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**MANAGEMENT DISCUSSION SECTION**

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Piedmont Natural Gas Company Fourth Quarter Earnings Conference. At this time, all lines are in a listen-only mode. Later there will be an opportunity for questions and instructions will be given at that time. [Operator Instructions]. And as a reminder, this conference is being recorded. I would now like to turn the conference over to the Director of Investor Relations and Venture Administration, Margaret Griffith. Please go ahead.

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

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Kathy, thank you, good afternoon. Thank you everyone for joining our fourth quarter fiscal year-end 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 website, please visit our website at [www.piedmontng.com](http://www.piedmontng.com), and click on the conference call link found under the Investor Relations page. We issued our fourth quarter fiscal year 2006 earnings release on Friday December 15, 2006 subject to the completion of our annual audit.

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

And 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 December 15, 2006, as well as our most recent Form 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 would like to turn the call over to Tom.

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

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Thank you, Margaret. And good afternoon everybody and thanks for taking the time to participate in our fourth quarter earnings conference call. As I said in our press release on Friday, we are proud of the operating performance in fiscal year 2006, a year of unprecedented challenges for our company and our industry. For Piedmont's 2006 fiscal year, the company reported earnings per diluted share of \$1.28, down slightly from the \$1.32 per diluted share in fiscal year 2005.

Wholesale natural gas commodity prices and market volatility were at record levels last year, following the devastating impacts of hurricanes Katrina and Rita. During this period of significant market challenges we responded with many accomplishments that position us well for the future.

Marketing the value of natural gas and natural gas service we added over 34,400 new residential, commercial, and industrial customers to our distribution system and now serve more than 1 million customers across our three-state service area. Our customer growth rate was 3.5% in 2006.

We resolved ongoing regulatory proceedings that in North Carolina allowed for the decoupling of our utility margin from customer consumption and in South Carolina implement annual rate stabilization adjustments along with a new gas cost uncollectibles tracker effective November 1st,

2006. These regulatory settlements are both fair and reasonable for our customers and our shareholders.

We successfully implemented our Light Up Customer care program in 2006, the strategic program designed to deliver best-in-class customer service through the deployment of people, process and technology. We captured organizational efficiencies with the successful completion of our management restructuring initiative in 2006. This program added \$7.9 million of one-time cost in 2006 that will generate annual savings of 7 to \$7.5 million a year in future fiscal years. And our joint ventures activities again continued their strong performance in 2007. Our newest joint venture, Hardy Storage, is now under construction and expected to go into service in April of 2007. Our equity contribution to Hardy Storage will be approximately \$26 million.

Our industry also experienced some legislative successes late in 2006, which are noteworthy. The House and Senate both passed the Gulf of Mexico Energy Security Act of 2006, which now awaits the President's signature, which I understand may come as early as this Wednesday. A total of 8.3 million additional acres in the Central and Eastern Gulf of Mexico will be available for oil and natural gas leasing that experts say may hold as much as 6 Tcf of natural gas reserves. This was certainly good news for our nation's natural gas consumers and a good first step towards balancing supply and demand for our industry.

The Senate and House also recently approved the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006. This legislation also awaits the President's signature and includes provisions addressing safety enhancements of the country's 2.2 million miles of natural gas pipelines. This legislation includes new funding to strengthen State Excavation Damage Prevention programs, a provision that will directly address the third party dig-ins, the single largest cause of damage to natural gas distribution lines; stronger penalties for excavation safety violations and financial incentives to states that adopt Excavation Damage Prevention programs; mandatory installation of excess flow valves on new and wholly renewed single family service lines after June 1, 2008. This has been a practice for Piedmont by the way since April of 2006 and a Federal One-Call requirement to call before you dig. All of these new provisions in the Safety Legislation are well received by the Natural Gas Industry.

Looking ahead to 2007, Piedmont initiated its earnings guidance for fiscal year 2007 in the range of \$1.35 to \$1.45 per diluted share on October the 16. We are not reaffirming or modifying that guidance today. But I will remind you that our October 16th guidance reflected margin growth from continued strong customer additions, the resolution of regulatory proceedings in North Carolina and South Carolina, and the impact of several strategic initiatives including implementation of best-in-class customer service capabilities, the completion of our management restructuring program and the projected completion of our automated meter reading project in 2007. That guidance also took into account the utility capital budget of \$145 million for 2007 and our anticipated equity contributions of the Hardy Storage project, I mentioned earlier.

To conclude, I am very proud of my teammates of the Company for our many accomplishments in 2006 and with that strong foundation we look forward to the year ahead.

I am now going to turn the call over to Frank Yoho, our Senior Vice President of Commercial Operations.

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

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Thank you, Tom. Moving first to volumes on a year-to-year basis. Fiscal '06 volumes were 199 Bcf versus 204 Bcf in '05. This decrease was both due to weather which was warmer and conservation effects driven by higher gas costs. Margins were actually up to \$523.5 million in '06 compared to

\$499 million in '05. This was driven by base rate increases in North Carolina and also in South Carolina along with continued strong customer growth.

Moving to customer growth, we saw customer additions of over 34,500 customers in '06 versus 32,750 customers last year. This was primarily driven by strong economies in the customer – in the markets we serve, continued recognition by our customers of the value of natural gas, even given higher prices, and Piedmont's continued focus and efforts to maintain a strong relationship with our builder-developer communities and the customers we serve.

Wholesale and secondary marketing contributions to shareholders increased from 9.8 million in '05 to 11.3 million in '06. From a regulatory perspective, in South Carolina, we received an order granting us a \$6.5 million revenue increase from our RSA filing which will affect fiscal year '07 and in North Carolina where we have a customer utilization tracker in place, an appeal of this mechanism has been settled and everything is clean going forward on that mechanism.

From an industrial marketing perspective, we've been very successful given the higher prices of oil even with higher gas prices in capturing almost all of our alternate fuel markets and volumes are actually slightly up for '06 versus '05. And lastly, we are finishing facilities for a new power generation customer which is approximately \$25 million capital investment which will have a late winter start-up this year.

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, and good afternoon everybody. Talking about the financial results other than margin for the quarter, O&M expense was essentially flat with the fourth quarter of 2005. While we had increases associated with our customer service initiatives, they were offset by lower accruals for our incentive plan payments. Normal increases in the quarter for depreciation and general taxes reflect our continuing capital expenditures associated with our customer growth.

Interest expense also was higher in the quarter compared to last year due to the issuance of \$200 million of long-term debt this past June. For the year, operation and maintenance expense was up approximately \$12 million due essentially to two items; the previously mentioned one-time restructuring costs and increases in expenses related to our customer service enhancements.

As with the fourth quarter, depreciation and general taxes rose in step with our capital programs. Interest expense was up because of previously mentioned long-term debt financing and higher short-term debt rates.

Moving to our ventures, SouthStar had another good year delivering 14 million in net income compared to last year's \$13.5 million. SouthStar continues to be the market share leader in the Georgia market. Pine Needle and Cardinal are both charging rates designed on a straight fixed variable basis and thus are very similar to income annuities year-on-year. Hardy Storage continues to have construction proceed and it is still on track to commence service on April 1 of 2007. With that, I'll turn the call back over to Margaret.

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

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Dave, thank you. And at this point in the call, we would like to – that concludes our prepared remarks and we'd now like to open up the call for questions.

**QUESTION AND ANSWER SECTION**

Operator: Thank you. [Operator Instructions] And we do have a question from the line of Yikat Fung with Zimmer Lucas Partners. Please go ahead.

<Q – Yikat Fung>: Good afternoon.

<A – Margaret Griffith>: Hi, Yikat, how are you, it's Margaret Griffith.

<Q – Yikat Fung>: Hi Margaret. Anyways, I would just like to get some more clarity on the 2007 guidance. In particular if – is it possible to kind of quantify sort of [ph] the impact of the different drivers for 2007, for example how much savings is there from AMR, and if there are incremental increases and expenses for the customer service in North Carolina, etcetera?

<A – David Dzuricky>: Hi Yikat, this is Dave Dzuricky, thank you for your question. As Tom mentioned in his opening remarks, we are neither reaffirming or changing guidance as of today. The disclosures that we made in October 16 are valid on the day that they are given. And we really can't get into anymore definitiveness at this point in time.

<Q – Yikat Fung>: Well, let me ask you this; if the – are the installations for the automated meter readers complete in all three states?

<A – David Dzuricky>: They are not. I am going to turn that question over to Michael Yount, Yikat.

<A – Michael Yount>: Hi Yikat, this is Michael Yount. We will be complete in North Carolina prior to March the 1st of 2007. We expect we will be complete in South Carolina and Tennessee in the April-May timeframe, 2007. So, by mid-year '07 we should be complete with the project.

<Q – Yikat Fung>: Is it fair to say that your results for 2007 would not reflect the full impact of the AMR savings, since it won't be complete until mid-year?

<A – Michael Yount>: I think Dave touched on it earlier, the guidance we issued in October has our assumptions of that '07 built into it.

<Q – Yikat Fung>: Okay, that's fair enough. With regards to SouthStar, they had a pretty strong year, but I think in the fourth quarter, other incomes for your company decreased mainly due to SouthStar, can you kind of quantify what the net income for SouthStar in the fourth quarter is and why it was down year-on-year?

<A – Michael Yount>: SouthStar was down year-on-year, Yikat, you are absolutely correct; it was ever so slightly that well. It was down about \$2 million pre-tax and primarily that related to differences in weather in the two years and also just positions that they have in the derivative market that will turn around in future periods.

<Q – Yikat Fung>: And the 2 million is just for the fourth quarter or is that for the full year?

<A – Thomas Skains>: That was for the fourth quarter.

<Q – Yikat Fung>: Okay.

<A – Thomas Skains>: I am sorry; I thought that was your question.

<Q – Yikat Fung>: Yeah that was my question, I was just clarifying.

<A – Thomas Skains>: Okay. Thank you.

<Q – Yikat Fung>: That's all the questions I have now, thank you.

<A – Thomas Skains>: Thank you.

Operator: Thank you. And we will go to the line of Angela Ho with Wachovia, please go ahead.

<Q – Angela Ho>: Hi there, congratulations. I just got a couple of maintenance questions; one is on the CapEx number, the 145, that doesn't include the Hardy, right, equity?

<A – Thomas Skains>: That's correct Angela, it does not include Hardy. We view Hardy as an equity investment and not as a capital expenditure.

<Q – Angela Ho>: I got you, I got you. Okay, and then the SouthStar, your proportionate interest is 25%, is that correct?

<A – Thomas Skains>: That's correct.

<Q – Angela Ho>: So going forward to '07, I guess I should assume the same numbers. And then finally I guess your savings, this was touched upon a little bit earlier, but should I assume that your management restructuring program, any kind of synergies associated with that is already taken, and that's not – it's not going to be a incremental pick up in '07, is that the way to look at it, or should there be more, or how should I look at it I guess?

<A – Thomas Skains>: We were essentially complete with the management restructuring when we issued guidance on October 16th, Angela.

<Q – Angela Ho>: Okay, great. Thank you.

Operator: Our next question is from Dan Fidell with A.G. Edwards. Please go ahead.

<Q – Daniel Fidell>: Good afternoon.

<A – Margaret Griffith>: Hey Dan.

<Q – Daniel Fidell>: Just a quick maintenance question or two. Can you just sort of tell us where you are at on share repurchase efforts for the fourth quarter, and what you did for fiscal '06?

<A – Robert Pritchard>: Yes, this is Rob Pritchard, Treasurer of Piedmont.

<Q – Daniel Fidell>: Hi Rob.

<A – Robert Pritchard>: Hey, how are you doing?

<Q – Daniel Fidell>: I am doing well.

<A – Robert Pritchard>: We did our ASR, I think it was in the third quarter, the first one we did in the third quarter of '06. We completed that, and for '06 at that time we started in our ASR. We were through with just our regular ongoing market purchase programs. I think we had about somewhere north of 2 million shares that we bought back in '06, and a piece of that million of that was the ASR. And for '07, we just completed another ASR – we started an ASR in November of '06. It should be finished up in mid-January, and then after that's completed we will start in our regular open market purchase programs to pick up any new stock that was issued through DRIP or through the stock purchase program.

<Q – Daniel Fidell>: Okay. Is that – are you authorized to do with much as you did in '07 as in '06?

<A – Robert Pritchard>: I think that would be correct.

<Q – Daniel Fidell>: Okay, great.

<A – Robert Pritchard>: It will be true for '06 where we would be looking at it right.

<Q – Daniel Fidell>: Okay. As far as future regulatory plan, can you tell us sort of you have had some positive – things happened in the last several quarters. Can you tell us where you are headed into '07 or even beyond in terms of your thinking on the regulatory front, if any?

<A – Franklin Yoho>: Dan, this is Frank Yoho. On the regulatory front right now we have an annual RSA filing which is made in South Carolina and that's made on an annual basis. And in North Carolina, we have a requirement to go in, in the spring of '08 which will be a fall of '08 effective rate case. Other than that we have no other plans at this time.

<Q – Daniel Fidell>: The filings for that spring case, you'd file in spring '08 for decision in the fall of '08?

<A – Franklin Yoho>: That's correct.

<Q – Daniel Fidell>: In North Carolina, okay. The last question and I will let someone else ask, question about, it – would it be possible if not now but maybe after the call to get more details for the fourth quarter and fiscal '06 on the non-regulated contributors? I think you guys have provided that in the past, I was just wondering if we can get that as well?

<A – Thomas Skains>: We will be filing the case shortly Dan. I think that's when it would be best to give that kind of detail to you. It's not – there's nothing in there that would surprise you Dan.

<Q – Daniel Fidell>: Okay. All right, great. Thanks for the call.

<A – Thomas Skains>: Yes sir.

Operator: Thank you. We will go next to Brookes Mullen [ph] with J.P. Morgan. Go ahead please.

<Q>: Good afternoon. With the 7 to 7.5 million in savings that you identified with the restructuring program, can you give us a sense of how many – how much of that was already seen in 2006?

<A – Thomas Skains>: Yeah, let me try to give you an idea there, probably somewhere in the range of 1 million to 1.5 million already in fiscal 2006.

<Q>: And that was mostly in the fourth quarter?

<A – Thomas Skains>: Yes.

<Q>: Was that throughout the year?

<A – Thomas Skains>: No, we really had expenses – savings in the third and fourth quarter, but mostly in the fourth quarter.

<Q>: Okay. Great. Thank you.

<A – Thomas Skains>: Yes, ma'am.

<A – Margaret Griffith>: Thanks Brooke [ph].

Operator: [Operator Instructions]. We have no further questions.

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

Kathy, thank you. That concludes our call for today and we want to thank all of you for your interest in Piedmont and for taking your time to be with us today and we'd like to wish everyone a happy holiday season and thank you. That concludes our call.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and using AT&T Executive Teleconference. You may now disconnect.

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