
MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you very much for standing by. We do appreciate your patience today while the conference assembled and good afternoon. Welcome to Piedmont Natural Gas Company's Second Quarter Earnings Conference Call. Now, at this point and during the management's prepared remarks, all of your phone lines are muted or in a listen-only mode. However, later there will be opportunities for your questions and those instructions will be given at that time. [Operator Instructions]. As a reminder, today's call is being recorded for replay purposes and that information will be announced at the conclusion of our call.

So with that being said, let's get right to the second quarter agenda. Here with our opening remarks is Piedmont Natural Gas Company's Manager of Finance and Investor Relations, Mr. John Sutphin. Please go ahead, sir.

John Sutphin, Manager of Finance and Investor Relations

Thank you, Brian. Good afternoon and thank you for joining our second quarter 2007 earnings conference call. The call is open to the general public and is being webcast live over the Internet. If you would like to access the webcast of this call, please visit our website at www.piedmontng.com and choose the Investors link. On the right hand side of that page, you will find the link to the webcast.

Our first quarter earnings call was hosted by Margaret Griffith, who at the time was our Director of Investor Relations and Venture Administration. Since then, Margaret has elected to take early retirement. We would like to take this opportunity to thank her for her 28 years of service to this company. We wish her all the best. On the call today presenting prepared remarks, we have Tom Skains, President, Chairman and Chief Executive Officer; and David Dzuricky, Senior Vice President and Chief Financial Officer. Other members of our executive management team are also in attendance to assist with questions. At the conclusion 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. More information about the risks and uncertainties relating to these forward-looking statements may be found in Piedmont's latest Form 10-K and Form 10-Q, which are available on the SEC's website at www.sec.gov.

With that, I will turn the call over to Tom.

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

Thanks John. Good afternoon everybody and thank you for participating in our second quarter 2007 earnings conference call. As I am sure you are aware, we released our second quarter 2007 earnings following our quarterly Board meeting last Wednesday and we filed our second quarter 2007 Form 10-Q on Friday. At the AGA Financial Forum in April, I presented an overview of our strategic focus and business objectives. Last week, we were pleased to announce strong second quarter and year-to-date earnings, as a result of those strategies and objectives.

For the second quarter of 2007, our net income was \$51.1 million, a \$7.4 million increase from the second quarter of 2006. This translates to diluted earnings per share of \$0.69 for the quarter, a 21% increase over the second quarter of 2006. As we passed the midpoint of our 2007 fiscal year, our net income was \$121.8 million, up \$6.1 million from the same time period last year. This translates to diluted earnings per share of \$1.63, an 8% increase over the same time period in

2006. This earnings growth is primarily the result of increasing utility margins coupled with decreasing O&M expenditures and strong joint venture income.

The continued growth of our service territory and our successful efforts to capture that growth in the form of customer additions, is the main contributing factor to increase utility margin for the quarter. Similarly, we continue to see the positive impacts of our continuous business process improvement initiative in the form of declining O&M expenses, which are down 8% quarter-to-quarter and 5% six months to six months. Taking into account our year-to-date performance and our outlook for the remainder of this year, we have raised our fiscal year 2007 guidance range from \$1.35 to \$1.45 per diluted share to \$1.40 to \$1.50 per diluted share.

Also last Wednesday, our Board of Directors declared a dividend of \$0.25 per share for the quarter and elected Dr. Frankie T. Jones to the Board of the company effective July 1. Dr. Jones is President and Chief Operating Officer of B&C Associates and B&C International, a management consulting, marketing research and public relations firm headquartered in High Point, North Carolina. We are pleased to have Dr. Jones join our Board of Directors.

For further discussion of our second quarter and year-to-date financial results, I would like to turn the call now over to our Senior Vice President and Chief Financial Officer, Dave Dzuricky. Dave, it's all yours.

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

Thank you, Tom, and good afternoon. As Tom stated, we were pleased with the results of our second quarter ended April 30 with a nice pickup in earnings per share compared to the prior year quarter. Margin was up during the quarter, in line with our customer growth. Our regulatory mechanisms that we put in place over time have assisted in maintaining margin growth in the face of customer conservation. Our business process improvement initiatives have also borne fruit with operations and maintenance expenses down significantly for the quarter and for our first six months. Notably, our AMR program and reorganization efforts have kept O&M down.

We also successfully exceeded our customer service objectives around what we call 80:20, which is answering 80% of our calls within 20 seconds or less. Notwithstanding those successes, we continue to look at ways to better calibrate our expenses with business needs.

Finally, as Tom mentioned, we had strong performance from our ventures and most notably there, Hardy Storage went into service on April 1 and we are pleased with our newest venture from both a customer and investor perspective. We will see full quarter contributions from Hardy in our third and fourth quarters this year.

And with that brief overview, I will turn it back to John Sutphin to open it up for questions.

John Sutphin, Manager of Finance and Investor Relations

Thanks, Dave. This concludes our prepared remarks and we now welcome your questions.

QUESTION AND ANSWER SECTION

Operator: Indeed, and thank you Mr. Skains and Mr. Dzuricky for that overview and update. We do appreciate that. [Operator Instructions]. Representing Wachovia, our first question, we go to the line of Angela Ho. Please go ahead.

<Q – Angela Ho>: Good afternoon. I've just got a quick question on the Hardy Storage business. If you can remind me, you have 40% of capacity there and which you use to support utility operations. So, let's say, in a quarter it's quite warm and you don't need all that gas for the utility. Do you actually sell it off-system and keep that profit or sell it to other marketers as well?

<A – Thomas Skains>: Thank you, Angela. This is Tom. Good afternoon.

<Q – Angela Ho>: Good. How are you doing?

<A – Thomas Skains>: I'm doing well. Thank you.

<Q – Angela Ho>: Good quarter by the way.

<A – Thomas Skains>: Thank you. I appreciate that. Well, Hardy is the latest asset that we've rolled into our portfolio of supply assets that we use to serve our markets in the Carolinas as you correctly described. We are in injection mode now, injecting gas in the storage and, of course, we need to be in the position this winter to withdraw quantities from Hardy Storage to meet the needs of our growing markets in the winter of '07 and '08 and beyond.

But like any other asset that has been added to our portfolio to the extent that we have the capability and the flexibility to sell services off system, and still meet the firm requirements of our retail customers, we can do that under the secondary marketing program that both the North and South Carolina commissions have approved. And as you are aware, those programs involve a 75:25 sharing of net margins associated with any off-system or wholesale marketing activities.

<Q – Angela Ho>: Okay. So you keep 25% and give 75 back to the consumers, I guess?

<A – Thomas Skains>: Just to our customers, just as we would – as we use any other asset in our portfolio in the Carolinas.

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

<A – Thomas Skains>: You're welcome.

Operator: Thank you, Ms. Ho. [Operator Instructions]. And here now a question from Yiktak Fung with Zimmer Lucas Partners. Please go ahead.

<Q>: Good afternoon, ladies and gentlemen, and congratulations on a great quarter.

<A – Thomas Skains>: Thank you.

<Q>: First of all, I have a question about some of the disclosure in the 10-K. I think there was a new settlement regarding the TIP mechanism in Tennessee. Can you just refresh my memory on what this mechanism is and what has changed with this new settlement?

<A – Franklin Yoho>: This is Frank Yoho, Senior Vice President, Commercial Operations. And relative to our – in Tennessee, we've been working with the consumer advocate and the staff of the TRA to come up. There has been some questions around – as the market has evolved around that program, and we're working on a settlement with them that would end up with a similar result, but

clarify what some of the issues are. We're in a process of – we have filed that settlement with the TRA and waiting for their response on that. But more or less clarifying some issues that grew with the evolution of the industry and it also pretty much puts us close to the same place where we were before.

<Q>: I see. Can you just refresh my memory of what the mechanism itself does?

<A – Thomas Skains>: This is Tom Skains. I will do that since I was in Frank's position when the mechanism was first put into place back in '96. Under the traditional Tennessee Gas Supply Incentive program, there was a structure in place where we would measure our commodity gas cost against an index – a basket of index prices for purposes of determining gains and losses that we would share with our customers in that jurisdiction. That incentive mechanism was put in place in lieu of more traditional prudence review processes. So the prudence review process in Tennessee was eliminated in favor of comparing our gas costs against wholesale index prices. That sharing mechanism under the commodity portion of that program was essentially a 50:50 split of gains or losses against the index price after a monthly dead band around our commodity gas costs.

There was also a sliding scale mechanism in place under that program for any capacity release transactions or asset management transactions where we would also share with the customers gains related to those types of transactions. What this settlement does is simplify considerably those mechanisms to look more like what we have in the Carolinas in terms of a 75:25 sharing of overall gains and losses. But the notable element in the plan that will continue that's been in place for sometime is the \$1.6 million annual cap on gains and losses. So that \$1.6 million band, if you will, around gains and losses is still in effect and the settlement that was reached between Piedmont and some interested parties over in Tennessee has now been filed with the TRA and is subject still to their approval.

<Q>: Thank you for that color. Second question I have, systems throughput for this quarter seems to have increased very significantly from second quarter of last year, almost, I think, 14% increased. Can you just kind of explain what drove this jump?

<A – Franklin Yoho>: This is Frank again. The two jumps we saw there were – it was a little bit cooler this quarter – this year compared to last year. So with our weather sensitive market and also with the growth of some power generation on our system, we saw a significant uptick in power generations between the power generation load for throughput and the weather driven – weather sensitive market, commercial and residential we saw the uptick there.

<Q>: I see.

<A – David Dzuricky>: **And, of course, the weather sensitive market through March was subject to a WNA and the power generation contracts are typically straight fixed variable deals that are insensitive to changes and variations in volume.**

<Q>: I see. And last question I have is, I was just wondering when the company will file their annual – I guess, filing in accordance with the South Carolina Rate Stabilization plan?

<A – David Dzuricky>: June 30.

<Q>: June 30. Are there any adjustment rates that are expected this year?

<A – Frank Yoho>: **We are in the process for preparing that and it should be filed, as Dave said, here shortly within this month. So, we are in the preparation stage, and so we don't have an answer to that right now.**

<Q>: Thank you very much.

Operator: And thank you Mr. Fung. [Operator Instructions]. And allowing a moments for participants to queue up, Mr. Skains and our host panel, there are no further questions. I will turn the call back to you for any closing remarks.

John Sutphin, Manager of Finance and Investor Relations

Thank you, Brian. As always, we thank you for your interest in Piedmont Natural Gas for taking time to be with us today. This concludes our second quarter 2007 earnings call.

Operator: Ladies and gentlemen, Mr. Skains is making today's call available for digitalized replay. It's for six whole weeks starting at 6:00 p.m. Eastern Daylight Time, June the 12, all the way through 11:59 p.m. July the 24. To access AT&T's executive replay service, please dial 800-475-6701. At the voice prompt, enter today's conference ID, 874085. And that does conclude our call for today. Thank you very much for your participation, as well as for using AT&T's Executive Teleconference Service. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2007. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.