

Jun. 01. 2006 / 3:00PM ET, DUK - Duke Energy Corporation at Sanford C. Bernstein & Co. Strategic Decisions Conference

## CORPORATE PARTICIPANTS

### **Hugh Wynne**

*Sanford C. Bernstein & Co. - Analyst*

### **David Hauser**

*Duke Energy Corporation – Group Executive and CFO*

## PRESENTATION

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### **Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

Good afternoon and thank you very much for attending the Duke presentation. For those of you that are new to the company, let me just give you a quick overview.

Following its merger with Cinergy, Duke is today the largest utility company in the United States. It is a multi-state, regulated power utility on the model of a Southern or an AEP, with some 5.5 million electric and gas customers in six different states and one Canadian province -- North and South Carolina, Kentucky, Ohio, Indiana and Ontario, Canada.

Duke differs from these companies, however, in that its portfolio in a certain sense resembles Dominion. Its portfolio combines not only the power generation and delivery assets of these regulated subsidiaries but also an interstate gas pipeline system. These two regulated segments comprise the core of Duke Energy today with the regulated power and gas utility subsidiaries, which they refer to as Franchised Electric and Gas, contributing some 50% of the combined companies EBIT, and the gas transmission business contributing another 30%. Approximately 10% of EBIT comes from a gas gathering and processing business. And the 10% additional comes from two unregulated segments -- international power investments and real estate development.

Going forward, I think the challenge for Duke is to show it can add value to shareholders by pursuing the organic growth of its regulated rate base, which is expected to expand at approximately 2% annually. And while alternatively, whether it can maximize shareholder value by unbundling its asset portfolio and possibly take advantage of a more tax efficient ownership structure, such as MLPs for its gas pipeline business. Or the third alternative, whether it can pursue a rollup strategy, focusing on continued acquisition of regulated utilities in an environment which increasingly seems hostile to those types of acquisitions, as demonstrated in regulatory opposition to Exelon's acquisition of PSEG and FPL's acquisition of Constellation. But to comment on the portfolio and their strategy for maximizing earnings in the year ahead, let me turn it over to Mr. David Hauser, the Chief Financial Officer of Duke.

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### **David Hauser - Duke Energy Corporation - CFO**

Well thank you, Hugh. Hugh just gave my presentation. Well, I am really delighted to be here and some of you may know this is a bit of a last-minute shift. Our CEO, Jim Rogers, sends his regrets but he was grounded for the week by the doctor and he will be back to full speed next week but not flying this week. So you get the CFO instead.

So, first, I would like to talk about what we see as the major challenges facing the energy infrastructure industry and how we are positioning Duke Energy to address those challenges. Then, I would like to give you the five commitments that keep us focused on what matters most to investors. My hope is that after this discussion, you will have a clear understanding of our value proposition for growing earnings and dividends in both the near and the longer term. Then we will open it up to your questions.

Before I do that, I have to take a moment and remind you of the Safe Harbor statement. Some of the things that we will discuss today concerning future Company performance will be forward-looking statements within the meanings of the securities laws. Actual results may materially differ from those discussed in these forward-looking statements and you should refer for additional information contained in Duke Energy and Cinergy's 2005 Form 10-K filed with the SEC 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 Reg G. A reconciliation of those measures to the most direct comparable GAAP measures is available on our investor relations Website at [www.DukeEnergy.com](http://www.DukeEnergy.com).

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Let me give you a snapshot of Duke Energy. We aspire to be a leader in energy infrastructure in North America. Currently, almost 89% of our expected ongoing EBIT for 2006 is coming from our North American energy infrastructure assets. We own and operate a diverse mix of hard assets in natural gas and electricity markets in North America. On the gas side, we transport, store and deliver natural gas for our customers in retail and wholesale markets. We are also the largest producer of natural gas liquids in the United States. On the power side, we own and operate generation, transmission and distribution assets in both retail and wholesale electricity markets. With competitive advantages in each market, we have significant opportunities to invest in each of these businesses in the future.

Another way to look at this is by the diversified portfolio of our regulated low-risk assets and our non-regulated businesses. In this view, we anticipate that more than 71% of our estimated 2006 ongoing EBIT will be generated by the regulated assets in our energy infrastructure businesses. This is one of the largest and most diverse regulated EBITs in the energy industry.

Our franchise retail businesses operate in Ontario, Canada and in five states -- North Carolina, South Carolina, Ohio, Kentucky and Indiana. We serve 3.8 million retail electric customers and 500,000 retail gas customers in the U.S. with approximately \$15.5 billion in dedicated investment. In Ontario, Canada, we serve 1.3 million gas customers with an approximately \$4 billion CDN in dedicated investment.

On the wholesale gas side, Duke Energy pipelines connect major supply basins from the Gulf Coast, mid-continent and Canada, with rapidly growing markets in Canada and the northeastern and southeastern United States.

Let me talk about what we see as the three key challenges to our industry. Then I will show you how we are addressing each of these head on. The first challenge is price increases, which affect both our retail gas and power customers. Fuel price run-ups and deregulation price gap expirations are reversing the decade-long decline in the real price of electricity. Coal, which fuels almost half of the power produced in the United States, has risen 20% in price in the last two years. Natural gas, which accounts for nearly 20% of all generation, has had a 400% price increase since 1995. Uranium prices have increased 50% since 2001. Prices for oil-based fuels used for power generation have risen 300% since 1999 and are at their highest nominal levels ever recorded. We are seeing price shocks at the retail level and the resulting political backlash -- most notably in Maryland, Illinois and Florida. In our gas transmission operations, higher gas prices don't affect our margins in the short term. However, higher prices, primarily due to a supply shortfall, are driving the need to connect new sources of gas, including LNG, to our pipeline systems, as well as for new gas storage.

In addressing the challenge of price increases, we're striving to minimize the impact of volatile fuel prices on our electric customers. We are not dependent on any one fuel. Our overall fuel diversity from coal, gas, nuclear and other assets mitigates our exposure to the economic and environmental risk associated with each type of fuel.

We also have a very efficient fuel delivery system. The way our coal sourcing and transportation contracts roll off over time also helps us smooth out price volatility. We are continuing to focus on energy conservation and efficiency and on advancing policies that encourage wise energy use.

But the point to leave you with is that 90% of the energy we deliver to our customers comes from coal and nuclear, which is less expensive than gas. This puts us in a strong position to minimize price increases and reduce price volatility for our customers in the future. In our retail gas business, we strive to minimize price increases by buying forward and by utilizing gas storage year-round.

The second challenge is meeting the growing need for significant investment in energy infrastructure. On the power side, new investment is needed to first, restore aging transmission and distribution systems and improve the reliability of the grid; to connect new customers; to meet growing demand for electricity by building new power plants; and to make extensive environmental improvements in existing coal plants.

On the gas side, as gas supply dynamics shift, the need for investment in gas infrastructure is growing. To bring this gas to market, billions of dollars must be invested in new infrastructure, including both transmission and storage.

We are addressing the investment challenge in a number of ways. In our regulated power businesses, just this year, we plan to spend more than \$2.6 billion in capital expenditures. This is approximately \$1 billion more than the annual depreciation and amortization expense. Additionally, we're planning for new generation to meet increasing customer needs. We anticipate filing soon to modernize and expand older coal-fired units in the Carolinas. These units would come online in mid- to late 2011. We are exploring replacing an aging coal plant in Indiana with a state-of-the-art coal gasification plant. If built, completion would be in 2011 or 2012. And we are continuing to evaluate a new nuclear plant in South Carolina that would come online in 2016. However, we are not prepared to commit capital for any new generation without regulatory pre-approval of the plant technology as well as the assurance of an adequate cost recovery mechanism as we build.

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Our capital expenditure spend in our power business this year includes about \$850 million for environmental improvements. This is part of our \$2.4 billion environmental program, which began late in 2004 and runs through 2008. It will see the installation of 25 scrubbers on our coal-fired fleet. This program includes our \$1 billion environmental initiative for our Indiana power plants. Last week, the Indiana Utility Regulatory Commission approved our recovery of a return of, and on, our investment as we complete the build out over the next three years.

On the gas side, over the next three years, we expect to spend approximately \$1 billion every year on capital expenditures on the pipelines. On average, it is expected to be split about 50/50 between expansion and maintenance. And if you look at total depreciation expense on the pipelines for 2005, that was about \$450 million. The gas business has a long and diverse list of projects in various stages of development on both the market demand and the supply sides. This gives us a great vantage point from which to meet our customers' needs.

Two weeks ago, our Maritimes and Northeast Pipeline filed with the FERC to expand that pipeline from the planned Canaport LNG terminal in Saint John New Brunswick to eastern markets. The investment will be about \$300 million for the expansion of the U.S. side of the pipeline.

We believe we can maintain a strong balance sheet as we reinvest in our infrastructure. We operate in constructive regulatory regimes that understand the importance of maintaining a strong balance sheet to meet our customers' needs.

The third challenge our industry faces is delivering steady, stable growth for our investors. This thirst for yield and dividend growth is driven by a fundamental shift in the demographics of the United States. Baby boomers are living longer. But they need dividend yield in the short term and earnings and dividend growth in the long term to offset inflation.

Our earnings growth is built upon one of the most diverse mixes of gas and electric assets in the industry. We break future earnings growth into four categories -- organic, productivity increases, project development and acquisitions.

On the power side, we expect an average organic growth rate of 1.5% in kilowatt-hour demand over the next three years in our five states. In the gas transmission business, we expect ongoing EBIT growth of 3 to 5% over the long term. Productivity increases are expected to come in the power business from harvesting roughly \$655 million in net merger savings through the next five years. Project development includes the potential \$7 to \$9 billion investments in new power generation assets mentioned earlier and about \$4 billion for expanding our gas pipeline transmission system. And again, we will only build new infrastructure where we have customer and regulatory support.

On the acquisition side, last week, we announced an agreement to acquire an 825-megawatt power plant in Rockingham County, North Carolina for approximately \$195 million. This plant's capacity will be used to serve our customers in the Carolinas.

As a result of our merger, we're better positioned today for both small and large acquisitions.

Now, before I open it up to your questions, let me quickly recap our five key commitments to our investments. First is growing earnings and dividends over time. Our first quarter saw each of our businesses turn in very solid results. While we do not provide earnings guidance, we do provide our employee incentive earnings per share target. For 2006, we have established an employee incentive target of \$1.90 per ongoing earnings per share. And we continue to be comfortable with that goal. Our current dividend yield is approximately 4.4%. We're committed to growing dividends in the future, consistent with our 70% payout target. Our business plan calls for increasing the dividend -- which is currently \$1.24 -- by \$0.01 per quarter beginning in the second half of 2006. The board will consider this at its meeting this month.

The next commitment is achieving the full value of our portfolio. It is clear to us that our current mix of businesses has made it difficult for investors to give us a stock price that reflects our sum-of-the-parts analysis. Currently, our highest strategic priority is to determine if it makes sense to separate our gas and electric infrastructure businesses. We will make a decision before the end of the year.

We are also evaluating all of our businesses to ensure that we have the right combination of physical assets and financial flexibility to deliver superior returns in both the short and the long term. We're focusing on the relative risk profile and the contribution of each of our unregulated businesses, which represents nearly 29% of our estimated ongoing 2006 segment EBIT. Last week, we announced that our Board authorized us to explore the creation of a joint venture with a potential partner for Crescent Resources, our real estate development business. And last month, we announced our intent to exit our commercials trading and marketing business.

Our third commitment is reinvesting in the business. I have already outlined some of our current plans in our gas and electric businesses and we are excited about the prospects.

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Our fourth commitment is developing a strong leadership team with a strong bench. One of our primary focus areas is succession planning for senior leaders. As part of that effort, for the last two months, Jim has been to many of our operations, meeting with the leadership teams and their employees.

And finally, the fifth commitment is delivering clear and transparent communications. On April 3rd, the day we closed the merger of Duke Energy and Cinergy, we rolled out our merger scorecard. It tracks our financial and operational results, the customer and employee engagement metrics and the integration milestones. We will report our scorecard progress with our third-quarter earnings in the fall. Our scorecard is one way to report the merger value that we promised to deliver. It is also another way to communicate to our investors how we are running our business.

I hope that I've given you a good idea of Duke Energy's value proposition for the future. The key points I'd like to leave with you are: we're committed to growing earnings. We expect future earnings growth of 4 to 6% annually. We're committed to increasing the dividend. We're committed to improving the relative risk profile of our portfolio. This will require us to continue to evaluate all of our businesses. Over time, we believe this will translate into a more cohesive and consistent mix of businesses and will improve our corporate credit metrics. We have a strong balance sheet and we generate solid cash flow from our operations. We believe our share price does not reflect our sum-of-the-parts analysis and we're committed to unlocking this value. With that, let's open it up for your questions.

## QUESTION AND ANSWER

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

As usual if you would write your questions down and then pass them up, we will put them to the company representative.

David, while folks are putting their questions down, just one or two quick ones from me. One of the concerns I have regarding the Company's future growth prospects is not only the rate of growth of regulated rate base but also the potential for the returns on that regulated rate base, possibly to decline over time. I guess I'm thinking of the regulatory reviews that are set in North Carolina and Ohio for 2008. Wondering if you could comment on what your outlook is for expected ROE on your various regulated assets.

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**David Hauser - Duke Energy Corporation - CFO**

Let me tell you what Hugh is talking about a little bit and where we see it headed. In Ohio, there is a deregulated model with an agreement on how the generation is priced back to consumers through the year 2008. So in Ohio, one of the key points for us to resolve is what happens beyond 2008. And there are numerous ideas out there but I think some of the most prevalent thinking is companies have gotten extensions on current rate plans through the year 2010. That is certainly one idea that has merit and we're looking at a variety of other ideas. So that's Ohio, a potential extension of just what exists today.

In North Carolina, we have a rate freeze that expires at the end of 2007. And as part of that rate freeze, we have been collecting the cost of the state's Clean Smokestacks Act. So, we will be dealing with the commission next year on what happens after that rate freeze and I see a couple of different things happening. One is if we embarked on some construction of power plants, I think there will be a lot of discussion about a CWIP in rate base, kind of like the concept similar to the environmental rider that we just got in Indiana. The second possibility could be an extension of the rate freeze. And our goal will be to bring this to some sort of settlement over the course of the next year.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

We have a few questions that relate to possible divestiture of assets. To focus on the Kinder Morgan announcement, one asks whether you could comment on that announcement and its potential impact on your business. The other similarly wants to know whether the Company has an estimate of the potential value creation from the separation of electric and gas and whether that has increased as a result of the Kinder Morgan going private deal.

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**David Hauser - Duke Energy Corporation - CFO**

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Well that question was pretty predictable I suppose. Let me tell you how we see that and certainly the Kinder announcement this week was news to us. But we have been looking hard at spinning it. And the reason we have been looking hard at spinning gas is that gas tends to trade on an EBITDA multiple instead of a price-earnings ratio. But if you convert that EBITDA multiple to a price-earnings ratio, it's a price-earnings ratio that looks like 18 or 19, something like that, which is higher than our current price-earnings ratio that looks more like 14. Kinder was trading in that same range and felt there was enough value that they could offer a premium and still take it out. So obviously, their conclusion was that it was even more than that multiple.

If we do the spin, I think we would do it for two reasons: One is the multiple impacts on day one and that is of some value. But I think the second reason would be more important and that is what could happen beyond that. Does it give a gas company a multiple such that it could be acquisitive more effectively? Could it do things that it can't do today as part of the total enterprise? So that's the assessment we will be making.

I would say what I would call step one, the initial upside to the shareholder is not nearly as big as the second step of what they could potentially do with the currency. So that is what we are looking at as we decide whether or not to spin.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

In addition to those objectives, are there are important constraints by way of loan covenants or tax bases and so forth that need to worry about?

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**David Hauser - Duke Energy Corporation - CFO**

We have looked at all those. If we do the spin, one of our subsidiaries is Duke Capital. For any of you that are fixed-income analysts, Duke Capital has public debt outstanding and we would spin Duke Capital. Duke Capital has a couple of pieces in it we would pull out, those being international and Crescent. But there are a lot of complexities to a spin, but it's probably as easy as it could be given the total set of dynamics.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

What about the other unregulated businesses, Crescent, International, Duke Energy Field Services. Are those under review as well and if so, what are the potential options?

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**David Hauser - Duke Energy Corporation - CFO**

Okay, let me take them one at a time. First of all on Crescent, we're looking. Crescent has been very successful for us and Crescent made about \$300 million last year of EBIT, as I recall. We're looking hard at having somebody come in as basically a 50/50 kind of joint venture. We think it would give Crescent more room to expand and would allow us to take a bit of money off the table in the real estate business. So that's what we are looking at with regard to Crescent.

With regard to International, our thinking is not as evolved as it is with Crescent. The Latin American markets are improving right now and I think we will be assessing what opportunity that gives us with our international assets, but there is no fire drill or particular sense of urgency with regard to those assets.

With regard to field services, we made a significant move last year. We used to own 69.7% of that company; we sold a piece of it to ConocoPhillips last year so that now we own 50% -- made it a 50-50 joint venture. We have been doing some work to move some of the contracts more to fee-based instead of percent of proceeds-based, and we have set up the MLP within field services, which has the potential to be the growth vehicle for Field Services because of its lower cost of capital. So I don't see that there would be any other significant actions associated with Field Services other than using the MLP as the growth vehicle.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

Assuming you do exit some businesses, where would you deploy the proceeds, that repayment, new investment and if so, which sectors?

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**David Hauser - Duke Energy Corporation - CFO**

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A couple of dynamics: If we do the spin, we will make sure that both companies have a strong balance sheet. We're not going to spin somebody off that is at a competitive disadvantage because they're weak on day one. And we think we have the financial wherewithal to do that if that's the decision we make.

But as far as what we would do with our cash, we have been in a share buyback program and we have been buying back shares on a daily basis for some period of time now. And the other thing we will be looking at hard with the cash is what opportunities exist both in the pipeline and in franchised electric. As we look at the need for new generation, we think that will give us some great opportunities to deploy cash there. And as we look at the need for pipeline infrastructure, you may have seen that today we announced an open season on a partnership with CenterPoint, which would be a very large pipeline. There are a lot of opportunities to deploy the cash into growth prospects.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

Related to that, we have a question whether you have considered at all adding natural gas storage capacity and whether that is an attractive investment opportunity or not.

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**David Hauser - Duke Energy Corporation - CFO**

We think natural gas storage is hugely important and we have a lot of natural gas storage, the biggest being the Dawn Hub up on the Canadian border and then we have our Moss Bluff and Egan natural storages and our Saltville natural storage. So we have a lot of natural gas storage.

We also have a lot of land and caverns around that natural gas storage that is not developed. So, I would expect that you would see us looking hard to develop further natural gas storage. And just to make sure everybody is on the same page with this, as the world changes and we start bringing in natural gas via ship, bringing it in in a liquefied fashion, you'll bring it into a plant, that plant will reprocess it into natural gas. Well that means that natural gas will come in in a lumpy way, a shipload at a time instead of in a steady stream from a well. So as you do that, the need for storage goes up. So we think there will be great opportunities in storage as LNG comes on. And a lot of our storage is down in the Gulf region, where we think a lot of the LNG will occur.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

We've talked a lot about potential divestitures. What is your current thinking regarding a potential rollup strategy? Is that still an option that is of interest? Do you see a shift in the regulatory environment for executing that kind of expansion? And if so, what are you planning to do to overcome any regulatory resistance?

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**David Hauser - Duke Energy Corporation - CFO**

I think one of the things that some folks at Cinergy have that is very, very good for Duke Energy is strong relationships with regulators and understanding the regulated business very, very well. So first of all, we will have a little bit of digestion here. We've got to get the savings that we promised. We've got to prove we can deliver those savings and then I do think you'll see us being interested in acquisitions on the electric side. And I think that is of benefit both to shareholders and to customers. And I think we have had a couple of specific cases that got very complicated and very difficult and who knows what will end up happening with them. But in our particular case, we had to work it through five states and the process moved in a very reasonable and orderly fashion. And we are very pleased with the ending outcome and the speed at which it was done. So it's the fastest that any of them had been done.

And I think if we were going to do an acquisition, one of the things we would be looking hard at is where is it, what is the regulatory environment, because you want to be in a productive regulatory environment.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

A lot of the mergers that have been announced recently have involved unregulated generation assets. The question is what is the current business environment for merchant generation and trading business? In these acquisitions, is there a benchmark now for the value of installed capacity that is not subject to regulation or not subject to contracts?

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**David Hauser - Duke Energy Corporation - CFO**

Well I think this is a bit of a state-by-state question or at least a region-by-region question. We just announced the acquisition of what was a merchant plant for \$195 million and it is 825 megawatts, so the price was roughly \$236 per kilowatt. I think in North Carolina, there was that plant and there was one other merchant plant that was just sold to Southern Company. So there are no more merchant plants in North Carolina assuming those two deals close.

I think in Ohio, there is a non-regulated environment and so you will see some opportunity to use merchant plants there. I don't think you'll see Duke Energy entering the merchant plant business again. You may see us building a power plant that has a long-term contract at an oil refinery or something like that. But I don't think you would see us entering the merchant business like we did with Duke Energy North America. We tried that and for some of us, it was very painful. So I don't think you'll see us do that again.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

We have some questions related to environmental investment. First, when will your fleet be completely scrubber-ized? When will the scrubbers be on all the coal-fired power plants and will this help with your coal costs going forward?

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**David Hauser - Duke Energy Corporation - CFO**

I think it is '09 when we are through in all five states. And we will have a very clean fleet at that point. As I said, we're putting on 25 scrubbers. That will give us the option of burning a higher sulfur coal and we have a couple of advantages right now on the coal front. One is the clean plants can burn essentially lower-grade coals, which will be a competitive advantage. And two is we're one of the biggest coal users in the country now so I think you will see us be able to take those plants and negotiate with both the railroads and with the mines and end up with a very good ending price for coal and freight.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

And I guess a somewhat related question, whether it's economically attractive to use PRB coals as a substitute for low-sulfur Central Appalachian, and what are the impediments if any for that? The person asked whether you have to scrub PRB; whether there are requirements to use local coal as opposed to PRB imported from the West, and whether PRB is just price competitive with your current coal supply.

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**David Hauser - Duke Energy Corporation - CFO**

There are no requirements on us as far as the use of coal, but there are some logistics. So I have to separate this question between the Carolinas and the Midwest because it's a bit of a different answer. Getting Powder River Basin coal to the Carolinas has not been effective. And the reason is the mountains run right in the way and there are no rail lines that make it very accessible to the Carolinas. So the use of Powder River Basin coal is limited in the Carolinas. However, in the Carolinas, we are beginning to import some coal from South America and I think you'll see more of that coming into the Charleston area and getting shipped up to our plants. So that's the option in the Carolinas.

In the Midwest, you can get Powder River Basin coal and we use some Powder River Basin coal; but there is a different dynamic there too because a lot of our plants in the Midwest are on the river and some of them are actually on the mine mouth. So to the degree you can get the coal by barge or you're actually on the mine mouth, then that is more effective than Powder River Basin. So it makes Powder River Basin not as big to us as you might think.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

Let's see, one or two other points here. What is the prospect or the ability of the Company assuming it maintains the ownership of its current regulated assets for a moment, to grow earnings and distributions to shareholders and to create shareholder value simply through the ongoing management and investment in its regulated business?

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**David Hauser - Duke Energy Corporation - CFO**

So this assumes the Company stayed together. Well, we said we would grow earnings, we would expect to grow earnings 4 to 6%. We've said we will have roughly a 70% payout ratio. So it would be a reasonable set of math to say you would expect the dividend to grow something like 4 to 6% also. I think there will be a lot of opportunities to achieve that growth both in the gas side from the new infrastructure required, both on the pipeline and storage pieces and from the new generation required in the Carolinas. So I think the 4% to 6% growth is really a growth based on the assets you have now and the deployment of capital in new assets. It does not reflect any major acquisitions of any sort. I think it's achievable without that kind of activity.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

Just to nail that down, how does that 4% to 6% growth rate square with the, I guess it was a 1.5% rate of growth in power demand that you were expecting? And maybe EBIT growth of 3% to 5% on the gas transmission side, if I remember correctly. Where does the incremental earnings growth come from?

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**David Hauser - Duke Energy Corporation - CFO**

A couple different pieces: The gas is 3 to 5 and I think we said last year it would be the high end of that as we looked at it and I expect that there is going to be a lot more opportunities in gas. And on the power side, you've got the 1.5% kilowatt-hour sales growth but you will also have growth by the new generation and the increases in the rate base that that drives. And that will cause an improved growth rate in the power end of the business. So together we think that ends up being a 4% to 6% kind of growth.

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**Hugh Wynne - Sanford C. Bernstein & Co. - Analyst**

Okay, I don't know if we have any further questions from the audience? Otherwise, I would wrap it up. Thank you very much, David. I appreciate it.

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**David Hauser - Duke Energy Corporation - CFO**

Thank you.

**Long-term Ongoing Earnings Growth Percentages – Duke Energy**

The slides and prepared remarks for Duke Energy's June 1, 2006, presentation at the Sanford Bernstein & Co Strategic Decisions Conference include a discussion of anticipated long-term ongoing growth percentages for Duke Energy. These ongoing growth percentages are based on anticipated ongoing diluted EPS for future periods and are non-GAAP financial measures, as they represent diluted EPS from continuing operations plus the per-share effects of any discontinued operations from the company's Crescent Resources real estate unit, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of ongoing diluted EPS for future periods, information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as the company is unable to forecast any special items for future periods.

**Long-term Ongoing Segment EBIT Growth Percentages – Duke Energy Gas Transmission**

The question and answer session of Duke Energy's June 1, 2006, presentation at the Sanford Bernstein & Co Strategic Decisions Conference included a discussion forecasted segment EBIT growth percentages for Duke Energy Gas Transmission for future years. The long-term segment EBIT growth rates are non-GAAP financial measures, as they reflect segment EBIT, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for the forecasted ongoing EBIT amounts is segment EBIT, representing EBIT from continuing operations, including any special items. Due to the forward-looking nature of forecasted EBIT for future periods, information to reconcile this non-GAAP financial measure to the most

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directly comparable GAAP financial measure is not available at this time, as the company is unable to project any special items for 2007 or for any future periods.