

DUKE ENERGY CORPORATION
WEBCAST TRANSCRIPT
JUNE 29, 2006

CORPORATE PARTICIPANTS

Jim Rogers

Duke Energy Corporation - President and CEO

Paul Anderson

Duke Energy Corporation - Chairman

David Hauser

Duke Energy Corporation - Group Executive and CFO

Fred Fowler

Duke Energy Corporation - Group Executive and President, Duke Energy Gas

Julie Dill

Duke Energy Corporation - Group Executive, Investor Relations & Chief Communications Officer

CONFERENCE CALL PARTICIPANTS

Craig Shere

Calyon Securities - Analyst

Terran Miller

UBS - Analyst

Jonathan Arnold

Merrill Lynch - Analyst

Carl Kirst

Credit Suisse - Analyst

Bob Gottesman

First Manhattan - Analyst

Scott Thomas

Lehman - Analyst

Maureen Howe

RBC Capital Markets - Analyst

Annie Tsao

AllianceBernstein - Analyst

Jeremy Sussman

Natexis Bleichroeder – Analyst

Winfried Fruehauf

National Bank Financial - Analyst

DUKE ENERGY CORPORATION
WEBCAST TRANSCRIPT
JUNE 29, 2006

PRESENTATION

Operator

Good day, everyone, and welcome to the Duke Energy call, where the Company will discuss its plans to separate their gas and power business. Today's call is being recorded. At this time I would like to turn the call over to Julie Dill, Group Executive, Investor Relations and Chief Communications Officer. Please go ahead ma'am.

Julie Dill - Duke Energy Corporation - Group Executive, Investor Relations & Chief Communications Officer

Thank you, Lisa. Good morning, and thank you all for joining us today. With me are Paul Anderson, Duke Energy's Chairman, Jim Rogers, President and Chief Executive Officer, David Hauser, Group Executive and Chief Financial Officer, and Fred Fowler, Group Executive and President of Duke Energy Gas.

The purpose of today's Webcast is to provide some additional color around yesterday's announcement of the intended separation of our gas and electric businesses into two companies. Jim Rogers will open today's call, and then you'll also hear from Paul, David and Fred about the rationale behind their decision, our views of the business going forward, and how we expect our shareholders to be impacted. After that, we will have some time to take your questions.

Please bear in mind that this will be a high-level discussion. More detailed information will be available once we file the Form 10 with the Securities and Exchange Commission.

Before we begin with our prepared remarks, let me take a moment to read the Safe Harbor statement. Some of the things 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 to the additional information contained in Duke Energy's 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 Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is available on our investor relations Website at www.Duke-energy.com.

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

Jim Rogers - Duke Energy Corporation - President and CEO

Thank you, Julie. Good morning, everyone. I'm delighted to be here with you this morning. As you all know, yesterday we announced our board's unanimous decision to pursue a plan to separate our electric and gas businesses into two publicly traded companies. Paul and I jointly recommended this course of action, and we both strongly believe that it will produce greater value for our shareholders. This is truly a company-transforming decision, and all of us are energized by the additional value we will create for you through this strategic move.

As we have done before, we are committed to turning this enthusiasm into action. Consequently, we are targeting the separation to be effective January 1, 2007. Today, we will share with you as much information as we can about the rationale behind this decision and what you can expect going forward. But, as Julie mentioned, there is still work to do. Over the coming months we will be working through the details to finalize this very important transaction.

Before I give you an overview on the outlook for the electric operations, I think it would be helpful for Paul to address the strategic vision behind this announcement. The first time Paul and I sat down and talked about the potential of merging Cinergy and Duke Energy, Paul raised the potential of separating the gas and electric operations after we completed the merger. In the ensuing 18 months, we have jointly explored and developed that vision. We recently reached a point where we both agreed that this was the right direction to take the Company. Consequently, it was easy for us to enthusiastically recommend this action to the Board on Tuesday.

So let me now turn it over, if I can, to Paul to share his thoughts on this landmark decision. Paul?

Paul Anderson - Duke Energy Corporation - Chairman

Thank you, Jim, and good morning, everyone. I'm really excited to be here today to talk to you about the decision to separate the gas and electric businesses.

Just a year ago, we explained how two companies, Duke Energy and Cinergy, would be better off as one. And at the same time, you heard me talk about how we needed to make the Company bigger before we could make it smaller and simpler. Specifically, one of the reasons for doing the merger with Cinergy was that it increased the size and the scope of the electric operations, such that the standalone strengths of both the electric operations and the gas operations would provide portfolio flexibility. As you'll

see in a moment, at this point both operations will be powerful competitors on their own and the growth trajectory of the electric business has been increased significantly.

Over the past year we have studied whether or not it made sense to separate the Company. And like Jim, I am thrilled that the Board of Directors, our new combined Board of Directors, unanimously agreed that our two core businesses could do even better as two separate companies. This morning we'll lay out the strategic rationale for this decision. But in short, the picture has become increasingly clear, that at this time the market places more value on pure plays than on an energy superstore.

That's clear with 20/20 hindsight. It wasn't so clear in 1997 when PanEnergy and Duke Power combined to create Duke Energy in the heyday of deregulation.

As you know, deregulation didn't happen as planned. You know the story; a few states saw limited success, while most are still trying to find a workable model or trying to undo what they started. The anticipated electric and gas synergies failed to materialize. And the rules changed in the process, prohibiting our affiliated businesses from interacting in ways that could have brought real value to both shareholders and customers.

So we set out to build a different model, one that would give both our electric and gas businesses stand-alone strength and greater opportunity for growth. To accomplish that goal, we needed to give the utility business more scope and scale, along with less volatility. We exited the DENA business in the West and Northeast and pursued the merger with Cinergy.

The next step was to find out if separating the Company would provide greater growth potential for all of our businesses. As you well know, Duke Energy is difficult to value on a combined basis. We have had no true peers, and the gas and power businesses are valued and viewed differently. When we looked at these businesses separately and measured them against the appropriate peer groups, we found that our gut feelings were correct, that we weren't receiving full value for our gas business.

In a few moments, David will discuss the particulars of that decision from a financial standpoint. However, the bottom line is we are confident that the separation will create value from day one. But even more importantly, it will free up all of our businesses to pursue market opportunities in their own industries over the long term.

We see separate companies unencumbered by a shared corporate structure and more focused on their core business. For example, the gas company may be better able to get value from the pursuit of the new master limited partnership, or the power company to combine with a compatible electric partner. Of course it's dangerous to predict what the market will do on day one. However, in the long-term, we expect that the gas company will trade at a higher multiple based on EBITDA and cash flow. The electric

business has always traded at a premium to its peers, and we would expect that relationship to continue.

One final point on the rationale: As you know, both the gas and power industries are consolidating. Most of the likely merger partners we see out there today are pure-plays as well, making any potential combination a much simpler proposition.

We also looked at this decision in terms of pros and cons. First, in the pro column, a pure play business will increase management's focus and create greater transparency for everyone. In addition, transactions between pure plays are easier to value and consummate. Second, the complexity of our business will be reduced as we'll have fewer affiliate relationships to deal with going forward. Third, the announced privatization of Kinder-Morgan will reduce the number of options for investors looking for pure gas plays, and we would expect this to create a scarcity value for gas company stocks.

Now, lest you think my role in this plan is equivalent to picking up my marbles and going home, you should know that I will remain personally invested in the success of both companies. My stock and options will be split between Duke Energy and the gas company. In fact, the outstanding options and restricted stock will be split in a comparable manner for all affected employees, to be sure that we continue to act as one team.

The most notable con we identified is the reduction of business flexibility. This would be due to lower market capitalization and a less diversified portfolio. On the other hand, a little tension in the system never hurt anyone.

Now let me give you an overview of what the two businesses would look like.

Duke Energy will keep its name, and will include U.S. Franchised Electric & Gas, Commercial Power, which is the non-regulated business, and Duke Energy International and Crescent Resources, our real estate affiliate.

Jim Rogers will remain President and CEO, but will now also take on the responsibilities of Chairman. David Hauser will continue as Chief Financial Officer. Beyond that, Jim Rogers intends to use this opportunity to take a fresh look at the organization as a standalone business, and we'll be announcing a different reporting structure later this year.

The gas company is as yet unnamed, so for now we'll call it "GasCo." It will include Duke Energy Gas Transmission, including Union Gas in Ontario, as well as Duke Energy Field Services, our 50-50 joint venture with ConocoPhillips. I will become non-Executive Chairman of "GasCo"; Fred Fowler will become President and CEO of "GasCo." and reporting to Fred in the corporate office will be Greg Ebel as CFO. Many

of you would have known Greg as Vice President of Investor Relations before taking on his current role as President of Union Gas.

Alan Harris, currently CFO of DEGT, will oversee development, and Bill Garner, now responsible for development at DEGT, will serve as General Counsel. On the operational side, Martha Wyrsh, currently President of DEGT, will be President and CEO of the new gas company's transmission business, which will include natural gas, transportation and storage, Canadian gathering and processing, as well as Union Gas. Bill Easter will continue to lead Duke Energy Field Services as President and CEO, reporting to the DEFS Board of Directors.

In closing, I firmly believe that it is the right decision to separate our gas and electric businesses. I'm excited at the prospects both companies have to create more value for our shareholders, and to continue to deliver on the promises we've made to all of our stakeholders.

Let me turn it over to David, who will give you the financial rundown on this decision.

David Hauser - *Duke Energy Corporation - Group Executive and CFO*

Thank you, Paul. Before Fred and Jim talk about the vision and the strategy for their respective companies, I would like to give you a feel for how both "GasCo" and the remaining portions of Duke Energy will look from a financial perspective. We are not going to provide you with pro-forma financial statements at this time. This is because we are in the process of preparing to file our Form 10 with the SEC, and that filing will include full pro forma financial statements for "GasCo." We expect to make that filing during the third quarter of this year. Although Duke Energy financials are not required for the Form 10, we will provide key pro forma Duke Energy financial data at that same time. While that detailed information is not available today, let me walk you through some of the key financial aspects of this decision.

As Paul discussed, when the separation occurs, we will have two strong companies with very strong balance sheets. Just as a way of background, we had some "givens" going into our analysis of the spin. One was that both companies had to retain investment-grade credit. Another was that both companies had to have a capital structure that would support the existing dividend and all of our growth objectives. I am absolutely confident that we will achieve these objectives with the spin.

We will be spinning a newly formed company, which will essentially hold what is currently Duke Capital, excluding DEI and Crescent, and we expect Duke Capital's debt of approximately 3 billion at December 31, 2006 to go with "GasCo".

As I said, we expect both companies to maintain solid investment-grade credit metrics. Let me briefly review those for you.

Duke Energy's current S&P business risk profile is a "6." With the announcement of the sale of the marketing and trading business earlier this week, our risk profile clearly improves. S&P said Tuesday that this action is "a positive event for credit quality...and upon completion, the sale should contribute to a further moderation in business risk and materially reduce future collateral requirements."

Once we separate into two separate companies, each one will have its own risk profile. Specifically, we anticipate that Duke Energy will have a business risk profile of "5," and "GasCo" would be a "4." Of course, I'm simply telling you our view. We will be meeting with the rating agencies in the near future to get their views.

On the debt-to-total-capitalization perspective, we expect that Duke Energy would be in the upper 30% range and "GasCo" would be in the 60% range. I thought it was important to provide you with the debt-to-total-capitalization view. However, you have heard me say in the past that I believe the more meaningful credit metric is Funds from Operations. Each entity's Funds from Operations interest coverage metrics are strong. We expect Duke Energy to have a Funds from Operation interest coverage of about 5.5 to 6.5, and "GasCo" to be about 3 to 4 times. Let me mention a few other items from the balance sheet.

You probably saw the announcement yesterday that the Board of Directors approved a quarterly dividend increase of \$0.01 per share, effective with the third quarter 2006 distribution. That brings our annual dividend to \$1.28, which will be maintained in total when we spin the Company. The specific allocation of the dividend between the two companies will be determined closer to the date of the spin. For modeling purposes, however, we have assumed a payout ratio for Duke Energy in the 70 to 75% range and for "GasCo" about 60%. These are only working assumptions, and any dividend policy would ultimately have to be approved by each company's Board of Directors.

As far as the share repurchase program goes, through Friday, June 23, we have repurchased approximately 17.5 million shares at an average price of \$28.57, for a total repurchase of about \$500 million of the \$1 billion authorized by the Board. With that, we are suspending the share repurchase program as we prepare to separate the Company.

You know we have a number of investment opportunities we are planning to pursue. As we told you, this was going to translate into negative free cash flow for the Company. But this is a good thing, because these investments will help fuel our growth. As we separate into two companies, each has investment opportunities, which will translate into negative free cash flow for each company for the period 2007 through 2009. So let me talk about the growth expectations of each of these businesses.

You have heard us talk in the past about the target-rich environment in Duke Energy Gas Transmission, and also of the new generation plan in our Franchised Electric areas. All of this thinking has been modeled into what we expect from each of these companies in terms of growth. Fred and Jim will talk more specifically about their growth aspirations in just a moment, but I thought it was important for me to put some of the numbers into context.

"GasCo" is expecting to have a compounded annual ongoing earnings per share growth rate of 5 to 7% over the next five years. This is being driven by Duke Energy Gas Transmission, which expects compounded annual ongoing EBIT growth of 7 to 9% for the same period. DEGT expects this increased EBIT growth rate, primarily due to the changing dynamics in the industry that are creating an unusual number of expansion opportunities. On average over the next several years, DEGT sees a CapEx spend of about \$1.5 billion each year, with over \$1 billion of that being expansion capital.

Duke Energy is also expected to have a more robust growth than what we had talked about previously. Our current view is that ongoing earnings per share will grow at a compound annual growth rate of 4 to 6%. As you might remember, when we talked about ongoing EBIT growth previously, it was in the context of Duke Energy Carolinas, and that was 0 to 2%. Now, of course, the new growth rate includes the addition of Cinergy's portfolio of assets and, more importantly, the synergies from our merger. On average over the next several years, Duke Energy sees a CapEx spend of between \$2.5 and \$3.5 billion per year. As we finalize our generation plans, we will provide firmer numbers.

Before I conclude, I want to tell you how enthusiastic I am that Greg Ebel will be the new CFO of "GasCo". As you know, Greg and I worked closely together when he was head of investor relations, and my confidence in his ability to be an excellent CFO, and our ability to work through the various issues that will arise as we prepare to do this spin, is very high.

With that, I'm going to turn the call over to Fred to provide more details on the vision and strategy of the gas company.

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

Thank you, David. Let me just add first how enthusiastic I am about the Board's decision to separate the Company. In fact, you probably wouldn't believe how excited I am with this opportunity. It is a very significant strategic move for Duke Energy, and the whole team is looking forward to the challenges, and, I think, more importantly, to the opportunities of being a stand-alone publicly traded company.

Let me just start out by talking about what businesses will be included in the gas company -- Duke Energy Gas Transmission, which has transmission and storage assets in the United States. and Canada; a distribution company in the Ontario area; and gathering and processing assets in Western Canada; and Duke Energy Field Services, which is our joint venture with ConocoPhillips, which consists of gathering and processing in the lower 48 states.

Our transmission systems -- they serve the fastest-growing markets in the United States and Canada. In addition, we are the largest natural gas liquids producer by far; we're the largest gatherer and processor, and we're the largest cross-border player in the industry. Together we will clearly be the leading full midstream natural gas company in North America. And what I mean by full midstream is that, basically, we gather the product from the producers at the wellhead; we treat it, process the liquids out of it; we store it, and then ultimately we deliver it to a city gate or direct to an end user.

Many of you, I think, have heard me talk recently about how today's environment is rich with opportunities for infrastructure expansion. With the changing dynamics in the industry, we just see an unusual number of expansion opportunities that have evolved. In fact, our project development teams have over 25 active expansion projects underway. We recently announced open seasons that we're working through right now that are providing a lot of positive market feedback on some additional growth opportunities.

Let me give you just a little background on why this has occurred. Many of the largest pipeline infrastructure players actually spent very little time on pipeline expansion over the last five years. They were focused instead on fixing their balance sheets after forays into merchant power and marketing and trading. The problem was that during this same period, we did see North American gas consumption increase, but production did not keep pace. And then we saw an increase in commodity prices. And as they increased, we saw a lot of drilling in unconventional formations that's become profitable, and we're also seeing new LNG that has begun to find its way to our shores. Both of these are going to require new pipeline capacity to get it to market.

Also, our customers and their regulators have awakened to the need for additional supplies coming from more diverse sources, as they lived through what has to be called the white-knuckle period, after two years of unprecedented back-to-back hurricane damage to offshore facilities, which reduced critical supplies from the Gulf of Mexico. With projects underway, and others being identified, we do intend to be very aggressive in growing as a pure-play gas company.

In addition, our Field Services business is also very well positioned to capitalize on the bright outlook that exists in that must-run business. Robust drilling continues in new, as well as mature, areas. The petrochemical demand for NGLs as a feedstock continues to be relatively strong. And in addition, there's growing demand for gas treating and

processing, as pipelines have become very diligent in enforcing gas quality standards on their systems. "GasCo" has a strong balance sheet that David described. That will give us many financial options to fund this growth for the foreseeable future.

Let me just kind of summarize what I think is a great story by listing our value drivers. We have the most strategically placed assets in North America that are connected to the fastest-growing markets. We're also connected to the most diverse supply base of any company in North America. As Paul mentioned, concentrating our gas business in one company will increase the transparency of our operations. And we have the opportunity to continue to use financing structures suited to the natural gas sector, like we did in creating DCP Midstream Partners, which is Field Services' master limited partnership here in the United States, and the Duke Energy Income Fund that we formed in Canada. And finally, our leadership team will be incentivized solely on driving results in the gas business.

Now, no company or industry is without its risks and challenges. No strategy, in my opinion, is complete without a plan to address them. However, we do believe that we are as well positioned as anyone in the industry to address the risks that we do see.

For our gas business, going forward, while it's an unbundled business it's still a regulated business. So you'll always have regulatory uncertainty. With a lot of opportunity comes a lot of competition, and we're seeing it – a lot of new competitors. A lot of private equity money has come in the space, financing new startup companies. So we're seeing a lot of competition for expansion projects. And then we have the volatility of currency rates, as well as commodity price. Both are risks that we see.

We do plan, obviously, to mitigate those risks. We have a long history of doing rate settlements, negotiated rate settlements with our customers, as opposed to doing litigated rate cases. We will continue that strategy. We will use structured financial vehicles and partnerships as we see appropriate. We will also maintain Canadian dollar-denominated debt, which serves as a natural hedge against currency fluctuations. And we'll continue to restructure contracts and optimize the returns on our assets.

Our plan is simple. It's to be the premier pure-play North American midstream natural gas company. We expect to have compounded annual ongoing earnings per share growth of 5 to 7% over the long-term, while maintaining a strong balance sheet and operating cash flow. We also expect to target dividend growth consistent with a 60% payout ratio. To get there, we'll need to keep doing what we have been doing, and that will continue to be our diligent approach to cost management; continue to focus on customers and other stakeholders; expand our portfolio with new projects and acquisitions; and use a variety of financing vehicles to improve returns and generate cash for new investment.

With that, let me turn it over to Jim, who will give you some insight on what the separation means for the electric business.

Jim Rogers - Duke Energy Corporation - President and CEO

Thank you, Fred. After the spin, Duke Energy will essentially be a pure-play electric company. 91% of our ongoing EBIT target for '06 is expected to come from our energy infrastructure business. Our U.S. regulated businesses represent about 70% of our ongoing EBIT expectations for '06.

With the announcement this week of the sale of the marketing and trading business, Commercial Power is now primarily focused on the optimization of our deregulated Midwest assets. DEI will continue to focus on optimizing their operations in Latin America.

Crescent Resources is the only part of our total earnings mix that is not related to energy infrastructure. As you know, we are looking at the potential value of bringing in a joint venture partner for that business. Today I will only discuss with you the drivers that will help us derive more value from the regulated part of our business.

First, the economic vitality of our service areas gives us a good basis for solid organic growth. Demand for power is growing by an average of about 1.5% annually in these areas.

Second, we plan to invest in new generation to meet our growing demand, as well as to invest in environmental retrofits on existing plants. Currently, our new plant plans include a new state-of-the-art pulverized coal unit in the Carolinas, a new IGCC unit in Indiana, and new nuclear generation in the Carolinas.

Third, we have a track record of low-cost operations. This will be further improved by the merger savings and the sharing of best practices. These savings will also drive our earnings growth.

Fourth, the 11-month close of our merger certainly attests to our ability to work constructively with our regulators, our customers and other groups to achieve win-win results.

Fifth, we have a diverse customer base in five states in the Midwest and the Carolinas. This helps us balance weather and economic fluctuations in the future.

Sixth, our rates are below the national average and our customers consistently rank us ahead of most of our competitors for satisfaction with our service.

Next, we have a diverse and flexible generation fleet with coal, nuclear, hydro, oil and gas-fired capability. Our generation mix essentially mirrors the industry-wide portfolio.

And finally, we have taken an industry leading position in addressing today's environmental issues in the hope of smoothing out the impact of future cost increases to our customers.

We are in a stronger position than most of the companies in our industry to address the risks that all of us are facing today. These include adverse regulatory decisions, achieving timely returns on our investments, environmental regulations, and economic downturns. The key is anticipating and planning for those risks.

Our mitigation strategies include: Leveraging our strong stakeholder relationships to achieve fair and constructive resolution of our regulatory initiatives; pursuing legislative initiatives to address the concerns of consumer groups, customers and other stakeholders; getting advanced approval of expansion projects and assurances from regulators with respect to the timely recovery of our costs; taking the lead on reducing air emissions -- alternatives like nuclear generation and renewables will be pursued, along with the promotion of energy conservation and efficiency; and lastly, building a diverse customer base by supporting economic development initiatives in the regions where we operate. Recently there was an announcement in Southeastern Indiana of the building of a \$400 million Honda plant which will hire 1,500 people. This plant is contiguous to our service area and will lead to greater growth for us in Indiana.

We intend to remain an industry leader in providing competitive rates, superior reliability, and customer satisfaction. We will also grow ongoing earnings per share by an average of 4 to 6% annually, while maintaining a solid balance sheet and delivering strong operating cash flow. And, as David noted, we also expect to target dividend growth consistent with a 70 to 75% payout ratio. And we will get there in the way we've always gotten there, by continuing to improve our operational performance, developing win-win regulatory and legislative solutions, making prudent investments to meet growing demand, and at the same time recovering our costs in a timely manner. We also plan to upgrade our existing infrastructure to enhance reliability and to comply with new environmental regulations.

We'll also be developing energy efficiency options for our customers as part of our balanced approach to meeting the growing needs of our customers. And when industry consolidation opportunities emerge, and they will, we will be positioned to enhance shareholder value by pursuing those.

But first, we have to deliver on the promises of the merger we just completed in April, and work through the process of separating the gas and electric businesses. These are our top priorities.

So where do we go from here? Let me walk you through our anticipated timeline for the rest of the year.

We will announce earnings for the second quarter of '06 on the morning of August 3rd. During the third quarter, we plan to file the SEC Form 10 for the gas company. We will release third-quarter results on November 3rd and begin a road show for both companies around the 1st of December. And again, we are targeting the separation to become effective on January 1, 2007.

As exciting as this decision is, let me assure you we remain focused on achieving our 2006 goals as one company and one stock. The success of the gas and electric separation is built on the successes we have achieved as one company. I think I can speak for all of us here today: we can assure you that the entire Duke Energy team is committed to the goals we set out at the beginning of the year, including achieving the merger savings targets.

Like Paul, and all of our top leadership, I have significant personal assets invested in Duke Energy and the success of our businesses going forward. In fact, I believe I am Duke's largest individual shareholder, and expect that I will also be the largest in both companies. Beyond that, of course, is the larger issue of accountability to all of our shareholders, large and small, all who entrust their own personal wealth to our care. I'm ever mindful of our obligation to serve them by making the right decisions, and I believe this decision is the right one at the right time for our investors and for all of our stakeholders.

Now let's open the line for questions that you all might have.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Craig Shere.

Craig Shere - *Calyon Securities* - Analyst

Congratulations to the team, and especially to Fred. This is a well-deserved opportunity. A couple of questions. I guess I'll hit each of you, if you don't mind -- Paul, Fred and Jim. Paul, you mentioned the possibility of another "GasCo" MLP affiliate. And I guess I was kind of wondering what assets besides DEFS Midstream operations you saw as appropriate for an MLP. Fred, I was wondering, could you comment about how

the separation affects the potential for unleashing more value from DEFS through MLP drop-downs, and from the Canadian assets through Income Trust? And finally, Jim, does this spin mean that you expect to more rapidly pursue consolidation in the electric utility space?

Paul Anderson - Duke Energy Corporation - Chairman

In answer to your first question, we would be looking at an MLP in the gas transmission business, with transmission assets, independent of the Field Services MLP. So it would be a 100% owned MLP that would really be part of Martha's operation. The specific assets that we would put into it, I don't think we are in a position that we want to speculate on those right now. But we've been looking at this for some time, and hopefully would have it pretty much fleshed out by the end of the year.

Craig Shere - Carolyn Securities - Analyst

So you're pretty comfortable that FERC-regulated pipes can go into this kind of instrument?

Paul Anderson - Duke Energy Corporation - Chairman

The right pipes under the right circumstances, yes.

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

I think from the standpoint of how does the separation enhance what you do there, I think we have the option of doing it either way, whether or not we spin. However, I do think you probably get more value out of it as a stand-alone gas company than you do as the combined company. Because I think you'll end up with an investor base that understands and appreciates those vehicles better than your typical utility investor.

Jim Rogers - Duke Energy Corporation - President and CEO

With respect to your question, Duke Energy is going to be well positioned as one of the five largest U.S. electric utilities to participate in ongoing industry consolidation. Notwithstanding what's going on today in New Jersey and Maryland, we think that this trend will continue. Our first assignment, though, is to deliver on the savings that we have promised, and that's really what our initial focus is going to be, and on the significant reinvestment opportunities that we have. But we'll be prepared when the opportunity emerges.

Craig Shere - Calyon Securities - Analyst

Jim, last follow-up. Under Q&A, Fred was kind enough to give some potential comps in his mind for the gas side of the business at the AGA conference. Do you have any companies in mind for potential comps for the electric side?

Jim Rogers - Duke Energy Corporation - President and CEO

I would say that Southern would be a comp. That would probably be our number one comp.

Operator

Terran Miller, UBS.

Terran Miller - UBS - Analyst

I was wondering if you could tell us mechanically how you're going to get DEI and Crescent from Duke Capital over to the other side of the business, is the first question.

David Hauser - Duke Energy Corporation - Group Executive and CFO

What we will spin is a new entity that holds Duke Capital. And you can't spin Duke Capital because it's an LLC. So we have to create a new entity. And what we'll do before we do that is we'll take DEI, and we'll be able to move DEI, probably simply as a dividend, out of Duke Capital, and move it over to "PowerCo".

Terran Miller - UBS - Analyst

So, you do not anticipate any cash going from Duke Energy to the new "GasCo" to pay for either DEI or Crescent?

David Hauser - Duke Energy Corporation - Group Executive and CFO

I think the cash movement is really a totally separate issue. We will end up structuring it so that the cash position of both "PowerCo" and "GasCo" is appropriate for the businesses, as is the balance sheet. But it won't specifically be tied to Crescent or DEI.

Terran Miller - UBS - Analyst

And then separately, and I know Greg is not on -- I don't know if Greg is on the phone, but the question would be, do you think that the new "GasCo" can support \$3 billion of Duke Capital debt, or do you think that has to be downsized?

David Hauser - Duke Energy Corporation - Group Executive and CFO

We think it can support \$3 billion of Duke Capital debt, and have a solid investment-grade credit rating.

Terran Miller - UBS - Analyst

And how would you define solid investment-grade?

David Hauser - Duke Energy Corporation - Group Executive and CFO

BBB.

Operator

Jonathan Arnold, Merrill Lynch.

Jonathan Arnold - Merrill Lynch - Analyst

Just like to ask about -- you mentioned some regulatory approvals. You weren't specific about exactly what those would be. Could you provide a little more information there specifically, if there are any states involved?

Jim Rogers - Duke Energy Corporation - President and CEO

Obviously, we have the SEC process, but we believe that we may, because of our gas storage, have approval required from the Virginia commission.

Jonathan Arnold - Merrill Lynch - Analyst

So it will really just be those two?

Jim Rogers - Duke Energy Corporation - President and CEO

Yes.

Jonathan Arnold - Merrill Lynch - Analyst

One other question on the buyback. If I heard correctly, you said that it's suspended as you prepare to separate. Does that mean it would be reinstated at some point, or that's unknown at this point?

David Hauser - Duke Energy Corporation - Group Executive and CFO

I'd say it's unknown. That decision will be made as we go forward through the rest of the year, or as the two companies go forward beginning next year.

Jonathan Arnold - Merrill Lynch - Analyst

So we should just consider it as on hold, and that it may or may not come back?

David Hauser - Duke Energy Corporation - Group Executive and CFO

That's correct.

Jonathan Arnold - Merrill Lynch - Analyst

Thank you, David.

Operator

Carl Kirst, Credit Suisse.

Carl Kirst - Credit Suisse - Analyst

Congratulations as well. Just a few quick clarifications. Six months to do the spin seems like a good conservative estimate. If the process went smoother than that, would

that January 1st date move up? Or because of not wanting to have stub years, that's just kind of the date we should focus on?

Jim Rogers - *Duke Energy Corporation - President and CEO*

I think we're totally focused on January 1. It just makes sense practically to do it on that date.

Carl Kirst - *Credit Suisse - Analyst*

Fair enough. The second clarification was just really on the, I guess, the growth profile, the 5 to 7% on "GasCo", and it's really sort of two separate questions. First is I just wanted to see if that was organic only, or -- meaning expansion project driven, no M&A. And the second is, of the \$5 billion of expansion capital that comes over the next five years, \$1 billion a year, how much of that is already sort of set in stone, signed contracts versus what is attributable to proposed projects or currently undergoing review?

Fred Fowler - *Duke Energy Corporation - Group Executive and President, Duke Energy Gas*

To answer your first question -- this is Fred -- no, it does not include any M&A activity. It's strictly off the organic and bolt-on expansion projects that we are currently in the process of executing. Your second question was the \$1 billion of expansion capital. Probably in the early years, it's pretty much signed, sealed and in an execution stage. In the later years, probably more than half of it is still in the negotiation stage.

Carl Kirst - *Credit Suisse - Analyst*

Thank you very much, and congratulations again.

Operator

Adam Schwartz, First Manhattan.

Bob Gottesman - *First Manhattan - Analyst*

This is Bob Gottesman with Adam. Paul, given the previous earnings releases with all of the complexities, could you help give us a better sense of the potential additional

value of these two companies from what is already apparent from your financials? I, roughly, see that 40% of the EBIT before G&A is from the assets that will go to "GasCo". But again, I don't have enough at this moment to really give a lot of confidence in what you're saying that the two pieces should trade at a higher price. Could you help me understand better the financial value creation?

Paul Anderson - Duke Energy Corporation - Chairman

I think the first thing is that until we get the Form 10 filed, I wouldn't try to go too far to figure out exactly what the value -- how much of the value is gas and how much of the value is "PowerCo". I think that we feel in our minds it's roughly one-third, two-thirds. But that's a real rough ballpark at this point in time.

The real value driver here is we have looked at valuations of gas companies going back 20 years. And in general, they tend to be valued based on EBITDA; they tend to be a more cash-driven vehicle. And we've looked at the multiples, both at high points and low points, and then looked at the multiples of electric companies, which tended to be based on multiples of earnings rather than cash flow.; and again, going back 20 years. And if we simply say our operations had been separate over a period of time, and we applied those multiples, would the sum of the two pieces be greater than what we actually realized? And for the vast majority of the time, with some very small exceptions, the combined pieces were greater than the single piece. I'm not sure if that addresses your question, but that's the analysis that we've done, and we've done it with independent bankers' input as well as internally.

Bob Gottesman - First Manhattan - Analyst

Could I just ask again what you had said roughly, the one-third, two-thirds? I assume one-third is "GasCo" and two-thirds is the electric business?

Paul Anderson - Duke Energy Corporation - Chairman

Yes, just order of magnitude.

Bob Gottesman - First Manhattan - Analyst

Again, could you -- I know that the Form 10 is not out. Could you just go a little further? In other words, the gas company, based on EBITDA multiples of give or take? I don't -- I just need a little more help to see where you go from the current stock price to where things are going with two separate companies?

Paul Anderson - Duke Energy Corporation - Chairman

At this point in time, I don't think it's appropriate to try to do some sort of an income statement analysis over the phone. Maybe Julie's folks can help answer some specific questions, but we don't have -- we're not at a point right now where we want to put out a specific number as to what is the EBITDA of "GasCo", for instance.

Bob Gottesman - First Manhattan - Analyst

Okay. Well, we look forward to getting more information.

Jim Rogers – Duke Energy Corporation – President and CEO

Thank you for your question.

Operator

Ashar Khan, SAC Capital.

Ashar Kahn – SAC Capital - Analyst

My questions have been answered. Thank you.

Operator

Scott Thomas, Lehman.

Scott Thomas – Lehman - Analyst

Just a quick question on the potential for MLP, further MLP work: Been pretty impressed with the speed with which you closed the Cinergy merger, and now the announcement, sort of ahead of schedule in my book. Can you give any sense of after you close this, let's presume 1/1/07 closure of this deal, how soon after that you might be able to come to a decision about MLP'ing the transmission assets?

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

It's one that we will be working in parallel, and be ready to go. To me, the real driver is when do we have the need for the capital that it would raise? We would be gearing up to do it pretty quickly.

Scott Thomas – Lehman - Analyst

First half '07 -- does that seem fair -- to make a decision?

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

Yes. Maybe even earlier.

Operator

Maureen Howe, RBC Capital Markets.

Maureen Howe - RBC Capital Markets - Analyst

Just a question on the comparables for the gas side of the business, Fred. What companies would you use if you were going to do that analysis?

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

I think probably the closest peer we have today is probably Southern Union. It does get a little more hairy. The big players today in the gas side of the business mostly have a big E&P component. So I think what you have to kind of do is just kind of break it down into parts, and try to analyze it on that basis, using kind of industry average multiples for each component of the business.

Maureen Howe - RBC Capital Markets - Analyst

Is there any other pure play, maybe a smaller company out there other than Southern Union that you'd look to, or is that pretty much the closest company?

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

I think it's, in the United States, by far the closest company. I think a fairly good comparable is Enbridge in Canada, but they're much more products-oriented. But does that really matter in the valuation of a pipeline?

Paul Anderson - Duke Energy Corporation - Chairman

If you hurry, Kinder-Morgan is.

Maureen Howe - RBC Capital Markets - Analyst

And just on the merger candidates, do you have a size or a geographic preference? Would you look at a merger of equals? Are you looking for something smaller? Are you looking for, as I said, specific geographic regions?

Jim Rogers - Duke Energy Corporation - President and CEO

I think the answer is yes, yes and yes. I think we have to be -- at the end of the day it's got to create significant shareholder value. And there are scenarios where MOEs can do that, as well as bolt-on opportunities. And with PUHCA repealed, it just broadens the geography.

Maureen Howe - RBC Capital Markets - Analyst

What about on the gas side?

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

I think because of the consolidation that you have had on the gas side, there are probably fewer candidates for a merger of equals than there are in a sector like the utility industry, where you haven't had much consolidation. I think going forward that more of the opportunity is on the gas side. I think you have companies today that have combinations of businesses that aren't giving good value.

Maureen Howe - RBC Capital Markets - Analyst

So you're looking for other companies to break up then?

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

I think other companies might be looking to break up. That would then create opportunities for deals.

Maureen Howe - RBC Capital Markets - Analyst

Okay, that's useful. Thank you.

Operator

Annie Tsao, AllianceBernstein.

Annie Tsao - AllianceBernstein - Analyst

Congratulations, everyone. I know throughout the whole presentation you talked about the dynamic change in the industry, and you highlight some of the opportunity within each of the gas and also the electric. Can you kind of walk through a little bit more detail in terms of dynamic change, and maybe some of the opportunities going forward on your radar screen that maybe you haven't recognized right now?

Fred Fowler - Duke Energy Corporation - Group Executive and President, Duke Energy Gas

On the gas side what we're seeing is, because of these high gas prices, we've seen a lot of unconventional gas developed that's now built up good reserves that really don't have access to markets. So you have very high basis differentials at the Rocky Mountains. You have them in East Texas. You have them now developing in West Texas and Oklahoma. So in effect, what producers are looking for is infrastructure to try to get that production to liquid hubs.

And then we see the market area looking for diversity of supply. Because of what happened as a result of the last two years of hurricane season, both customers as well as regulators are saying we cannot be so dependent on offshore. And in particular, Florida, who has converted their heavy oil electric generation to gas-fired, and they're totally dependent on, basically, offshore gas. So they're wanting to get more onshore to be a part of their mix. And so you see them willing to pick up capacity back to a liquid hub to meet up with those producer-supported projects that are going from kind of the supply side to those liquid hubs.

The second thing that we're seeing is because of the volatility, and really the entrance of LNG, a tremendous need for more storage. So that's another area where we're very focused, and we're very well positioned because of our MHP assets. Two of those particular facilities are in the real sweet spot as far as expansion capability. So those are kind of the drivers that we're seeing on the gas side.

Jim Rogers - Duke Energy Corporation - President and CEO

On the power side, in addition to organic growth that we have in our service areas, there's really two things that drive our earnings for the future. One is the productivity improvements that come from combining these companies and the savings that we are harvesting. And that's going to occur over the next several years. And then, contemporaneously with that is the reinvestment that we are making. We're looking at spending \$2.6 billion on building 25 different scrubbers. A lot of that will translate into earnings growth going forward. We're looking at building significant new generation to match the demand we have on our system. So it's as it's always been; it's really driven by driving the costs down and reinvesting in the business.

Operator

Jeremy Sussman, Natexis Bleichroeder.

Jeremy Sussman - Natexis Bleichroeder - Analyst

Congratulations on a really exciting announcement. I just have a couple of brief questions. Do you have a timeframe in mind as to when you would like to resume your repurchase program? And would you anticipate the same level of repurchases going forward?

David Hauser - Duke Energy Corporation - Group Executive and CFO

This is David. We haven't made any decisions about the future of the repurchase program. So it's suspended for now, and we'll make those decisions as the year progresses. And then we'd make the decision as two separate companies after the spin.

Jeremy Sussman - Natexis Bleichroeder - Analyst

Thanks. If I could, earlier this week you announced the sale of your commercial marketing and trading business. Did the timing have anything to do with the separate announcement, and am I correct in assuming that you will move forward as planned?

Jim Rogers - Duke Energy Corporation - President and CEO

We will move forward as planned. It was just a happy coincidence that it happened all this week.

Operator

Winfried Fruehauf, National Bank Financial.

Winfried Fruehauf - National Bank Financial - Analyst

A couple of questions, if I may. First one on income taxes and income tax rates. What income tax rate should we be using for modeling the two separate companies as of next year?

David Hauser - Duke Energy Corporation - Group Executive and CFO

If you look at the tax rate today, it's about 35.5%. I would use -- we've used similar rates for both companies. I expect once we really dig into it, "GasCo" will be a little bit lower than that, and "PowerCo" will be a little bit higher than that.

Winfried Fruehauf - National Bank Financial - Analyst

And in terms of income tax reserves that provide a shield or a deferral or a savings or whatever, what sort of income tax reserves will the two companies have as of the beginning of January 2007?

David Hauser - Duke Energy Corporation - Group Executive and CFO

Wow. I'd have to say, Winfried, I don't have the answer to that question today. We will put forth a full balance sheet in the Form 10, with all the appropriate footnotes. But I simply don't know today the reserve split like that, come next year.

Winfried Fruehauf - National Bank Financial - Analyst

Now that you have created two menus out of a single menu, do you expect that between now and the end of 2006 somebody might come out of the woodwork and might take a run at the gas company, now that this split has been decided on?

Paul Anderson - Duke Energy Corporation - Chairman

Who knows? I think that there's no question, whenever you announce a transaction, there are a lot of players in the wings that look around and say is there some way that I can come up with a better deal and inject myself in the middle of this. But I don't think we have any kind of expectation.

Winfried Fruehauf - National Bank Financial - Analyst

Would it be fair to suggest that if somebody were to come along that would offer you a value for the gas company that is higher than your own valuation that you have conducted, that you would be looking positively at such an opportunity?

Paul Anderson - Duke Energy Corporation - Chairman

You have followed me for a long time, and you know I've never stood in the way of shareholder value.

Winfried Fruehauf - National Bank Financial - Analyst

I was hoping you would say that.

Operator

That concludes today's question-and-answer session. Thank you for your participation. And now for closing remarks I'll turn the call back over to our speakers.

Julie Dill - Duke Energy Corporation - Group Executive, Investor Relations & Chief Communications Officer

Thank you, everyone, for joining us today. I know that we left a few people in queue, and the IR team will be getting back with each of you. I apologize; we just ran out of time because we do have some employee meetings that we need to get the executives

to. Don't hesitate to give us a call for any follow-up questions, and appreciate your participation today. Thank you very much.

Operator

That concludes today's teleconference. Thank you for your participation, and have a great day.

###