
MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session, with instructions given at that time. [Operator Instructions]. As a reminder this conference is being recorded.

I would now like to turn the conference over to Mr. Headen Thomas. Please go ahead.

Headen B. Thomas, Director of Investor Relations

Good morning, and thank you for joining us for our second quarter earnings conference call. Our earnings release was issued on June, the 7th, and the 10-Q filed this past Friday. Both are available on our website at piedmontng.com. With me today for the conference call are Dave Dzuricky, our Senior Vice President, and CFO; Frank Yoho, our Senior Vice President, Commercial Operations; Kevin O'Hara, our Senior Vice President, Corporate and Community Affairs, and other members of the management team.

Before the discussions begin, I would like to advise you that our comments address Piedmont's business outlook and 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 Senior Vice President and Chief Financial Officer, Dave Dzuricky.

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

Thank you, Headen and good morning and welcome to our second quarter earnings conference call. As many of you are aware Tom Skains our CEO normally hosts our earnings conference call. However, Tom's on vacation this week and will not be participating today.

First off, I'd like to take this opportunity to introduce two new members of our executive management team. Michael Yount joined us on April 17 as Senior Vice President, Utility Operations. Michael has the responsibility for our Distribution and Utility Services, Field Operations, Engineering, Environmental, Construction, Operations Support & Services, Codes & Standards, Measurement, System Design and Training, Pipeline Safety and Gas Control.

Michael was formerly a Vice President and Consultant with Senn-Delaney Leadership Consulting Group where he worked with our management team developing leadership skills and creating a healthy, high performance culture throughout the company. Michael has an extensive natural gas industry background with Williams/Transco and he received his Bachelor of Mechanical Engineering degree from Georgia Institute of Technology.

Jane Lewis-Raymond joined us on April 27 as Vice President, General Counsel and Chief Compliance Officer. Jane is responsible for our legal affairs, corporate compliance issues and is our corporate secretary. She comes to us from the American Gas Association where most recently she was Vice President, regulatory affairs. She advised AGA's member company Board and Government Relations Policy Committee on rate and regulatory matters pending before the FERC and state regulatory commissions. Jane received both her BA and her law degree from the

University of Maryland. Jane and Michael both report directly to Tom Skains, our CEO, and are members of Piedmont's executive management team.

In addition to Michael and Jane, the executive management team is comprised of Kevin O'Hara, Senior Vice President Corporate and Community Affairs; Frank Yoho, Senior Vice President, Commercial Operations; June Moore, Vice President, Customer Service; Tom Skains, CEO and myself. I've just reviewed the responsibilities of Michael and Jane, and would like to briefly review new responsibilities of the other members of the executive management team.

In addition to his commercial responsibilities, Frank Yoho will also add State Regulatory Affairs and Gas Accounting to his accountabilities. I will be assuming responsibility for Investor Relations, Business Development, Procurement and Joint Venture Management. Kevin O'Hara's responsibilities changed the most. He will be handling Legislative and Community Affairs, the PNG Foundation, Corporate Communications, Media Relations, Human Resources, as well as Building Services.

You may have noticed that we added two members to our Board of Directors effective July 1. They are Vicki Wilson-McElreath, who will be retiring as the managing partner of PricewaterhouseCoopers in the Carolinas and James Burton, who is the Dean of the Jennings A. Jones College of Business at Middle Tennessee State University. We are pleased to have these leaders join our Board and importantly both will be added to the Audit Committee of the Board.

As to the remainder of the conference call, Frank Yoho will address our commercial operations and then I will conduct a financial review and Kevin O'Hara will cover our joint venture activities and our management restructuring plan. After that we will open the call to your questions.

And now, I would like to turn the call over to Frank.

Franklin H. Yoho, Senior Vice President of Commercial Operations

Thank you, Dave. Commercial operations throughput for the second quarter was 52.6 Bcf versus throughput last year which was 59.4 Bcf. This was driven primarily by weather which was 7% warmer than normal and warmer than last year, along with conservation, we experienced due to the high prices this past winter.

Second quarter margin was approximately – was \$154 million versus 140 million – \$140.7 million last year for the second quarter. The increase was driven by the North Carolina rate case, South Carolina rate stabilization and continued customer growth on our system. Secondary marketing activities resulted in increase in earnings for shareholders and increased dollars for shareholders at \$2.6 million this year versus \$1.5 million for the same second period quarter – second quarter period last year. Volatility in the marketplace created opportunities, where we have seen an increase, values created there.

As with the national picture, our storages are currently in very good shape before the fall season and winter heating season kicks in. And we also are continuing our hedging plans, putting positions in place, going forward.

In the industrial market sector, the good news here is with the high price of oil, we've been successful in recapturing much of the No. 6 alternate fuel market we have in our industrial marketplace.

With that, I will give the call back over to Dave.

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

Thank you, Frank. Kevin, would you please review the joint venture activities for the quarter.

Kevin M. O'Hara, Senior Vice President, Corporate and Community Affairs

Thank you, Dave. I will cover our second quarter earnings from our Cardinal Pipeline, Pine Needle LNG, SouthStar LLC and our Hardy Storage projects and the earnings that I am reporting, are Piedmont's share of the earnings from these joint ventures.

Cardinal Pipeline, this is our interstate – intrastate pipeline joint venture of which Piedmont has a 21.5% ownership interest. In the second quarter of '06, earnings were very close to '05 with \$266,000 versus \$238,000 for the second quarter of last year.

For Pine Needle LNG, this is our FERC-regulated 4 Bcf interstate LNG storage facility in Guilford County, North Carolina. Piedmont has a 40% ownership interest and in the second quarter of '06 our earnings were \$570,000 versus \$497,000 last year in the second quarter. Year-to-date, our earnings are \$1.2 million in '06 versus \$1.1 million in '05. And as was required in the last Pine Needle rate case, Pine Needle filed for a rate case in May of this year that proposes an overall rate of return of 11% and an ROE of 13.6%. The procedural schedule for that rate case has not been set as of today.

SouthStar, this is our retail marketing joint venture with AGL Resources of which Piedmont has a 30% ownership interest and our share of the earnings is 25%. In the second quarter of '06, our earnings were \$11.4 million versus 8.1 in the second quarter of '05. That positive variance is mostly due to SouthStar's strong winter quarter, with a positive retail price environment as well as 23% colder-than-normal weather.

Year-to-date, earnings are \$13.9 million, versus \$10.7 million for fiscal year '05.

On Hardy, this is our joint venture between Piedmont and Columbia Gas Transmission to build and operate a 12.4 Bcf natural gas storage facility in Hardy County, West Virginia. We have made a lot of progression with construction, we're finalizing our financing and should have that complete by the third quarter of '06. And we are still on schedule to go into service in April of 2007.

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

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

Thank you, Kevin. Let me cover the remainder of the financial results and then turn this back to Kevin to talk about our management restructuring plan. For the quarter the two biggest items, well the three biggest items were our increase in margin which Frank covered, or the increase in joint ventures and then the significant increase in operation and maintenance expenses.

For the quarter, earnings were up little over 10% to \$43.7 million. Operation and maintenance expenses were up significantly in the quarter in fact \$7.4 million higher than last year's second quarter. \$4.4 million of that increase, relates to a charge taken in the second quarter as part of our management restructuring plan as we stated in the 8-K relating to the plan, our estimates for the one-time non-recurring charge will be \$7 to \$8 million, so with \$4.4 taken in the second quarter, the range that remains is \$2.6 million, the \$3.6 million if I'm doing my arithmetic correctly.

We also had significant increases in outside services in order to bolster the resources available to our customer service area. We have done that and that contributed significantly to the increase as well.

Partially offsetting that was a decrease in our uncollectible expense because if you will recall in our North Carolina rate case that became effective November 1 of this year, we were permitted to include the gas cost component of our uncollectible expense in our PGA calculations and roll it through the un-recovered account, which made a significant difference in the accruals for this year versus last year. So actually our uncollectible expenses have been reduced year-on-year as a result of that regulatory change.

A couple of items other items on the financial statement side. We have completed our 1 million share stock buyback program. That is complete. And also, as you will have seen in press release that we issued last Wednesday for our earnings announcement, we reaffirmed the guidance in the \$1.20 to \$1.35 range, but also have included in that reaffirmation the one-time non-recurring management restructuring cost. So, we were pleased with the quarter and the Board obviously approved the payment of our dividend for the quarter at \$0.24 a share.

And with that I will turn it over to Kevin to talk about the management restructuring plan.

Kevin M. O'Hara, Senior Vice President, Corporate and Community Affairs

Thank you, Dave. In April, Piedmont offered a voluntary early retirement program and it was offered to members of Piedmont upper management, who were or are of retirement age. There were 23 individuals who were offered this retirement package and there were 22 individuals who accepted the package.

Piedmont plans to complete the remaining organization restructuring effort by the middle of July. And as Dave mentioned, there are one-time costs of 7 to \$8 million that will be recorded in the second and third quarter. Dave?

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

Thank you, Kevin. As part of the management restructuring plan Kevin just described, three key members of our financial team decided to accept voluntarily early retirement packages, and these individuals are well known to many of you. They are Ted Coble, our Vice President and Chief Risk Officer; Barry Guy, our Vice President and Controller; and Headen Thomas, our Director of Investor Relations and Corporate Communications.

Ted joined Piedmont in 1969 and progressed through many financial positions at the company. Along the way, he made significant contributions to the success of Piedmont including the financing of our North Carolina Natural acquisition. Barry has been with the company for 28 years and has done an outstanding job as our Controller providing clarity to our financials, while navigating the required complexities of accounting and financial reporting.

In his 23 years with the company, Headen has filled a number of roles including Tax Manager, Investor Relations and Corporate Communications. Most of you know Headen well, and I'm sure you will agree he has done an outstanding job in the investor relation's role that he has been in for the last number of years. And I would like to express on behalf of our Board and the whole management team our sincere appreciation to Barry, Ted and Headen.

And at this time, I'd now like to turn the call back over to Headen.

Headen B. Thomas, Director of Investor Relations

Thanks, Dave. I appreciate that. I've been fortunate to work with both Ted and Barry during my career here at Piedmont and I agree with Dave's praise of both of these men. It's a great company and I've really enjoyed working here. Additionally, I've enjoyed working with many of you people that are on the conference call today.

Finally, I would like to say that my thoughts are with the family of David Schanzer. Many of you may know he passed away suddenly last Wednesday. I have fond memories of working with him and meeting with him and his clients and visiting Janney Montgomery Scott's office.

And now at this time I would turn the call over to Julie to conduct the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. And we have no questions on the phone line. Please continue.

Headen B. Thomas, Director of Investor Relations

Okay Julie, thanks for that. At this time, I will turn it over to Dave for closing remarks.

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

Just would like to thank everybody for their continued support of Piedmont Natural Gas. We appreciate all that you do for us. If you have any questions, please feel free to call either Headen, Ted or myself. We would be happy to answer any of those questions for you. And have a great rest of the day. Good bye.

Operator: Thank you. Ladies and gentlemen, this conference will be available for replay after 1:30 PM Eastern Time today, through midnight June 26, 2006. You may access the AT&T Teleconference Replay System at anytime by dialing 1-800-475-6701, and entering the access code 831187. International participants dial 1-320-365-3844. Those numbers again 1-800-475-6701, and 1-320-365-3844, and enter the access code 831187. That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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