Strategically Addressing Market Needs

Remarks Delivered by Alan Harris
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First of all, good afternoon and thank you for joining us today. I'm Alan Harris, group vice president and CFO of the gas energy transmission business. I know it's late in the day, so we appreciate you hanging in there with us.

I have three colleagues here today with me as well. I think you know most of them. First is Fred Fowler, who is group executive and president of Duke Energy Gas, and John Arensdorf and Jennifer Traylor from our Investor Relations group.

So, for this presentation we've got about a 40-minute time slot here. We will go half and half, and I will be available to answer any questions. And with the group we've got here today, I am sure we can address any ones that you come up with.

Taking care of some business – you're all familiar with this by now – I'll just direct you to the Safe Harbor statement and, Reg G statement, and ask you to read it at your leisure and keep it in mind for today's presentation.

Let's begin with the big picture of Duke Energy. We anticipate more than 70 percent of the Duke Energy 2006 ongoing EBIT will be generated by the diversified portfolio of our regulated, low-risk assets. Duke's regulated electric businesses consist of utilities in various states; those states are North Carolina and South Carolina and also Ohio, Kentucky and Indiana. The Ohio, Kentucky and Indiana operations are the result of the recently completed merger with Cinergy. On the gas business side, we're regulated by three regulating bodies. The first in the U.S. is the Federal Energy Regulatory Commission, and then in Canada we have the National Energy Board and Ontario Energy Board.

As you can see, for the 2006 ongoing EBIT on the regulated piece, we expect the gas businesses to contribute over 40 percent. Now that I've provided you with some context, let me specifically drill down on the gas transmission business – Duke Energy Gas Transmission, which for the rest of the presentation I am going to refer to as "DEGT." DEGT is a recognized leader in the industry, with proven strengths and many growth opportunities. We connect various supply basins – the Gulf Coast, eastern Canada, British Columbia, Appalachia and LNG. And with this supply we also cover premium markets. The gas transmission business at Duke Energy is a solid consistent contributor to earnings and cash flow. And we have a history of ongoing EBIT growth. We continue to enjoy solid organic growth opportunities in the near term, and in the longer term, we are pursuing infrastructure opportunities in the transportation business that will connect new gas supplies, and integrate storage into the DEGT transmission systems serving existing and developing markets.

DEGT will continue to balance the capital expenditures we see with expansion, as well as maintenance. We are committed to the integrity of our pipeline system. Over the long term, these opportunities will yield a 3 to 5 percent growth. You're going to see a lot of maps today – a lot of colorful lines that represent pipelines. What's unique about our position in North America is the level of scope, scale and flexibility that we have been able to achieve and build upon.

We maintain a pipeline system in the U.S. and Canada of over 18,500 miles. We have that integrated with over 250 BCF of storage in both the supply and market area. In Ontario, we serve 1.3 million customers through 35,000 miles of distribution pipe, and in British Columbia we own and operate world-class sour-gas gathering and processing facilities and a strategically placed pipeline in that area.

Looking at our strengths - the strength that we have, I believe, is our portfolio of assets. We serve diverse markets from diverse supply basins, and we have a diverse group of customers. This has given us the ability to deliver solid predictable earnings year in and year out. Our assets are going to serve us well going forward; we are strategically positioned – attached to growing markets and supply. We continue to enjoy solid organic growth opportunities in the near term, as I have said earlier, and we see additional infrastructure opportunities as we bring on new supply and operationally integrate those into our current system.

We have a long-standing relationship with our customers. They need reliable, safe, efficient gas services, and we provide that. Our customers are comprised primarily of regulated, creditworthy LDCs and at a high rate of contract renewal. So, let's look at the picture of DEGT from a financial perspective.

Looking back historically, DEGT has performed well with a consistent pattern of ongoing EBIT growth. The compound average growth rate for the period of 2002 to 2005 was 5.9 percent. It won't escape anyone's attention that, in 2006, we are projecting to remain relatively flat. That's driven from two financing decisions that we made in 2005 – an $850 million financing was put into place at Gulfstream, our 50-50 joint ownership pipeline that serves Florida with Williams. We also closed our initial public offering of Duke Energy Income Fund – our Canadian Income Trust - in December of last year. We do retain a 58 percent interest in that income fund. The average compound rate looking at the years 2002 to 2006 is projected at 4.4 and we expect again to maintain a long-term growth rate in the 3 to 5 percent range.

We're fortunate to have a broad portfolio of gas businesses making a balanced contribution to ongoing segment EBIT. In 2005, 60 percent of our ongoing EBIT came from the U.S. operations in the storage and transportation area. The remaining 40 percent was split fairly equally in Canada between the distribution business and the processing and transportation business. Looking at our business units, Texas Eastern, which we call the "granddaddy" of our system, is the top generator of EBIT, followed by Union Gas. Together they represented about 55 percent of our 2005 ongoing EBIT.

On capital spending for 2005, it was fairly balanced between expansion opportunities and maintenance. We continue to invest in our existing assets to ensure that we continue to operate a safe, efficient, reliable system. Going forward, we expect capital expenditures at Duke Energy Gas Transmission in the $1 billion-annually range. Again, we expect to see that split really close to 50/50 between expansion opportunities and maintenance.

When looking at financial flexibility, as you know, our business is well known for generating good cash flow and good stable earnings. In addition to that, we remain flexible in our approach to fund projects. Our IPO for the Duke Energy Income Fund, which successfully closed on December 20th of last year, raised over $150 million. DEGT retains at 58 percent in that. And as of April 20th, the trading range was a little over $10 to $13. Last week, I think on May 2nd, we reached an all-time high of $13.20.

We are looking at other financial structuring opportunities for our Canadian assets, and we'll be considering whether developing an MLP in the U.S. makes sense as well. However, we haven't made any decisions on either one of those yet. And as you probably heard from our CEO last week, Jim Rogers, in the earnings call – make sure I get this right – our highest strategic priority for the year is to determine if it makes sense to separate the gas and the electric businesses at Duke Energy. The analysis is ongoing by a small group, and we're on track to make that decision by the end of the year.

That's kind of where we've been. Let's look at where we are going. We serve five distinct premier markets in North America, noted by the green bubbles. Northeastern U.S., which is served by the Texas Eastern, Algonquin and Maritimes & Northeast pipelines; Florida is served by Gulfstream; Tennessee and North Carolina is served by East Tennessee pipeline; Ontario is served by Union Gas; northwestern U.S. and southwestern British Columbia is served by BC pipe. Again, our primary customers are high-quality, regulated LDCs.

The natural gas that we transport for our East Coast customers is currently supplied primarily from offshore and onshore Gulf of Mexico and Nova Scotia. Natural gas from British Columbia and Alberta in western Canada supplies our northwestern U.S. and southwestern Canadian markets, as well as our customers in Ontario.

However, we are beginning to see a shift in supply. This next slide will represent supply that is seeking new paths to the lucrative East Coast. Incremental LNG moving into North American markets represents an important trend, we believe, over the next 20 years. Key near-term non-LNG incremental production supply shifts are also expected, particularly with the Rockies gas. Rockies gas is trying to get into the East Coast, and to a lesser degree Rockies gas is moving into western and southwestern markets. Also midcontinent and onshore Gulf production is moving into eastern markets, supplies feeding the significantly short Florida market, and to a certain degree, U.S. supply moving into an expanded basin in the Mexican markets. Medium to longer term flows, we are looking at two things - the Canadian/Alaska frontier gas moving to meet the needs of the Canadian oil sands production, as well as the U.S. market. And we believe that a second significant tranche of LNG, a little further out, will come on beyond the levels currently being built and constructed that are in advanced development

The stars on this slide represent supply-related project opportunities that DEGT is pursuing. We want to be on the front end of the initial emergence of connections for new LNG import terminals in eastern Canada and in the northeastern United States. And we want to position ourselves to create liquid natural gas supply points for our eastern markets from new sources of supply. So, this is something that we haven't seen in the past, but here in the last few years it has come into the surface. With that said, we have not given up on demand projects and, going to the next slide, natural gas demand has continued to grow. Even with historically high gas prices that we are seeing, we still expect growth there. This slide shows the transportation and storage infrastructure projects that we are pursuing to meet the needs of our customers in these different markets.

I'll speak more specifically to certain projects in a second, but the thing that stands out to me on this particular slide is all the yellow stars - the storage projects. What this translates into is the abundance of organic and greenfield transportation infrastructure opportunities. We are going to be pursuing both types of opportunities. Our preference is more with organic growth opportunities, I think for two reasons: Number one is, we have more control over those opportunities. They touch our current systems; they're in our current right-of-ways. And just as important, we've seen better returns on those types of projects.

The next slides we are going to be looking at are going to be the opportunities by regions. I just want to be clear that all the projects I talk about and all the names that we have on the map doesn't means they are all signed, sealed and delivered. We have a lot of other projects that we are chasing that didn't make the cut to the maps. So, our review of projects and the potential value, of course, is ongoing.

The Southeast is a good example of DEGT's expansion philosophy in action. In 2000, we did not have any business activities in the Southeast, with the exception of the Texas Eastern main line going up through that area. Through selected acquisitions, greenfield expansions and organic growth, we have been to able to develop a valuable gas footprint and serve some of the fastest growing markets in the U.S.

Gulfstream, our 50-50 joint venture with Williams, will be fully contracted once the 345,000 decatherms a day Phase III is completed in the summer of 2008. Florida Power has taken all of the Phase III capacity. So, just in case you didn't hear this because we've received many questions over this over the years, Gulfstream will be fully contracted in 2008.

On our East Tennessee system we are successfully integrating supply, transportation and storage projects. Jewell Ridge, Piedmont Gas and Saltville will be providing new services, while extending our reach both upstream and downstream. The Jewell Ridge project, for example, the contractors were on the ground today, for the first day, digging dirt and cutting trees. So that project is about a four-month construction line, but it is underway.

We're really excited about the southeast supply header proposition. It's a proposed 50-50 joint venture with Centerpoint Energy, and will connect the Perryville supply hub with our Gulfstream pipeline and all the other major pipelines serving the Northeast and the Southeast. We are currently expanding our Indian Cavern storage and recently announced an open season for the Copiah, Egan and Moss Bluff locations to gauge the demand for additional capacity. These high-deliverability storage facilities are expected to provide important operational flexibility to the new Gulf Coast LNG that comes on board, as well as our traditional customers.

In the Northeast, our family of pipelines has a broad range of development opportunities, both on the supply side and market delivery. On Maritimes & Northeast, our 77.5 percent owned joint-venture pipeline, both the Anadarko/Bearhead and Irving Repsol/Canaport LNG projects have received environmental assessment approvals needed, and both have received all their construction permits.

Anadarko has recently publicly stated that Bearhead is expected to be about a year out, but the Repsol project remains on track for an anticipated in-service date of 2008. Both, we still believe, are very good projects - just the phasing is a little different.

The Excelerate Northeast Gateway Project will move gas from a proposed offshore LNG terminal to the Algonquin Pipeline in Boston. Two projects on Texas Eastern will move gas from the increasingly important supply hub at Lebanon, Ohio, to key markets in the Northeast. TIME II will provide phased-in additional capacity to enhance supply diversity for our shippers by connecting two of our New Jersey customers - New Jersey Natural and PSEG - to the Lebanon hub by late 2007.

Separately, we recently concluded a successful open season for further expansion of points east of Lebanon on Texas Eastern. This will provide a path to move new long-term supplies of Rockies gas to the Northeast markets. I'm sure you know the Rockies is one of the few onshore regions that is expected to show significant growth in production.

Also on the Texas Eastern system, we will enhance reliability and flexibility of the Accident Storage field as early as this coming winter season - '06 ,'07. And DEGT is also looking to increase market-area storage by over 6 BCF on the Dawn hub through conversion of existing gas production pools.

On the Canadian side of the border, the Ontario government's coal displacement policy is providing Union Gas with opportunities to expand infrastructure to serve new gas-fired electric generation plants. Union already serves 80 percent of the existing gas-fired load in Ontario. Union expects to provide gas service to both Thunder Bay and St. Clair power plants through new pipeline connections, and they also plan to expand their Dawn/Trafalgar transportation capacity by an additional 20 percent to serve these power plants and traditional markets. And we continue to expect to add 25,000 to 30,000 new customers each year to Union's core distribution business.

Our Western Canadian operations have seen a lot of change over the last year. In the Pine River area, we are increasing our gathering and processing capability and plant expansions in other areas, as production increases. Approximately 15,000 wet gas wells have been drilled each of the last two years. And that number is expected as well this year, in this area. This compares to a decade ago, when I think the average was 4,000.

The Canadian operations of the Duke Energy Field Services midstream business and the ConocoPhillips Empress facilities joined the portfolio of western Canada as well, this past year. As discussed earlier, the initial public offering of the Duke Energy Income Fund closed this past December.

So, in a short time I've covered a lot of ground with you and kind of been all over the map. But what I hope I've been able to do is give you a sense of the strong strategic value that we have at DEGT, and the enormous potential that we see ahead. We've been delivering and growing our net worth of assets on a diverse portfolio that is connected to growing markets and supply. That accessibility serves investors well, by providing long-term sustainable value and growth. We're fortunate to have a variety of financial options available to us. Again, we believe that we are strategically addressing the market needs and serving the interests of our customers and the shareholders. With the opportunities we have, we expect again to see EBIT growth in the range of 3 percent to 5 percent. So, thank you for your attention today and your continuing interest in DEGT. And with that, we will open it up for questions, and as I said I've got backup here, so shoot away.

Q&A

<Q>: [Inaudible -- about an LNG plant in British Columbia] – Winfried Freuhauf

<A>: Alan Harris: Which one – I'm sorry?

<Q>: [Inaudible]

<A>: Alan Harris: Which one is that one?

<Q>: [Inaudible]

<A>: Alan Harris: Yeah – we talked about some of the ones that we are looking at now. We see that probably in the second tranche, if it does make it. When we talked about mid

to longer-term, my take on that one is it's probably five to eight years out. I think it's still just in the development phase.

<Q>: [Inaudible] – Craig Shere

<A>: Alan Harris: Okay. I will take the first stab. Fred, jump in please. I think, to answer the last question first, we think with the Cinergy merger we do have big enough scope and scale on both sides of the electric and the gas to be a stand-alone. All that's going around now is, does it make sense to the shareholder? That's basically what we are here for - does it make sense for the shareholder? When we're looking at comparables - the three or four4 that jump out at you are Transcanada, Kinder Morgan, Enbridge, Southern Union.

<A>: Fred Fowler: I think to some extent Craig, you know, we view Williams and El Paso somewhat, in that they're more E&P and we are more gathering/processing. But if you really think about it, the earnings profile of our gathering/processing business is a lot like an E&P company.

<A> Alan Harris: Did I miss a question, or did that get it?
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<Q>: [Inaudible]

<A>: Alan Harris: No, we don't.

<A>: Fred Fowler: But I think, you know, we would be ready to. To me, consolidation at this level, at this stage in the gas transmission business, is pretty [indiscernible]. But again, you have to be very opportunistic when those opportunities do arise. They typically, today, kind of get driven by something else happening – you know, somebody does another transaction or merger of some kind, and they get forced to divest of some assets. We want to be in a position that, if those kind of assets come out in our business position – we clearly want to be in a position to acquire those assets.

<Q>: [Inaudible]

<A>: Fred Fowler: Yes. The way we're viewing it today, DEFS and Duke Energy Gas Transmission – both the Canadian and U.S. operations – would be what would be spun off.

<A>: Alan Harris: Question in back?

<Q>: [Inaudible]

<A>: Alan Harris: Those are all good questions and exactly what we are analyzing right now. I think – my opinion is – the starting position would be starting from scratch instead of obtaining something. When you say "what kind of assets do we have that would fit it" - the good type of assets that fit an MLP, as you know, are ones with high

tax bases, ones with stable earnings, nice contract terms, etc. We have some of those. So, that's what we're looking at.

<Q>: [Inaudible]

<A>: Alan Harris: Looking at a number of things. We did the income fund last year and need to continue to grow the income fund. Some of the ways you can look at growing the income fund is whether you have any other assets or any portfolio that fit it. So, we are looking at some of those. And then, do we have the right ownership shares of what we have? Maritimes, as you know, on the East Coast is a partnership. So, we are looking at a number of things, but we haven't really keyed down on any specifics yet. We like all the assets we have in our portfolio. And so, to say we want to sell something outright is not correct. That's not what we're doing. We're trying to figure out ways to financially restructure ourselves to extend shareholder value.

<Q>: [Inaudible]

<A>: Alan Harris: You know, the whole thing is wide open. Unfortunately, our timing is not the best for this particular session because we are in the middle of all that analysis. Yeah, we are looking at that as well. I don't know specifically where we would end up there. You start worrying about size if you start splitting yourself up. We think we are big enough on the gas side and the electric side if we say - should we have two C-corps. Then the size comes into play, so that is some of the analysis that goes into it.

<Q>: [Inaudible]

<A>: Alan Harris: I think at the end of the day, what do we think is going to add the most shareholder value? Tax, of course, comes into any decision you ever make. But at the end of the day, with the help through advisors and our own analysis, is what best positions us to continue to grow the business and add shareholder value. Unfortunately, we don't know the answers to those questions yet. Would be interested in any observations you all may have once we finish the Q&A here – pull us aside and talk to us about it, as we're all ears at this point.

<Q>: [Inaudible] -- Terran Miller

<A>: Alan Harris: Gas and electric?

<Q>: [Inaudible]

<A>: Alan Harris: I'll answer one part of it and turn the electric questions over to Fred. We're probably looking at not doing an IPO – it will be more of a share-for-share arrangement. The cash necessarily wouldn't be generated back at a Duke entity. And you wouldn't have a market discount. It just seems like life would be a lot better if you did a share-for-share. As far as the electric strategy, Fred, you want to answer that?

<A>: Fred Fowler: I think we've clearly stated that we think that the time is here, and that we're going to see consolidation on the electric utility side. It makes no sense that we still have in the high 90s of investor-owned utilities in this country. However, we think that you have to be careful where you do it. You have to do it in regions where you have commissions that truly believe that it's in the best interest of their ratepayers to have consolidation, and don't insist that all the benefits that consolidation goes back to the ratepayers. There has to be a sharing between ratepayers and shareholders or it's not going to happen. So, I think from our perspective, we clearly have to be selective where we go, and you've got to have that kind of regulation, etc. And secondly, I think you know the states that don't – that aren't supportive of it. I think with all the cost pressures that you see in that industry from the standpoint of both the feedstocks that produce that electricity, along with the fact that you are going into a fairly large building phase again, personally I think the economics of trying to keep costs down should make regulators think more in terms of -- hey, consolidation is a way to help keep rates lower in our state.

<A>: Alan Harris: Did you have a follow-up?

<Q>: [Inaudible – about private equity] – Terran Miller

<A>: Alan Harris: I think so. I mean, it's got to be spent somewhere. So that's what everyone is chasing. Some of the reasons we'd be looking at an income trust or an MLP is – how we can position ourselves to better compete against some of that?

<Q>: [Inaudible – about dividend policy] -- Annie Tsao

<A>: Alan Harris: The question was – is there going to be any change to the dividend policy.   I am going to throw that over to Mr. Fowler.

<A>: Fred Fowler: No, at this stage we have no thoughts about changing our dividend policy.

<Q>: [Inaudible – about gasco and lower dividend] – Craig Shere

<A>: Fred Fowler: Yes – however, we haven't made that decision yet. As a combined company, should it continue, we would expect to have the same dividend payout that we currently have – 70 percent. We haven't finalized the analysis of where we would end up – but an assumption going in is that the dividend of the new companies has to be equal to what the existing dividend is. But we haven't finalized how you would split that. But yes, directionally you are correct.

<Q>: [Inaudible]

<A>: Fred Fowler: Yeah, as planned today, both the international and the real state business would continue with the electric company. But I think Jim was fairly clear, that as he's come in, he's very much looking at how we can further de-risk the company. And, we have a new leadership, a new set of eyes asking new questions. That is

something we have looked at several times in the past. Everybody, including ourselves, asks, “What the heck are you doing in the real estate business?” It’s a business that has been good for us, it’s brought back cash in a good way, and it has earned good returns. We have looked at monetizing it in the past. The problem we’ve always had is that people just come in and offer asset value for it, they don’t ever offer any ongoing business value for it. So we’ve really always had a higher hold value than what we could extract out of it. But again, it is a pretty hot area. We are reconsidering that. It is part of what we’re doing – everything is on the table, and how do we further de-risk the portfolio.

<A>: Alan Harris: Anything else? Let me make one clarification, since we did get asked it a lot in the one-on-ones. We talked about a potential MLP on the U.S. side. That is not dependent on “Spinco.” That analysis, regardless of if you do a spin or not, would continue. Alright, thank you for your time.