

# FINAL TRANSCRIPT

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## **PNY - Q2 2009 Piedmont Natural Gas Earnings Conference Call**

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Jun. 09. 2009 / 2:30PM, PNY - Q2 2009 Piedmont Natural Gas Earnings Conference Call

## CORPORATE PARTICIPANTS

**John Sutphin**

*Piedmont Natural Gas Company, Inc. - IR*

**Thomas Skains**

*Piedmont Natural Gas Company, Inc. - President, CEO, Chairman*

**Dave Dzuricky**

*Piedmont Natural Gas Company, Inc. - SVP, CFO*

**Frank Yoho**

*Piedmont Natural Gas Company, Inc. - SVP, Commercial Operations*

**Michael Yount**

*Piedmont Natural Gas Company, Inc. - SVP, Utility Operations*

## CONFERENCE CALL PARTICIPANTS

**Greg McGowan**

*Sidoti & Company - Analyst*

**Jim Lykins**

*Hilliard, Lyons - Analyst*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Piedmont Natural Gas second quarter 2009 earnings conference call. As you may know, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. We'll give you instructions at that time. (Operator Instructions)

As a reminder, the conference is being recorded and we will turn the call over to our host, Mr. John Sutphin. Go ahead, sir.

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**John Sutphin** - *Piedmont Natural Gas Company, Inc. - IR*

Thank you, Bob. Good afternoon, everyone, and thank you for joining our second quarter 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 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 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 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 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 10Q which is available on the SEC's website at [SEC.gov](http://SEC.gov). With that I will turn it over to Tom.

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**Thomas Skains** - *Piedmont Natural Gas Company, Inc. - President, CEO, Chairman*

Thank, John. And good afternoon, everybody, and thank you for joining us for our second quarter 2009 conference call. It was great to see many of you last month at the AGA financial forum. As you know we filed our second quarter 10Q and issued our earnings guidance on Friday. I will give a brief overview of our second quarter results and then provide an update on our

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customer growth outlook and our fiscal year 2009 guidance, then I will hand the call over to Dave for a more detailed discussion of our financial performance.

First let me say that despite a sluggish economy we had an extremely strong second quarter characterized by margin growth and flat expenses. Net income for the quarter was \$53.5 million or \$0.73 per diluted share, this was 10% higher than second quarter of 2008, and net income of \$48.6 million or \$0.66 per share. Margin was \$8.7 million higher this quarter, even with lower energy consumption from our industrial customers compared to last year. This was more than offset by period to period changes and adjustments to gas costs accounts, increased margin from our 2008 rate case in North Carolina and growth in our company's residential and commercial customer base. O&M was flat compared to the second quarter of 2008. As always we continue to look for ways to operate more efficiently and keep expenses down without sacrificing quality customer service, safety or reliability. Pretax income from our joint ventures was also basically flat this quarter, SouthStar's operating results were improved from last year, but this was offset lower of costs or market storage valuation adjustment due to wholesale commodity gas prices that declined again this quarter.

I mentioned in the previous call that we would be providing updates of our customer growth trends based on our experience this winter. Year-to-date we have added 6,250 customers which translate into a gross customer addition growth rate of about 1.2%. We are still forecasting gross customer additions of 1% to 1.5% for fiscal year 2009 with a net growth in the range of .5% to 1%. As mentioned in our earnings release, we are reaffirming our fiscal year 2009 guidance range of \$1.45 to \$1.60 per share. We are pleased with our year-to-date work in growing margin and controlling expenses while strategically spending our capital to take advantage of the customer growth that we are able to cultivate in this weakened economy. We are still very optimistic about our long term prospects for regional customer growth as the economy recovers. With that let me turn the call over to our Senior Vice President and Chief Financial Officer, Dave Dzuricky.

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**Dave Dzuricky** - Piedmont Natural Gas Company, Inc. - SVP, CFO

Thank you, Tom, and let me also say good afternoon to everybody. As you know earnings per share were \$0.73 for the quarter compared to \$0.66 in last year's second quarter. Our year to date earnings per share are \$1.83 compared to \$1.78 in the last half of fiscal 2008. Margin for the quarter increased \$8.7 million, primarily due to the effect of our North Carolina rate case that went into effect in November, growth in our core residential and commercial markets and the fact that we had negative gas cost accounting adjustments in the second quarter of 2008 in the amount of \$3.3 million. We continue to be adversely effected by the economy as it relates to our industrial markets. Our O&M expense in the quarter was essentially flat compared to last year and we recognized that operation and maintenance expenses are a powerful lever to use in times like these.

As Tom notes we will not allow customer service to decline and safety is always our top priority. Income from our equity investments in the quarter were also flat compared to last year, and SouthStar's earnings were adversely affected by a lower cost of market write down this quarter, but still had earnings level with last year's second quarter. Our interest expense was down \$1.6 million this quarter compared to 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 250 basis points lower than last year. We did have larger balances outstanding, however, under that credit facility and that partially offset the decline in interest rates. All other expense categories tracked along their normal trends. Relative to capital expenditures in the second quarter of 2009 our utility capital expenditures totalled \$22.5 million, significantly less than in last year's second quarter. The decline in CapEx reflects a lower level of system infrastructure investments in the quarter and a slow down in our growth. If you'll recall in 2008 we had a significant systems strengthening program underway that is not occurring this year. And with that, Tom, I'll turn it back over to John Sutphin.

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**John Sutphin** - Piedmont Natural Gas Company, Inc. - 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 while we queue the questions. And we will go to the line of Greg McGowan with Sidoti & Company. Please go ahead.

### Greg McGowan - Sidoti & Company - Analyst

Good afternoon. I think the 10Q said that you have only recognized I think the number was \$4.6 million of the rate increase granted in the North Carolina rate case. How does the remainder break out between the two remaining quarters of the year?

### Thomas Skains - Piedmont Natural Gas Company, Inc. - President, CEO, Chairman

Thank you, Greg. I'm going to turn that discussion over to Frank Yoho who is here with us this afternoon. Frank?

### Frank Yoho - Piedmont Natural Gas Company, Inc. - SVP, Commercial Operations

Hi, Greg. Relative to your question, after the first quarter, and counterintuitively, the settlement in the rate case had the majority of the rate case dollar impact really start hitting in the second moving through the third and fourth quarter. So as we go through the rest of the year you will see more of a significant impact, more representative of what you have seen in the first quarter -- I mean the second quarter.

### Greg McGowan - Sidoti & Company - Analyst

Okay. So should most of that being recognized in the third quarter or the fourth quarter?

### Frank Yoho - Piedmont Natural Gas Company, Inc. - SVP, Commercial Operations

About evenly spread.

### Greg McGowan - Sidoti & Company - Analyst

Okay. And in the first quarter, we saw residential commercial down here in the second quarter, resi commercial, you saw it improved, did you anticipate that kind of improvement? And I guess along those lines, and given that we are half way through the year here, I'm just trying to think whether or not you have actually considered taking up your guidance at any point?

### Frank Yoho - Piedmont Natural Gas Company, Inc. - SVP, Commercial Operations

Well, to answer your question about residential margins, and we did, as we saw a little bit better in the second quarter. Part of that is we continue to see some growth not great growth but some growth, but also that was when we started to see the impact of the North Carolina rate case. So those are the two factors that impacted the second versus the first quarter.

### Dave Dzuricky - Piedmont Natural Gas Company, Inc. - SVP, CFO

Frank, this is Dave Dzuricky. I am sorry, Greg this is Dave. Let me follow on from Frank's answer regarding your question about guidance. First of all, I think it is obvious to everybody that our guidance is fairly wide at \$1.45 to \$1.60 per diluted share. We do

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not normally have guidance that wide, but in these uncertain times, it was felt to be appropriate given the economic circumstances that we faced. And in these uncertain times, I am sure you can appreciate it is difficult to predict short term changes in our customers businesses and the effects the it will have on gas consumption. We are at the mercy of the economy and there doesn't even seem to be consensus around when improvements will occur. And that's why last Friday we reaffirm our guidance of \$1.45 to \$1.60.

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**Greg McGowan** - *Sidoti & Company - Analyst*

Okay, fair enough. I will let someone else ask more questions. Thank you.

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**Dave Dzuricky** - *Piedmont Natural Gas Company, Inc. - SVP, CFO*

Thanks, Greg.

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**Operator**

(Operator Instructions) And we will go to the line of Jim Lykins with Hilliard, Lyons. Please go ahead.

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

Hello, everyone. Congratulations on the quarter.

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**Thomas Skains** - *Piedmont Natural Gas Company, Inc. - President, CEO, Chairman*

Thank you, Jim. Thanks for calling in.

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

First question I had was about margin expansion, you guys have made a lot of in roads with your business process improvements, and I believe the next step was what you could do with some of the technological improvements. I am just wondering what's left, and if you have started with the technology improvements and what the impact could be there.

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**Thomas Skains** - *Piedmont Natural Gas Company, Inc. - President, CEO, Chairman*

Thanks for the question. I'm going to turn it now over to Michael Yount, who is leading our operations process improvement activities for the Company.

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**Michael Yount** - *Piedmont Natural Gas Company, Inc. - SVP, Utility Operations*

Hey, Jim. This is Michael. Thanks for your question. Our projects, we call optic internally, is about improving processes on the operations side, processes and systems and bringing technology to bear when we can. We expect that in -- at the end of fiscal year 2009 and fiscal year 2010, we should be in a position to bring sort of the next piece of technology to bear on that. And we further expect that we will see the same kind of sort of measured and consistent efficiency improvement that we have seen over the last two or three years. In terms of quantifying that, I think consistent with what we have done is we take than kind of efficiency improvement along with all of the other changes that are going on and we include that in our guidance at the time. So, as we affirm and/or change guidance from time to time, you will see those results baked in.

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

Is anything related to the optics baked into the 2009 guidance?

**Michael Yount** - Piedmont Natural Gas Company, Inc. - SVP, Utility Operations

Absolutely.

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

Okay. I also noticed that accounts receivable came down quite a bit this quarter. I am wondering if that is translating to increased bad debt or maybe better collection efforts? Can you comment on what's driving that change?

**Dave Dzuricky** - Piedmont Natural Gas Company, Inc. - SVP, CFO

There's a couple of things happening there. One is lower gas prices are helping to assist that. But probably more to your point, as you will recall in all three of the states that we have serve, Jim, we are exposed only to the margin portion of our uncollectible expense, the gas commodity cost is recovered from all customers. So, we have not seen a significant change in the pattern of our uncollectible expense. What you have seen in terms of lower receivables is some of the benefits that are coming from the work that Michael was just describing along with work being done by June Moore, our Vice President of Customer Service. And that is we are getting better and better at getting slow -- or not slow pay, but nonpay customers off the system earlier. So rather than have it set up as a receivable and then go and not have it be collected and then written off as a bad debt, we are catching it before it is even consumed by these customers, and so you would see a somewhat of a drop in our accounts receivable.

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

Okay. And one last question, I am just wondering if there's any update for when you might file next in any of your three states for your next rate case.

**Frank Yoho** - Piedmont Natural Gas Company, Inc. - SVP, Commercial Operations

Jim, this is Frank Yoho again. With South Carolina we annually filed and RSA and replace of doing a rate case. North Carolina we just came out of a rate case that was implemented last November, and in Tennessee while we have no plans we continue on a month to month basis to evaluate what the situation is there to determine when and if we file a rate case.

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

All right.

**Thomas Skains** - Piedmont Natural Gas Company, Inc. - President, CEO, Chairman

Jim, I might add that the RSA in South Carolina is an annual event, and Frank that should be filed this week or next?

**Frank Yoho** - Piedmont Natural Gas Company, Inc. - SVP, Commercial Operations

June 15th.

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**Thomas Skains** - Piedmont Natural Gas Company, Inc. - President, CEO, Chairman

June 15th is the filing day.

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

Okay. Thank you, gentlemen.

**Thomas Skains** - Piedmont Natural Gas Company, Inc. - President, CEO, Chairman

Thank you.

**Operator**

(Operator Instructions) We have no one else queueing up at this time. Sir, please continue.

**John Sutphin** - Piedmont Natural Gas Company, Inc. - IR

Great. Thank you, Bob. As all 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, please contact our Investor Relations department. This concludes our second quarter 2009 earnings call.

**Operator**

Ladies and gentlemen, this conference will be available for replay after 4:30 PM today through July the 16th at midnight. You may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701, and entering the access code of 998821. International participants may dial 1-320-365-3844. Those numbers again are 1-800-475-6701 or 1-320-365-3844, with an access code of 998821. That does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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