PARTICIPANTS

Thomas Skains – Chairman, President and CEO
Kim Cocklin – SVP, General Counsel and Chief Compliance Officer
David Dzuricky – SVP and CFO
Ray Killough – SVP, Utility Operations
Frank Yoho – SVP, Commercial Operations
Ted Coble – VP and Chief Risk Officer
Kevin O'Hara – VP, Business Development and Ventures
Robert Pritchard – Treasurer
Headen Thomas – Director of Investor Relations

MANAGEMENT DISCUSSION SECTION

Headen Thomas, Director of Investor Relations

Earnings Release

- Our earnings release was issued this past Friday, June 4th
- If you do not have a copy of the release, it is available on our website at piedmontng.com

Thomas Skains, Chairman, President and CEO

Highlights of Q2

Appreciation for Piedmont Team

- This past Friday, we were pleased to announce record financial results for our second quarter
- Before we get to the key metrics driving our results, I would like to express my appreciation to the entire Piedmont team
    - These results can only be achieved by a coordinated team effort and I believe we have one of the best management and employee teams in the industry

S&P and Moody's Ratings Changed

- Another highlight for the quarter was the announcements by S&P and Moody's
    - You may recall both agencies placed Piedmont on negative watch following our October 2002 announcement of the NCNG acquisition
- During April 2004, both agencies changed our outlook from negative to stable, primarily based on three factors
    - One, the successful integration of the NCNG operation into Piedmont
    - Two, successful completion of our permanent equity and debt financing in the transaction
    - And three, the reasonable settlements achieved in both the NCNG and Tennessee rate cases last year
- Our current ratings are A and A3, with stable outlooks by both S&P and Moody's
- We appreciate the recognition by the rating agencies in the successful execution of our NCNG acquisition strategy

Current Strategic Initiatives

- As to our current strategic initiatives, we are focused on internal activities surrounding our business process improvement project, or what we call internally BPI, that is underway throughout the entire company
    - As a part of the BPI project, we are evaluating best practices and business processes that we believe will improve our operating efficiencies and customer service and satisfaction across all of our divisions
- We are also continuing our efforts to build and maintain a high performance corporate culture through leadership training, employee development and related internal programs
- For our long-term success, we must continue to not only pursue profitable growth in our Southeast markets, but operate efficiently and improve our services
- We hope to discuss the results of some of these activities in our third quarter conference call later this year

Overview of Presentation

- On today's 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 activities
- At the conclusion of our prepared remarks, we will conduct a Q&A session

Frank Yoho, SVP, Commercial Operations

Commercial Operations

Throughput

- Starting with throughput for the quarter, for 2004 – Q2 2004, the throughput for our company was 57.8 Bcf as compared to last year, which was 42.9 Bcf for the same quarter
- The reasoning behind this is the NCNG acquisition primarily, along with customer growth

Margin

- On the margin side in 2004, we achieved a margin of, for Q2, of $145.8mm compared to last year of $110mm
- The drivers behind this are once again the NCNG acquisition, our natural customer growth, along with the Tennessee rate case that was implemented at the end of the year

Weather

- Weather YTD, we've seen it was 2% warmer than normal, as compared to last year, which was just close to 5% colder than normal
- This has driven our WNA mechanism, where this year we have surcharge or collected approaching $2mm, as compared to last year with the colder winter, we refunded approximately $10mm

Customer Growth

- Our customer growth YTD in 2004 is 14,845 additional customers compared to 13,377 additional customers

- These include NCNG
    - That base includes growth on NCNG along with the other Piedmont systems
- We are seeing this as what we see as pretty much a steadying economy

Wholesale Marketing

- The wholesale marketing aspect of our company achieved results of $1.4mm to the shareholder portion for the quarter
- This compares to last year where we achieved $1.6mm, which we had a very, very successful year
    - So we are very pleased with these numbers this year also

Hedging

- From a hedging perspective, with acquisition of NCNG, the volumes for NCNG are now hedged including our existing North Carolina hedging plan
- From a historic perspective, we are where we need to be according to our plan to be completely full going into the fall
- And we see a national average now, which is near the five-year average

Industrial Fuel Switching

- Industrial fuel switching, which is very similar to what we had -- projecting -- we have lost some market to the Number 6 fuel oil giving us lower cost natural gas
- But we've retained the Number 2 market
- This is very much according to what we saw going into the FY

David Dzuricky, SVP and CFO

Financials

Earnings Per Share

- Q2 saw a good performance again from the company in both the utility and non-utility operations
    - I will leave the non-utility piece for Kevin later on in the discussion
- But as you saw in the press release, our EPS for the quarter was $1.08 compared to $0.93 in last year's second quarter, or an increase of 16%

Margin and Expense

- Variations in margin and expense are primarily being driven by the NCNG acquisition, and the internal growth that Frank discussed earlier
- We also, as you will recall, had rate cases for NCNG and for our Tennessee Nashville Gas operations that are positively affecting the year
- While it's difficult to make comparisons quarter-to-quarter because of the impact of NCNG being in fiscal 2004 second quarter and not in the fiscal 2003 quarter, I would want to note to the listeners that we feel we do have a good handle on our uncollectible expense for the year, that that house is in good order, and would not expect any surprises from that quarter

Our Guidance

- We also noted in our press release that we have directed the investment community to the upper end of the guidance that we had raised last quarter
- And just to remind the group, that does not include the one-time effects of the settlement with Atlanta Gas Light Resources regarding SouthStar Energy and the gain on sale of the propane operations

Stock Buyback Program

- Also wanted to note that we announced in our press release that the board of directors has authorized a stock buyback program for Piedmont to be used to fund our equity-based plans
  - Those would include our dividend reinvestment plan, our long-term incentive plan and our employee stock purchase plan
- What that does is we will fund and acquire approximately 600,000 shares annually in order to fund those plans and do it through open market purchases rather than some new issue stocks
- So, we are pleased that our capital structure is in the condition it is, this close after the acquisition of a major property such as NCNG
- And we will begin the stock buyback program in the very near term

Kevin O'Hara, VP, Business Development and Ventures

Joint Venture Activities

- I do plan to briefly cover our second quarter earnings from Cardinal, Pine Needle, and SouthStar
- And the earnings that I will discuss are Piedmont’s share of earnings from these joint ventures

Cardinal

- I’ll start with Cardinal
  - This is our North Carolina intrastate pipeline joint venture, of which Piedmont has a 21.5% ownership
    - And that includes the 5% ownership interest we picked up with our acquisition of NCNG.
- For Q2 2004, we had a positive variance with contributions to earnings of $270,000 vs. $260,000 in Q2 last year
- And on a YTD basis in 2004, Piedmont’s share of Cardinal’s earnings were $550,000 vs. $500,000 for FY2003

Pine Needle

- For Pine Needle LNG, this is our FERC-regulated, 4-Bcf interstate storage facility in Guilford County, North Carolina
- We have 40% ownership interest in Pine Needle
  - And similar to Cardinal, Piedmont picked up an additional 5% interest with the acquisition of NCNG.
- In Q2 2004, our earnings were $565,000 vs. $560,000 last year in Q2

- And for YTD, Piedmont's share of Pine Needle earnings is $1.15mm vs. $1.13mm for FY2003

SouthStar

- SouthStar, which is our unregulated retail marketing joint venture with AGL Resources, of which Piedmont has a 30% ownership interest, in Q2 2004, our earnings were $6.6mm vs. $3.5mm for Q2 last year
- Q2 variance is the result of SouthStar's earnings for this quarter being approximately 60% higher than last year
    - And this comes from strong performance in their operations with higher margins from increased throughputs with strong retail pricing
    - Also, lower bad debt credit collection expenses in their operations
- On a quarter-to-quarter basis, the variance is also due to Piedmont realizing a higher percent of SouthStar earnings
    - And this is the result of restructuring the SouthStar LLC agreement with AGL Resources and the resolution of disproportionate sharing issues
    - We are now realizing 25% of SouthStar earnings, where last year at this time, due to disproportionate sharing, our earnings were approximately at the 20% level
- On a YTD basis, Piedmont's share of SouthStar earnings is $9.9mm vs. $4.2mm in FY 2003
    - Now most of the positive variance here is due to second quarter earnings
    - But we also realized a one-time $1.5mm earnings pickup that resulted from our restructuring of the LLC agreement with AGL Resources

QUESTION AND ANSWER SECTION

Analyst: *Mark Levin – Davenport and Company*
Question – Mark Levin: Congratulations on a good quarter. Real quickly, some questions on the, sort of on a same-store sales basis, can you comment on what customer growth was in the quarter? And then, also, from an O&M expense perspective, what it might have looked like, sort of ex-ing out NCNG? And then my follow-up question has to do more with the balance sheet, sort of where you were from a debt-to-capital position at the end of the quarter, and then how much cash on the balance sheet at the end of the quarter as well?
Answer – Tom Skains: Okay, thank you Mark, I will ask Frank to respond to your first question and Dave to the second two.
Answer – Frank Yoho: Mark, on the customer growth, what we are seeing with NCNG as we were standalone, we are still seeing about a 3 to 3.5% growth in the customer, very strong in the new construction and residential market. We are seeing strength in the commercial market growth, we are seeing a little bit of dip in the residential conversion right now. But overall our growth rates are continuing to track by the same rate where we were before the acquisition.
Answer – David Dzuricky: Mark, to go after your other two questions relative to O&M, if you ex out North Carolina Natural, you would see us behaving pretty much at the rate of inflation with the exception of a couple of areas. One would be our insurance programs, another would be our medical, and the third would be our our uncollectible expense. Those items will be outlined in our 10-Q, which should be issued next week. But suffice it to say that the O&M ship is behaving just fine, when you carve out the NCNG activities. Relative to the balance sheet at the end of the quarter, our equity ratio was 58%, we had a substantial amount of cash on the balance sheet at the end of the quarter given Regulation FD, Mark, and the close proximity with which we will be issuing the 10-Q. I'd prefer to just hold that question until you can read about it in the paper so to speak, but we are very much in an investment position from a cash point of view and our equity ratio is rock solid.

Analyst: *David Maccarrone* **–** *Goldman Sachs*
Question – David Maccarrone: I wanted to ask a question about SouthStar and how you view the sustainability of the recent level of earnings and whether you think that is indicative of what normalized earnings and cash flow ought to look like in coming years or whether this might by peakish or is this a level from which you expect to grow?
Answer – Kevin O'Hara: Hi, David this is Kevin. I think this is a level of earnings that we plan to sustain. We have talked with SouthStar regarding ongoing performance as we go into our budget year and this is the level we expect to retain over a longer period of time.
Answer – Tom Skains: David, I would clarify that that excludes the one-time gain obviously from the restructuring of the LLC agreement with AGL. I think Kevin is just referring to earnings from ongoing operations.

Thomas Skains, Chairman, President and CEO

Okay, well thank you everyone again for calling in on our second quarter results conference call. We appreciate your interest and your investment in our company and we look forward to talking with you again at the conclusion of Q3 later this year. Thank you everyone, and good bye.

Operator: And Ladies and gentlemen your host is making today's conference available for digitized replay for two weeks; it starts at 6 p.m. Eastern daylight time June 7th all the way through 11:59 p.m. June the 21st. To access AT&Ts Executive Replay Service, simply dial 800-475-6701. At the voice prompt, please enter today's conference ID as 731879. And that does conclude our earnings conference for this quarter. Thank you very much for your participation as well as for using AT&T's Executive Teleconference Service. You may now disconnect.