
MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Piedmont Natural Gas Company Third Quarter Earnings Conference Call. At this 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. If you should require assistance during the call, please press "star", then "0". As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Headen Thomas. Please go ahead.

Headen B. Thomas, Director of Investor Relations

Good afternoon, and thank you for joining us for our Third Quarter Earnings Conference Call. Our earnings release and two other important releases were issued this past Friday, August 27. If you do not have a copy of those releases, they are available on our website at piedmontng.com.

With me today for the conference call are Tom Skains, our Chairman, President, and Chief Executive Officer; Dave Dzuricky, Senior Vice President and CFO; Ray Killough, Senior Vice President, Utility Operations; Frank Yoho, Senior Vice President, Commercial Operations; Kevin O'Hara, Vice President, Business Development and Ventures; Ted Coble, Vice President and Chief Risk Officer; Barry Guy, Vice President and Controller; June Moore, Vice President, Customer Service; David Trusty, Vice President, Corporate Communications; and Rob Pritchard, our Treasurer.

At the outset, it is necessary to advise you that our comments address Piedmont's business outlook and contains certain forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially. Please refer to pages 16 and 17 of our 2003 annual report to shareholders and our most recent SEC filings for information about the risk factors that could cause actual results to differ.

Now I will turn the call over to our Chairman, President, and CEO, Tom Skains.

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

Thank you, Headen. Welcome everyone, and thanks for participating in our Third Quarter Conference Call. This past Friday, we announced financial results for our third fiscal quarter of 2004. We will review our third quarter operations and financial results later in the conference call. But first, I would like to express my appreciation to the entire Piedmont organization. The results we announced can only be achieved by a coordinated team effort, and I continue to believe that we have one of the best Boards, management, and employee teams in the country.

Next, I would like to spend a few minutes updating everyone on some of our ongoing strategic activities. We've been focused this year on internal activity surrounding our Business Process Improvement project, or BPI, that is underway throughout the entire company. As part of the BPI project, we are concluding our evaluations of best practices and business processes that we believe will improve our operating efficiencies and customer service across all of our divisions. We are also continuing our efforts to build and maintain a high-performance corporate culture through leadership training, employee development, and related internal programs.

Tomorrow, we will begin rolling out some of our BPI initiatives internally. We plan to discuss these business strategies and process improvement activities with you at our fourth quarter conference call, after we have communicated with our employees about our implementation plans.

On Friday, we announced several officer-level organization changes that will become effective on September the 1st. June Moore, formerly Vice President of Information Services, has been named to a newly created position, the Vice President of Customer Service, and will report directly to me. June will assume responsibility for a new consolidated customer service organization that will implement our BPI customer service initiatives over the company's 3-state service area.

David Trusty, formerly VP of Marketing, has been named VP of Corporate Communications, and replaces Steve Conner, who has decided to take early retirement from the company. David will assume responsibility for all company communications, including Investor Relations. Headen Thomas, our Director of Investor Relations, will also assume additional responsibilities for Corporate Communications and will report to David.

Ranelle Warfield, our Vice President of Sales, will assume the additional responsibility for marketing as Vice President of Sales and Marketing.

And Leslie Ennis, formerly Director of Business Information Solutions, has been promoted to the position of Vice President of Information Services. These talented individuals are well qualified for these positions, and will do a fine job as we seek to further enhance shareholder value through the execution of our strategic plans.

Also on Friday, we announced our intent to form the Piedmont Natural Gas Foundation. This action marks an important milestone in Piedmont's charitable giving program, and solidifies our commitment to our local service area. We have always recognized and had a strong philanthropic commitment to the communities we serve. Our employees dedicate significant amounts of time to charitable activities in our communities, and our Foundation will further support that personal involvement. The Foundation will also further the company's execution of its triple bottom line strategy, which includes assisting qualified charitable agencies and organizations in the communities where our employees live, work, and provide service.

Finally, this past Friday, as a part of our earnings release, we also announced a 2-for-1 stock split. The record date for the split is October the 11th, and, subject to regulatory approval, the additional shares will be distributed beginning October 29th. We believe our trading range after the split will make purchasing our stock easier for individual shareholders, and also expect the improved liquidity will help our institutional owners.

In separate action on Friday, the Board declared a cash dividend of 43 cents per share on a pre-split basis. Piedmont has paid a dividend every year since 1956, and it has increased the dividend for 26 consecutive years.

Now for our third quarter results. On today's conference call, Frank Yoho will address our commercial operations, Ray Killough will discuss our Tennessee Bargaining Unit contract, Dave Dzuricky will conduct our financial review, and Kevin O'Hara will cover our joint venture activities. At the conclusion of our prepared remarks, we will conduct a Q&A session. So now, I would like to turn the call over to Frank Yoho. Frank?

Franklin H. Yoho, Senior Vice President, Commercial Operations

Thank you, Tom. Third quarter throughput results from the third quarter '03 versus '04 is we are up from 17.6 Bcf to 35.8 Bcf. This is due primarily to the NCNG [North Carolina Natural Gas] acquisition, along with customer growth. Volumes were up in all markets, with the biggest increase

being the power generation in the industrial markets, which was driven by the NCNG acquisition. Margins for the third quarter were also up in all categories, and they are up from \$49.3 million for the quarter in '03 to \$69.7 million in '04. The biggest increases here have also been in the power generation industrial markets, driven by the NCNG acquisition.

Year-to-date, for customer growth and the economy, to-date we have added 21,874 customers as compared to 19,146 customers last year. The increase in the customer additions has been driven primarily through the NCNG acquisition in their new territory, along with we have experienced a strong surge in the residential new construction market. And we see the economy somewhat as stable at this point in time for the near future.

In our wholesale marketing category, or also known as the secondary marketing results, we achieved a third quarter's results of \$2.5 million in '04, compared to \$2.9 million in '03, both we consider very good results.

In gas hedging and storage activities, currently from a national perspective it looks as though the gas storage levels from a national perspective could reach historic levels, historic highs for the fall, and Piedmont is in the same shape. We are on pace to accomplish our operational plan, which means we will be effectively full of storage going into the fall. Our hedging plans we have in place formerly in the North and South Carolina jurisdictions, and also a plan which we use in Tennessee. All our plans are in place within the Carolinas where at least 30% of our supply have been hedged for the winter period.

In the industrial market category, overall, we are experiencing a relatively stable market there in the alternate fuel categories. As was the case for the first two quarters, we are maintaining almost all the Number 2 fuel oil customers, but we are still missing some Number 6 oil due to competitive competition, as has been our expectation. That concludes the commercial market results.

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

Thank you, Frank. I would like to now turn the call over to Ray Killough, who is going to discuss the status of our Tennessee Bargaining Unit agreement. Ray?

Ray B. Killough, Senior Vice President, Utility Operations

Thanks Tom. We have recently completed negotiations with the Tennessee Bargaining Unit. Piedmont executed a 4-year agreement effective this month with the United Association of Journeymen of the Plumbing and Pipefitting Industry, who are affiliated with the AFL-CIO. This contract covers the craft, technical, and office workers in Tennessee, and of course will expire in August '08. Just as a matter of information, in North Carolina and South Carolina, excluding the former NCNG employees, Piedmont's craft/technical employees are represented by the International Brotherhood of Electrical Workers. In July of last year, we executed a 3-year agreement that will expire in July of '06. Piedmont continues to enjoy a good working relationship with the Bargain Unit employees in both areas. Tom.

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

Thank you, Ray, for that update. And Dave, would you like to conduct our financial review?

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

Great. Thank you, Tom. Good afternoon everybody. As the results showed in our press release, we had a solid third quarter of fiscal '04. And since in fiscal '03 we did not have NCNG in our third quarter results, the bulk of which you are observing in terms of changes in our expense levels, be it O&M, depreciation, taxes, interest expense, or even the number of shares outstanding, reflect that addition of NCNG. We have also had some normal rise in expenses due to inflation. During the third quarter, there were no non-recurring items on the expense side. But we did have a reduction in our accruals to uncollectable expense due to improved procedures implemented by Ray Killough's operations team. We had bulked-up the accrual in the first and second quarters of this year, but with the improved collection process, we were able to reduce that somewhat in the third quarter.

As we look toward guidance for fiscal '04, you will note in the press release that that guidance remained unchanged, and had us directing the investment community to the upper end of our guidance range. Non-recurring gains in the amount of 12 cents per share relating to the sale of our propane operations and the resolution of disproportionate sharing are excluded from that guidance. So, if you want to get the number of our guidance including the non-recurring gains, you would have to add that 12 cents a share to our range.

Also, included in the guidance is the expectation that we will fund the Piedmont Natural Gas Foundation prior to year-end. And while I am talking about the Foundation, I might note that setting up the Foundation is part of us managing our business here at Piedmont as a local distribution company, and I do want to emphasize the word "local." We have extremely strong ties to the communities we serve. Their health is important to us because it reflects the financial health of our customers, who of course are the ones that buy our products so that we can make money. As we do manage our business, we are attentive to the needs of our customers, our owners, employees, and communities. None can be excluded for the benefit of another for very long without negative impacts on Piedmont. We are fortunate to have a very good year from our non-utility operations that have allowed us to form the Foundation. We have discussed this matter internally now for a couple of years, and are now able to make this dream come true.

As we look forward to fiscal '05, we have issued guidance of \$2.45 to \$2.60 per share on a pre-split basis. Inherent in that guidance is the assumption of normal weather, business-as-usual conditions from a general economic point of view, no rate cases in any of the 3 jurisdictions in which we operate, as well as reflecting the initial impact of internal process improvement activities that Tom mentioned to you earlier and will be underway. It also reflects the fact that we will no longer have any earnings contributions coming from our propane operations, which as was mentioned, we sold earlier this year.

And, with that, Tom, I will turn it back over to you.

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

Okay. Thank you, Dave. And now we turn to Kevin O'Hara, who is going to cover our joint venture activities. Kevin?

Kevin M. O'Hara, Vice President, Business Development and Ventures

Thank you, Tom. I will cover Cardinal Pipeline, Pine Needle LNG, and SouthStar, and the earnings that I will be going over are the Piedmont share of the earnings from the joint venture. We will start with Cardinal. This is our North Carolina intrastate pipeline joint venture, of which Piedmont has a 22% ownership interest, and that includes 5% ownership interest we picked up with the North

Carolina Natural Gas acquisition that was effective in October of '03. For the third quarter of '04, we are basically at the same level of earnings as the same quarter last year, with \$253,000 versus \$251,000 for '03. Year-to-date, for fiscal year '04, Piedmont's share of Cardinal earnings is \$802,000 versus \$747,000 for fiscal year '03, and that positive variance primarily due from the adding of NCNG's share to our earnings.

Pine Needle LNG. This is our FERC-regulated, 4 Bcf interstate LNG storage facility in Guilford County, North Carolina. Piedmont has a 40% interest in Pine Needle. And similar to Cardinal, Piedmont picked up an additional 5% interest with the acquisition of NCNG. In the third quarter of '04, our earnings were \$594,000 versus \$489,000 last year in the third quarter, and that positive variance primarily is due to the acquisition of NCNG's shares. Year-to-date, for fiscal year '04, Piedmont's share of Pine Needle earnings is \$1.75 million versus \$1.6 million for fiscal year '03. And again, that's due to the pick-up of the NCNG interest.

For SouthStar, this is our unregulated retail marketing joint venture with AGL [Atlanta Gas Light] Resources, of which Piedmont has a 30% ownership interest. For the third quarter of '04, our earnings were \$1.6 million versus \$1.5 million for the third quarter in 2003. A couple of things are happening there. One was, we had some warmer than normal weather and higher gas costs in the third quarter last year that affected our earnings downward. Working for us, however, from an earnings standpoint, as Dave mentioned, is that Piedmont is realizing a higher percent of SouthStar earnings in 2004 as a result of restructuring our agreement with AGL Resources and resolving disproportionate sharing earnings – disproportionate sharing issues, excuse me. We are now realizing 25% of SouthStar earnings on a fixed basis.

Year-to-date in '04, Piedmont's share of SouthStar earnings is \$11.5 million versus \$5.7 million for the same time period last year. The positive variance here primarily made up of better performance from SouthStar operationally, and also the restructuring of the LLC agreement around disproportionate sharing so that we are now realizing a 25% earnings share versus approximately a 20% level last year. And as Dave mentioned, this restructuring also resulted in a \$1.5 million one-time earnings pick-up in this fiscal year.

With that, Tom, I conclude my update.

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

Okay, thank you, Kevin. And, with that, Headen, I am going to turn the meeting back over to you to conduct the Q&A session.

Headen B. Thomas, Director of Investor Relations

Okay. Thank you, Tom. Julie, I believe we are ready to go with the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press "star", then "1" on your touchtone phone. You will hear a tone indicating you have been placed in queue. You may remove yourself from queue at any time by pressing the "pound" key. If you are using a speakerphone, please pick up the handset before pressing the numbers. Once again, if you have a question, please press "star", "1" at this time. One moment please for the first question.

Our first question comes from the line of Michael Creager with BB&T Capital Markets. Please go ahead.

<Q – Michael Creager>: Good afternoon. If you exclude the effect of the Foundation funding in the fourth quarter, your 2005 guidance implies, you know, maybe flat-to-down earnings. Could you highlight any negative effect items that are baked into your '05 guidance?

<A – Thomas Skains>: I am going to turn the question over to Dave Dzuricky for a response.

<A – David Dzuricky>: Michael, thank you for your question. No, what we have is a situation where we have no refreshing of rates occurring in the three jurisdictions that we have. Our utility operations end, we do not have the benefit of the earnings coming from our propane operation, and if you will recall, with the timing of that sale, and as noted in our press release, we were able to avoid the summer losses that are traditional with a seasonal business such as propane. And we think that with those factors in play, or those realities facing us, and if you look at a \$2.35 to \$2.45 earnings per share guidance for '04, and our results in fiscal '03 year-on-year, even just using the midpoint of the fiscal '05 guidance, we've got about a 4% year-on-year growth in EPS. And using that same midpoint as just a point estimate, and you go back to 2003, our EPS growth rate for the 2 years has been – would be 6.5% compounded annually. I think for a natural gas utility, or any utility for that matter, showing that kind of year-on-year and 2-year compound growth is very good, particularly taking into context the fact that our top line, or our customer growth line, is moving up at about a 3.5% rate per year. So, we are realizing improvements in efficiency in our core utility operations, as well as getting the uplift from our non-utility operations that is part of our overall corporate strategy.

<Q – Michael Creager>: Okay. Are you planning on making any additional contributions in 2005 to the Foundation?

<A – David Dzuricky>: Yes.

<Q – Michael Creager>: But that's not in your guidance you are saying?

<A – David Dzuricky>: Oh no, it's - everything is baked into the guidance, Michael.

<Q – Michael Creager>: Can you quantify how much additional you will contribute in 2005?

<A – David Dzuricky>: I'm afraid not because that really is not something that's in the public domain at this time. But Piedmont has historically had a giving program that now, in the main, will funnel through the Foundation.

<Q – Michael Creager>: Okay. But, can you say whether it will be – I mean, would it be less than this first time chunk, or can you say that at this point?

<A – David Dzuricky>: I really can't say that at this time.

<Q – Michael Creager>: Okay, fair enough. Thank you very much.

<A – David Dzuricky>: Thank you.

Operator: Thank you. Ladies and gentlemen, once again if you do have a question, please press "star", "1" on your touchtone phone. Our next question comes from the line of David Schanzer with Janney Montgomery Scott. Please go ahead.

<Q – David Schanzer>: Yeah, hi. My question kind of moves along the same lines as the previous one. You know, there is so much happening, I'm wondering if you could give us a little more color on the expense side as well. I mean, you basically have a lot of different cross-currents that are affecting earnings, including, you know, this new best practices program, and, of course, benefits, and security, and a lot of other things, plus the, you know, the acquisitions of last year. Can you kind of just layout for us what your outlook is going from '04 to '05, and maybe even the year after, of how you see operating and maintenance expenses increasing? Or will they be more relatively flat than not? Excluding all the extraordinary items.

<A – David Dzuricky>: Right, David. Thanks for the question. First of all, it becomes somewhat difficult because of the fact that we have this call in advance of issuing our 10-Q. It would be more comforting from a disclosure point of view if we had that Q out, and hopefully in the coming years, as the SEC compresses the timetable between a close of a fiscal period and the reporting of results in the Q and the K, we'll be in a better position to give you more color. Having said all that, let me try, at least at the 30,000 foot level, to give you some additional color.

First of all, the NCNG acquisition, by far and away, is the element that is affecting our fiscal '04 differences on the expense side. And Frank had mentioned in his remarks, that it also was a significant contributor to the positive variances we are observing in our margin. We feel very, very comfortable about the performance of NCNG and the rest of our utility operations. I think, in regard to business process improvement, that has been an activity that has been going on in this company basically for the entire fiscal year. Obviously, to get something that massive off the ground, there were some start-up costs associated with it. But, we would not have expended those dollars, and, probably more importantly, the time and energy of 80 of the most important people in our company, to do something that was going to have no effect on O&M expense going forward. I would expect that we would see a slowing down of the growth rate in our operation and maintenance expenses in fiscal '05, '06, and '07. And that's the reason we did it, and, as Tom had mentioned earlier, we want to work smarter, we want to use best practices.

We have had two small acquisitions in the last several years and one very large one. We had become exposed to a number of different ways of doing things in our operations area, in our back office areas, and we intend to take those lessons learned, as well as others from the industry in general, and apply them to the processes we have here at Piedmont. And, again, without getting specific at all, David, we wouldn't go through all that effort if we expected to just have business as usual after we were done.

<A – Thomas Skains>: Let me just add to that, Dave, for your benefit, we have not yet communicated internally with our employee base as to what our implementation plans are in connection with BPI. We need to do that first. Once we make those internal communications and start to publicize the steps that we'll be taking, then we will be more comfortable with being more specific with you and the others that follow our stock. But at this point, to comment on specifics would be premature.

<Q – David Schanzer>: I don't know that I was asking so much about specifics, as I was about whether or not, you know, you had kind of an overall generic goal of, let's say, keeping expenses below – the growth of expenses below the rate of inflation, or something like that kind of bogey.

<A – Thomas Skains>: We have not announced any guidance of that nature at this juncture, and we haven't really addressed, in any form, what our outlook is for '06. So, I think we really can't get into that discussion.

<Q – David Schanzer>: Okay.

<A – Thomas Skains>: But I do appreciate your question.

<Q – David Schanzer>: Okay. And then, one another question that I had, you were talking about rather positive news in terms of the number of new customers being added during the quarter. And I was just curious as to whether or not you had any rough idea or percentage of how many of those new customers were conversions from propane?

<A – Franklin Yoho>: This is Frank Yoho, David. The majority was in the residential new construction, where there might have been a few propane that would not be, right now, the cause of the increase. It's really been – we've seen, with a little bit of an uptick in the mortgage rate, somewhat of a surge of individuals out to take advantage of the lower mortgage environment, and that hit the residential new construction market and surged that a little bit more than anywhere else.

<Q – David Schanzer>: Okay, great. Thanks.

<A – Thomas Skains>: Thank you, Dave.

Operator: Thank you. And at this time, there are no further questions. Please go ahead.

Headen Thomas, Director of Investor Relations

Okay. This is Headen Thomas. If we have no further questions, then I would now like to turn the call back over to Tom for closing remarks.

Thomas Skains, Chairman, President and Chief Executive Officer

Okay. Well thank you, Headen. And thank all of you who called in today, and who may listen in the future, for your interest in our company and your investment in our company, and we look forward to talking with you again at future quarter-end conference calls. So, the very best to all of you and take care. Bye bye.

Operator

Ladies and gentlemen, this conference will be available for replay after 6 PM Eastern Time today, through midnight September 13, 2004. You may access the AT&T Teleconference Replay System at anytime by dialing 1-800-475-6701 and entering the access code 740966. International participants, dial 320-365-3844. Those numbers again are: 1-800-475-6701 and 320-365-3844, access code 740966. 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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