FINAL TRANSCRIPT

Thomson StreetEvents℠

PNY - Q3 2009 Piedmont Natural Gas Earnings Conference Call

Event Date/Time: Sep. 09. 2009 / 1:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

Dave Dzuricky
Piedmont Natural Gas - SVP, CFO

John Sutphin
Piedmont Natural Gas - Manager - Finance, IR

Frank Yoho
Piedmont Natural Gas - Senior Commercial Operations Officer

CONFERENCE CALL PARTICIPANTS

John Downie
CBJ - Analyst

Dan Fidell
Brean Murray, Carret & Co. - Analyst

Greg McGowan
Sidoti & Company - Analyst

PRESENTATION

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

Good morning and thank you for joining our third 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 www.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 questions.

Finally this call may include forward-looking statements within the meaning of the Securities laws; actual results may materially different from those discussed in 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 at the SEC website at www.sec.gov.

With that I will turn the call over to Tom.

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

Thanks, John and good morning to everyone in the States and good afternoon to those listening abroad. Thanks for joining us for our third quarter 2009 conference call.

As you know, we filed our third quarter 10Q and issued our earnings release last Friday. I'm going to give a brief overview of our third quarter results and provide and update on several Company matters, including the SouthStar restructuring, our residential energy efficiency and conservation program and rate de-coupling filing in Tennessee, our customer growth projections and our revised fiscal year 2009 earnings guidance. Then I'll hand the call over to Dave for a more detailed discussion of our financial performance.

Due to the seasonal nature of our business, we typically experience losses in the summer months, which make up our third quarter. We had a good third quarter characterized by margin growth and flat expenses. The net loss for the quarter was $7.3 million, which was 5% improved from the third quarter of 2008. For the nine months year-to-date our net income was $127 million. This was 3% better than the same period in 2008. Margin was $3 million higher due mostly to the 2008 North Carolina rate case.

In addition, we've seen improvement in our industrial customer margins compared to the first part of this year. Industrial margins account for about 7.5% of our annual utility margins. O&M this quarter was essentially flat, compared to the third quarter 2008. We continued to focus on ways to operate more efficiently and manage our expenses without sacrificing quality customer service, safety, or reliability.

As you already know, on July the 31st, we issued a joint announcement with AGL Resources about our agreement to restructure our ownership interest in SouthStar Energy Services. Under the terms of the agreement, we will sell half of our interest in SouthStar to AGLR for $57.5 million on January 1, 2010 and retain a 15% ownership in earnings interest in the venture going forward. AGLR will no longer have an option to purchase our remaining [undership] interest in SouthStar. The agreement has been submitted to the Georgia Public Service Commission for approval. With this new agreement we will have a mix of regulated and unregulated earnings that will further demonstrate our pure play LDC business model. We value our relationship with AGLR and we feel this agreement better aligns the interest of the partners in SouthStar's business and investment strategies.

On July 16th, we filed in Tennessee to de-couple our residential rates and to introduce new energy efficiency and conservation programs to our residential customers there. On August 24th, the TRA suspended our tariff filing and announced its intention to set the matter for hearing. Consistent with recent energy policy pronouncements by the federal government and the State of Tennessee, we feel that a margin de-coupling tariff in Tennessee would better align the interest of our customers and Piedmont shareholders.

On the subject of customer growth, our sales and marketing team continues to generate positive results in difficult economic conditions. Year-to-date, we've added 9,024 customers, which translates into an annualized growth customer addition growth rate of about 1.2%. We are sell forecasting growth customer additions of 1% to 1.5% for fiscal year 2009, with net growth of about .05%.

Finally, as mentioned in our earnings release, we are narrowing our fiscal year 2009 earnings guidance to a range of $1.50 to $1.60 per share, with emphasis on the upper end of that range. You'll remember that we revised and widened our 2009 guidance range after the first quarter to $1.45 to $1.60 per share because of the uncertainty in the economy at the beginning of the year. While uncertainty still exists, we demonstrated a year to date track record of margin growth, O&M expense control and improved capital spending. We believe we are poised to set another record year of earnings per share for our customers in 2009.

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

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

Thank you Tom and good morning everyone here in the states and good afternoon to our friends in Europe.

Earnings per share for the quarter were a loss of $0.10 compared to an identical $0.10 loss in last year's third quarter. Our year-to-date earnings per share are $1.73 compared to $1.67 in the first nine months of fiscal 2008. Margin for the quarter increased $3.8 million, primarily due to the impact of our North Carolina rate case that went into effect this past November, offset in part by lower secondary market margins.

We continue to be impacted by the economy as it relates to our industrial markets, although to a much lesser degree than we experienced earlier in the year. Our operating and maintenance expense in the quarter was essentially flat compared to last year. We did see an uptick of $1.1 million in our bad debt expense in the quarter, but it was offset by other expense categories.

Our third quarter typically is the quarter in which we have the greatest volatility in our bad debt expense. Income from equity investments in the quarter were essentially flat from last year's third quarter performance. Our interest expense was down $1.8 million this quarter compared to last year. We benefited, as did others, from lower short-term interest rates and also had a favorable variance in the net interest expense due from our customers. All other expense categories tracked along their normal trends.

Relative to capital expenditures in the second quarter of 2009, our utility capital expenditures totaled $31.2 million, significantly less than last year's second quarter of $58.2 million. This decline in capital expenditures reflects the lower level of system infrastructure investments in the quarter, consistent with the slowdown in our growth. In 2008 we also had a significant system strengthening program under way that is not occurring this year. We will be issuing earnings guidance for fiscal 2010 in the first week in November. At that time, we also will be addressing our capital expenditures for the coming year as well as how the funds from the sale of a portion of our investment in SouthStar will be utilized.

And with that I'll turn the call back over to John Sutphin.

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

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

QUESTIONS AND ANSWERS

Operator

I'm sorry. Thank you. (Operator Instructions). Our first question will come from the line of John Downie with CBJ. Please go ahead.

John Downie - *CBJ - Analyst*

This is John Downie. How are you all doing today?

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

Fine, John. Good morning.

John Downie - *CBJ - Analyst*

Good morning. The de-coupling in Tennessee, are you looking at that as possibly something you will try there and then consider in South Carolina and North Carolina?

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

Good question. Thank you. As we've indicated, we have filed a de-coupling tariff and associated energy conservation programs for our residential customer class. In Tennessee, we had requested a September 1st effective day and the TRA, the commission there, has accepted the filing but set it for hearing. So the timing and the ultimate disposition of that will be determined as a result of the procedural hearing process that they have scheduled.

We already have de-coupling in North Carolina, and we've actually had it for several years. It covers our North Carolina residential and commercial customers. So we are done there. We are one of the first local distribution companies in the country to establish that type of tariff and that tariff has been very successfully in place in North Carolina for a number of years. It was originally approved on an experimental basis but it was made permanent by the North Carolina Commission as a part of 2008 rate case that I mentioned earlier.

In South Carolina, we don't have the de-coupling, but we have something very similar to it, which is the rate stabilization tariff that is a product of the statute that was inactive there several years ago. So, we adjust our rates every year in South Carolina in a fashion that trues up our actual consumption into forward-looking determinants for purposes of setting rates. So, we, in essence, have a form of decoupling in South Carolina through the rate stabilization act. So Tennessee is actually the third and last state of Piedmont to address and we look forward to the hearing in Nashville sometime -- later this year, early next, whenever the TRA schedules the matter for procedural schedule.

John Downie - *CBJ - Analyst*

Can I ask one quick follow up? In North Carolina you didn't call it directly de-coupling. Was the Tennessee style would be similar -- is the Tennessee proposal similar to the type of decoupling you have in North Carolina?

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

Yes. North Carolina is classic rate decoupling with a true-up mechanism that normalizes our margins to the normalized consumption set in the rates. That same type of mechanism has been proposed in Tennessee for our residential customer clients.

John Downie - *CBJ - Analyst*

Thank you very much.

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

Thank you, John.

Operator

Thank you. Next we'll go to the line of Dan Fidell with Brean Murray, Carret. Please go ahead.

Dan Fidell - *Brean Murray, Carret & Co. - Analyst*

Good morning, guys. Thanks for the call.

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

Thanks, Dan. Good morning.

Dan Fidell - *Brean Murray, Carret & Co. - Analyst*

Just a good clarification first on the Tennessee filing. Can you just go over the timing again one more time in terms of when you think there's a possibility for, if decoupling is approved, it to be in place and effective?

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

I'll do my best with what we know. We just don't know much at this point. We made the filing I believe in July, if I'm not mistaken. We are proposing a September 1 effective date.

The TRA, the commission in Tennessee, accepted the filing, but has decided to set the matter for procedural schedule. So that means there will be testimony presumably filed as well as the hearing scheduled to discuss the merits of our proposal. The timing for that, we have not seen yet, the TRA has not issued its order with the specifics on what the procedural schedule is, and there's also no certainty at this point about when the tariff will become effective assuming that they approve it. It's all within the hands of the regulatory agency within Tennessee.

Dan Fidell - *Brean Murray, Carret & Co. - Analyst*

Understood. So I guess their understanding and approval of the tariff could seep into early this year and potentially might miss this winter heating season but could be in place by spring or summer of next year and then protecting margins going forward. Is that fair?

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

Yes. We don't know. We can't predict whether they will approve the filing. Your guess is as good as ours at this point.

Dan Fidell - *Brean Murray, Carret & Co. - Analyst*

Well, we are very much in favor of these kinds of mechanisms. They make a lot of sense so we hope that you receive it.

Secondly, the last question I have is in terms of future projects along the infrastructure line. Following the delay with Robeson, how are you seeing the current market for additional storage or pipeline assets?

How do you feel potentially being able to provide some services into the Marcellus and service some of that overflow.

Any general comments that you have on what the next infrastructure project could be and relative timing of that?

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

Thank you. Good question. We have, as you know, explored a variety of different investment opportunities that compliment our core business. They've been in the form of intrastate, intrastate pipeline through Cardinal, in the form of storage such as Pine Needle and Hardy, and in the form of natural gas retail marketing through SouthStar. These are the types of ventures that we continue to evaluate for future investment opportunities in the future.

I will say to you, though, that our supply portfolio of pipeline and storage contracts to meet our near-term and intermediate term growth are adequate for the growth of the Company so we don't foresee in the near term any need for additional pipeline or storage capacity to meet the retail growth requirement of our customers. We thought that we wouldn't have the need for the project such as Robinson until the economic turn earlier this year and, as a result, we deferred the development schedule on Robinson because of the slower growth in our markets particularly the growth requirements in the eastern part of North Carolina. Nothing has really changed since we made that determination earlier in the year. The growth rates that we witnessed and discussed earlier in the day in my comments were in line with what we used to making that deferral decision earlier in the year. Nothing has changed with respect to the timing of Robinson.

I will tell you we continue to look at investment opportunities throughout our service area, and we also continue to believe that the natural gas will play an increasing role for power generation in the region particularly with the focus on -- policy focus on carbon reduction and the cost associate with that. So as you know we have a few contracts already in place with Duke in progress that are part of our capital program that we've announced, although those aren't major projects. They certainly are important to us, and we continue to look for future opportunities in that regard as well.

So I would say the power generation market is something we are keeping our eye on. We continue to talk with potential partners about other projects whether they be pipeline or storage, but we just have nothing to announce at this point.

Dan Fidell - *Brean Murray, Carret & Co. - Analyst*

Great. Thank you very much for your comments.

Operator

Thank you. Next we'll go to the line of Greg McGowan from Sidoti & Company.

Greg McGowan - *Sidoti & Company - Analyst*

Good morning. Can you help me better understand the improvement between commercial and industrial margin? My inclination based on what we saw during the first half of the year is that commercial margin is improving more than industrial. Is that correct?

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

Good morning, Greg. I am going to turn that question over to Frank Yoho, our Senior Commercial Operations Officer.

Frank Yoho - *Piedmont Natural Gas - Senior Commercial Operations Officer*

Greg, good morning. The industrial market, which we focused on which we saw some dips when the recession hit very quickly and hard at the first of the year; while we haven't seen a return to prior years, we have seen a fairly significant increase or positive movement in that market. From the commercial side, it tracks very much residential as we would call commercial, which would be restaurants and so on and so forth. That is tracked as the residential.

While we see continued growth there, we see slowing of growth and in that market it feels as though we have hit the bottom and things are bouncing around as we hopefully feel a turn, but to segment those two markets, we saw the big downturn industrial, which we've seen significant recovery, not to last year's level; and in the commercial side, as with the residential, we have seen the dip but it seems to be flattening out as we go through the recession.

Greg McGowan - *Sidoti & Company - Analyst*

In terms of the proceeds, $57.5 million, I'm trying to get my arms around. Is that after net tax proceeds that you are going to receive?

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

This is Dave Dzuricky. No, it's not. It's probably more like $50 million. So there is some tax leakage there.

Greg McGowan - *Sidoti & Company - Analyst*

Thank you very much.

Operator

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

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

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 third quarter results, please contact our Investor Relations department.

This concludes our third quarter 2009 earnings call.

Operator

Thank you.

Ladies and gentlemen, this conference will be available for replay after 11:00 a.m. Eastern Time today until October 21 at midnight. You may access the AT&T Executive playback service at any time by dialing 1-800-475-6701 and entering the access code of 111892. 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.