sir. And next we'll go to the line of Yiktat Fung of Zimmer and Lucas Partners.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

Go ahead. Hi, good afternoon.

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

Good afternoon.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

I just want to clarify, on the new storage project, that is going to actually be in your rate base for North Carolina; is that correct?

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

It's in our utility Operations and it will be in our cost structure for both North and South Carolina.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

So is it shared between the two jurisdictions?

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

Yes.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

What's the split between North Carolina and South Carolina?

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

Dave, what is the split of our shared assets?

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

Yes, when we do a two state allocation, it's about 84% to North Carolina and about 16% South Carolina, Yiktat.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

Okay, thank you so much.

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

Yes.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

Let's see. Then will you get, I guess cash quick recovery on this project will you just get the normal AFUDC and collect it all once the service comes online?

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

Right. The normal convention in the two states actually is different. In North Carolina, we would expect to get AFUDC and in South Carolina, we would expect to get CWIP treatment through the rate stabilization mechanism in South Carolina.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

Thank you. That's very useful. Going on to SouthStar, of that \$6 million, I guess that first changed this quarter, how much of it was related to the consent agreement with the Georgia Utility Commission.

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

\$625,000 or one-fourth of \$2.5 million, Yiktat.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

That's a pretty small part of that it seems?

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

Yes.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

And with regards to the impact of higher commodity prices on SouthStar in general, how should we conceptually think about that? Is this business basically always adversely affected by higher commodity prices or is it just because there is kind of a gap as to the prices for which you've locked in your revenue or is it just the cost?

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

Yiktat, obviously nobody is selling Natural Gas at retail like high prices but having said that, what hurt SouthStar the most is constantly rising prices, because they post, they will post their prices to their customers at the beginning of the month and then, obviously as you can appreciate, they cannot match the beginning of the month of full requirements for their customers because there's weather variations and the like. So as the market rises through a month and they're filling in the gaps because of weather variances, that's an adverse impact to them.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

So this adverse impact would not occur in an environment where prices are high but flat; is that correct?

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

Correct. That is correct.

Yiktat Fung - *Zimmer and Lucas Partners - Analyst*

Okay, that's very useful. Thank you very much.

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

Yes, sir.

Operator

Thank you. (OPERATOR INSTRUCTIONS) Gentlemen, there are no further questions in queue at this time.

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

Okay, great. Thank you. As always we thank you for your interest in Piedmont Natural Gas and for taking time to be with us today. If you have any further questions pertaining to our second quarter results or our new LNG storage project please Contact our investor relations department. This concludes our second quarter 2008 earnings call.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 4:30 p.m. Eastern daylight today until July 23, at midnight. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701, and entering access code of 981921. International participants may dial 1-320-365-3844. That does conclude your conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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