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**MANAGEMENT DISCUSSION SECTION**

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

I would now like to turn the call over to Director of Investor Relations, and Venture Administration, Margaret Griffith. Please go ahead.

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**Margaret M. Griffith, Director of Investor Relations and Joint Venture Administration**

Thank you, Janine. Good afternoon, and thank you for joining our third quarter fiscal year 2006 earnings conference call. This call is open to the general public and the media and is being webcast live over the internet. If you would like to access the webcast, please visit our website at [www.piedmontng.com](http://www.piedmontng.com), click on the Conference Call link found under the Investor Relations page.

We issued our third quarter fiscal year 2006 earnings release on September 1st, of 2006 and filed our Form 10-Q for the period ended July 31st, 2006 with the Securities and Exchange Commission on September 8th, 2006.

On the call today we have Tom Skains, our Chairman, Chief Executive Officer and President; Dave Dzuricky, our Senior Vice President and Chief Financial Officer; and Frank Yoho, our Senior Vice President of Commercial Operations who will present prepared remarks. We also have with us other members of our executive management team here to assist with questions as needed. And at the end of the prepared remarks we will open the discussion to questions.

Finally, this call may include forward-looking statements within the meaning of the securities laws. Actual results may materially differ from those discussed in the forward-looking statements and you should refer to the additional information contained in our earnings press release dated September 1, 2006 as well as our most recent Forms 10-Q and 10-K filed with the Securities and Exchange Commission for a more complete discussion of the risks and uncertainties that can cause actual results to vary materially from the forward-looking statements. And with that I will turn the call over to Tom.

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

Thank you, Margaret. Good afternoon everybody and thanks for taking the time to participate in our third quarter earnings conference call. As I said in my press release our third quarter provided many challenges, but the business process improvement actions we have taken have strengthened our financial prospects for the future. In that regard we narrowed our guidance range for 2006 to \$1.25 to \$1.35 per diluted share compared to our prior guidance of \$1.20 to \$1.35 per diluted share.

Now for a quick overview of our quarter. In the third quarter, we completed our previously announced management restructuring program. This restructuring will ensure that our leadership team is organized to deliver competitive services to customers in the most efficient manner possible. We also reached a settlement with the North Carolina Attorney General's Office regarding their appeal of the customer utilization tracker or CUT, which was implemented as a part of our 2005 North Carolina rate case effective November 1, 2005. The CUT is an innovative regulatory mechanism which decouples or separates the collection of utility margin from customer

consumption. The settlement aligns both Piedmont and our customers' interests in the areas of energy conservation and the efficient use of natural gas.

Also during the quarter, we rolled out our Light Up Customer care program in response to the challenges we faced last winter. This initiative is designed to deliver best in class customer service, a goal for every employee in our company. We are pleased with the progress thus far, and look forward to the winter ahead.

Finally, our company continues to experience exceptional customer growth even in an environment of high wholesale gas prices. This growth demonstrates that our customers recognize the real value of natural gas as a clean, reliable, convenient, and comfortable energy source. These outstanding accomplishments are the results of our dedicated and talented employees who work very hard to serve our customers and create value for our shareholders. My personal thank you to all my teammates at Piedmont and to our investors, my thanks for your continued confidence in our company.

I would now like to announce the agenda for the remaining portion of the conference call. Frank Yoho will address our commercial operations, and provide a regulatory update, and Dave Dzuricky will conduct our financial review and cover our joint venture activities. After that we will open up the call for any of your questions.

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

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**Franklin H. Yoho, Senior Vice President of Commercial Operations**

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Thank you, Tom. Volumes for the third quarter were approximately 38 Bcf compared to 35 Bcf last year. We experienced increases in the power generation market along with the industrial marketplace. Margins for the third quarter were \$73 million versus \$76.6 million last year. As we expected our North Carolina rate case caused some summer margin to shift from the industrial class to the more seasonal residential and commercial class. Also our settlement with the Attorney General, as Tom mentioned, of \$750,000 had a \$750,000 impact in reducing margin to that affect.

In our marketplace our year-to-year customer additions still look very, very strong given the economy and our different communities we serve. With this being over 25,000 customers added to-date compared to just shy of 24,000 last year. In our wholesale and secondary marketing – marketplace for the third quarter we experienced \$4.5 million compared to \$3.8 million last year to the same quarter. The hot summer period has driven the power generation market and cost volatility created this opportunity for us. We are continuing our gas hedging plans as we head into the winter and as with the national picture our storage is in very good shape going into the winter. In the industrial markets we've had some success recapturing much of the number six fuel oil market given the high price of oil.

Lastly I will update some regulatory activities we've experienced. On the regulatory front we are pleased to report on several key activities. In South Carolina, Piedmont and the ORS have filed settlement with the South Carolina Public Service Commission on the RSA which reflects an annual revenue increase of \$6.5 million for the year commencing 11/01/06. This amount reflects 11.2% ROE. In addition to our annual South Carolina PGA review, we have received commission approval to recover the gas cost portion of our uncollectibles. In North Carolina as we have mentioned before we have settled with the Attorney General in an appeal of our CUT mechanism and filed this with – filed this settlement with the North Carolina Utilities Commission. The comment period has passed without any protest, and we are now awaiting on the Commission for an order. In this settlement the company will contribute up to \$1.5 million towards conservation efforts and reduction of gas bills. We have already allocated for these dollars in the third quarter of this year. And with that I will turn the call over to Dave.

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

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Thank you, Frank. Good afternoon, everybody. As you know, earnings per share for the third quarter was a loss of \$0.16 compared to a loss of \$0.06 in 2005 third quarter. As Frank already discussed with you the margin situation which equates to approximately \$0.03 per share unfavorable variance to last year's third quarter. O&M expense in the quarter also reflects the final charge for our restructuring program. The \$3.6 million, one-time charge was partially offset by a reduction in incentive plan accruals that were also associated with the restructuring. We also spent \$1.4 million more in the current quarter compared to last year to enhance our customer service capabilities reflecting our continued preparation for the upcoming winter heating season.

Also in last year's third quarter we had a gain on the sale of the land underneath our old office building in the amount of \$1.7 million, that obviously did not occur in this year's third quarter. Also in the third quarter, our joint ventures performance was under last year by \$2.1 million, that variance essentially relates to SouthStar which reflects significantly warmer weather compared to last year.

Looking at our 9 months performance, earnings per share was off \$0.02 per share on a diluted basis. Operating and maintenance expenses are up significantly reflecting two notable items. The first is our one-time restructuring cost of \$8 million, and the second is our customer service improvements that we have made and that accounts for an additional \$3.3 million of the increase. Also relating to O&M expense is the fact that our leases and rents are up \$1.8 million. A significant portion of this increase relates to our new corporate office building lease, it's not really an apples to apples comparison, since our former building was owned and had its expenses reflected and embedded in our depreciation expense, our property taxes paid, interest expense, and other categories of operation and maintenance expense. For the 9 months, our joint ventures income increased \$3.4 million, primarily on the strength of SouthStar's performance in the first 6 months of this year compared to last.

And with that I will turn the call back over to Margaret.

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**Margaret M. Griffith, Director of Investor Relations and Joint Venture Administration**

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Dave, thank you. Janine, this concludes our prepared remarks, and we would now like to open the call up for questions.

**QUESTION AND ANSWER SECTION**

Operator: Certainly. [Operator Instructions]. We do have a question from Yikat Fung with Zimmer-Lucas Partners. Please go ahead.

<Q>: Good afternoon.

<A – Thomas Skains>: Good afternoon.

<Q>: I just have several question pertaining to some of the disclosures in the 10-Q. I think – and somehow the 10-Q disclosed that the management restructuring is now expect to yield about 7 to 7.5 million of savings and is this number efficient from previous numbers?

<A – Thomas Skains>: You are a little difficult to understand on the conference probably but I think your question was, were the annual savings that we now estimate of 7 to \$7.5 million a year prospectively from our management restructuring program different from the original --

<Q>: Yeah, that's exactly my question.

<A>: Okay. And the answer to that is, yes. The original estimate that was disclosed in a press release several months ago indicated projected savings of 5 to \$6 million a year. After that program was concluded we now estimate savings from \$7 to \$7.5.

<Q>: Okay. Is management now relatively certain about these estimates or can we perhaps expect more revisions going forward?

<A – Thomas Skains>: Well the management restructuring program has now concluded in terms of - the target of focus of that strategic objective and that was to consolidate and eliminate some redundancies, make our management team more efficient, flatten the organization. So the program has concluded as such but that doesn't mean that Piedmont will not continue to look for efficiencies in our business operations in the future. That is part of our ongoing continuous business process improvement effort what we call CBPI. That process will continue indefinitely for Piedmont like it does with every other company.

<Q>: I see. Just a few more questions concerning the settlement at South Carolina, concerning the Rate Stabilization Act. Why did the Company settle for 11.2% ROE when, I think, is allowed 12.6%?

<A – David Dzuricky>: Thanks. This is Dave Dzuricky. Thank you for the question – excuse me --

<A – David Dzuricky>: In today's interest rate environment and looking at other states allowed ROEs it became apparent that the 12.6% ROE embedded in the existing RSA filing was viewed by the State of South Carolina as very generous. We recognized that and in an attempt to create a win-win situation for all parties involved including our customers and our regulators, we went to the 11.2% return on equity but in exchange received the recovery of the gas cost associated with our un-selectable expenses which is similar to – well, is nearly identical to the situation we have in North Carolina and very similar to what we have in Tennessee. So from a management perspective and today's high wholesale price environment to have been able to avoid the risk of uncollectible gas cost hitting our bottom-line, we were very pleased with the settlement that was negotiated.

<Q>: So is basically the allowed ROE going forward is like the 11.2% instead of 12.6%.

<A – David Dzuricky>: That's correct. That was the agreement among the parties. That's still subject – that is still subject to approval by the South Carolina Public Service Commission.

<Q>: I see. And how much savings would the company get, in terms of being allowed to recover more of their uncollectible expenses?

<A - David Dzuricky>: Well, that's difficult to tell. It depends how many people are unable to pay their bills because of the high prices, or just because they are unable to pay their bills in any event.

<Q>: Okay.

<A - David Dzuricky>: But, we view that as a significant opportunity to minimize risk associated with not only the high prices of natural gas, but the volatility of gas prices, as well as, if we have a cold winter, we could have a lot of folks that would be unable to pay their gas bills because of the high price – the high gas bills.

<Q>: Just one last question, concerning SouthStar, I think, there was some underperformance on this segment, is that all due to weather or was there also some other impacts from conservation?

<A - David Dzuricky>: No. It's basically due to weather.

<Q>: Okay. I see. So, we could probably expect that to rebound?

<A - David Dzuricky>: Well, next year is a long way away, and it's a competitive market, so...

<Q>: I see.

<A - David Dzuricky>: It's always difficult to tell when you are in a competitive market.

<Q>: I see. Thank you very much for your time.

<A - David Dzuricky>: Thank you.

Operator: [Operator Instructions]. And we do have a question from the line of Joanne Fairechio with Janney Montgomery Scott. Please go ahead.

<Q – Joanne Fairechio>: Good afternoon. I believe Pine Needle has a rate case pending at FERC, I wonder if you can tell me what the amount was that you requested and what timeframe that you are looking forward to receive an order? Thank you.

<A - David Dzuricky>: Thank you, Joanne, and nice to hear from you again.

<Q – Joanne Fairechio>: Well, thank you.

<A - David Dzuricky>: We expect that rate case to be done in – well, it should go effective November 1 of this year, as I recall.

<A – Thomas Skains>: This is Tom. Unlike our state regulatory jurisdiction where when we file rate cases at the retail level, they are resolved either by settlement or litigation prior to the effective date. The SERC process is somewhat different. So it's impossible to predict what the timing of the resolution of that rate case would be. If it's settled or whether it's ultimately tried the result would be effective as of the proposed effective date in the rate case which could be retroactive.

<A - David Dzuricky>: Right. The rates will just go in subject to – refund.

<Q – Joanne Fairechio>: Subject to refund. Okay. And do you know what the dollar amount was on that?

<A – David Dzuricky >: Joanne, I don't remember what the dollar amount was. It was an increase and – I frankly don't remember but I can get that to you.

<Q – Joanne Fairechio>: Okay.

<A – Tom Skains>: Yeah, that's public information on file with the FERC and we can summary that to you.

<Q – Joanne Fairechio>: Okay. Thank you.

<A- David Dzuricky>: It might be best just to – well, we'll get that to you.

<Q – Joanne Fairechio>: Okay, thanks.

Operator: [Operator Instructions]. We do have a follow-up from Joanne Fairechio. Please go ahead.

<Q – Joanne Fairechio>: All right, let me just ask kind of another question. Meredith [ph] you – it looks like you have the CUT kind of under control with the North Carolina commission, what about South Carolina and Tennessee, is that something you think you would be pursuing down the road in those states also?

<A – Thomas Skains>: Joanne this is Tom, thank you for that question. The CUT mechanism settlement is now pending before the North Carolina Commission, they still have not spoken on the settlement although we are optimistic for the prospects of that being approved, since it's not contested by anyone. In general, we support very much the rate design initiative that many LDC's, including Piedmont are pursuing to decouple margin from consumption in the form of conservation tariffs or CUT mechanisms or other terms that have been used in the industry and the market that we are in today with high wholesale natural gas prices, it just makes sense to align the interest of gas utilities with consumers to implement conservation techniques and use energy wisely and conserve energy in a way that will reduce their energy bills without impacting shareholder returns for the gas utilities. So, we are pleased with the impact of the CUT in North Carolina, and the settlement that we have reached we think is fair and balanced. In South Carolina we have a slightly different mechanism, but also a novel one, which also provides some level of mitigation for conservation through the form of the RSA.

<Q – Joanne Fairechio>: Okay.

<A>: What the rate stabilization adjustment does, which we have elected to operate under – under that South Carolina statute is put Piedmont in a position to file annual rate adjustments. So, it's not necessarily a real-time adjustment based upon consumption practices that our customers pursue in South Carolina, but there is a one year delay that takes into account the prior year consumption levels and setting rates for the subsequent year. So, it's a very – it's a mechanism that is similar to a CUT mechanism, but yet with essentially a one year delay.

<Q – Joanne Fairechio>: Right. Okay.

<A – Thomas Skains>: And as you know, we have recently settled some issues under the RSA with the Office of Regulatory Staff in South Carolina, which is now pending before that Commission, as well. In Tennessee we have neither mechanism in place, and that's obviously something on our list of things to do. The next time we would go into Tennessee pursuing rate relief we would obviously have to take into account what our strategy would be with respect to conservation tariffs, or other mechanisms that essentially better align our interest with the interest of consumers in an era of high wholesale natural gas prices.

<Q – Joanne Fairechio>: Okay. Okay. Thank you.

Operator: Our next question is from the line of Michael Gresens with Robert W. Baird. Please go ahead.

**<Q – Michael Gresens>**: Good afternoon, guys. Can you walk through the performance of each one of your equity investments for the quarter?

**<A – David Dzuricky>**: We've – Michael, thanks. Thanks, this is Dave Dzuricky. And thanks for the question. We really don't give the individual performance of our equity based – equity investment joint ventures. But suffice it to say that for the quarter the variance associated with the equity investment performance is all due to SouthStar. Please keep in mind that the other two equity investments that we have that are operational at this time are Pine Needle LNG and Cardinal Pipeline. Both of them – well, Pine Needle is regulated by the FERC and charges straight fixed variable rates to its customers, so it's a fairly steady programmatic margin generator for us. The Cardinal Pipeline is an intrastate pipeline regulated by the North Carolina Utilities Commission but it also is charging rate to its customers under a straight fixed variable rate design. So they are pretty much steady earning performers based on the rate base that they have in place.

**<Q – Michael Gresens>**: Thank you.

Operator: [Operator Instructions]. I am showing no additional questions at this time. Please continue.

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**Margaret M. Griffith, Director of Investor Relations and Joint Venture Administration**

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Janine, thank you. This concludes our call today, and we'd like to thank you for your interest in Piedmont Natural Gas and for taking your time to be with us today. And thank you again.

Operator: Ladies and gentlemen today's call will be available for a replay beginning at 7:45 PM Eastern Time this evening and running through the 26th of September at Midnight. You may access the playback system by dialing 1-800-475-6701 or from outside the United States dial 320-365-3844 and for either number enter the access code 839671. Those numbers again 1-800-475-6701 and 320-365-3844 with the access code 839671. That does conclude our conference for today thank you for your participation and for using AT&T's executive teleconference service. You may now disconnect.

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