
MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you very much for standing by. We appreciate your patience, and good afternoon. Welcome to the Piedmont Natural Gas Company's Fourth Quarter Earnings Conference Call. [Operator instructions].

With that being said, let's get right to this quarter's agenda. Here with our opening remarks is Piedmont Natural Gas Company's Director of Investor Relations, Mr. Headen Thomas. Please go ahead, sir.

Headen B. Thomas, Director of Investor Relations

Good afternoon, and thank you for joining us for our fourth quarter earnings conference call. Our earnings release was issued this past Friday, December 10. If you do not have a copy of the release, it is 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, our Senior Vice President and CFO; Frank Yoho, our Senior Vice President of Commercial Operations; Kevin O'Hara, our Vice President of Business Development and Ventures, and other members of our management team.

Before the discussion begins, I would like to advise you that our comments address Piedmont's business outlook and contain 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, at this time, I would like to turn the call over to our Chairman, President and CEO, Tom Skains.

Thomas E. Skains, Chairman of the Board, President and Chief Executive Officer

Thank you, Headen. Welcome everyone, and thanks for participating in our fourth quarter and year-end conference call. Fiscal year 2004 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. 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." 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. 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 percent, 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.

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 fiscal year 2005 earnings guidance.

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.

Now, on today's conference call, Frank Yoho will address our commercial operations, Dave Dzuricky will conduct our fourth quarter and fiscal year 2004 financial review and also address our fiscal year 2005 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. Frank?

Franklin Yoho, Senior Vice President, Commercial Operations

Thank you, Tom. Starting with throughput. For the fourth quarter of '04, throughput was 34 Bcf, which was up from 24.9 Bcf in '03. This was primarily driven by the acquisition of the NCNG and their customers along with our core customer growth. During '04, we had NCNG for the full three month period, during the quarter versus just one-month in '03. Margins were also up in '04 to \$76.4 million, which is up from \$61.9 million. Once again, as with throughput, NCNG and the core customer groups were the drivers behind this increase.

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 '03. 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 \$1 million with the shareholders. This compares to an exceptional fourth quarter in '03 of \$1.4 million.

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. I will turn that back over to you Tom.

Thomas E. Skains, Chairman of the Board, President and Chief Executive Officer

Thank you Frank. And now, I would like to turn the call over to Dave Dzuricky who is going to review our financials with you. Dave?

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

Thank you, Tom, and good afternoon everyone. As Tom mentioned, we were very pleased with our results in fiscal 2004. 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. We also had a very successful equity and debt financing early in our fiscal year, 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 fiscal year 2003 for only the month of October. The impact of NCNG and our normal growth account for the bulk of our expense variations. 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 \$7 million in the fourth quarter of fiscal 2004. 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 fiscal 2005 in the range of \$1.23 to \$1.30 per diluted share.

Now, I will turn it back to Tom.

Thomas E. Skains, Chairman of the Board, President and Chief Executive Officer

Okay. Thank you, Dave. And, at this point, I'd like to turn the call over to Kevin O'Hara who is going to give us a non-utility joint venture update. Kevin?

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

Thank you, Tom. I plan to cover our fourth quarter and fiscal year 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.

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 the fourth quarter, earnings were \$302,000 versus \$225,000 in the fourth quarter of last year and the cause of that increase is due to the 5% interest we picked up with the NCNG acquisition. For fiscal year '04, Piedmont's share of Cardinal earnings is \$1.1 million, and that's versus 970,000 for fiscal year '03 and, again, the positive variance is due to adding NCNG's 5% ownership to our earnings.

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 the fourth quarter, our earnings were \$640,000 versus \$520,000 last year in the fourth quarter. For the fiscal year '04, Piedmont's share of Pine Needle earnings was \$2.4 million versus \$2.1 million for fiscal year 2003.

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 versus \$700,000 for the fourth quarter of 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 '04 firm market, commodity margins were slightly lower.

For fiscal year '04, Piedmont share of SouthStar earnings is \$11.9 million, compared to \$6.4 million for the same time period last year. And that positive variance is made up of operational performance, strong retail prices. 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 \$1.5 million earnings pick up and that happened in the first quarter of this fiscal year.

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 \$110 million, and we are looking to project finance this project with 70% debt, 30% equity and looking for an April '07 in service date.

With that, I'll turn it back to you, Tom.

Thomas E. Skains, Chairman of the Board, President and Chief Executive Officer

Thank you, Kevin. I appreciate that update, and I am now going to turn the conference call back to Headen Thomas, who is going to conduct our Q&A session. Headen?

Headen B. Thomas, Director of Investor Relations

Okay, thanks Tom. Fred, I believe we are ready for you to open up the Q&A at this time.

QUESTION AND ANSWER SECTION

Operator: [Operators Instructions]. And allowing a few moments, Mr. Skains and our host panel, at this point we have no questions, please continue.

Thomas E. Skains, Chairman of the Board, President and Chief Executive Officer

Okay, well I appreciate that. And I'd first like to thank all of you for calling in today. And thank each of you, too, for your interest in our company. On behalf of the entire Piedmont team, we wish each of you a happy holiday season and a healthy and prosperous New Year, and we hope to see many of you at our annual shareholders meeting, which will be at Nashville Tennessee, on Friday March the 4th, 2005. So, until then, so long.

Operator: And ladies and gentlemen, your host is making today's conference available for digitized replay. It's for 2 weeks, starting at 6 P.M. Eastern Standard time December 13th all the way through 11:59 P.M. December the 27th. To access AT&T's Executive Replay Service, simply dial 800-475-6701 and at the voice prompt enter today's conference ID of 759271. And, that does conclude our earnings call for this fourth quarter. Thank you very much for your participation, as well as for using AT&T's Executive Teleconference Service. You may now disconnect.

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