

Piedmont Natural Gas Co.	PNY	Q4 2004 Earnings Call	Dec. 13, 2004
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■ PARTICIPANTS

Tom Skains – Chairman, President and CEO
 Dave Dzuricky – SVP and CFO
 Frank Yoho – SVP of Commercial Operations
 Kevin O'Hara – VP of Business Development and Ventures
 Headen Thomas – Director, Investor Relations

■ MANAGEMENT DISCUSSION SECTION

Thomas E. Skains, Chairman of the Board, President and CEO

Q4 2004 Performance Highlights

Overview

- FY2004 has been an outstanding year for our company. We have continued to execute our strategy of:
 - Focusing on profitable growth in our regulated Southeast natural gas distribution business
 - and leveraging our strengths into complementary joint venture business opportunities
- I would like to briefly mention some of our highlights for 2004

NCNG Acquisition

- We capitalized on our acquisition of NCNG
 - And have seamlessly integrated that division into our company over the last 14 months
- We also completed the permanent debt and equity financing of NCNG last December and January
 - And restored our balance sheet to its traditional strong capital structure
- During April, the rating agencies recognized our accomplishments and changed our outlook from "negative" to "stable" with credit ratings of "A" and "A3"

Restructuring Of Non-Utility Venture Activities

- We completed a strategic restructuring of our non-utility joint venture activities by:
 - Selling our propane and Greenbrier interest
 - And resolving disproportionate sharing and other issues with AGLR as to our SouthStar venture
- The strong performance of our joint venture non-utility businesses in 2004 enabled us to establish and fund the Piedmont Natural Gas Foundation
 - Which will provide assistance to qualified charitable organizations where our employees live, work, and serve our customers
- Our recently announced Hardy Storage Project with NiSource's Columbia Gas Transmission is in keeping with our non-utility and joint venture strategic focus of investing in complementary storage and pipeline assets

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CBPI

- Internally, we have been focused on a number of activities including our continuous business process improvement initiative, or CBPI
 - One of the results of CBPI was the formation of a standalone customer service organization, which is now headed by June Moore who reports directly to me
- We continue to roll out our internal employee development programs which included:
 - Performance management
 - Leadership training
 - Respect training
 - And the first ever survey of all of our employees
- In February, our Board raised the dividend for the 26th, consecutive year and we completed a 2-for-1 stock split in October
 - Our shareholders were also rewarded with a one-year total return through October of 19%, which is the 100 percentile ranking among our peer group
- I would like to thank the entire Piedmont team, our Board, Management, and all of our employees for an outstanding effort in making this year such a successful one

2005 Preview**Key Initiatives**

- Now for a short preview of 2005
- This year, we are continuing to focus on a number of very important initiatives
 - We are working through the American Gas Association for a National Energy Policy that serves the needs of our customers and our shareholders
- We will implement a number of CBPI initiatives including:
 - Consolidating customer call centers and regional business offices
 - Automating meter reading functions
 - And consolidating some of our smaller local business offices into nearby larger offices
- These initiatives are designed to achieve cost efficiencies and improve customer service, and will be implemented on a phased in basis
 - Some over the next two to three years
- The impact of these initiatives has been included in our FY2005 earnings guidance

Regulatory Strategy

- We will also continue to focus on our good regulatory relationships, as we pursue a regulatory strategy that works to provide our customers with:
 - Reasonable prices for the services we provide
 - And the ability for Piedmont to provide fair returns to our investors
- This strategy includes support of a Rate Stabilization Bill in South Carolina
- Along with our ongoing non-utility activities, you can see that we've kicked off another busy year, here at the company

Conference Call Outline

- Now, on today's conference call:
 - Frank Yoho will address our commercial operations

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- Dave Dzuricky will conduct our fourth quarter and FY2004 financial review and also address our FY2005 earnings guidance
- And Kevin O'Hara will cover our joint venture activities
- After that, we will have the Q&A session at the conclusion of the prepared remarks
- Now, I would like to turn the call over to Frank Yoho

Franklin Yoho, SVP, Commercial Operations**Commercial Operations Review****Throughput**

- Starting with throughput
- For Q4 2004, throughput was 34 Bcf, which was up from 24.9 Bcf in 2003
 - This was primarily driven by the acquisition of the NCNG and their customers along with our core customer growth
- During 2004, we had NCNG for the full three month period, during the quarter vs. just one-month in 2003
- Margins were also up in 2004 to \$76.4mm, which is up from \$61.9mm
 - Once again, as with throughput, NCNG and the core customer groups were the drivers behind this increase

Market Overview

- In our economy, we are basically experiencing a stable economy throughout our service territory, with new customers added with NCNG is approximately 30,500 customers for the year
 - This compares to just under 27,000 customers in 2003
- We are experiencing very strong growth in the residential new construction market with the economy very much booming in that area
- The wholesale marketing in which we share with our customers and our shareholders, reselling our capacity and supply, we had a very good fourth quarter and approximately \$1mm with the shareholders
 - This compares to an exceptional fourth quarter in 2003 of \$1.4mm

Hedging Programs

- As with our gas supply and our hedging programs, our hedges are fully in place to help to protect against extreme volatility and also against price [Audio gap] potentially during the winter and all our storage with the warmer than normal early winter
 - We are in very, very good shape going into the peak winter months

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David J. Dzuricky, SVP and CFO**FY 2004 Financial Results****Earnings**

- As Tom mentioned, we were very pleased with our results in FY2004
- Excluding the 6 cents per share associated with one-time gains from SouthStar and the sale of our propane interest, we came in near the top of the range of our guidance for the year
- The quarterly results reflect the previously mentioned formation of the Piedmont Natural Gas Foundation
 - And that amounted to 5 cents a share and it is included in the other income caption in our press release
- This year's results also reflect:
 - The successful integration of NCNG and Eastern NC
 - As well as rate case results in Tennessee and NCNG

Equity And Debt Financing

- We also had a very successful equity and debt financing early in our FY
 - And I personally appreciate the support of your firms and clients of your firms
 - It was very successful financing, both as to debt and to equity
- The financial results to the quarter and the year are difficult to compare to the prior year's results due to the fact that NCNG was included in FY2003 for only the month of October
 - The impact of NCNG and our normal growth account for the bulk of our expense variations

Unusual Expense Items And Guidance

- Now, while there are always a few unusual items and expense, except for two items, the net effect of those expenses yield a fairly good view of our going level expenses
 - First was the Foundation and, as previously mentioned, that amounted to an expense of \$7mm in Q4 FY2004
 - Second, because of our very good performance this year, almost everybody in our company, nearly 1,900 employees, will achieve bonuses in excess of their target levels
- As previously reported in our 10-Q's this year, we have been accruing bonus payments at a much higher than target level
 - Additional information will be contained in our 10-K
- Finally, as reported in our press release, we affirm our earning guidance for FY2005 in the range of \$1.23 to \$1.30 per diluted share

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Kevin M. O'Hara, VP of Business Development and Ventures**Non-Utility Joint Venture Update****Overview**

- I plan to cover our fourth quarter and FY earnings from Cardinal Pipeline, Pine Needle LNG, SouthStar, and then I will touch on:
 - The Hardy Storage project that Tom mentioned earlier
 - And, the earnings that I report on are Piedmont's share of the earnings from the joint venture

Cardinal Pipeline

- Regarding Cardinal Pipeline, this is our North Carolina intrastate pipeline joint venture, of which Piedmont has a 21.5% ownership interest, and that includes a 5% ownership interest we picked up with the NCNG acquisition:
 - For Q4, earnings were \$302,000 vs. \$225,000 in Q4 last year
 - And the cause of that increase is due to the 5% interest we picked up with the NCNG acquisition
- For FY 2004, Piedmont's share of Cardinal earnings is \$1.1mm and that's vs. 970,000 for FY 2003
 - And, again, the positive variance is due to adding NCNG's 5% ownership to our earnings

Pine Needle LNG

- For Pine Needle LNG, this is our FERC-regulated interstate LNG storage facility in Guilford County, North Carolina
- Piedmont has a 40% ownership interest in Pine Needle
 - And, similar to Cardinal, Piedmont picked up an additional 5% interest with the acquisition of NCNG, and that is the primary cause of our variances this year
- In Q4, our earnings were \$640,000 vs. \$520,000 last year in Q4
- For the FY 2004, Piedmont's share of Pine Needle earnings was \$2.4mm
 - Vs. \$2.1mm for FY2003

SouthStar

- For SouthStar, this is our unregulated retail marketing joint venture with AGL Resources of which Piedmont has a 30% ownership interest, fourth quarter earnings are \$360,000 vs. \$700,000 for Q4 2003
 - That unfavorable variance is primarily the result of a gas cost accounting adjustment that helped SouthStar earnings last year
 - Also compared to last year's SouthStar's 2004 firm market, commodity margins were slightly lower
- For FY 2004, Piedmont share of SouthStar earnings is \$11.9mm
 - Compared to \$6.4mm for the same time period last year
- And that positive variance is made up of operational performance, strong retail prices

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- Also, we restructured the SouthStar LLC agreement with AGL and addressed issues related disproportionate sharing
 - So, now we are realizing a higher fixed share of earnings
- This restructuring also resulted in a one-time \$1.5mm earnings pick up
 - And that happened in Q1 this FY

Hardy Storage Project

- And to touch on the Hardy project, although no earnings yet to report, we are pleased to mention that in November, we signed definitive agreements with Columbia Gas Transmission to develop the Hardy Storage Project in Hardy County, West Virginia
 - Some of the project's specifics are the 50:50 joint venture between Piedmont and Columbia Gas Transmission
- The project has a 12.4 Bcf capacity, 176,000 decatherms per day of deliverability
 - It is fully subscribed under long-term 15-year contracts
 - And with a straight fixed variable rate design
- Piedmont is also a customer of Hardy with approximately 40% of its seasonal storage service
- The capital budget for Hardy is \$100 to \$110mm
 - And we are looking to project finance this project with 70% debt, 30% equity
 - And looking for an April 2007 in service date

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■ **QUESTION AND ANSWER SECTION**

No Question And Answer Session

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