PARTICIPANTS

Kim R. Cocklin – SVP, General Counsel and Chief Compliance Officer
Thomas E. Skains – Chairman, President, and CEO
Franklin H. Yoho – SVP, Commercial Operations
David J. Dzuricky – SVP and CFO
Kevin O'Hara – VP, Business Development and Ventures

MANAGEMENT DISCUSSION SECTION

Thomas E. Skains, Chairman, President, and CEO

FY2005 Review

Opening Remarks

- Before we update you on our second quarter results, I would like to review some of our priorities for FY2005
- First, we continue to advocate the need for national energy legislation that would balance natural gas supply and demand
- We are encouraged by the progress made thus far by the US House and Senate and are hopeful that we will see a positive energy bill later this year
- As you know, we initiated our CBPI [Continuous Business Process Improvement] program in 2004 in order to:
  - Implement best practices
  - Achieve cost efficiencies
  - And improve customer service

Key Initiatives

- Some of the key initiatives we are implementing over the next two to three years include:
  - Consolidating customer call centers and regional business offices
  - Automating meter reading functions
  - And consolidating some of our smaller local business offices into nearby larger district offices
- All of these initiatives are well underway and are proceeding according to plan
  - Their financial impact has been included in our FY2005 earnings guidance

Rate Relief

- Switching to the subject of rate relief, on April 1st, we filed a general rate case proceeding in North Carolina
  - In addition to seeking necessary cost increase recovery, we have proposed a consolidation of all of our North Carolina operations under one tariff, one set of service regulations and one rate structure
- Separately, the Natural Gas Rate Stabilization Act was approved on February 16th in South Carolina
  - The Act provides for a less costly and more efficient regulatory process
  - We plan to make an election under this new law and file for a rate adjustment by June the 15

- We expect that new base rates in both North Carolina and South Carolina will become effective November 1st, 2005, the beginning of our 2006 FY

Summary

- Finally, I would like to say that our business this year is proceeding according to plan and as you will note in our second quarter press release, we affirmed our FY2005 guidance of $1.23 to $1.30 per diluted share

Franklin H. Yoho, SVP, Commercial Operations

Business Highlights

- Second quarter results in regards to volumes for 2005 were 59.4 Bcf in 2005 vs. 57.8 Bcf in 2004
  - The volume gains we have seen here were primarily in power generation
  - For our core markets we have actually seen a slight decline
- Margins for Q2 in 2005 were $140.7mm vs. 145.8mm in fiscal 2004 second quarter
  - This is down primarily due to reduced usage by our core markets caused by conservation we believe driven by high commodity costs of gas
- Customer growth additions have been strong

Performance

- We have seen strong results in our commercial and new residential construction markets
  - This YTD – this year, YTD – we have seen 16,600 new connects vs. approximately 14,800 new connects during FY 2004
- Our wholesale marketing group achieved results for Q2 1.5mm vs. results of 1.4mm in Q2 2004
- We continue to implement our hedging plans for future gas supply purchases and our storages are in good shape for both the company and an industry, relative to last year and historical averages
- The industrial market is relatively stable with continued success in competing for the Number 2 load, which is our largest alternate fuel load on our system and we continue to be challenged with the price in the Number 6 fuel load market

David J. Dzuricky, SVP and CFO

Financial Highlights

- Of course, you do have the 10-Q available to you should you have any questions

Diluted EPS and O&M Expense

- Let me just summarize by saying and reminding you that diluted EPS for the quarter were $0.52 vs. $0.54 in the prior year's second quarter and we were pleased with that performance
- As you will note, in both our press release and in our 10-Q, our O&M expense was up 4% in the quarter-to-quarter comparison, but in Q2 fiscal 2005, we did have an additional accrual related to our vacation of $1.2mm

- Absent that additional accrual, the year-to-year O&M expense would have risen about 1%
- We've also had a strong performance from our joint ventures that Kevin O'Hara will discuss in a bit
  - And as mentioned by Tom and as reported in our press release of June 7th, we've reaffirmed our guidance for the year

Rate Cases

- Tom mentioned our rate cases in North and South Carolina and let me just give you a little bit of additional information in terms of the timeline that we see for both of those

North Carolina

- In North Carolina, we are currently in the discovery phase and data requests are being fielded and answered by our folks
  - On the 16th of August, intervener testimony in the North Carolina case will be due and our hearing in North Carolina is scheduled for the 6th of September
- And as Tom mentioned, we would expect rates then to go into effect on November 1st, the first day of our FY2006 year
- Along with the North Carolina general rate case proceeding, we also have an acquisition proceeding associated with acquiring the remaining 50% of Eastern North Carolina that we do not own
  - A hearing in that case is scheduled for June 23rd

South Carolina

- In South Carolina, we will be filing – electing to file under the newly enacted Rate Stabilization Act and so the schedule that I give you is the first time for us to go through this sort of process
  - But we will file with the South Carolina Commission on June 15th
- On July 15th, interested parties may comment and the regulatory staff in South Carolina will file their comments on September 1st
- On September 15th, interested parties again have an opportunity to comment
  - And we would expect a commission order on October 15th with the new rates going into effect

New Rate Effect

- As I said earlier, this is the first time for us to go through this – first time for anybody to go through this
- Following the new rates going into effect, there is an opportunity for any aggrieved party to file a comment or alternative recommendation
  - That would have to be done by the 15th of November
  - If indeed that were to happen and we really don't know what will happen there, the commission could issue a different order
  - And if they do, then new rates would go into effect May 1, but would be retroactive to November 1 of our 2006 FY

Regulatory Arena

- So there's a fair amount on our plate in the regulatory arena
- Pleased with the results for the quarter and for the first six months of the year
  - And generally have ourselves busy on the regulatory front

- Probably one of the most important things and I failed to mention that we have requested of the North Carolina Commission is to introduce a conservation tariff, which allows us to decoupage the recovery of our margin in North Carolina from the consumption patterns of our customers
    - This is a great opportunity for us to be able to align ourselves with our customers in terms of fostering conservation along our system while continuing to provide opportunities for customer growth, as mentioned by Frank earlier

Conclusion

- So, there are a couple of other similar type tariffs in place throughout the United States, but we're very pleased with the way we have constructed ours
    - It's similar to two others in the country and we're hopeful that we can bring that to a successful conclusion in our North Carolina case

Kevin M. O'Hara, VP – Business Development and Ventures Trading Activity

Q2 Earnings from Joint Ventures

- I am going to cover our second quarter earnings from our JVs, including:
    - Cardinal Pipeline
    - Pine Needle Language
    - SouthStar
- And I'll also provide a briefing on our Hardy project
- And the earnings that I will cover are Piedmont's share of earnings from these joint ventures

Cardinal Pipeline

- On Cardinal Pipeline, this is our North Carolina interstate pipeline joint venture, of which Piedmont has a 21.5% ownership interest
    - In Q2 2005, our earnings are $280,000 vs. $266,000 in Q2 last year
    - YTD, 2005 earnings are $584,000 vs. 550,000 for FY 2004

Pine Needle LNG

- Pine Needle LNG is our FERC-regulated 4 Bcf interstate LNG storage facility in Guilford County, North Carolina
    - Piedmont has a 40% interest in Pine Needle and in Q2 2005 our earnings were $582,000 vs. 565,000 in the last – in Q2 last year
    - And YTD, our earnings are $1.2mm vs. the same amount $1.2mm for FY 2004

SouthStar

- SouthStar is our retail marketing joint venture with AGL Resources
    - Piedmont has a 30% ownership interest
- We share the earnings at 25%
    - And in Q2 2005, we had earnings of $8.3mm vs. $6.6mm for Q2 in 2004
- Strong retail pricing with SouthStar there to explain the variance and that translate on a YTD basis in 2005 earnings, at $11mm vs. $10mm for FY 2004

Hardy Storage Project

- On the Hardy Storage project, this is our joint venture, 50-50 joint venture between Piedmont and Columbia Gas Transmission to design and build and operate 12.4 Bcf natural gas storage facility in Hardy County, West Virginia
- We filed for a FERC certificate on April 25th, that filing provided for a project with $122mm of costs, 70/30 debt/equity capitalization and 14% ROE
  - We do expect to get our certificate early fall in September, October timeframe and we're going to operation in April of 2007

QUESTION AND ANSWER SECTION

Analyst: *David Schanzer – Janney Montgomery*

Question – David Schanzer: Hi. Good afternoon. A couple of questions. You indicated that you are basically staying with the guidance that you had and you also indicated that in the quarter, basically electric generation made up for some of the shortfall in basic business – retail business. Is that expected to be pretty much the case going forward or do you think it will come back into balance for the last two quarters? I'm trying to get some color, as to how you think the rest of the year will roll out?

Answer – David Dzuricky: Dave, thanks for your question. The best I can tell you at this point in time is we've already given all the color we can give you in terms of providing reiteration of guidance in our press release related to the second-quarter results. To give you any more than that with this limited group I think would be troublesome for us. But the fact of the matter is we have reaffirmed guidance in our press release dated June 7th.

Question – David Schanzer: Okay. Well, maybe you can answer this question. Given the budget that you had for the number of connects for the year, do you think – for new customers, do you think that's pretty much in line with what your expectations will be – were when you made them?

Answer – Franklin Yoho: When we look at new customer connects, we look from a historical basis. We're very pleased with the strong success we've had especially in the housing market, and our success in that housing market and the markets we serve. So relative to that, all I can say is we are very pleased that the housing market is still strong and we're still very successful in attaching those homes that are constructed.

Question – David Schanzer: But you couldn't comment whether you're on budget or not?

Answer – Thomas Skains: Dave, this is Tom Skains. There obviously – our customer growth numbers are obviously coming in greater than they were last year. We're very pleased with that and expect that trend to continue for the rest of the year.

Question – David Schanzer: Okay.

Answer – Thomas Skains: And just color – some more color around our business, again without attempting at all to comment on quarterly influences. In our guidance for the rest of this year, we do expect continued competition in the Number 6 resid markets. We do expect continued customer conservation in response to higher natural gas prices. So those are things that we've taken into account in the business conditions that we face for this year's guidance. And that was always included in our original guidance as well.

As far as the power generation market is concerned, we talked about this in the past. The way we structure our contracts with the large power generation customers, we build pipeline facilities and basically negotiate special contracts for the transportation of gas to those facilities. Those special contracts are approved by the state commissions and are on file with them and generally provide straight fixed variable type monthly charges and we don't have margin rates that apply to their throughput. So when we see increased volumes of deliveries to industrial markets, we don't generally receive any increase in margin associated with that. All of the margin we collect is fixed under the contract – delivery service itself. So, hopefully that just provides you some additional dynamics around the business environment that we're operating in. Again, we do not provide quarter-to-quarter guidance.

Question – David Schanzer: No, that's okay. I just wanted to get a little idea of how it would roll out. The other question I have was with regard to SouthStar – the strong retail pricing that you indicated that was the difference in this quarter. Is that something that's likely to continue or is that just too uncertain at this point?

Answer – Kevin O'Hara: We expect going forward that SouthStar's pricing strategies are going to remain the same. We have experienced this over the last two or three years with some of the fluctuations in the cost of gas and SouthStar has been able to take advantage of those fluctuations in their pricing strategy. So, and most of that happens around the first or second quarter. But it ought to stabilize as we go forward through the rest of our FY.

Question – David Schanzer: Okay. Thanks.

Analyst: *Mark Levin – Davenport & Company*

Question – Mark Levin: Gentlemen, just to sort of dovetail the first question, is it fair to suggest that the continued competition from the Number 6 resid market and then customer conservation, that those are the two key factors that would lead you either to the lower end of your guidance vs. the higher end of your guidance? Or are there other swing factors that would dictate where you fall?

Answer – David Dzuricky: There's probably a million things that could push you one way or the other. The fact of the matter is, Mark, and nice to have you on the call, there's only 7 cents a share spread from the bottom to the top of our guidance. So when we reaffirmed it, we recognized that we were dealing with a fairly tight range of guidance anyway. But as with any company in any industry, there is many, many variables; it can go either way. And all I can tell you at this point is we have reaffirmed that range of 7 cents from $1.23 to $1.30.

Question – Mark Levin: Okay, fair enough. Second question has to do with interest expense. Can you remind me what percentage of your debt is fixed vs. variable? And then as a follow-up, what the sensitivity might be to let's say a 100 basis point change in interest rates?

Answer – David Dzuricky : Mark, all of our long-term debt is fixed. The only interest rate exposure that we have is in our short-term debt. And our short-term debt varies significantly day-by-day and across the month. Our treasurer optimizes our situation in regard to our cash management. We're very pleased with that performance and I can tell you this – interest rates themselves are up about 100BPS, 110BPS over last year. So we have absorbed that kind of an increase in our short-term borrowing costs on a year-to-year basis.

Question – Mark Levin: Great. Thank you.