
MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. Thank you so much for standing by and welcome to the Piedmont Natural Gas Third-Quarter Earnings Conference Call. During today's meeting all phone lines will be muted or in a listen-only mode. Later there will be an opportunity for questions; instructions will be given at that time. If you should require assistance during the call, please press '*' then '0' and an operator will assist you offline. Today's conference call is being recorded for replay purposes. Instructions for accessing the replay will be available at the conclusion of today's conference. At this time I would like to introduce our first presenter, Mr. Headen Thomas. Please go ahead, sir.

Headen Thomas, Investor Relations Officer

Thank you and good afternoon. And thanks to all of you for joining us for our third-quarter earnings conference call. Our earnings release was issued this past Friday, September the 2nd; and we filed our 10-Q earlier today with the SEC. The earnings release and the 10-Q are both available on our website at piedmontng.com.

With me today for the conference call are Tom Skains, our Chairman, President and CEO; Dave Dzuricky, our Senior Vice President and CFO; Frank Yoho, our Senior Vice President, Commercial Operations; Kevin O'Hara, Vice President, Business Development and Ventures; and other members of our management team.

Before the discussions began I'd 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 26 and 27 of our 2004 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.

Tom Skains, Chairman, President and CEO

Thank you, Headen. Good afternoon, everybody, and thanks for taking the time to participate in our third-quarter earnings conference call. Our Company continues to provide solid results in challenging market conditions. I'd like to express my appreciation to my fellow employees at Piedmont Natural Gas. Their dedication and teamwork continues to provide the foundation for our success.

As you all know, the President signed the Energy Policy Act of 2005 one month ago. While the Act constitutes a positive first step and will provide many long-term benefits for supply and infrastructure development, energy efficiency and conservation, and fuel diversity for power generation, it falls short in one critically important area. Unfortunately, significant areas of domestic natural gas supply continue to be off-limits for exploration and production. To achieve meaningful price release for our customers – price relief for our customers and to relieve the burden that escalating energy costs place on the economy, we must continue our efforts to have Congress open additional areas of domestic energy supply to better balance supply and demand. We also need to realize the promise of expedited treatment for siting of LNG terminals so that supplemental natural gas supplies can be imported to our shores.

In the meantime, wholesale natural gas prices continue to rise due to a very tight supply-demand balance, exacerbated by warmer than normal summer for power generation loads, and more recently by the impact of hurricane Katrina on the national energy markets. In response to the natural gas wholesale price issue, we continue to pursue our hedging strategies for the benefit of our customers. We continue to structure our competitive portfolio of gas supply and capacity contracts to acquire gas at the best possible price. We continue to utilize and market our storage and other wholesale assets to optimize the cost of gas for our customers.

In that regard our proposed Hardy storage project, the joint venture with Columbia Gas, is proceeding according to plan, and once approved, financed, constructed and placed into service, will add to our strategic supply and joint venture investment portfolio. We also continue to pursue innovative rate and regulatory initiatives that align the interest of our shareholders and customers such as our conservation tariff proposal in North Carolina that provides a much-needed conservation demand response to escalating wholesale natural gas prices.

And finally, we continue to work diligently on our stakeholder communication efforts. We must effectively communicate with all of our stakeholders, most particularly our customers, to prepare for the impacts of higher natural gas prices this winter.

With all that said I'd like to review today's conference call agenda. First, Frank Yoho will address our commercial operation, Dave Dzuricky will conduct our financial and regulatory review, and Kevin O'Hara will update you on our joint venture activity. After our prepared remarks we will open up the conference call to questions.

So now I would like to turn the call over to Frank Yoho. Frank?

Frank Yoho, Senior Vice President, Commercial Operations

Thank you Tom. Volumes for the third quarter of fiscal year '05 were 35 Bcf as compared to 35.8 Bcf for the third quarter of fiscal year '06. Volumes were down slightly because winter was a little bit warmer than last year, and also the power generation loads for the third quarter were not as high as last year.

Margins for the third quarter of '05 were \$76.6 million versus \$69.7 million for the third quarter of fiscal year '06. The three primary reasons for this increase was a cooler than normal May, which does not have a weather normalization applied to it; also with the volume pricing this summer our secondary marketing opportunity has created more margins for both our customers of which the majority of these margins are credited back to our customers to reduce gas costs; and then the incentive amount approximately 25% is credited towards the shareholders, and we've seen an increase in this area for the third quarter. Also, we continue to see very strong customer growth in which year-to-date we've seen over 23,000 customer additions compared to over 21,000 customer additions year-to-date for fiscal year '04.

Relative to hedging and storage, as we look today our storage positions are all in very good situations and will be full at the time we had operationally planned for. Our hedging programs, as Tom mentioned, are also in place and moving forward. With recent price hikes we see this creating some value to help reduce some cost for our customers for the cost of gas.

In the industrial marketing area results are very similar to what they were last year on both volumes and margins where we see price increase in gas we also see the increases in alternate fuels, so our market has stayed about the same.

With that I will pass it on to Dave.

Dave Dzuricky, Senior Vice President and CFO

Thank you, Frank, and good afternoon, everyone. As you know, the third quarter for Piedmont, and most any gas utility, is a loss quarter. But we were heartened by the fact that our losses were substantially lower than last year. The bulk of the credit of that goes to the strong margin performance that Frank just described to you. But let me cover some of the other lines of the income statement just give you a little additional flavor.

First of all, in the O&M expense area; we were up for the quarter 5% from the prior year. The drivers there primarily were benefit increases due to increased accruals year-on-year relative to our pension and to our post-employment benefit costs.

Secondly, payroll was up significantly year-on-year, primarily due to the fact that normal raises year-on-year are in there, as well as increased accruals under our long-term incentive plan. As you know, and is described in our proxy, our long-term incentive plan is paid out in stock and as the stock price rises we do need to recognize that effect on our income statement. We also had higher accruals for uncollectible expense this year as compared to last.

The other area on the income statement I'd like to talk about is general taxes. That was an increase of 10% year-on-year. What is reflected there are normal increases in payroll and property taxes, but property tax rates in many of the communities that we serve in our markets have had significant tax rate increases year-on-year. And for the most part, as a utility, Piedmont's property values are reassessed every year rather than on some longer cycle basis. So we have been hit with fairly significant increases in our property taxes as compared to last year's third quarter.

Having said that, and as is reflected in the press release, we continue to reaffirm our guidance for 2005 in the range of \$1.23 to \$1.30 per share. On the regulatory front, in North Carolina we filed a settlement on August 31 that disposed of all issues in the case. The Public Staff of North Carolina and the Carolina Utility Customers Association, the Department of Defense and various municipalities supported or did not oppose the settlement. Only the Attorney General's office of North Carolina opposed the settlement, and their opposition related to two issues. One, the treatment of GAAP costs associated with uncollectibles and tariff provisions relating to a true-up mechanism relating to customer conservation that Tom Skains mentioned in his opening remarks.

This past Tuesday a hearing was held in Raleigh to allow the Attorney General's Office the opportunity to cross-examine Company witnesses in these two issues. The settlement filed provides for a margin increase of \$20.2 million annually. That's roughly 55% of what we had requested initially when we filed with the North Carolina Commission. We expect an order from the Commission in time to place rates into effect on November 1, the beginning of our fiscal 2006 year.

With that, until we get to the Q&A period, I will turn it over to Kevin.

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

Thank you, Dave. As Tom mentioned, I'm going to cover our third-quarter and year-to-date earnings from our joint ventures, including Cardinal Pipeline, Pine Needle LNG, SouthStar and I will provide a brief update on our Hardy storage project. The earnings that I talk about are Piedmont share of earnings from our joint ventures. Starting with Cardinal, this is our North Carolina Interstate Pipeline joint venture, of which Piedmont has a 21.5% ownership interest.

In the third quarter of '05 our earnings are \$336,000 versus \$253,000 in the third quarter last year. And year-to-date our earnings for Cardinal are \$920,000 versus 802,000 for fiscal year '04. Those positive variances primarily come from lower O&M expenses.

For Pine Needle LNG – this is our FERC for regulated 4 Bcf interstate LNG storage facility in Guilford County, North Carolina. Piedmont has a 40% ownership interest in Pine Needle. And in the third quarter of '05 our earnings were \$700,000 versus \$600,000 last year in the third quarter. On a year-to-date basis our '05 earnings are \$1.9 million versus \$1.7 million year-to-date in '04. And similar to Cardinal, those positive variances come from the management of our O&M expenses.

For SouthStar, our retail marketing joint venture with AGL Resources, Piedmont has a 30% ownership interest. We share earnings at a 25% level. For the third quarter of '05 our earnings are \$1.7 million versus \$1.6 million for the third quarter of 2004. And on a year-to-date basis our '05 earnings are \$12.8 million versus \$11.5 million for fiscal year '04. Those positive variances coming from higher commodity margins and some management of O&M expenses.

Hardy update. This is our 50-50 joint venture between Piedmont and Columbia Gas Transmission to design, build and operate a 12.4 million dekatherm natural gas storage facility in Hardy County West Virginia. We did file for a certificate with the FERC on April 25, and that filing \$122 million of project costs, a 70-30 debt equity capitalization, and a 14% return on equity. On August 5, the FERC did issue an environmental assessment, concluding that this project will not have an adverse effect on the environment. We expected to get a positive report as always to get that – get that final report. We do expect the certificate from the FERC by the end of October with construction to follow. And Hardy will go into operation April of '07.

With that I will turn it back to you, Tom.

Tom Skains, Chairman, President and CEO

Yes, Kevin, thank you for that report. And thank you, Dave and Frank, as well. At this point I would like to turn the conference call over to Headen Thomas who is going to moderate our Q&A session. So Headen, it's all yours.

Headen Thomas, Investor Relations Officer

Okay, thanks Tom. Christina, at this time I would like to call on you to kick off the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from David Schanzer with Janney Montgomery Scott. Please go ahead.

<Q – David Schanzer>: Yes good afternoon, everybody.

<A – Tom Skains>: Good afternoon.

<Q – David Schanzer>: Several questions. One is, the Attorney General's activity in this rate case, I kind of got lost in the descriptive discussion about where he was. Apparently your witnesses were cross-examined, and what I didn't quite get was whether or not the Attorney General was satisfied with the answers, or don't we know?

<A – Dave Dzuricky>: This is Dave Dzuricky. I guess you'd have to ask the Attorney General. The questions – the attorney representing the Attorney General completed all of her questions, so I'm assuming she was satisfied.

<Q – David Schanzer>: Okay.

<A – Dave Dzuricky>: She didn't continue --

<Q – David Schanzer>: It's your assumptions that there won't be any further opposition from the Attorney General here, or is that not a good assumption?

<A – Dave Dzuricky>: No, I don't – I think the record is closed at this point.

<A – Tom Skains>: David this is Tom Skains. We won't know the Attorney General's ultimate position until they file their briefs and proposed orders which are due at the end of this month. Our witnesses obviously, as you mentioned, were cross-examined and responded to all of the attorney's questions, but whether that satisfied their concerns or whether their concerns will continue, we will have to wait and see what they file in their brief and their proposed order.

<Q – David Schanzer>: Would you characterize the Attorney General's level of interest in rate matters as increasing on a historic basis vis-a-vis where it's been in the past?

<A – Tom Skains>: I would say it's slightly heightened, but I wouldn't say inordinately heightened.

<Q – David Schanzer>: Okay.

<A – Tom Skains>: Those kind of things kind of oscillate somewhat over time, depending on circumstances. This was a very complex rate case where we were – where we are proposing to merge the operations and tariffs and service regulations of Piedmont's legacy North Carolina operations, NCNG, and Eastern North Carolina, as well as role in the costs and revenues associated with the Eastern North Carolina into the rest of Piedmont's North Carolina operations. So it doesn't surprise me that all intervenors were pretty interested in this case, because it had a lot of broad issues contained in it.

<Q – David Schanzer>: Okay.

<A – Tom Skains>: This is Tom Skains. Just to be absolute clear on the matter, the Attorney General did file out a position paper as a part of the preceding which did register specific opposition to the conservation tariff mechanism, as well as the gas cost uncollectibles mechanism.

<Q – David Schanzer>: The true-up?

<A – Tom Skains>: The true-up. Dave Dzuricky described that accurately. As to whether their full opposition will continue or whether it will be moderated as a result of the process, that's what I indicated, we are just not sure at this point.

<Q – David Schanzer>: Understood. My second question has to do – I realize I think part of the answer is in the fact that you reiterated guidance, but I guess my second question has to do with whether or not there's a chance for, or maybe the possibility of, a negative impact from the storm with regard to your pipeline volumes.

<A – Frank Yoho>: David this is Frank. We obviously see – we're going into uncharted territory with where pricing is going this winter. We have not seen any direct impact on our market or our load behind our system or the demand. What we do anticipate would be that there would be a heightened sensitivity for conservation, which we will support our customers with, and that's why the conservation tariff that we worked for in North Carolina and the rate stabilization in South Carolina really helps us work with our customers to achieve the same goals.

<Q – David Schanzer>: Okay and my last question is more of just if you would go over something. I don't know whether everybody else on line had the same problem we did, but the call cut out during your discussion about property taxes. Dave, if you could briefly go over the key points there, I'd appreciate it.

<A – Dave Dzuricky>: I'd be happy to. What that was is normal increases in payroll taxes. We saw a more significant rise in property taxes, in part due to the fact that we had significant property tax rate increases in the areas that we serve in the Carolinas and Tennessee. For the most part we also have an annual reassessment of our property tax valuations, unlike, say, a residence that may only have that reassessment and revaluation done every three or four years. So it's more in the property tax side.

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

<A – Dave Dzuricky>: Yes sir.

Operator: [Operator Instructions] we have no further questions. Please continue.

Headen Thomas, Investor Relations Officer

Okay. Thank you very much. I guess at this time I will turn it back over to Tom Skains for our closing remarks.

Tom Skains, Chairman, President and CEO

Thanks you. This is Tom Skains again. I want to thank all of you for participating in our third-quarter earnings release conference call. We always welcome your interest and participation in these calls and your interest in our Company. The rate case results in North Carolina and the results of the RSA in South Carolina won't be done until sometime in the October time frame. Just to let you know, in that time frame, most likely late October, we should be in a position to furnish guidance for fiscal year 2006, but we're not able to do that until we see the results on those two cases. Be expecting something more from the Company in terms of our outlook for 2006 in the mid to late October timeframe.

With that, good afternoon, and thank you for your call.

<Operator:>

Ladies and gentlemen, the replay for this conference call will be available beginning at 6 PM Eastern Time today. You may access the replay system by dialing 1-800-475-6701 and entering the access code 792213. That number again is 1-800-475-6701 with the access code 792213. That does conclude our conference for today. We thank you for your participation and for using AT&T's Executive teleconference. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2005. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.