
MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Piedmont Natural Gas First Quarter Earnings Conference Call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Instructions will be given at that time. [Operator Instructions]. As a reminder, this conference is being recorded. I will now like to turn the conference over to our host Mr. Headen Thomas. Sir, please go ahead.

Headen B. Thomas, Director, Investor Relations

Good afternoon, and thank you for joining us for our first quarter earnings conference call. Our earnings release was issued on March 3, and 10-Q was filed yesterday. Both are available on our webcast at piedmontng.com. With me today on 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 discussions begin, 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 31 and 32 of our 2005 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

Thank you Headen and good afternoon everybody. And thanks for participating in our fiscal 2006 first quarter conference call. It was great to see many of you in Charlotte recently at our Annual Shareholders meeting and if you were not there, my remarks to shareholders are archived at our website piedmontng.com. As you know following the annual meeting we announced a dividend increase from \$0.23 to \$0.24 per share, the 28th consecutive year our board has increased the dividend for shareholders. Our first quarter earnings were shaped by the impact of high and volatile natural gas prices, customer conservation and warmer than normal weather. With the \$0.94 per share we realized our expectations were met and we reaffirmed earnings guidance for this year from \$1.20 to \$1.35 per share in our first quarter press release. Notwithstanding the pricing pressure we are under, our markets and our customer base continue to grow at a healthy pace. This growth reflects the strength of our markets, the value of our relationships with key trade allies, and the intrinsic value that natural gas service provides in so many different customer applications. We are also continuing our proactive strategic approach to the key issues facing our industry and our company by strongly advocating the need for greater access to domestic sources of natural gas supply, pushing for greater fuel diversity at both new and existing electricity generation facilities across the nation, encouraging the development of additional LNG import capabilities to public policy makers and elected officials at the local, state and federal levels.

Closer to home, we continue to work to strengthen and improve the services we provide to our customers which were severely challenged this year by high winter gas bills and the resulting stress on our customer service operations. This has been an extremely difficult winter for the natural gas industry, for Piedmont and for our customers. I'm confident, however, that we and our industry will

be successful in addressing the issues that we face and that we can emerge even stronger as we add value to the communities and customers we serve and to our shareholders.

I would now like to announce the agenda for the remaining portion of the conference call. Frank Yoho will address our commercial operations, Dave Dzuricky will conduct our financial review and Kevin O'Hara will cover our joint venture activity. After that we will open up the call for your questions. Now I would like to turn the call over to our Frank Yoho. Frank?

Franklin H. Yoho, Senior Vice President, Commercial Operations

Thank you Tom. Starting off our first quarter, weather was 10% warmer than normal compared to last year where it was approximately 9% warmer than normal. Our core recruitments [ph] at first quarter was 66 Bcf compared to last year's 71.7 Bcf. We saw lower volumes due to slightly warmer weather than last year, power generation load which was down, conservation in our core markets in December with price of natural gas a small amount of alternative fuel loss in our industrial markets. Margins were \$209.4 million in the first quarter this year versus \$202.6 million last year. This was due to continued strong growth in our residential and commercial markets and last year's North Carolina rate case. Also the rate case in North Carolina customer utilization tracker allows us to help our customers in their conservation efforts. Growth in the economy in our market territory is still very healthy specifically in the residential and commercial market where we've seen in the first quarter 9,300 additional customers versus last year's also very strong number of over 9,500 additional customers. We continue to see success in our secondary marketing activities where we share these dollars achieved with our customers. This year shareholders achieved \$1.9 million in the first quarter versus last year's first quarter of \$1.5 million.

Hedging, our hedging programs also have created value in the upward pressure of market we experienced, and adds value to decrease gas cost approximately \$20 million for the winter period. Storage, as our [ph] numbers are also like national numbers, we have currently a very strong storage position as we go into spring and storage proceeds in the summer. Also this past week Midwestern announced that FERC approved gave certificate for Midwestern expansion project in which we are significant customer of that will bring gas from the Rocky's and Canadian into the Chicago hub moving to our Tennessee, it's up to our North Carolina and South Carolina market. That was approved by the FERC this last week. Also in the industrial market sector we have seen pricing pressure on these customers. We saw a small hiccup in December but most of that – to a alternate fuel but most of that market has been recovered and with the current spreads we see ourselves continue to maintain the number two load and potential capturing number six load [ph]. With that I will hand call over to Dave.

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

Thanks, Frank and good afternoon everybody. High wholesale prices have affected us in the areas other than margin. Frank has covered that part of the effect of high wholesale prices, let me just cover a few others. We have had an increase in several areas of our operation and maintenance expense associated with the price of gas at the wholesale level where it had been in the first quarter specifically our customer service expenses associated with using third-party representatives as well as internal labor to beef up our contact center had upward pressure on our operational and maintenance expenses.

Also we had an increase in regulatory expense due to the higher revenue levels compared to last year. Also another operating and maintenance expense issue, we have had significantly greater borrowings this year related to receivables and storage and that also has put upward pressure on

our interest expense. Notably one of the regulatory initiatives in which we were involved in North Carolina is reflected in the fact that even with the very high prices, we did have lower provision for uncollectibles due to the change in the recovery of gas costs in North Carolina as reported in the Q and covered more deeply in the order – in our rate case, the gas cost component of our uncollectible expense in North Carolina is now recovered through our PGA rather than through base rate, so the amount we have at risk in North Carolina relates solely to the margin. We also had an increase in our lease expense for the new building, I feel while it's not significant increase just to remind those on the call that we owned our old building, so the offset to the increase in the lease expense would be attributable in our depreciation of property taxes, direct maintenance of the old building, and in interest expense. So while there was a significant increase due to the new building there were offsets in other non-operation and maintenance expense accounts. Other than that it was fairly normal first quarter from a financial performance point of view obviously high wholesale prices were story for the quarter.

And with that I am going to turn the call over to Kevin O'Hara.

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

Thanks, Dave. The earnings that I am going to report are for our joint ventures and these are Piedmont's share of earnings from the ventures. I will start with Cardinal; this is our North Carolina interstate pipeline joint venture of which Piedmont has 21.5% ownership share. In the first quarter of '06 our earnings were \$280,000 versus \$220,000 of the first quarter last year. Pine Needle LNG; this is our FERC-regulated 4 Bcf interstate LNG storage facility in Guilford County, North Carolina. We have a 40% ownership interest in Pine Needle, and in the first quarter of '06 our earnings were \$600,000 versus \$580,000 last year in the first quarter.

Pursuant to our 2003 rate case settlement with FERC, we did agree to file a general rate case within three years of that order. That three years is up and we plan to have a filing in to FERC by May 1 of this year. SouthStar a retail marketing joint venture with AGL Resources Piedmont has 30% ownership interest and a 25% share of the earnings. In the first quarter of '06 our earnings were \$2.5 million versus \$2.6 million for the first quarter in 2005 and Hardy this is our joint venture with Columbia gas transmission to build and operate a 12.4 Bcf natural gas storage facility in Hardy County, West Virginia. We have received authorization from FERC to proceed with construction and we are on schedule to go into operation in April of 2007. And with that I will turn it back over to Headen.

Headen B. Thomas, Director, Investor Relations

Thank you Kevin. Teresa, this time, I think we're ready for you to moderate the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Our first question is from Peter Hark with Talon Capital. Go ahead please.

<Q – Peter Hark>: Yes, good afternoon everybody. I had a quick question regarding the cut mechanism in North Carolina and how that will differ financially from the weather normalization adjustment clause?

<A – David Dzuricky>: Peter, this is Dave Dzuricky. Thank you for the question. The cut mechanism in North Carolina and North Carolina is roughly 65% of our utility business. It makes adjustments both for differences in weather variations from normal as well as for the amount of gas consumed per degree day compared to what we have built into the rate case that went into affect November 1. Put another way, if an average customer used a decatherm of gas on a cold winter day as reflected in our rate case and because of conservation or equipment change outs only consumed nine-tenths of decatherm, there would be a margin adjustment for that extra tenth of a decatherm along with any changes initiated with the weather. So it not only adjusts for change — variations from normal and weather but it also adjusts for variations from our base level of consumption per degree day in the rate case to the amount that is actually experienced.

<Q – Peter Hark>: I got you. So you don't have to separate that which is attributable to declining usage profile just from conservation versus how the weather might impact usage itself. It's all collected under the cut and you get benefit of both of that.

<A – David Dzuricky>: Exactly. That's absolutely correct Peter.

<Q – Peter Hark>: Okay Dave. And then just using the first quarter as an example I think you cite that there was \$5 million net increase from the cut versus the elimination of the WNA mechanism. So that's – that would just be quarterly impact and a benefit to you in that first quarter, is it fair to kind of extrapolate that out for the remainder of 2006 and how that might work?

<A – David Dzuricky>: Well, obviously for the rest of the year you have a whole different set of consumption amounts for – the way you have less degree days. So it would be difficult to extrapolate it on that basis, Peter.

<Q – Peter Hark>: Okay, okay. Second question has to do with your disclosure on the accelerated repurchase plan. I was wondering how that might work. You are saying that you are going to be repurchasing 4 million shares over a four-year period, but would it be done through a contract whereby you get to take these four million shares out of the average share count up front?

<A>: We have the flexibility to do all or none of those at any given time but given the four million shares over four years you can expect that we will take a programmatic approach to it, Peter.

<Q – Peter Hark>: But I guess again just to be clear I mean its easier to conceptualize doing roughly 1 million shares a year for four years but we have seen some contracts where you can take those out of the market today and have a third party execute that contract over the four-year duration yet you might get the benefit of taking those four million shares out of calculation on an upfront basis

<A>: Right I understand and that is how some of them have operated.

<Q – Peter Hark>: Will yours operate that way or not?

<A>: I don't believe so, Peter.

<Q – Peter Hark>: Okay. All right, well thank you very much.

<A>: Yes sir.

Operator: Thank you. Our next question is from Heike Doerr with Janney Montgomery. Go ahead please.

<Q – Heike Doerr>: Hi, gentlemen. Quick question about this rate case with the FERC that relates to Pine Needle, can you give us a little more detail on how long you expect that to take, what kind of filing that is, how much things like that?

<A – Kevin O'Hara>: This is Kevin O'Hara. Thank you for the question. No, we haven't finalized the filing yet but it is due by May 1.

<Q – Heike Doerr>: And how long does the FERC's decision typically take, is it faster than the State decision>?

<A – Thomas Skains>: This is Toms Skains, typically there is a suspension period and if I recall correctly a one month notice period. So, rate cases at FERC normally go into effect about 6 months, 5 to 6 months after filing subject to resolution unlike state rate cases that we operate in here where the matter is resolved before the rates go into effect. Typically at FERC rates go into effect subject to refund based upon what files and based upon the ultimate resolution of the case which in most cases are resolved by settlement..

<Q – Heike Doerr>: Okay. Thank you.

Operator: Thank you. [Operator Instructions]. I am showing there are no further questions at this time. Gentlemen, you may continue.

<A>: Okay, Teresa. At this time, I would like to turn it over to Tom for closing remarks.

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

Okay, I would just like to thank everyone for tuning in today. Thank you for your questions, thank you for your interest in investments in the company and I know we will see many of you at the American Gas Association Legal Forum – I am sorry, the Financial Forum in May. So we look forward to visiting with you further at that point in time. So good afternoon and good bye.

Operator: Ladies and gentlemen, this conference will be available for replay after 6 PM today through March 28, 2006 at 11:59 PM. You may access the AT&T teleconference replay system at any time by dialing 1-800-475-6701 and entering the access code 820711. International participants may dial 320-365-3844. Those numbers again are 1-800-475-6701 and 320-365-3844, access code 820711. So that concludes our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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