MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you very much for standing by. We appreciate your patience today while the conference assembles, and good afternoon. Welcome to the Piedmont Natural Gas Fourth Quarter and Year-End Earnings Conference Call. At this point we have all of your phone lines muted or in a listen-only mode. However, after the executive teams' presentation today, there will be opportunities for your questions. [Operator Instructions]. As a reminder to ladies and gentlemen, today's conference is being recorded for replay purposes and that information will be announced at the conclusion of our call.

So, with that being said lets get right to this Fourth Quarter and Year-End agenda. Here with our opening remarks is 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 earnings conference call. Our earnings release was issued this past Friday, December 16, and is available on our website at piedmontng.com. With me today for the conference call are Tom Skains, Chairman, President and CEO; Dave Dzuricky, our Senior Vice President and CFO; Frank Yoho, Senior Vice President, Commercial Operations; Kevin O'Hara, Vice President, Business Development and Ventures; and other members of the management team.

Before the discussions begin, I would like to advice 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 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'll turn the call over to our Chairman, President and CEO, Tom Skains.

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

Thanks, Headen. Good afternoon everybody and thanks for joining us today. Fiscal year 2005 proved to be a solid year for Piedmont. Some of our many accomplishments during the year included record net income and earnings per share; customer growth in excess of 3%; strong performance from our joint ventures; regulatory approval for the roll-end of NCNG, and Eastern NC into Piedmont; completion of strategic rate proceedings in North Carolina and South Carolina; progress on key process improvement initiatives; and a year-end customer focused strategic communications initiative. These exceptional results were accomplished through the hard work and dedication of my many talented teammates here at Piedmont during a challenging period for our industry and for our company. Our consolidated net income and earnings per share in 2005 grew to record levels, of $101.3 million and a $1.32 per share, respectively. In March, the Board increased the dividend for the 27th consecutive year. The $0.92 annualized dividend reflects a 7% increase and a 70% payout ratio on 2005 earnings. Our utility customer base grew at a rate in excess of 3% during 2005, a growth rate among the highest in the nation for natural gas distribution companies. Growth in customer additions were at the highest level since 2000, with particularly strong growth in our residential new construction and small commercial market segments.

Our joint ventures made significant contributions to earnings once again this year, led by strong operating performance by SouthStar, our unregulated retail energy marketing company. Additionally, our latest venture of Hardy Storage received favorable regulatory approvals from the FERC on November the 1st. Strategic rate proceedings in both North Carolina and in South

Carolina were completed during 2005. An important aspect of our North Carolina case was the authorization to roll in the rates, cost structure, and tariffs of NCNG and EasternNC into those of Piedmont. The result is one regulated entity with the same rates, services, rules and regulations for all North Carolina customers, reducing the burden of administering multiple tariffs in a single state. We have begun re-branding both NCNG and EasternNC as Piedmont Natural Gas in order to reflect these service changes.

In North Carolina, we received approval to implement a gas cost uncollectible tracker and an experimental conservation tariff, called the customer utilization tracker, where the interests of our shareholders and customers are now aligned on conservation initiatives. In South Carolina we now operate under the Natural Gas Rate Stabilization Act, which allows for annual rate adjustments to stay within the bands of our allowed return on equity and provides a more favorable environment for us to expand our system to support the economic growth in our South Carolina service areas.

During 2005, we also completed the implementation of several business process improvement initiatives and made significant progress on others. Consolidation of our customer contact centers and regional business offices and installation of automated meter reading devices at customer premises are both well under way, and our strategic sourcing effort yielded positive results in lowering costs and improving efficiencies in our procurement processes. We also incorporated several changes to our customer acquisition processes, improving service to key trade allies such as home builders and developers and better leveraging efforts of our field sales organization.

Beginning in the fall of 2005, after Hurricanes Katrina and Rita, we embarked upon a proactive, customer-focused, strategic communications initiative to address the many challenges facing us in fiscal year 2006, and maintain the value proposition of our product and our brand during a period of high wholesale commodity prices. Our initiative emphasizes a company-customer partnership focused on reducing high energy bills through the consumer education and adoption of Piedmont's Equal Payment Plan and conservation practices. The initiative also included Editorial Board meetings, energy action forums open to the public in the major market areas we serve, and the development of a website called naturalgasanswers.com, specifically dedicated to providing customers with information about wholesale natural gas prices, supply and demand, Piedmont's Equal Payment Plan and our conservation tips.

An important aspect of this initiative is our grassroots effort to seek customer support for our proposed national energy policy solutions relative to accessing additional domestic sources of supply, increasing LNG imports, seeking greater fuel diversity from this nation's power generation industry, and increasing LIHEAP funding at the Federal level.

Now with all this background, I would like to review our conference call agenda. Frank Yoho will address our commercial operations; then Dave Dzuricky will conduct our financial and regulatory review; and then lastly Kevin O'Hara will update you on our joint venture activities. After our prepared remarks, we will open the conference call for a question and answer session. At this time, I would now like to turn the call over to Frank Yoho. Frank.

Franklin H. Yoho, Senior Vice President of Commercial Operations

Thank you, Tom. First of all, heating degree days for the year were approximately 5% warmer than normal and slightly warmer than last year. Volumes for '05 were 204 Bcf as compared to 201 Bcf for the prior year. Summer power generation load associated with the hot summer accounted for most of the gain in volume.

Margin was 499 million in '05 versus 488 million in '04; the core residential and commercial margins were up due to customer growth and colder shoulder months. Also, secondary or wholesale marketing was up, to $9.8 million as compared to 6.8 million in '04. This was due to the value captured around the pricing volatility caused by the summer storms. We had a very strong year for residential and commercial customer growth with over 32,000 customer additions as compared to over 30,000 customer additions in '04. We are managing our hedging programs consistently and continue to reduce our gas cost during the upward pricing trends with these tools. And we closely monitor our storage levels, which are operationally currently in very good shape. Even with these high prices and the pressures on our industrial markets, we are for the most part retaining the number two fuel oil mode as those prices also rise, but any sudden spikes could put some pressure on this market.

And with that, I'll turn it over to Dave Dzuricky.

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

Thank you, Frank. Good afternoon everyone. With our 10-K coming out in January, it's difficult for me to go into any great detail regarding our financial results, but as Tom mentioned, we are pleased with our results for fiscal 2005. Continued growth in our markets, good venture performance and solid work by our employees and our core business, all contributed to the results. Just as an aside, we contributed an additional $1 million to the Piedmont Natural Gas Foundation in the fourth quarter of this year, and as you will recall, we contributed $7 million to that foundation in the fourth quarter of 2005 sic [2004].

Operation and maintenance expense in both the quarter and the full year, were in line with the combination of our growth and normal inflationary pressures. Increases came from areas you would normally expect, mainly employ benefits and the payroll. Overall, we are very proud of the conscientious manner in which all employees are managing expenses.

Let me turn now to the results of our two rate cases, one in North Carolina and one in South Carolina. Our North Carolina rate case had rates become effective November 1, 2005, the beginning of our fiscal 2006 year. We received a margin increase of $20.1 million, and as Tom mentioned, there were a number of strategic features associated with this case.

First, we were able to consolidate all North Carolina tariffs into a single tariff and set of service regulations. Also, we have in place an experimental three year customer utilization tracker, which has the affect of decoupling the recovery of our margin from the amount of throughput on our system. Therefore as Tom mentioned, we have finally aligned in North Carolina both the interest of our customers and of our shareholders. Another important feature of the case is that all gas costs associated with uncollectibles will be permitted to flow through the PGA rather than VA-based rate items. So, the only amount that we have in our base rates for uncollectibles would be that portion relating to our margin.

In South Carolina, we completed the first filing by us under the South Carolina Rate Stabilization Act. As you will recall that was enacted by the governor of South Carolina and permits gas companies of South Carolina to file rate updates under the mechanism rather than go through a full blown rate case. We settled that case and received a margin increase of $2.6 million. That allows us to maintain our rate of return on equity in South Carolina at 12.6% which is the rate of return on equity allowed in our last rate case there. Because we have made the voluntary election to file under the Rate Stabilization Act, we are now required to file annually to update our costs and revenues.

In those updates, anytime we are earning above 50 basis points above our allowed ROE which would be 13.1%, we would have to decrease our rates. To the extent that we were earning less than 50 basis points below that 12.6%, or 12.1%, we would be allowed to increase rates.

And with that I will now turn it over to Kevin O'Hara.

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

Thank you, Dave. I will be covering our earnings from Cardinal Pipeline, Pine Needle LNG, SouthStar, and Hardy Storage Company. In the earnings I'll go over our Piedmont share, the earnings from these joint ventures.

Cardinal Pipeline -- this is our North Carolina intrastate pipeline -- of which Piedmont has a 21.5% ownership interest. In fiscal year '05, our earnings are $960,000 versus $1.1 million for fiscal year '04, and that variance due to a one time income tax expense adjustment.

For Pine Needle, this is our FERC-regulated 4 Bcf interstate LNG storage facility in Guilford County, North Carolina. We have a 40% ownership interest, and for fiscal year '05 earnings are $2.9 million versus $2.4 million for fiscal year '04; that positive variance primarily coming from lower A&G expenses and a one time inter company interest income true-up. We do plan to file a rate case with FERC in May 2006 for Pine Needle.

SouthStar is our retail marketing joint venture with AGL resources of which Piedmont has a 30% ownership interest and we share earnings at 25%. For fiscal year '05, earnings are $13.9 million versus $11.9 million for fiscal year '04; the positive variance primarily due to higher commodity margins in the Georgia market.

Hardy Storage -- this is our joint venture with Columbia Gas Transmission to design, build and operate a 12.4 Bcf storage facility in Hardy County, West Virginia. We have a 50% ownership interest in Hardy. As Tom mentioned, we received a certificate from FERC on November 1st that included a 14% return on equity and a 70:30 debt-equity cap structure. On December 1st, one of Hardy's customers, the city of Charlottesville, along with The American Public Gas Association, of which Charlottesville is a member, filed for a rehearing: there's a disagreement with the FERC provision around the treatment of income taxes, and we are in the process of working through a solution with Charlottesville and we intend to reach a settlement very soon, and we still expect the project to be in service by April 2007.

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

Okay, thank you Kevin. And with that I am going to turn the meeting back over to Headen Thomas, who is going to conduct our question-and-answer session. Headen?

Headen B. Thomas, Director of Investor Relations

Thank you, Tom. Brad, I believe that we are ready for you to lead us through the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Indeed, I'd be happy to, and thank you very much, Mr. Skains, Mr. Dzuricky and our host panel, and ladies and gentlemen and as you have just heard, at this point we turn towards your questions and comments and we invite you to queue up at this point. [Operator Instructions]. And representing BB&T, our first question, we go to the line of Michael Creager. Please go ahead.

<Q – Michael Creager>: Good afternoon.

<A –Thomas Skains>: Hi, Michael.

<Q – Michael Creager>: Hi. Can you tell me, what's the EPS impact from the two rate increases in the Carolinas, I guess embedded in your fiscal '06 guidance?

<A – David Dzuricky>: Michael, this is Dave Dzuricky, thanks for the question. The EPS impact of those two rate cases would be the two numbers that I gave you, summed, less tax effects.

<Q – Michael Creager>: Okay, so roughly $0.16 or so, does that sound right?

<A – David Dzuricky>: If that's what the math yields, yeah.

<Q – Michael Creager>: Okay. And then also, can you tell me what customer growth you are assuming in '06?

<A – David Dzuricky>: We are assuming our normal growth that we have been experiencing over the years.

<Q – Michael Creager>: 3%, is that what...?

<A – David Dzuricky>: Yes.

<Q – Michael Creager>: Okay. And then, last question, on the $181 million CapEx budget for next year – can you break out any specific components of that, that you would consider to be out of the norm relative to your just normal system maintenance?

<A – David Dzuricky>: No, it would be very difficult at this point in time, Michael, to break that out for you, as that information is really not publicly available.

<Q – Michael Creager>: Okay. Do you know where you came in for fiscal '05 on CapEx?

<A – David Dzuricky>: Yes, I do. I am sorry to be so coy with you, Michael, it's just we're a week or two away from the issuance of our 10-K, and I am extremely sensitive to mismatching comments at this point in time versus getting it out into the public in just a couple of weeks. And I apologize for that.

<Q – Michael Creager>: Okay. No I understand. Thanks a lot.

Operator: And thank you sir. [Operator Instructions]. And representing Janney Montgomery Scott, our next question we go to the line of Dave Schanzer. Please go ahead.

<Q – David Schanzer>: Hi, good afternoon. Congratulations on a good year.

<A – Thomas Skains>: Thank you, Dave. How are you?

<Q – David Schanzer>: We are doing fine. I've got a series of questions, small ones actually, but maybe you can give us some color. First of all, given what we know so far about the weather, in your part of the world and where prices are, what would your guess during this heating season be, as far as sensitivity to the gas prices? What kind of percentage increase do customers actually face over the next couple of months?

<A – Thomas Skains>: Dave, I'm going to turn that over to Frank Yoho, who will address where our gas cost benchmark is and our rates, and what kind of rate increase we've had to reflect higher wholesale gas costs. Frank?

<A – Franklin Yoho>: Dave, right now we are expecting that, as we've published before, it's probably, dependent upon exactly where you sit in our system, a 40 to 60% increase as to what a customer would have experienced last year. Once again, we have had a cold start to December, and that's all assuming that the weather ends up normal average for the year, or if it continues cold, or if it gets warmer, but that's just under the assumption of normal weather right now.

<Q – David Schanzer>: Okay. So, basically you haven't really changed your forecast given what you've seen so far?

<A – Franklin Yoho>: That's correct.

<A – Thomas Skains>: Dave, we review that monthly. And, if we see something that would cause us to change the benchmark component of the gas cost in our rates, we would certainly make that change, but at this point, we are holding steady.

<Q – David Schanzer>: Okay. Tom, you were talking about the support for some of the national initiatives. One of the things you mentioned was LNG. Is there any fledgling plan at this point to try and locate an LNG facility in the Carolinas?

<A – Thomas Skains>: I have not heard of anything of late. There was, a few years back, as you may recall.

<Q – David Schanzer>: Right.

<A – Thomas Skains>: El Paso was involved many years ago, but nothing I have heard recently – I mean, as you know, Cove Point is strategically located to serve our markets very well. When those volumes flow on Dominion and hit the Transco main line, we are able to displace Cove Point deliveries back to all of our city gates up and down the North Carolina service area. So, operationally, Cove Point fits us very well and the economics of Cove Point would be very difficult for a new plant in North Carolina to beat.

<Q – David Schanzer>: Okay. Well that answers my next question. In addition to that, the change in management at AGL; is there any preliminary indication that their interest in SouthStar would be maintained at this point, or is it too soon to tell?

<A – Thomas Skains>: Frankly, Dave, we've not had any discussions with them on that subject.

<Q – David Schanzer>: Okay. And then also could you give us kind of an idea where you see the next rate situation evolving, in terms of an interface with a commission – is it in Tennessee or back again in North Carolina?

<A – Thomas Skains>: I'm going to let Dave answer that one.

<A – David Dzuricky>: Dave, the next interface with a regulator, as you say, will be in South Carolina under the Rate Stabilization Act.

<Q – David Schanzer>: I meant besides in South Carolina.

<A – David Dzuricky>: Oh, I am sorry, okay. Well, we know for sure that we will need to go back in North Carolina within three years. The customer utilization tariff that was approved by the North Carolina commission on an experimental basis, has that experiment end in three years. So I think it's fair to say they expect to see us back at the end of three years.

<Q – David Schanzer>: How about in Tennessee?.

<A – David Dzuricky>: Tennessee, I don't see us going in there this year.

<Q – David Schanzer>: Okay. So it's at least a year off?

<A – David Dzuricky>: Yeah, the rate department is just sitting there twiddling their thumbs.

<Q – David Schanzer>: Not a bad job.

<A – David Dzuricky>: Well, there is this thing called high gas prices, and all the work that needs to be done from a PGA point of view, as well as the interface with the commission because of the high prices, so it's keeping them very busy.

<A – Thomas Skains>: Let the record reflect that Dave's comment was a humorous one, regarding the rate department.

<Q – David Schanzer>: It was taken that way, guys. And then lastly, I don't know that this is something you guys can address, but I was just curious, given what we've heard in some states that maintenance CapEx budgets have been cut back and so forth. In terms of maintenance CapEx, is there any way, percentage wise, to break down the dollars that you spend by state, percentage wise, without getting into the actual numbers? Is it akin to the breakout of what your businesses are state by state?

<A – David Dzuricky>: Yeah, it would be on a longer wave basis, Dave. Of course, in any give year we may have large system strengthening programs that are ongoing in one state or another. But if you took kind of a three year average of our maintenance CapEx, and looked at it on the same basis that we have our business set up, then you are probably fairly close.

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

<A – Thomas Skains>: Dave, I do want to brag just a second about our folks in Tennessee. Earlier this year, we completed a 15 year project to replace the cast iron and bare steel pipes in our Nashville service area at a cost over that 15 year period of $62 million. So we are dedicated to spending the amount of capital, the maintenance capital, to keep our pipelines safe, and in the highest degree of integrity. So I just want to make that point, we are very proud of that program and our employees who implemented it.

<Q – David Schanzer>: Good. Well, have a good 2006. Keep up the good work.

<A – Thomas Skains>: Thank you sir.

Operator: And thank you very much, Mr. Schanzer. Next we go to the line of Peter Hark with Talon Capital. Please go ahead. And Mr. Hark, your line is open. If you are speaking, we can't hear you. Pease check your mute key.

<Q – Peter Hark>: Oh, I'm sorry. Good afternoon everybody.

<A – Thomas Skains>: Hi Peter.

<Q – Peter Hark>: Hi. Hi guys, how are you? Just quickly a reconciliation question first. I think you put out guidance of 1.20 to 1.35 for '06; you've got rate increases totaling 23 million coming from both North Carolina, South Carolina combined. I'm working that out to be about $0.18 additive. Weather was light and hurt you -- it was about 5% warmer than normal, and then you have got growth – normal growth is a pickup as well. So, I am trying to reconcile going from, well you reported $1.32, but I am backing out the penny that you made on energy transfer partners in the second quarter. I am working off of $1.31, but how do I reconcile going from $1.31 to $1.20, $1.35 when I have got a lot of stuff going our way here.

<A – David Dzuricky>: Peter, this is Dave Dzuricky. The most recent company press release on fiscal 2006 occurred on November 3rd and, as you noted, established guidance in the range of $1.20 to $1.35. As we stated at that time, our company policy is to undertake no obligation to update publicly any forward-looking statements like guidance, either as a result of new information, future events or otherwise, and that policy continues to apply. I do believe that a number of the answers to your questions will be revealed in the 10-K when it's issued in January, and would ask your indulgence to hold those questions until you have a chance to review that document.

<Q – Peter Hark>: Okay, that's fair. What materially has happened since November 3? Have you gotten final rate orders in those jurisdictions post the issuance of those – of that guidance?

<A – David Dzuricky>: No. We already had those rate orders when we issued the guidance.

<Q – Peter Hark>: Right, okay. Secondly, on the share repurchase authorization, I think you went from 3 to 6 million, but that was due to doubling of the shares under the stock split, and then you increased it by another 4 million to 10. First, how much have you done under the original three or six, post-split?

<A – David Dzuricky>: Yeah. On a post-split basis we've done a little over 1 million shares there. But what we are trying to do with the share repurchase program, Peter, is to repurchase enough shares to cover the needs for equity associated with our dividend reinvestment plan, our employee stock purchase plan, and the company's long-term incentive plan. We were just trying to not have the shares continue to increase through new equity issuance.

<Q – Peter Hark>: Oh, I see, because I kind of read it also as an opportunity for you to lever up a little bit, where you have total debt right now 45% to 50%, and you could raise that about 5%, 500 basis points?

<A – David Dzuricky>: That was the subject of the press release that was issued last Friday.

<Q – Peter Hark>: Right. So I don't know if my calculation is right, but that equates to about $75 or $80 million of borrowing capacity just to buy back stock?

<A – David Dzuricky>: Well, at 23 to 24 bucks times 4 million, you're exactly right.

<Q – Peter Hark>: Right. I mean, is something like that – that would be like a post-November 3rd event that may not be factored into your previous guidance for '06?

<A – David Dzuricky>: Our guidance speaks for itself, Peter.

<Q – Peter Hark>: Okay. And then lastly, I guess on the doubling of the shares outstanding from 100 to 200 million. I mean, is this an indication of the company's interest to use Piedmont stock as a currency in combination. Because at these kind of levels, I mean, you have a very valuable currency and just even on the midpoint of stated guidance, to be buying back stock at these levels, it imputes about a 5% after-tax return, or 8% pre-tax. So, to the extent that we look at you to use Piedmont currency, would we be using that as a threshold on which to beat something in lieu of a buyback?

<A -- David Dzuricky>: Yeah. I am not sure at this point, Peter what the question is, but I can tell you that in 1997, we asked our shareholders to increase the number of authorized shares at that time, some 50 million to $100 million. As a practical matter – I am sorry, shares, I am sorry. As a practical matter, we didn't use that until we financed the acquisition of North Carolina Natural Gas in 2004, and effected the stock split in 2004. So, one could just view that as having an extra arrow in one's quiver.

<Q – Peter Hark>: So, it's really just a question of flexibility, you're giving yourselves some additional options?

<A – David Dzuricky>: We prefer to have the maximum flexibility possible when it comes to finance and financial engineering.

<Q – Peter Hark>: Okay. And then lastly, it's on SouthStar, I guess looking at '05 results, you posted about $0.18 contribution, $0.18 per share contribution from SouthStar. What's your expectations for '06? Should that go up or down or remain flat?

<A – David Dzuricky>: We really can't comment to that either Peter.

<Q – Peter Hark>: Okay. All right. And should we just look at Pine Needle and Cardinal absent of FERC filing, as somewhat of an annuity?

<A – David Dzuricky>: We really can't comment on that either Peter.

<Q – Peter Hark>: Okay. All right, well we'll look for your 10-K in a few weeks. Thanks very much.

<A – David Dzuricky>: That would be great, thank you so much.

<Q – Peter Hark>: Okay. Thanks.

Operator: And thank you Mr. Hark. Well, with that Mr. Skains and our host panel, I'll turn the call back to you, there are no further questions.

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

Okay. If there are no further questions… Yeah, I want to thank everyone for calling in today to hear about our year-end and fourth quarter results, and we wish all of you and yours a very happy holiday, and look forward to talking with you again next year at our Annual Shareholders Meeting, which will be March 3 in Charlotte, at our new corporate headquarters at Piedmont Town Center. Good bye everybody.

Operator: Very good and congratulations Mr. Skains. And ladies and gentlemen, your host is making today's conference available for digitized replay – it's for two weeks, starting at 6:00 PM Eastern Standard Time December 19, all the way through 11:59 PM January the 2, 2006. To access AT&T's Executive replay service simply dial 800-475-6701. At the voice prompt enter today's conference ID of 806360. And that does conclude our earnings call for this fourth quarter and year-end 2005. We'd like to thank you very much for your participation as well as for using AT&T's Executive Teleconference Service. You may now disconnect.

