

CORPORATE PARTICIPANTS

Paul Anderson*Duke Energy - Chairman and CEO***David Hauser***Duke Energy - Group VP and CFO***Fred Fowler***Duke Energy - President and COO***Julie Dill***Duke Energy - VP Investor Relations*

CONFERENCE CALL PARTICIPANTS

Scott Soler*Morgan Stanley - Analyst***Greg Gordon***Smith Barney - Analyst***Terran Miller***UBS - Analyst***Craig Shere***Calyon Securities - Analyst***David Reynolds***Banc of America Securities - Analyst***Steve Fleishman***Merrill Lynch - Analyst***Paul Fremont***Jefferies & Co. - Analyst***Vic Khaitan***Deutsche Asset Management - Analyst***Matthew Akman***CIBC - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Duke Energy fourth-quarter earnings conference call. Today's call is being recorded. At this time for opening remarks I would like to turn the call over to the Vice President of Investor Relations for Duke Energy, Ms. Julie Dill. Ms. Dill, please go ahead.

Julie Dill - Duke Energy - VP Investor Relations

Good morning and thank you for listening in this morning. Joining me today are Paul Anderson, Chairman and CEO and David Hauser, Group Vice President and Chief Financial Officer. In addition, Fred Fowler - Chief Operating Officer, Keith Butler - Corporate Controller, and Myron Caldwell, our Treasurer are also available to answer your questions today.

Today's call will include a brief review of the results for 2004 and then we'll move on to provide more information related to our expectations for 2005.

Before we begin with our prepared remarks let me read to you the Safe Harbor Statement.

Some of the things we will discuss in today's call concerning future company performance will be forward-looking statements within the meaning of the securities laws. Actual results may materially differ from those discussed in these forward-looking statements, and you should refer to the additional information contained in our fourth quarter 2004 earnings release filed with the SEC on Form 8-K and other SEC filings concerning factors that could cause those results to be different than contemplated in today's discussion.

In addition, today's discussion includes certain non-GAAP financial measures as defined under SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures will be made available on our investor relations website at: www.duke-energy.com.

Following Paul's and David's prepared comments we will open the lines for your questions.

With that I'll turn the call over to Paul.

Paul Anderson - Duke Energy - Chairman and CEO

Good morning.

Duke Energy faced many challenges at the beginning of 2004 and we laid out a clear plan to put these challenges behind us. Today I can say with conviction that Duke Energy is back on the right track.

This morning we reported 2004 earnings of \$1.59 per basic share, which included 21¢ per share in special items. Our ongoing basic earnings per share were \$1.38 and we feel very good about these results for 2004. They were substantially better than our EPS incentive target of \$1.20 per share and reflect the outstanding

efforts of our employees in 2004. I am incredibly proud of what this team has accomplished, as they worked hard to re-establish credibility with all of our stakeholders.

Of course, I'll be the first to acknowledge that the market helped, too. Field Services and Crescent Resources both had record years in 2004. Field Services' ongoing segment EBIT from continuing operations increased 121% over 2003, benefiting from significant increases in commodity prices related to natural gas liquids (NGLs) and crude oil. And, real estate sales in the Washington, DC area boosted Crescent's results for the year.

Franchised Electric and Natural Gas Transmission both delivered another year of solid earnings and cash flow to the company. While ongoing segment EBIT was down slightly at Franchised Electric it was partly made up for by slightly higher results at Natural Gas Transmission.

While International Energy posted ongoing results slightly lower than in 2003, DENA ended the year with a \$288 million ongoing segment EBIT loss. This included mark-to-market losses of approximately \$25 million. Our original guidance of a \$300 million loss did not originally include mark-to-market earnings so we are extremely pleased with DENA's performance improvements in 2004.

The next slide provides a detailed review of the special items for 2004. I'm not going to walk through each item in this table, but we thought it would be helpful for you to see a summary of the special items included in our reported numbers.

Not surprisingly, the largest driver was associated with gains and losses on asset sales, primarily at DENA and the portion of our international operations included in Discontinued Operations. Also significant were the tax restructuring for Duke Energy Americas and an adjustment related to our captive insurance business reflected in the "Other" EBIT category.

While delivering earnings growth was a priority, it was also important for us to deliver on the other promises we laid out in 2004. I'd like to take a minute to give you a final update on these.

Our original financial goals included the preservation of the dividend at \$1.10 per share, asset sales of about \$1.5 billion and debt reductions in the range of \$3.5 to \$4 billion. We did maintain the dividend at \$1.10 per share and we exceeded both of the other targets. Asset sales for the year totaled \$3.1 billion, which included approximately \$750 million in tax benefits and \$840 million in associated debt reductions. Asset sales coupled with solid business results allowed us to reduce debt by approximately \$4.6 billion, or 15% more than the top end of our original goal. We successfully resolved a number of regulatory and legal issues facing the company at the beginning of 2004. As we laid these issues to rest, management was able to focus efforts on running our businesses more efficiently and looking for ways to grow earnings.

The team at DENA worked very hard to reduce the mark-to-market contract exposure specifically related to the disqualified hedges we had at the beginning of the year. These exposures were essentially all mitigated by the end of 2004. Going forward, the remaining mark-to-market portfolio associated with the ongoing business is not expected to contribute to or detract from earnings in any material way.

Our goal for liquidity was to maintain at least \$1 billion of cash and cash equivalents on hand. We achieved that goal and ended

the year with \$1.85 billion. We also had \$1.9 billion of unused credit capacity. In light of the significant improvements to our financial position, S&P changed Duke Energy's credit ratings outlook to positive at year end.

I am extremely pleased with our team's commitment and success in reaching these goals. It was an aggressive plan to execute – but we did it. We feel really good about our accomplishments in 2004 and we hope you do, too. As we begin 2005, I am confident Duke Energy has regained control of its own destiny.

Now let me turn the call over to Julie to cover the details for the fourth quarter and our views on 2005.

Julie Dill - Duke Energy – VP Investor Relations

For the fourth quarter 2004, Duke Energy reported earnings of 38 cents per basic share, which included 14 cents in special items. The special items were primarily related to net gains in assets sales for 10 cents and a benefit of 4 cents in the "Other" EBIT category related to an adjustment of prior period loss reserves for our captive insurance business.

Ongoing segment EBIT for Franchised Electric increased 12% to \$252 million in the fourth quarter. The improved results were due to higher retail sales and lower operating expenses partially offset by lower wholesale bulk power sales.

For the third quarter in a row, we have seen a strong increase in sales to non-textile industrial customers. They're up 7.2% for the quarter and 5% for the full year 2004. As the region's economy recovers and diversifies, increases in other industrial sales are more than offsetting continued declines in textile sales. Residential and general service sales were also strong for the quarter and the year. More than 40,000 customers were added in 2004.

Bulk power sales were lower as a result of limited coal supplies early in the fourth quarter. Coal supplies have since grown with milder weather conditions late in the quarter and improved transportation of coal from the Appalachians.

Natural Gas Transmission delivered \$321 million in ongoing segment EBIT for the quarter, an increase of 6% over fourth quarter 2003. Earnings from pipeline expansion projects more than offset foregone earnings related to prior period asset sales. In addition, results for the quarter benefited from an \$11 million favorable impact from the translation of the Canadian dollar. Gains on asset sales totaled \$15 million for the quarter, primarily related to a true-up on the 2003 sale of Aux Sable.

Field Services reported \$128 million in segment EBIT from continuing operations for the fourth quarter, more than double the results for last year. Results for the quarter benefited from strong commodity prices for NGLs and crude oil. The average NGL price, net of hedging, for the full year 2004 was 53 cents per gallon and compares with 44 cents per gallon in 2003.

Also during the fourth quarter, Duke Energy Field Services paid a cash dividend to its parent companies. Duke Energy received \$174 million which brings the total dividends paid by Duke Energy Field Services this year to \$527 million and Duke's portion to \$367 million.

Duke Energy North America (DENA) had an ongoing segment EBIT loss from continuing operations of \$50 million, excluding

\$127 million of special items primarily related to the gain on sale of the Moapa facility.

Results for the quarter benefited from significantly lower operating expenses of about \$82 million and a favorable variance for mark-to-market losses compared with the fourth quarter of 2003. These savings were substantially offset by lower margins and lower than expected energy production due to market conditions and the outage at Moss Landing.

International Energy's ongoing segment EBIT from continuing operations was \$64 million, excluding a \$3 million loss primarily related to a sale of equipment.

While DEI's operations delivered solid earnings, higher allocated corporate costs led to a modest decrease in ongoing results.

Crescent Resources, our real estate business, delivered segment EBIT from continuing operations of \$50 million for the fourth quarter of 2004. Positive results from real estate sales were offset by lower legacy land sales and \$38 million in impairment and other charges, net of \$12 million in minority interest, related to certain residential properties in Arizona and Texas. Crescent contributed approximately \$440 million of net cash flow from operating and investing activities to Duke Energy in 2004, exceeding our expectations of \$400 million.

That concludes our discussion on the results for 2004. Now let me move on to our outlook for 2005 starting first with the business unit expectations.

We have completed the evaluation of our business plans through 2007 and we are reiterating our expectations for Franchised Electric's ongoing segment EBIT at a compound annual growth rate of flat to 2% over the next three years. However, results will likely be on the low end of that range unless Franchised Electric significantly increases their capital expenditures during that period.

We believe opportunities for growth will begin to emerge as new demand for power supplies increases in our service territory. Franchised Electric is beginning to evaluate just such opportunities.

We are also reiterating our expectations for Natural Gas Transmission. Their compound annual segment EBIT growth rate, excluding special items, will be in the range of 3% to 5% through 2007. Growing demand for natural gas supplies is the primary driver for earnings growth at Natural Gas Transmission. The successful open season for Texas Eastern, Algonquin and Union Gas demonstrated our customers' desire to bring additional gas supplies to the Eastern market. This open season should lead to some solid project opportunities for Natural Gas Transmission over the next five years.

We recently announced another open season to gauge interest in a Southeast gas supply hub. This system, which is located upstream of Gulfstream pipeline, would include new pipeline infrastructure and a new salt dome gas storage facility which could be placed into service as early as mid-2007. The 85-mile pipeline would have an initial capacity of 600 million cubic feet per day. The County Line Storage project in Mississippi would have an initial capacity of 6 Bcf and would be expandable to 12 Bcf. This open season ends on February 28.

During the 4th quarter, the Dominion and Distrigas expansion projects were placed into service in time to meet winter heating demands. Additionally, the Gulfstream pipeline expansion project

in Florida started commercial operations yesterday and we expect gas volumes to start flowing any day now. Our 23-year contract with Florida Power & Light for 350 million cubic feet per day will begin this June and will bring Gulfstream's contracted capacity to two-thirds full under firm contracts.

With crude prices averaging in the \$40 range, Field Services is poised to deliver another year of substantial earnings to Duke Energy.

Our hedged position for 2005 was 64% as of December 31st at an average price of \$38 per barrel. Taking into consideration the current level of hedging for 2005 and assuming all other factors are unchanged; if crude prices were to go to \$40 per barrel, ongoing segment EBIT for Field Services would be approximately \$500 million in 2005. Under the same assumptions, if crude prices were to drop to \$30 per barrel, Field Services' ongoing segment EBIT would be approximately \$350 million this year.

It's important to note that the hedged prices for 2005 are significantly better than our hedged prices were for 2004, and this improvement is one of the drivers for higher earnings anticipated in 2005.

You should be aware that Field Services' overall costs for 2005 will increase by approximately \$20 million for a total of \$615 million. This is primarily due to asset integrity work and financial process improvements planned for 2005. However, that increase is already built into the segment EBIT range we have provided. For 2006, our hedged position was 30% as of December 31st at an average price of \$43 per barrel.

As we've discussed in previous calls, DENA is expected to have an ongoing segment EBIT loss of approximately \$150 million for 2005. As Paul mentioned we have mitigated virtually all of the disqualified hedges from the beginning of 2004, but we do still hold some mark-to-market positions related to our ongoing business. The remaining mark-to-market portfolio is not substantial however, and we don't anticipate any significant earnings volatility going forward.

Improvements to DENA's earnings picture for 2005 will come from additional cost savings, which will account for about 30% of the segment EBIT improvement. The remaining 70% is expected to come from higher gross margins. Our marketing team continues to work on contracting more energy production from our plants and is aggressively looking to contract capacity. We are also focusing on our gas marketing business at DENA to optimize our existing gas transportation and storage positions.

Once we close on the sale of the Grays Harbor deferred construction project announced in December, we will have completed the final transaction to dispose of all three deferred plants. DENA's current operating portfolio consists of about 9,900 MW of generating capacity primarily located in the West, Midwest and Northeast regions of the U.S. The net PP&E of DENA's assets is approximately \$3.4 billion.

You'll notice on page 18 of the earnings release that we have made some changes to the disclosures you have seen in the past. The table at the bottom of the page has been changed to be more representative of how we conduct business at DENA today. In terms of its merchant generation facilities, DENA essentially sells two products – capacity and energy. We have provided a regional breakdown between our eastern and western portfolios and the percentage contracted for both products. We hope you will find

this information more helpful in understanding DENA's merchant generation business.

As you know, one of the major goals for 2005 is to define a sustainable long-term business model for DENA. We believe merchant energy will play a vital role in meeting the nation's energy demand. However, DENA's current business position needs to improve. A larger merchant business with more fuel diversity and a broader geographic reach would be able to withstand the cyclical nature of the business. A larger business would enhance marketing opportunities and allow overhead costs to be spread over a larger operation. A larger merchant presence would also allow greater participation in the regulatory process. As one would expect given the current merchant energy market conditions, we are talking with many players in the industry to determine what that business might look like and the steps to form a viable and successful business model. Ultimately, the final decision will be what provides the best long-term value for our shareholders.

International Energy expects to grow ongoing segment EBIT by a compound annual growth rate of 2% to 3% over the next three years.

Earnings growth for our international operations will depend on successful sales and marketing efforts, optimizing the output and efficiency of every facility, and controlling and reducing costs. DEI continues to work on improving its returns.

Specifically in Brazil, the transition to and implementation of the new electric sector model is critical to industry participants. A significant milestone was the auction for "existing energy", which took place on December 7, 2004. As a result of this auction all of our available energy production has been contracted for 2005. We were also able to contract a portion of our production for 2006 and 2007. Duke Energy elected not to sell all of its available production through the auction held last year. We believe our marketing teams working directly with customers to meet their power supply needs will produce better overall financial results than we would have obtained through the auction process.

Segment EBIT for Crescent Resources should trend back to historical levels of approximately \$150 million per year for 2005 and beyond. On a cash flow basis, we expect Crescent to contribute to Duke Energy positive net cash flow from operating and investing activities of at least \$100 million annually.

While Crescent did deliver record earnings for 2004 it's important to understand that their asset position is still strong. Crescent's current inventory of properties is approximately \$1.1 billion.

While there are some smaller businesses in the "Other" category, corporate governance is the primary driver here. These overhead costs are partially offset by earnings from DukeNet and the remaining business at Duke/Fluor Daniel, along with other parent-level activities. For 2005, this category is expected to run in the neighborhood of \$200 million in net expenses. This is an increase from 2004 because last year's results included significant items related to asset sales and the wind-down of businesses classified in "Other" EBIT that are no longer in operation, along with the adjustment at our captive insurance business. And finally, we expect the effective tax rate for 2005 to be in the low- to mid-30% range.

Now let me put all of this in perspective with the cash flow expectations for 2005.

This chart shows you how we expect to generate approximately \$500 million in positive net cash at Duke Energy. The net income number shown for 2005 is indicative of the target level of \$1.60 per basic ongoing share as it relates to the company's short-term incentive program.

The biggest change from last year is the assumption related to asset sales. While asset sales were a primary focus for 2004, cash flow from asset sales in 2005 are expected to be insignificant. We expect to close on the Grays Harbor sale in the first quarter. Sales proceeds and related tax benefits will total approximately \$116 million from that transaction, but the cash proceeds from the sale will be offset by the cash outlay needed to terminate the capital lease on the lateral that would have supplied gas to that facility.

There are no significant asset sales for the remainder of the year reflected in this plan. However, as in the past, if someone sees more value in one of our assets than we do, we might consider such a sale – but only if it made both economic and strategic sense to Duke Energy. The related tax loss carry forwards from assets sold last year will continue to provide benefits into 2005. Cash tax carryforwards are expected to be approximately \$450 million.

We will continue to control our capital expenditures in 2005 and have set a budget of approximately \$2.6 billion for the year. Capex dollars for maintenance will total approximately \$1.6 billion and about \$1 billion will be allocated to expansion projects primarily at Natural Gas Transmission and Crescent Resources. Capex could be \$200 - \$300 million higher if we decide to make additional investments in our Franchised Electric business.

Last year the most popular question was about preserving the dividend. This year it's "What are you going to do with all that cash?" We know many of you have strong opinions on what we should do with our large cash balance. Clearly that decision needs to balance the needs of the company, our shareholders and the long-term financial strength of Duke Energy. Actually, we find this to be a high-class problem that we will address as the year progresses.

Getting back to the cash flow presentation – you can see Duke Energy is no longer in a defensive financial position. We ended the year with a 51% debt to cap ratio, and we expect to be at 50% by the end of 2005. We are very comfortable with a 50/50 split between debt and equity at the Duke Energy level.

We don't have plans to reduce debt in a significant way in 2005 so our cash balances may be used for more market-driven opportunities. Debt maturities for 2005 total approximately \$1.8 billion but we do expect to refinance a portion of these maturities. Given the expected level of debt for 2005, interest expense for the year will be approximately \$1.1 billion, roughly \$200 million less than 2004.

Now let me turn the call back over to Paul to discuss short- and long-term incentives for Duke Energy.

Paul Anderson - Duke Energy - Chairman and CEO

Before taking your questions, I thought it would be useful to describe our incentive programs and how they are structured to ensure management objectives are aligned with our shareholders. Simply put, the incentives programs are structured to reward management for delivering quality earnings growth. While EPS is a major component of our company's short-term incentive structure, we have two other components – a second corporate

financial target, which is Return on Capital Employed, and individual performance objectives.

As we told you in mid-December, the Board of Directors approved an incentive target of \$1.60 per ongoing basic share for 2005. The minimum for any payout is \$1.45. Let me also reiterate that no deal or other significant transaction for DENA is included in the \$1.60 figure.

In addition to the Short-Term Incentive plan, management also participates in a Long-Term Incentive plan. Senior executives of the company receive the majority of their compensation in the form of long-term incentives to ensure they balance both the short- and long-term needs of the company.

In 2004, the long-term incentive was awarded as 50% performance shares and 50% phantom stock units. This plan ties incentive payout to total shareholder return at Duke Energy as compared with the S&P 500 over a multi-year period. The performance shares vest after a three-year period provided certain criteria are met and the phantom stock units vest ratably over a five-year period, subject to certain restrictions.

And let me remind you that all of my compensation is solely stock-based and I'm restricted from selling any of that stock until 2007. I couldn't be more aligned with Duke Energy's investors.

I'll wrap up by saying that 2004 was an outstanding year for Duke Energy. We once again control our own destiny. We look forward to growing our businesses and we look forward to delivering another outstanding year in 2005.

Now we'll be happy to take your questions.

QUESTION AND ANSWER

Operator

Scott Soler from Morgan Stanley.

Scott Soler - Morgan Stanley - Analyst

Congratulations on '04. I had a couple of questions, one about Duke Field Services and maybe I'll ask the second question first. It's shorter. Paul, when you look at your capital spending budget for the next couple of years I would think that a significant amount of your cash taxes get shielded because of depreciation on your capital budget but when you look at -- could you update us on the size of your NOLs and over how many years will you probably be able to use those? Because it seems like you're probably going to be able to shield a fair amount of your taxes through the assets or CapEx that will be added over the next few years.

Paul Anderson - Duke Energy - Chairman and CEO

Sure. I will defer to David on that one and can see if his voice holds up.

David Hauser - Duke Energy - Group VP and CFO

We put a chart that showed you the cash flow and it showed the \$450 million of cash tax benefit that carried forward into '05. There will be no carry forwards of taxes into '06 and we have already carried back dollars in NOLs to prior years. So the \$450 million is the number of the cash tax benefit from all the asset sales. Now we certainly have deferred income taxes as you normally do associated with tax depreciation being higher than book depreciation and that is about \$200 million in '05.

Scott Soler - Morgan Stanley - Analyst

I hate to make you talk with your sore throat but on the deferred taxes, I am presuming that giving your budget through '07 that is probably a few hundred million dollars per year of positive cash impact because of deferred taxes.

David Hauser - Duke Energy - Group VP and CFO

Yes, you would take net income which had income taxes deducted and you would add back those deferred income taxes and it is on the order -- it is \$200 million for '05.

Scott Soler - Morgan Stanley - Analyst

And then a second question perhaps for Fred, on Duke Field Services you had such a good opportunity to hedge out -- I know most of your hedges I would presume are still in the order of shorting crude oil. Could you talk a little bit about as you look out over your three-year budget is there a certain percentage of that NGL processing those volumes that you want to hedge and are those hedges -- I don't recall, are most of those hedges done through DENA or are they with outside parties?

Fred Fowler - Duke Energy - President and COO

To answer the last question, they are with outside parties. Basically the way we hedge at Field Services is we hedge the heavy end of the barrel which is about 40 percent of it with crude oil. The propane and ethane we found that you can get into some pretty bad correlation problems between the lighter end of the barrel and crude oil, so we have gotten away from using crude as a dirty hedge on that part of it. And basically we either use direct sales, just selling ahead as much as we can. It's a little difficult to do in that market because so much of it is bought by petrochemical companies that they don't want to go out very far. But we do get some propane laid off on the propane futures market.

So basically we don't hedge the heavy end of the barrel, and that really is what limits our hedging ability. I think at the prices that we saw in '04, had we been able to do it on a basis of 40 percent crude oil and 60 percent LNG we would've probably gone up to I would say probably 80 percent hedging. All we were able to do because of the liquidity in the LPG markets was to get up to about I think we are at 63 percent hedged, 64 percent hedged now for '04. But as we start rolling into another quarter where the chemical guys will buy, you'll see us selling forward our light ends production.

Scott Soler - Morgan Stanley - Analyst

Just due to the fact that it's probably a nine months of reasonable liquidity on propane or what people are willing to buy from your customer base, it seems like going into '06 it is probably safe to assume as we model that you're probably roughly 40 percent hedged or something along those lines?

Fred Fowler - Duke Energy - President and COO

We're slightly less than that at this point; we're closer to 30 percent for '06.

David Hauser - Duke Energy - Group VP and CFO

Yes, 30 percent hedged in '06.

Paul Anderson - Duke Energy - Chairman and CEO

And just in case, you probably caught it but Fred said that we were 64 percent for '04. It's '05. You are writing the wrong year on your checks still.

Scott Soler - Morgan Stanley - Analyst

I guess the last question I had is given that I recall from several last conference calls you talked about an ideal dividend payout ratio of approximately 70 percent. Looking at your plan for 2005 and '06, or particularly for '05, it looks like we're starting to get close to that payout ratio by the end of '05. If you were even considering a dividend increase, would you consider doing that pretty much on the spot with your Board meeting on a special meeting or would that be something that you would address annually at the Board meeting?

Paul Anderson - Duke Energy - Chairman and CEO

Clearly at this point in time we have some options as to what to do with some of our cash and we do have the balance sheet strength to think in terms of dividend increases, stock buybacks and what have you. But it is something that we will be thinking about over the course of the year as we get a better feel for how 2005 comes in and it is certainly not anything that we want to debate in the public arena.

Scott Soler - Morgan Stanley - Analyst

Okay, Paul. Thank you.

Operator

Greg Gordon of Smith Barney.

Greg Gordon - Smith Barney - Analyst

Thank you very much. Two quick questions. One is on your pursuit of a solution to the strategic problem at DENA, obviously I'm sure you won't comment on rumors that are put out there by the press but can you tell us is there any specific incentive for the people who you've designated to look at those strategic options in terms of the timing of the launching of that solution given that you've got a balance sheet that's pretty stable; you've got plenty of cash. It would seem to me that there would be no rush to just liquidate these assets -- that you are in a position to be patient.

Paul Anderson - Duke Energy - Chairman and CEO

Greg, I appreciate you recognizing that we aren't going to get into a big discussion of the rumors that are out there because I would say there is a feeding frenzy in the press and quite frankly I am not

sure what is driving them. With regard to your question as to our incentive scheme, let me just tell you what my incentive is and it flows to others in the organization. My goal for the year is to either come up with a transaction and an implementation plan that gets Board approval by the end of the year or come up with a plan for DENA that organically produces at least a break even for 2006 and profits beyond 2006.

And there is some variations on that in terms of min/max targets and what have you. But that is basically the way my goal reads it's either/or. It does not necessarily mandate a transaction because we recognize that we would be crazy to just say we were going to be hell-bent for a transaction whether or not that is the best alternative. So we've set the goals up so that it's basically to come up with either a transaction that makes sense or an organic plan that preserves the option value at the end.

Greg Gordon - Smith Barney - Analyst

Right. But the timing of that is the end of this fiscal year?

Paul Anderson - Duke Energy - Chairman and CEO

That is what the minimum timing is. Obviously we would like to do it sooner but I don't think we are going to set out a goal post there six months from now or anything.

Greg Gordon - Smith Barney - Analyst

My second question is a numbers question. As I look the year-end equity, common stockholders equity of \$16.441 billion versus \$13.748 billion at year-end '03, I'm having a little bit of trouble doing the buildup to that. Could you give us a walk-through of what the biggest components of that are?

David Hauser - Duke Energy - Group VP and CFO

Did you remember to add in the about \$1.6 billion of the mandatory converts that we converted last year?

Greg Gordon - Smith Barney - Analyst

I think I did because there was a negative -- well, we can do it off-line.

David Hauser - Duke Energy - Group VP and CFO

We probably ought to take it off-line. It ought to be as simple as the converts plus retained earnings minus the dividend.

Greg Gordon - Smith Barney - Analyst

Okay, thank you.

David Hauser - Duke Energy - Group VP and CFO

Myron reminds me that there would be some FX changes in there and that may be the piece that is throwing you.

Greg Gordon - Smith Barney - Analyst

Okay. Thanks.

Operator

Terran Miller with UBS.

Terran Miller - UBS - Analyst

I was wondering if you could break down the capital expenditures between the businesses at Duke Capital and Crescent and the power company?

David Hauser - Duke Energy - Group VP and CFO

For '05?

Terran Miller - UBS - Analyst

Yes, for '05.

David Hauser - Duke Energy - Group VP and CFO

The essential numbers are \$1 billion at Franchised Electric; \$750 million at Gas Transmission; \$250 million at Field Services; \$475 million at Crescent, and then some miscellaneous that's \$100 million.

Terran Miller - UBS - Analyst

Okay and Paul, could you just review for us what you are looking at in terms of potential alternatives for DENA as you progress through 2005?

Paul Anderson - Duke Energy - Chairman and CEO

It is very hard to pursue a strategy if we debate it publicly. Obviously we have talked about the fact that the ultimate solution for DENA would involve a greater scope and scales, That it would probably involve a multiple of the generating capacity that DENA currently has; more fuel diversity, more geographic diversity and

the ability to absorb the overhead over a broader base in support of trading activity. But beyond that I think it is very dysfunctional to the team at DENA and to also anybody that might be working on a potential transaction to get any more specific than that. I know we went through exactly this same sort of situation last year with the Southeast plants where everybody was trying to say who are you talking to and just give us their initials or their stock symbols, give us a hint. And quite frankly we just have to say we are pursuing this strategy. We are pursuing this course but to debate it in an open forum would be dysfunctional to everybody involved.

Terran Miller - UBS - Analyst

Thank you.

Operator

Craig Shere with Calyon Securities.

Craig Shere - Calyon Securities - Analyst

Two questions. The first question I am trying to figure out what the operating number is. The \$45 million in tax expense for the repatriation of the cash, shouldn't we be backing that out? Isn't that kind of one time-ish and that would result in a .28 cent operating number for the quarter? Does it make sense what I'm saying?

David Hauser - Duke Energy - Group VP and CFO

We made the decision not to call that \$45 million a special item. Certainly as you look at it you can make what ever decision you consider appropriate but that is a legitimate cost that we will have in order to get the \$500 million back so we simply ran it through the books and called it an ongoing item.

Craig Shere - Calyon Securities - Analyst

Okay but David, I want to understand. This is extra tax that would have accrued on prior period operating results if it had been brought into the States at that time?

David Hauser - Duke Energy - Group VP and CFO

That is not a good way to look at it because it would've been brought in under a totally different tax regime at that time, so --

Craig Shere - Calyon Securities - Analyst

Well, you have the new tax law that makes it attractive to repatriate money but it relates to operating results in prior periods.

David Hauser - Duke Energy - Group VP and CFO

Well, the \$500 million will be taxed at 5.25% in Federal. Then you'll have some state tax impacts and some international withholding impact. That is essentially what makes up the \$45 million. I'm not sure we're communicating.

Paul Anderson - Duke Energy - Chairman and CEO

I think I understand your question and the answer is yes, indeed it does relate to operating income from prior periods but so do a lot of other tax adjustments that we make during the year, and so we made the decision that any tax adjustments we made to -- adjustments to reserves or what have you we would not try to differentiate and say, this related to a prior period and so we will back it out. Because tax adjustments tend to be kind of lumpy and it is very hard to keep trying to characterize them as to exactly what drove them and so we just basically put all of them together including this one.

Craig Shere - Calyon Securities - Analyst

Okay well, kudos for your modesty. My second question relates to DEFS. Obviously the two big questions on people's minds long-term about the value of Duke relate to DEFS longer-term not just in the period benefiting from the higher energy price -- short-term paradigm possibly and also DENA. The question on DEFS is if you have cost cuts and other benefits going on here besides the higher energy prices and you are extending the higher results out longer through these hedges you're announcing. I believe today's '06 announcement is the first time you've mentioned that.

The question is if you didn't have the benefit of the higher energy prices but you had the benefit of the improving operations, how much higher would DEFS results be verses, say, '03 results? And then we will play with our own numbers for where we think oil prices and everything will be.

Fred Fowler - Duke Energy - President and COO

What we have done is we have really put the focus on Field Services on how to do improvement out of their existing business because for a couple reasons. Number one, as a result of building that business through acquisitions we've spent all of our time integrating acquisitions and we've never really focused on optimizing the huge asset base that we now have. The second reason is that with the values we're seeing in the market on assets, we just don't see it as a time to be buying. We typically like to buy at the bottom of the cycle. So we are very much focused on how we improve the existing asset.

Kind of what we have targeted over the next three years in our three-year plan is around an \$85 million improvement ignoring --

totally ignoring price impact. Now one thing that I think you need to understand about this business is that there is a natural decline in it as a result of the volume decline that you have off of reserves being depleted and in our case for Field Services over the next three years we see that decline is going to be about \$25 million a year. So what we have to do is offset that \$25 million plus then grow the business by a target of \$85 million. And what we're targeting to do that is again improve performance around the existing assets; secondly, making sure that we're growing the asset base off organically or that we are our replacing the depleting reserves with the new gas that's coming on; and then kind of the third leg is to make some outright acquisitions.

As I said, the big focus at the DEFS level is on performance excellence or optimizing that existing business and that will involve some upfront costs to improve some integrity of our assets. You saw our costs are going to be up a little next year. But we should then see that come back in terms of lower gas losses at the plants and the pipelines and that means more revenue in the future.

Overall the results from our performance improvement plans coupled with some growth that we see at TEPPCO and in the JV should be enough to offset the volume declines and net out to about an approximate \$85 million EBIT improvement over that 2005 to '07 time frame.

Craig Shere - Calyon Securities - Analyst

So those efficiency improvements, excluding any concerns about energy prices are really in effect adding like \$150 to \$160 million to offset the natural decline plus provide the increment you're talking about?

Fred Fowler - Duke Energy - President and COO

Yes.

Operator

David Reynolds with Banc of America Securities.

David Reynolds - Banc of America Securities - Analyst

Thank you, gentlemen. A quick question. Back in December there was some conversations about the path you thought it might require to get a strategic transaction for DENA done. Given the scale and the diversity you're looking for as well as a possible trading and credit backing and so on, that it might be a multi-phase process that maybe the first transaction you do into some form of JV they end up being aggregators as opposed to all being done in one transaction. Could you just comment on whether or not that is still the kind of path that you anticipate? I have one follow-up on DENA after that.

Paul Anderson - Duke Energy - Chairman and CEO

That is one possible path but as I said, I just don't think it is productive for us to speculate on what alternatives we might be pursuing or who we might be talking to or so forth because all it does is it puts a lot of speculation out in the marketplace that isn't good for anybody.

David Reynolds - Banc of America Securities - Analyst

Absent the ability to do a transaction then the focus is going to be on growing the business organically or improving the margins, I think the \$150 million EBIT loss in '05 and breakeven in '06 is what has been talked about. I think the comment earlier was that at least in '05 anyway 70 percent of the improvement '04 to '05 is anticipated to be margin spread. I don't know if that number was out there for '06. Can you tell us what that translates into in terms of realized margins for the business? In realized margins spreads?

David Hauser - Duke Energy - Group VP and CFO

I don't think you can look at it exactly that way. Let me just tell you why and this is exactly why we changed our supplemental disclosures. We are really selling two products. We're selling capacity and we're selling energy. It is not just a spark spread business. So the real goal is to increase these capacity sales and get those in at solid returns and then you will have some energy sales that come off of those in addition but the capacity is where I would say our biggest focus is.

David Reynolds - Banc of America Securities - Analyst

Okay, thank you.

Operator

Steve Fleishman with Merrill Lynch.

Steve Fleishman - Merrill Lynch - Analyst

Hi, a couple of questions. First just the difference between basic and diluted shares in '05 is roughly about .05 cents a share? Is that correct?

David Hauser - Duke Energy - Group VP and CFO

Right.

Steve Fleishman - Merrill Lynch - Analyst

Secondly with respect to the thought process on cash on hand and the like which I guess at year-end was about \$1.8 billion and then you're talking about generating another \$500 million, what do you think is the amount that you would typically want to have for your basic operations? I guess to ask the question another way how much of that is excess beyond what you would normally want to have around?

David Hauser - Duke Energy - Group VP and CFO

When we started the year last year, we said we're going to keep \$1 billion in the bank just to save it for a rainy day depending on what happens. That was a very conservative view but it was appropriate for the balance sheet strength at the time. Since the balance sheet has gotten stronger, we don't need \$1 billion. We haven't set a firm number on that but it would be in the range of \$500 million including everything. There's cash from a lot of different pockets around that you can't get to everyday. But \$500 million would be a good way to look at it down from the \$1 billion that we had told you before.

Steve Fleishman - Merrill Lynch - Analyst

Okay and then Julie said in the intro comments that you want to keep that cash around to kind of have for potential investment opportunities that could come up. Maybe if Paul could just elaborate a little bit more on why keep it around? If an opportunity is good enough, couldn't you finance it? Etc, etc.

Paul Anderson - Duke Energy - Chairman and CEO

I don't think we meant to imply we just have a bunch of cash in the sock drawer so that if something comes up we can dip into it. My actual objective for cash on hand is ultimately to be about zero. And I am not the CFO, so I don't have to worry about that, but I don't believe in keeping a lot of cash hanging around. I think what Julie was saying is that we have some excess cash as we sit here today and we're looking at alternatives for that cash. And some of the uses could be stepping up our capital program but there are other uses for it as well. And it was merely reflective in the fact that we're planning to make use of the cash not that we wanted to keep it in a sock drawer.

Steve Fleishman - Merrill Lynch - Analyst

Okay, one last question. This low to mid 30 percent tax rate in '05, is that effective tax rate likely to be in that range in '06 -- say in future years?

David Hauser - Duke Energy - Group VP and CFO

I would think that is a good number for '05 and forward.

Steve Fleishman - Merrill Lynch - Analyst

Okay, thanks.

Operator

Paul Fremont with Jefferies & Co.

Paul Fremont - Jefferies & Co. - Analyst

Thank you very much. First of all, congratulations on a good year. My question I guess relates to the disclosures particularly the DENA disclosures. In the past I guess you have provided the estimated megawatt hour production out of combined cycle and peaking units with sort of no production expected out of peaking units in '05 and '06. Now I understand your focus on two markets, capacity markets versus energy markets but I would assume that if you're not projecting any megawatt hour output in the either '05 or '06 that the assumption would be that capacity markets may not come back in time for either of those years. Has that thought process been changing? And have your assumptions about output out of peaking units been changing for either '05 or '06?

Fred Fowler - Duke Energy - President and COO

It's something that you can't control and focusing your market efforts around what you can impact. So the two major areas of focus are either let's go out and sell tolls into markets and let's work through the regulatory regimes that are still developing on getting some must run tight revenues off of these as opposed to just sitting here and living and dying with the market and providing that stuff to the market, all at our risk. So again if the market turns in our favor, yes we will take advantage of it, but that is not how we are directing our marketing effort. It is not an effort that is sitting around saying let's watch the market and see how we take advantage of the market. It is more one of how do we start putting some logic in around bringing in revenues on these assets that we have.

Paul Fremont - Jefferies & Co. - Analyst

Let's say between the fourth quarter of 2003 versus today, is your view of profit opportunities right now for your peaking units materially different than it was since your last disclosure when you were projecting sort of no volume sales?

Fred Fowler - Duke Energy - President and COO

I would say it is probably the same.

Paul Fremont - Jefferies & Co. - Analyst

Okay, and in terms of output amounts coming out of the combined cycle plants, would the numbers that you presented in the third quarter disclosure, would those numbers still roughly hold going into '05 and '06?

Fred Fowler - Duke Energy - President and COO

I can't answer that question without going back and looking at it.

Paul Anderson - Duke Energy - Chairman and CEO

We did not go back and re-create those so we don't know the answer to that. My view is the curves really haven't changed much which would suggest to me that the production shouldn't have changed much but I don't have those numbers. We are really trying to shape this to send the message of how we are running a business going forward and we will be interested in your thoughts as we talk it through going forward.

Paul Fremont - Jefferies & Co. - Analyst

Thank you very much.

Operator

Vic Khaitan with Deutsche Asset Management.

Vic Khaitan - Deutsche Asset Management - Analyst

Thank you and good progress, Paul. You mentioned something about management incentive but you didn't answer the question about what the ROCE targets are and where you are today and what might be the hurdle rate for new investment for ROCE.

Paul Anderson - Duke Energy - Chairman and CEO

As far as what the ROCE target is, we don't give that actual number out and to be honest we have a discussion about it. It is a Reg G nightmare and we will be reconciling to GAAP until it comes out our ears. The environment we're in right now makes something like that just more trouble than it's worth. But basically what the ROCE target that is given to management is taking our budget EBIT and our budget balance sheet and we begin with that and then say the objective is to improve on that.

In terms of new investment, we have hurdle rates that are higher than the ROCE because clearly we're trying to improve our return and so incremental investments have to come in at a higher rate. I don't know if that answers your question.

Vic Catan - Deutsche Asset Management - Analyst

Well, only partially, but the question then is that what might be your cost of capital against your ROCE and how that is changing?

Paul Anderson - Duke Energy - Chairman and CEO

We haven't given that out.

Vic Khaitan - Deutsche Asset Management - Analyst

Okay, we will talk later.

Operator

Matthew Akman with CIBC World Markets.

Matthew Akman - CIBC - Analyst

I had a question on Alaska gas. Giving your aggressive plans for expansion in gas transmission and really strong position west coast of Canada, it's almost like Duke is conspicuously absent from the discussion on Alaska gas. I'm really just wondering what your views are and how that will unfold and whether Duke is involved in some way and maybe not just talking about it much right now?

Fred Fowler - Duke Energy - President and COO

I think from our perspective, I think probably number one -- to me it is very unclear as to who is going to even own that pipeline initially, who is going to build it. It appeared for awhile that it was going to be the major producers. It also became fairly clear to us that the major producers have clearly chosen the next gas in the queue from their perspective is going to be LNG as opposed to Alaskan gas. So it is our position that Alaskan gas has probably been pushed back some. At the same time we will continue to follow it. We will continue -- we do have a nice position in the western part of Canada that we think will definitely participate in how that gas does get moved into the U.S. and Canadian markets. So it is something of interest, but I guess from our perspective it is lower priority than probably LNG.

Just based on the fact that it appears to us that the major producers that LNG is next in the queue.

Matthew Akman - CIBC - Analyst

So you don't see Duke maybe building the Alaska portion of that line over the next 5 to 8 years or something like that?

Paul Anderson - Duke Energy - Chairman and CEO

I don't.

Matthew Akman - CIBC - Analyst

Okay, thanks.

Operator

That concludes our question-and-answer session for today. At this time I would like to turn the call for back to Ms. Julie Dill for any closing remarks.

Julie Dill - Duke Energy - VP Investor Relations

Thank you again, Kim. And thanks, everyone, for joining us today. As always just remind you that myself and the IR team are happy to take any of the follow-up questions that you might have. And I would also just like to remind you that as we did last quarter, we did provide you with some consolidated financial statements. Our full statements will be available when we file our 10-K which is likely to be around the 15th of March. Thank you again and hope you have a great day.

Operator

That concludes today's conference. Thank you for joining us.